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# *INVESTING FOR A POSITIVE IMPACT*

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*What do we mean by impact investing and can it really deliver? Kate Fox, joint manager of Baillie Gifford's Positive Change Strategy, talks to Iona Bain*



How do you find a company that generates decent investment returns while also benefiting society? The secret may lie in the dual objective of Baillie Gifford's Positive Change Strategy, which aims to make an annual return two per cent higher than your average global investment\*, while also contributing to an inclusive and sustainable world. Both objectives are given equal importance.

“With our positive change objective it's all about the analysing and reporting of impact, while acknowledging that there's no such thing as a perfect company,” explains joint manager Kate Fox.

\*The performance target is aspirational and is not used for the purpose of determining or constraining the composition of the fund's portfolio. Performance may vary between segregated accounts and pooled funds in different jurisdictions as each structure will bear a different set of costs. A single performance target may not be appropriate for all vehicles in all jurisdictions and for this reason our fund specific materials will often refer to 'material' outperformance of an index.

Take the fast-fashion companies which have transformed retail and opened up numerous investment opportunities. But Fox says making that white T-shirt you will throw away next week uses 2,700 litres of water, and the global textile industry pumps out more harmful emissions than aviation and shipping combined. “We need to change our relationship with clothes, keep them for longer, think about how we recycle and educate the consumer,” Fox says, adding that Positive Change has no investments in the industry.

Positive Change thinks deeply about four themes that impact our lives: social inclusion and education; the environment and natural resources; healthcare and quality of life; and what it calls the ‘base of the pyramid’ (people on the bottom rung of the global wealth ladder).

“We need a process that can be applied consistently across lots of different companies,” explains Fox. “Not all progress is easy to quantify – how do you put a figure on improving access to information for example? But it’s important we do this well.” That’s because anyone buying into such a fund is committed to creating real change and proving it works is key to attracting more people into impact investing.



Baillie Gifford investment analysts have been bang on the money in predicting some of today's superstars, and it's their job to identify tomorrow's successful companies. The shortlisted progressive companies then go to the Positive Change Team for more scrutiny that can take months, or even years.

This thoroughness leads to some unexpected omissions, such as solar power. "Yes, it has benefits from the environmental perspective, but we haven't been able to identify a company that we think has a sufficient competitive edge and can deliver sustainable returns.

"We are looking for businesses that have the potential to double over the next five years, with significant opportunities thereafter," says Fox. The chosen few are judged on their products, their ambition for positive change and their business practices. To measure their impact annually there is a five-point analysis of the resources they use, activities and outputs, and the short-term and longer-term impacts they have on society. That last assessment is made a little easier by using the UN's Sustainable Development Goals as a common framework.

In the healthcare arena Fox highlights DexCom, which has revolutionised life for diabetics by offering continuous monitoring in place of fingerstick tests. "Diabetes is a huge and growing problem: 460 million people in the world suffer from it." For a firm to pass the test it needs to be serious about creating positive change. "It's not just about a mission statement, but about actions and structures that back it up – for instance DexCom's continuing research and development and its commitment to making its products more widely accessible."

Other examples of investing for impact include Tesla which earns its place in the portfolio not just by making greener cars but investing to make them cheaper, tackling the challenge of storing electricity and opening up its patents to help the industry to widen. Google and YouTube owner Alphabet is judged not only to be a "powerful equalising force" but to be "committed to improving the lives of millions of people," Fox says. But she admits that its record on tax meant that it "scored zero on business practices".

Investing ought to give us a sense of making a difference, Fox says. "When I think about my career as an investor, I have never enjoyed it more than since I've been managing Positive Change. We are not just helping people invest but channelling capital in a responsible way towards companies that are going to innovate and address global challenges to create a more sustainable world. This is what impact investing is all about."

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