

**Foundation
Scotland**

**EQ IMPACT
PORTFOLIO**

Welcome

We are delighted to be partnering with Foundation Scotland to create an investment strategy that maximises returns and impact.

About the strategy

The Foundation Scotland EQ Impact Portfolio invests in global equities, focused on companies whose products and services are having a positive impact on society and environment, and practice the highest environmental, social, and governance corporate standards.

Your donor impact

Your donation to Foundation Scotland's endowment is invested to make a difference, right up to the moment when it becomes a grant.

We have created a web portal to allow you to see the impact of your invested donation which you can access online at:

clientportal.eqinvestors.co.uk

About EQ Investors

EQ is a purpose-driven investment management firm based in London. We manage portfolios for charities, high net worth individuals, family offices and other institutions who care about their social and environmental impact.

Business as a force for good

EQ has been a founding UK B Corporation since 2015. All B Corps undertake an in-depth assessment of their impact on all their stakeholders – including their clients, employees, local community and their firm's impact on the environment.

To learn more about the B Impact Assessment and to view ours online, [click here](#).

Certified



Corporation

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Our approach

What makes the Foundation Scotland EQ Impact Portfolio unique is that we actively look to invest in solutions to social and environmental problems, with a dual focus on maximising both impact and financial returns.

1 Invest in solutions
The portfolio aims to invest in well-run companies whose core products and services help to address challenges like the climate crisis, healthcare, and access to education or safe water.

Our approach goes significantly beyond 'ESG' investing which picks companies based on how well they are managing their Environmental, Social and Governance risks.

2 Engage for change
We work collaboratively with our fund managers to share best practice across the industry. We are continually pushing for change to improve our investment impact.

3 Measure the difference
We specialise in proprietary, market-leading impact measurement and reporting. Being transparent helps us improve.



Adapted from: *The Bridges Spectrum of Capital*, Bridges Fund Management, 2013.

Signatory of:



The United Nations-supported PRI initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice.

Assessment Report 2020

Each year, signatories must submit a transparency report on their investment processes.

A Strategy & governance **A** Listed equity

This year we were graded in two categories by the PRI. We scored an 'A' in both – an independent recognition of our approach to sustainable investing and our ESG-integrated investment process.

[Click here to download our report.](#)

What you are invested in

Our investment process is guided by the United Nations' Sustainable Development Goals. The Goals are a global framework for action to solve the most urgent and challenging needs of society and the environment.

We aim to invest in firms which solve social and environmental problems. Not all the goals are equally investable, but we nevertheless focus on

opportunities that either benefit people, planet or both:

SUSTAINABLE DEVELOPMENT GOALS



What this fund avoids

This fund's solutions-focused approach avoids certain sectors, including:

- ✗ Air freight
- ✗ Alcohol
- ✗ Armaments
- ✗ Fossil fuel service industries
- ✗ Gambling
- ✗ Military contracting
- ✗ Mining
- ✗ Ocean freight
- ✗ Oil majors
- ✗ Palm oil
- ✗ Poor environmental practices
- ✗ Poor labour standards
- ✗ Thermal coal
- ✗ Tobacco
- ✗ Unhealthy food and beverages

Portfolio X-ray

Here you can see how the Foundation Scotland EQ Impact Portfolio contributes to the Goals.

We map our underlying investments by looking at the core business (products and services) that each company provides. While not every portfolio holding maps to a Goal, far more do compared

to market indices (see opposite). **Goal 3: Health and Well-being** and **Goal 9: Industry, Innovation and Infrastructure** are key themes within the portfolio.



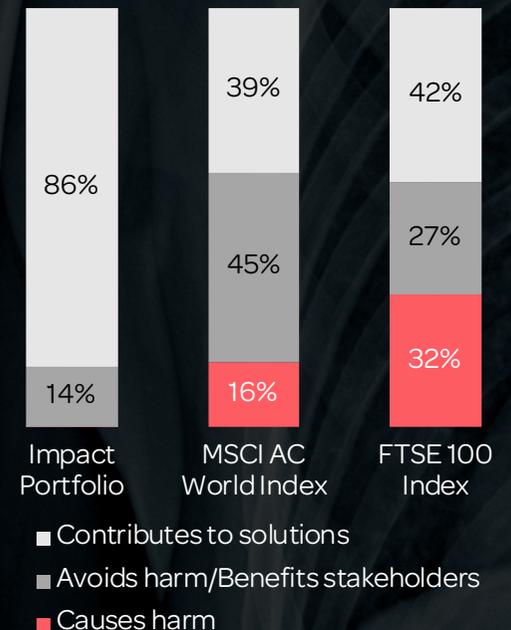
These lists are not exhaustive.

IMPACT MANAGEMENT PROJECT

How we compare to indices

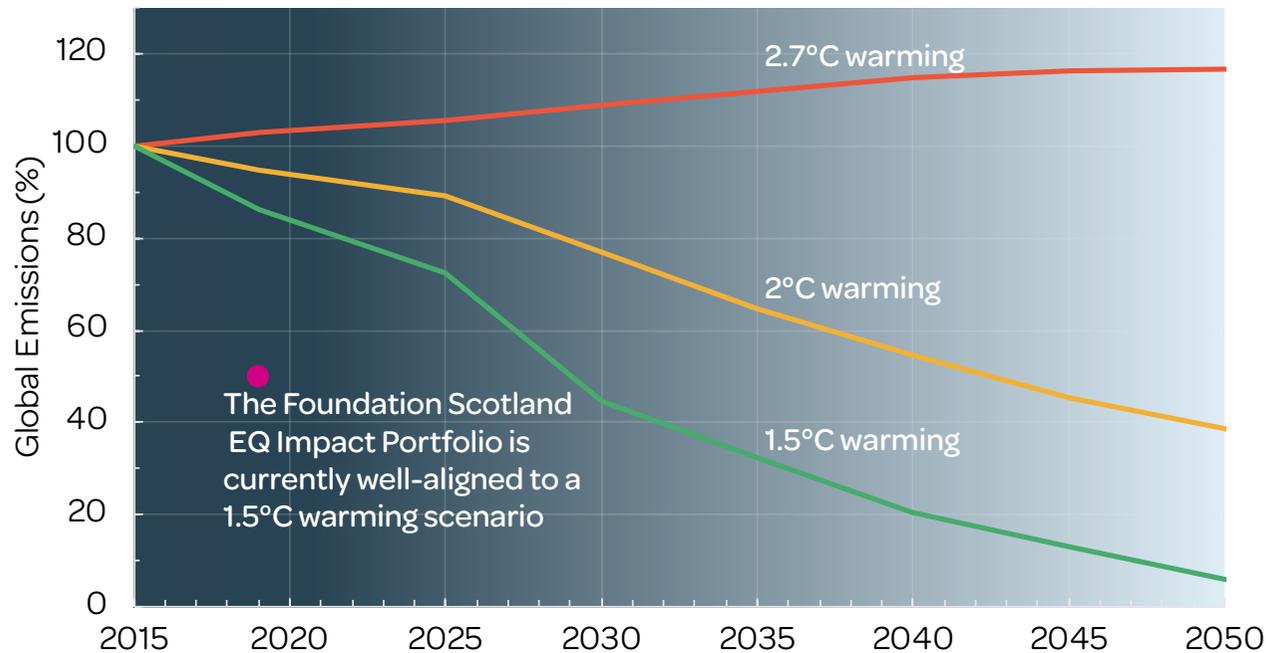
We follow the Impact Management Project's framework in categorising all types of investment as either *Causes harm*, *Avoids harm/Benefits stakeholders*, or *Contributes to solutions*.

This last category consists of holdings that we map to the Goals (see opposite):



Carbon footprint

Limiting the worst effects of climate change requires the rapid decarbonisation of our economies. This year we've partnered with [Urgentem](#), a leading carbon analytics company to see how the Foundation Scotland EQ Impact Portfolio aligns with a low-carbon future.



Climate scenario analysis

This chart shows three different scenarios for global carbon emissions, corresponding to a 1.5°C, 2.0°C and 2.7°C rise in global temperatures by 2060.¹ Climate scientists and global leaders have agreed that limiting temperature rise to 1.5°C is the most desirable, yet realistic scenario.

The pink dot on the chart shows where the Foundation Scotland EQ Impact Portfolio sits relative to these scenarios.² We are currently well below the emissions reduction pathway required to limit warming to 1.5°C. We intend to further reduce the emissions intensity of the portfolio over time, ensuring that it stays aligned to a low-carbon future.

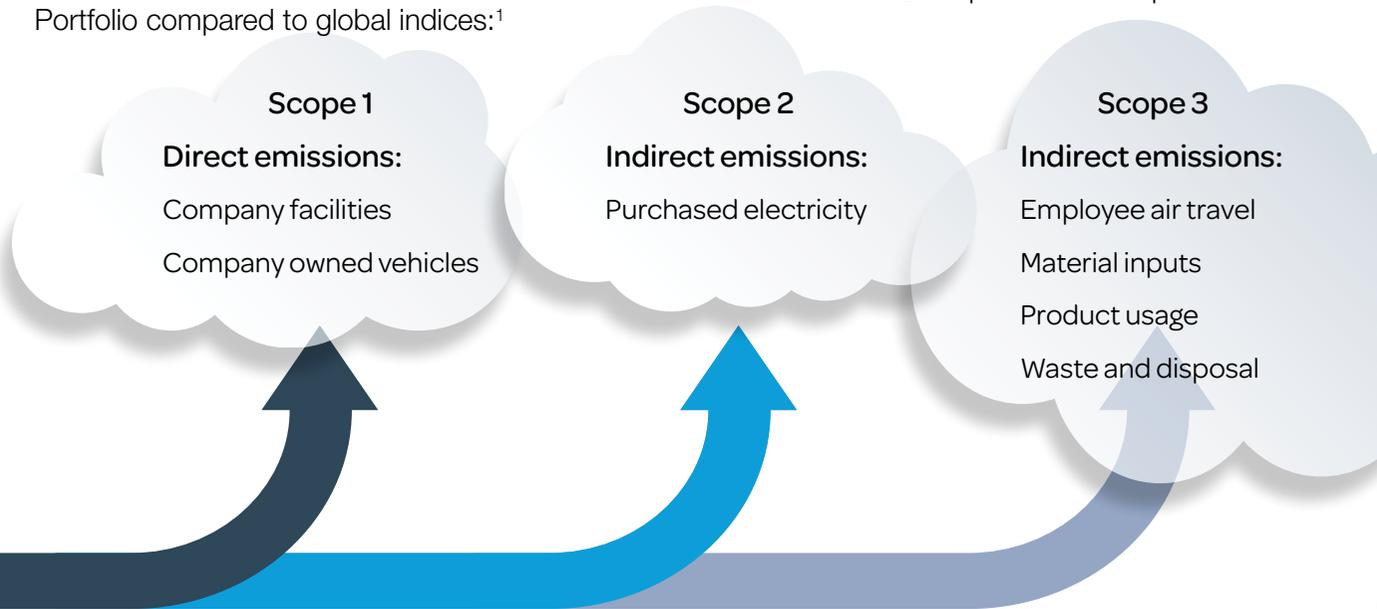
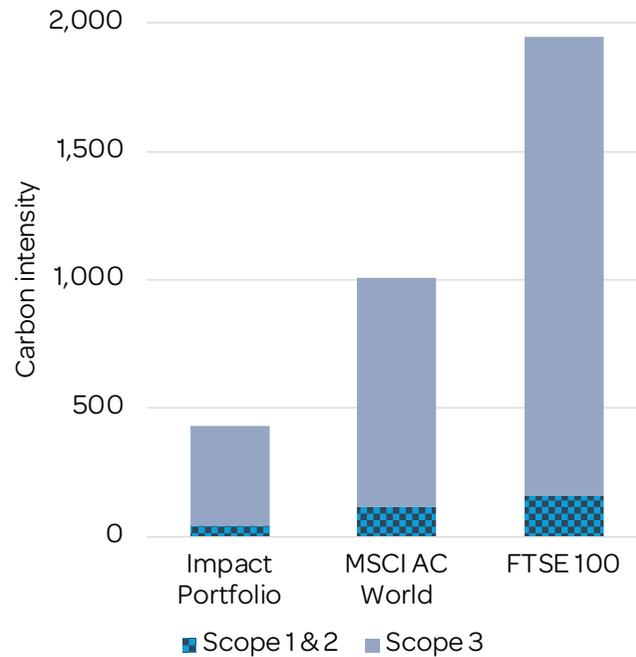
¹ Climate scenarios are based on data from the International Energy Agency (2.7°C, 2°C) and the Intergovernmental Panel on Climate Change (1.5°C). Source: Urgentem, 2020.

² This methodology currently allows for an analysis of our equity holdings only.

We look at carbon emissions across the entire value chain of our investments.

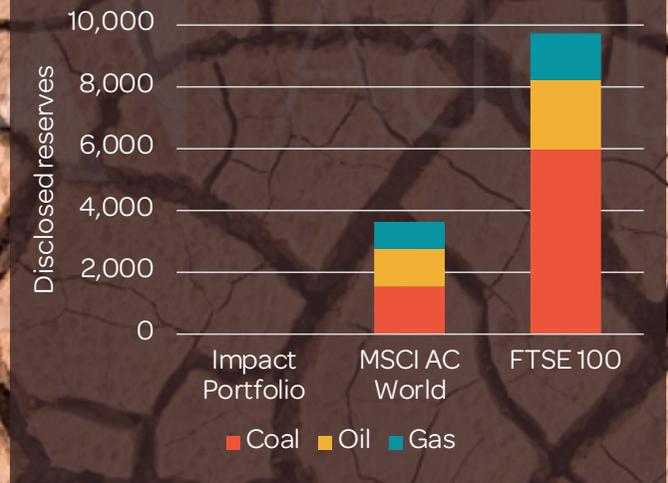
Over the coming years we anticipate more economic and policy measures aimed at mitigating climate change. Carbon emissions, due to their link to climate change, are the best proxy we have to understand how much a company or investment is potentially exposed to the 'transition risks' arising from these policies. Meanwhile these same policies will present tailwinds for companies helping to decarbonise our economies.

This chart shows the Scope 1, 2 and 3 emissions, as defined by the Greenhouse Gas Protocol, of the Foundation Scotland EQ Impact Portfolio compared to global indices:¹



Zero fossil fuel reserves

Our investment process naturally leads to the exclusion of fossil fuel extractors. These companies are major contributors to the climate crisis. Fossil fuel reserves may even become 'stranded assets' as their development becomes uneconomical and demand reduces. We have no exposure to oil majors, and none of our holdings have disclosed fossil fuel reserves.²



¹ Emission intensity: tonnes of CO₂ equivalent per £1 million market capitalisation. Source: Urgentem, 2020.

² Disclosed reserves: embedded tonnes of CO₂ equivalent per £1 million market capitalisation. Source: Urgentem, 2020.

Your impact

£100,000 donation invested in the Foundation Scotland EQ Impact Portfolio portfolio over 12 months:¹

Environmental impact



Social impact



¹ Based on our Positive Impact Report 2020 methodology. For details please visit: eqinvestors.co.uk/library/positive-impact-methodology-2020/

Engaging for change

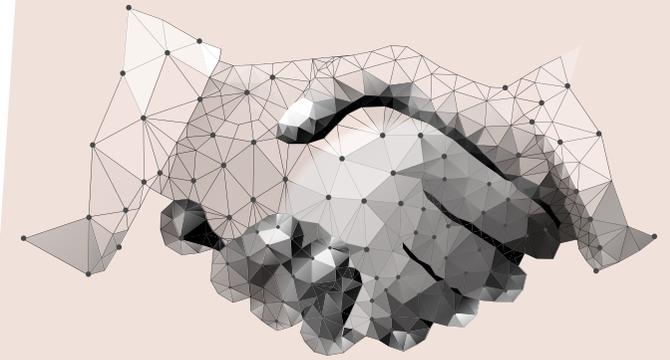
We invest in companies that already make a positive impact. But we also make a positive impact by engaging for change.

Investors can influence companies by engaging directly with management teams and by using their voting rights to raise expectations and advocate for strategic positive change.

It's vital that we hold our fund managers to account, so they in turn hold their investee companies to account – in a wider mission to

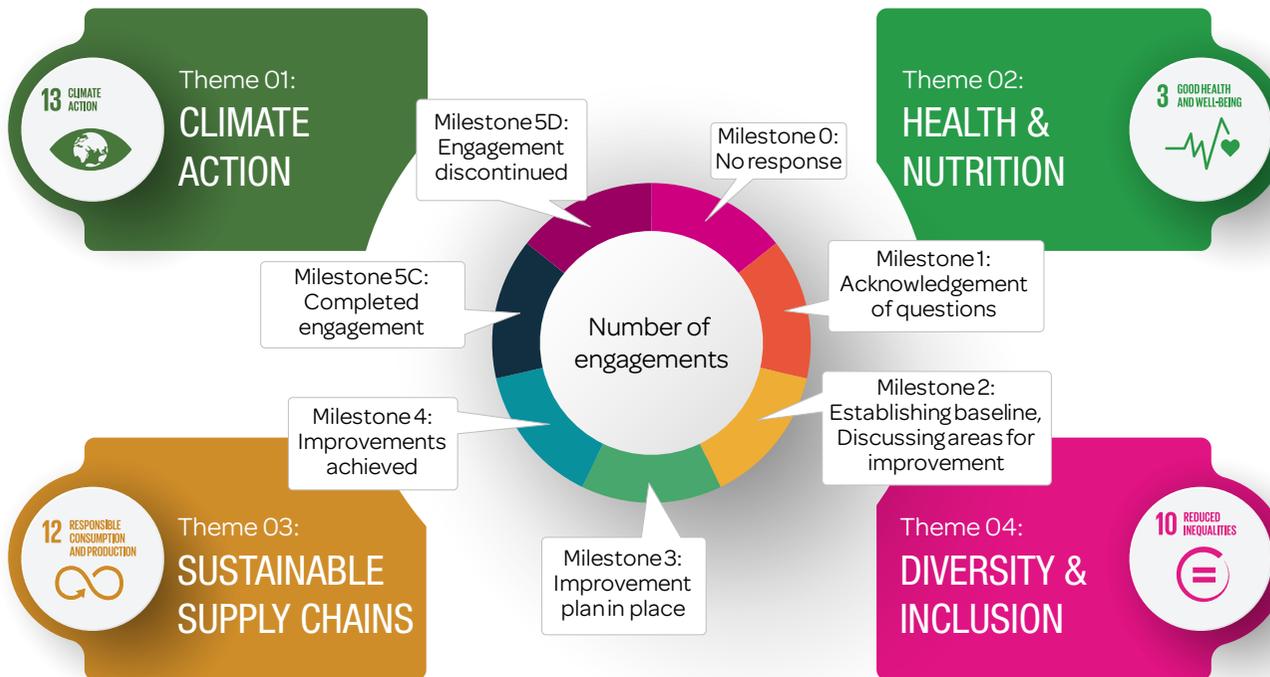
improve sustainable impacts and long-term returns over time.

This year we have focused our engagement around four Goal-related themes, and used milestones to track our progress. We explore two of these themes in more detail on the following pages.



EQ's approach to engagement

- 1 We seek to push the boundaries of sustainable investment by lifting the ambition of the fund managers we work with, maximising both positive impact and financial returns. We engage to spread best practice methods on an ongoing basis.
- 2 We advocate for greater transparency across the industry, with a vision to standardise reporting on 'impact returns' as much as financial returns.
- 3 While our investment strategy maximises alignment to companies providing sustainable solutions to the Global Goals, no company is perfect. We seek to exert our influence to create positive change in Goal-related themes which are material, but less investable.



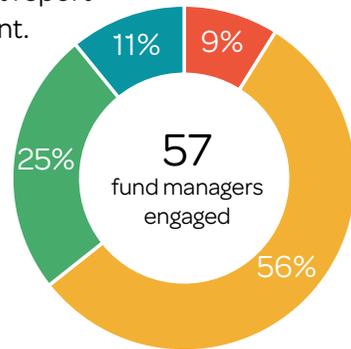
Climate action



We have used this year to understand how fund managers are currently integrating climate risk into their investment and stewardship activities, as well as their internal business operations.

Milestone 4:

Improved fund's impact management process. For example: firm-level roll-out of portfolio climate analysis, amended investment process to limit fossil fuel financing, first impact report on strategic climate engagement.



Milestone 3:

Committed to improve an identified weakness in fund's impact management process. For example: committing to new carbon reduction targets, joining climate engagement coalitions or improving engagement strategy.

Milestone 1:

Indication of interest to engage; awaiting discussions.

Milestone 2:

Discussed current investment and stewardship policies, reporting, carbon targets, and participation in climate change initiatives. Identified areas for improvement.

Climate Action 100+

Global Investors Driving Business Transition

Did you know?

Our London offices are powered by 100% renewable electricity.



ENGAGEMENT CASE STUDY:

Advocating for renewable energy

We have joined ShareAction's *Investor Decarbonisation Initiative*, which engages with global businesses and advocates for setting ambitious targets for reducing emissions.

This year we have co-signed letters to 28 companies including GlaxoSmithKline, Vodafone and Welltower, requesting that they set 100% renewable energy targets.

[Click here](#) for more case studies on our climate action engagement.

Diversity and inclusion



The UK's Women in Finance Charter commits all members to set targets on workforce gender diversity, report on these and address uncovered barriers to improvements. EQ has joined the charter and asked our fund managers to join too.

At the end of this year's engagement, 68% of funds included in the portfolios were managed by signatories of the *Women in Finance Charter* – our ongoing engagement will aim to fill this gap where commitment does not match our expectations.

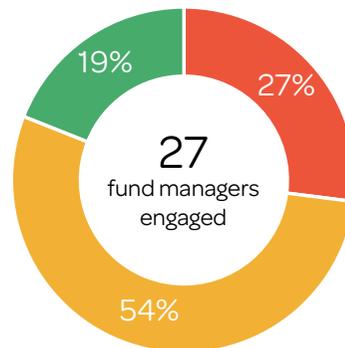
Our next target has been to encourage baselining and target setting to encourage other forms of diversity, including sexual orientation, disability and ethnic background, and setting related incentives.

Milestone 3:

Improvement in line with suggestions. For example, new data gathered on workforce diversity beyond gender split, new incentives set around recruitment of Black, Asian and minority ethnic (BAME) individuals.

Milestone 1:

Indication of interest to engage; awaiting discussions.



Milestone 2:

Discussed current policies and initiatives, targets and reporting. Identified areas for improvement.



ENGAGEMENT CASE STUDY: Diversifying company boards

Besides encouraging targets to close workforce diversity gaps, another focus was to understand how voting rights can be used as 'activist' tools to encourage gender diversity on boards in invested businesses.

We want to encourage asset managers to vote in line with the Hampton review (at least 33% women on boards) and Parker review (one person of colour on boards). While UK-focused fund managers had related policies, we are applying this same logic to push our global fund managers to apply similar targets.



**PENSIONS
ARE POWERFUL.**

**WE COMMIT TO
MAKING OURS MATTER.**

PROUD PARTNERS OF



EQ is part of a UK-wide campaign calling for the trillions of pounds invested through our pensions to build a better world.

Right now, there is over £3 trillion invested through UK pensions alone. From tobacco to fossil fuels, weaponry to gambling, pension funds have invested trillions on our behalf without ever asking us the crucial question – do these investments create a world that we want to live in?

This is a critical moment where the decisions we all take will shape our lives for decades to come. After all, what's the point of saving for retirement if we don't have a world we want to retire into?

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