The Global Sustainability Trust plc

IPO research

Private markets investing for positive global impact

Investment companies

This report has been prepared by Edison Investment Research at the request and cost of, but not on behalf of, The Global Sustainability Trust plc.

7 November 2018

The Global Sustainability Trust plc (GST) will be a new investment trust, targeting attractive 6-8% pa investment returns (across a cycle, net of fees, once fully invested) from a portfolio of private market investments that aim to provide positive environmental and social impact. The strategy is built around the United Nations' 17 Sustainable Development Goals, a set of targets to tackle some of humanity's greatest challenges, including poverty, inequality, access to education and employment, health, climate change and environmental degradation. The board is seeking to raise c £200m at launch for the trust, which will be managed by Aberdeen Standard Investments (ASI). ASI manages more than £67bn in private market assets, including private equity, real estate, infrastructure, natural resources and private credit, and the GST portfolio will give investors access to impact-focused investments across all these areas.

Investment strategy

The GST will leverage Aberdeen Standard Investments' twin capabilities in private markets investment, and investing for social and environmental impact. The trust will give investors access to a diversified private markets portfolio, targeting net total returns of 6-8% pa (once fully invested) with low volatility and low correlation to listed equities. Impact investing differs from ethical or environmental investing in that it seeks out businesses or assets that are intentionally providing measurable positive impacts as a key part of their strategy, rather than screening out those with negative characteristics. ASI has developed eight impact pillars – circular economy, food and agriculture, sustainable energy, water and sanitation, health and social care, financial inclusion, sustainable real estate and infrastructure, and education and employment – that each align with one or more of the UN's Sustainable Development Goals. The GST's private market focus will give it access to the greater number of investment opportunities that exist in areas such as private equity, social and economic infrastructure, and private credit strategies such as microfinance.

Benefits of the closed-ended structure

The investment trust structure is well suited to long-term investment in illiquid assets, as it provides a permanent pool of capital. With an open-ended fund, the fund manager may have to sell assets to meet redemption requests from investors, and in times of market dislocation this may mean accepting a bad price for a good asset in order to achieve a quick sale. A closed-ended fund's share price may move to a discount to the value of its assets in unfavourable market conditions, but the portfolio remains intact for the benefit of continuing shareholders.

Risks

As a listed investment, the value of the GST's shares may go down as well as up, may also diverge from the value of the underlying assets, and investors may not get back the full amount invested. Private markets investment is illiquid and the trust's latest NAV may not reflect developments between portfolio valuation dates. Any investment in credit carries a possibility of default. From an impact perspective, investments may fail to achieve the intended social or environmental benefits.

Issue price	**100p**
Target issue proceeds	**£200m**
Expected initial NAV	**98.35p**

Company website

www.globalsustainabilitytrust.co.uk

Transaction contacts

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Next events

Opening of offer for subscription/offer to intermediaries	5 November 2018
Latest time and date for applications under the offer for subscription/offer to intermediaries	1.00pm on 11 December 2018
Offer to institutions closes	3.00pm on 12 December 2018
Results of issue published	13 December 2018
Listing	On or around 17 December 2018

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The Global Sustainability Trust plc is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

The Global Sustainability Trust plc is a new, board-led investment trust that aims to provide investors with capital growth (target net total returns c 6-8% pa, once fully invested) from a portfolio of private market investments (managed by Aberdeen Standard Investments) that aim to provide positive environmental and/or social impact, in line with the United Nations' 17 Sustainable Development Goals. It will seek to achieve positive impacts in areas such as poverty reduction, financial inclusion, reduced inequality, renewable energy and healthcare, by investing across five principal areas of private equity, infrastructure, real estate, natural resources and private credit.

Expected timetable (subject to change)

Publication of prospectus	5 November 2018
Opening of offer for subscription/offer to intermediaries	5 November 2018
Latest time and date for applications under the offer for subscription/offer to intermediaries	1.00pm on 11 December 2018
Offer to institutions closes	3.00pm on 12 December 2018
Results of issue published	13 December 2018
Admission to trading on LSE	17 December 2018

Forthcoming announcements/catalysts		Capital structure & fees		Trust details	
Year end	30 June	Gearing	None	Group	Aberdeen Standard Investments
Dividends paid	No	Annual mgmt fee	Base fee of 0.70% of net assets, decreasing to 0.65% of net assets over £200m. Investments made in private market investments managed by ASI will not be subject to the base fee and instead will be charged at the institutional share class rate, expected to be 100-200bps per annum. No double charging.	Management	Roger Pim, Nalaka De Silva, Sarah Norris and Amanda Young
Launch date	17 December 2018	Performance fee	None	Address	40 Princes Street, Edinburgh, EH2 2BY
Continuation vote	In 2026 and five-yearly thereafter	Management fee waiver	50% in first year		
		Estimated ongoing charge	c 1.22% once fully invested		

Dividend policy

The Global Sustainability Trust aims to provide investors with capital growth, and, while some of its investments are anticipated to be income-producing, it is not anticipated that the trust will pay a dividend, at least in the early years of its life.

Discount/premium control policy

Once the portfolio is fully invested (anticipated to be by the end of the third year), a discount control mechanism will be in place whereby the board intends to buy back shares using cash realisations from the portfolio, if a discount to NAV of 10% or more persists for six months. The board is committed to using share buybacks strategically.

Indicative portfolio characteristics

Number of holdings	Typically 50-100 underlying
Dividend yield	N/A
Comparator index	N/A

Source: The Global Sustainability Trust, Aberdeen Standard Investments

Fund profile and summary

Company description: Democratising sustainable finance

The Global Sustainability Trust plc ('the GST'; proposed ticker: GSTR) is a new investment trust incorporated in Scotland and to be listed on the premium segment of the Official List of the UK Listing Authority and admitted to trading on the Main Market of the London Stock Exchange. The GST aims to provide investors with a target net total return of c 6-8% pa (once fully invested), by investing across private markets in companies and assets that intentionally seek to deliver positive and measurable environmental and social impact. It will use the United Nations' 17 Sustainable Development Goals (SDGs; see appendix) as the basis for its intention and assessment of impact. The 17 interconnecting goals address some of the challenges faced by the world, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. The UN's target is to achieve the goals by 2030.

The board has appointed Aberdeen Standard Investments (ASI) as the GST's manager. ASI will manage the trust using the expertise of its well-established private markets platform, which includes more than 400 investment professionals in 19 locations. The GST will principally invest across five private markets areas: private equity, infrastructure (including renewable energy), real estate, private credit and natural resources. The GST's management team includes Roger Pim (global head of private markets product strategy and solutions), Nalaka De Silva (head of private market solutions), Sarah Norris (investment director) and Amanda Young (head of global ESG investment research). The GST will also benefit from ASI's capabilities across private market investing, in impact reporting, environmental, social and governance (ESG), and investor relations.

The GST was the idea of Andrew Dykes, a sustainable finance specialist and former investment trust manager. He argues that 'if we are to deliver the SDGs for the benefit of current and future generations, we need to mobilise more capital in permanent capital fund structures'. Dykes points out that investment trusts offer just such a structure and, being available to both retail and institutional investors, can help to 'democratise SDG finance'.

The investment trust structure is also a cost-effective one, and the GST anticipates that ongoing charges (once the portfolio is fully invested) will be c 1.22%, which is in line with or lower than the average charges on other private markets-focused, closed-end funds. There will be no performance fee at the GST level (although some underlying funds may levy a performance fee). While the board hopes that the GST will prove popular with investors, it will offer a discount control mechanism (once fully invested; see Proposed capital structure, fees and other items), and a continuation vote at the seventh AGM and five-yearly thereafter.

The Global Sustainability Trust – a board-led initiative

Unlike most fund launches, which are often driven by asset management firms, the GST has been conceived and designed by its board of directors, principally Andrew Dykes, who began working on the idea in 2015 with support from the United Nations ecosystem. Dykes says the UN was particularly supportive of the focus on private markets, as non-listed investments tend to be able to deliver greater social and environmental impact than listed equities. In 2017, Dykes set up a Community Interest Company (CIC), The Global Sustainability CIC, to develop and promote the launch and ensure it would provide a compelling proposition, both in terms of investment strategy and the delivery of the UN's Sustainable Development Goals. The CIC received support from a range of potential investors, public bodies and individuals, who have contributed both financially and with input into the design of the GST.

The CIC began the process of test-marketing the GST earlier in 2018, engaging with a number of universities, public bodies and other organisations to build support for the initiative, and presenting the strategy to private wealth managers, independent financial advisers, charity investment committees, foundations and family offices. A competitive tender process was launched to find an asset manager with the capability to run an impact-focused private markets portfolio targeting long-term market-level returns. Aberdeen Standard Investments was announced as the GST's portfolio manager in early October 2018.

Why Aberdeen Standard Investments?

The GST board felt that Aberdeen Standard Investments (ASI) was the only asset manager in the tender process to offer a full suite of private market investment capabilities, together with a successful track record in investing intentionally for measurable, positive social and environmental impacts. ASI is the investment management arm of Standard Life Aberdeen, a FTSE 100 company, and is the second-largest active fund manager (by assets under management) in Europe, managing more than half a trillion pounds of assets globally (source: ASI, as at 30 June 2018).

ASI's private markets capability spans 19 offices globally, with more than 400 investment professionals managing c £67bn of assets across private equity, real estate, infrastructure, private credit and natural resources. Environmental, social and governance (ESG) considerations form a part of ASI's investment process across all its private and public markets strategies, and the firm has extensive experience in sustainable and impact investing, managing more than £12bn of assets in listed (equity and credit) impact strategies.

The GST management team

While the GST will benefit from the depth of Aberdeen Standard Investments' resources across private markets investment, its day-to-day management and strategic direction will be in the hands of the GST's management team, which comprises Roger Pim, Nalaka De Silva, Sarah Norris and Amanda Young. De Silva and Norris will be the GST's portfolio managers, while Pim and Young co-chair ASI's private markets impact advisory group. Roger Pim, who has led the development of ASI's private markets impact strategy, joined Standard Life Investments in 2002 from Goldman Sachs. He has more than 20 years of private markets investment experience, including 16 years as part of the management team of Standard Life Private Equity Trust, ASI's listed private equity vehicle. Nalaka De Silva, ASI's head of private markets solutions, is responsible for implementing global private markets strategies for institutional clients across real estate, infrastructure, private equity and private credit. Sarah Norris is an investment director in ASI's European equity team, and is the lead manager on the firm's European Ethical Equity fund and co-manager of the Global Equity Impact strategy. Amanda Young, ASI's head of responsible investment, leads the firm's global environmental, social and governance (ESG) investment research function, where the focus is on integrating ESG issues into the mainstream investment process. She previously served on the board of the UK Sustainable Investment and Finance Association (UKSIF), and currently leads a workstream for the UK government's taskforce on social impact investment.

The private markets impact advisory group also includes ESG representatives from ASI's individual asset class teams, and from the ESG research team.

What is impact investing?

Impact investing is a relatively new term that describes investments made with the intention of generating positive social and environmental impacts. It differs from 'ethical' or 'socially responsible' investing in that it screens for positive rather than negative impact, and targets investments that are proactively and intentionally making such an impact. It also differs from the traditional philanthropic model of supporting 'good causes' in that it seeks to generate a financial return. Measurement of positive environmental and societal effects is another key differentiating feature of impact investment versus other environmental, social and governance (ESG) focused strategies.

The three key features of a suitable impact investment are therefore as follows:

- **Seeking attractive financial returns**;
- **Mission-led businesses**, whose strategies clearly outline how their operating models are designed to achieve specific positive social or environmental outcomes; and
- **Measurability of outcomes** – businesses should measure and disclose the positive contributions they make to the environment and/or society, in relation to their stated goals.

These three characteristics read across into three key criteria for investors to consider when assessing the suitability of an investment for inclusion in an impact portfolio:

- **Financial conviction:** in-depth analysis of the strategy, financial performance and outlook for a company or asset is necessary to build an investment case and establish whether the asset offers a compelling value opportunity. The costs and potential financial benefits of achieving the stated social or environmental goals should also be assessed. The GST's manager does not believe that returns need to be sacrificed in order to generate positive impact.
- **Impact conviction:** while no less important than financial conviction, there are fewer established metrics to use when gauging whether an investment is likely to achieve its stated impacts. A good starting point may be to focus on a company's desire to provide solutions, and how it puts that desire into practice through its products or services. This 'impact intentionality' is one of the key differentiating factors of impact investing. However, the established forms of ESG analysis, looking at how a company is governed and how it manages social and environmental risks, should not be overlooked; poor governance or working conditions, for example, could be seen to negate the positive impact of a product or service. Any impact assessment should include an understanding of the maturity of a company or asset's impact strategy, as it may take time to achieve the intended impacts.
- **Impact reporting:** a critical component of impact investing is measuring the impact of the companies or assets held. Again, this is aligned with intentionality, as investments are made with the intention of securing specific impacts rather than generalised 'good works'. In the case of the GST, its alignment with the United Nations' Sustainable Development Goals (SDGs) and Aberdeen Standard Investments' eight SDG-based impact pillars means there are 232 individual key performance indicators against which the non-financial performance of its investments can be measured. Active engagement with investee companies or assets can help to encourage both the achievement and the reporting of impact.

Integrating the Sustainable Development Goals

The 17 United Nations Sustainable Development Goals (SDGs; see appendix) were put in place in 2015 as a roadmap to solving some of the key social and environmental issues facing humanity over the next 15 years. The SDGs are ambitious and require significant financial commitment; estimates of the cost of achieving them range from US$5-7tn a year between now and 2030, and it would be unrealistic to expect all of this to come from governments – philanthropists and the corporate sector must also play a part, supported by regulators and the academic world. For impact investors, the SDGs provide a framework both for targeting areas in which to invest, and measuring the impact of those investments. Aberdeen Standard Investments (ASI) has created eight impact pillars (see GST portfolio construction pillars), aligned with the SDGs, to assist in implementing impact-focused SDG investment strategies.

Investment strategy

The GST will aim to create a diversified, private markets portfolio with positive environmental and social impact, and will address the issues of the SDGs and democratising SDG finance investment. The permanent capital structure of an investment trust is well suited to the less liquid nature of private market investment, and the GST will target attractive, hard-to-access, high-impact investments across five principal private market areas, in which Aberdeen Standard Investments manages more than £60bn of assets. It will also be able to invest to a limited extent (more so in the portfolio construction phase, to minimise cash drag on funds awaiting investment) in listed equities, leveraging the experience of Sarah Norris, who co-manages a public markets-focused global impact investment fund at ASI. The five areas are private equity (where ASI manages £13bn of assets), infrastructure (£3bn), real estate (£39bn), natural resources (£500m) and private credit (£6bn; see Indicative portfolio positioning section for the likely allocation to each area at launch, and how it may develop over time).

Roger Pim, global head of private markets product strategy and solutions at ASI, says that private markets represent a huge opportunity set, with 95% of all companies globally being privately owned rather than publicly listed, and broadly the same being true for the ownership of real estate and infrastructure assets. He explains that as a private markets investor, ASI often has a level of management control and insight into corporate strategy that would be unavailable to a listed company investor, and is able to make longer-term investment decisions as a result. The longer-term nature of private markets, the ability to address a wide range of environmental and social impacts, and the control over measurable outputs, also makes them the ideal target for an impact investor, says Pim.

The GST portfolio is expected to comprise a mixture of direct and fund investments, with a slight tilt towards direct investments by the time it is fully invested (see Exhibit 5). Pim explains that ASI's existing investments in real estate and economic and social infrastructure are largely direct, while private equity is a mixture of funds and direct co-investments, and private credit may be direct in such areas as asset-backed loans, but in areas such as microfinance is more likely to be by working in partnership with the best microfinance lending groups via funds, as this is a specialist area requiring significant on-the-ground expertise.

ASI's capabilities and investment scope across the GST's five targeted investment areas (in order of their expected weighting in the portfolio, once fully invested) are as follows:

- **Private equity:** 52 investment professionals investing in funds, secondaries and co-investments across the venture capital, growth capital and buyout segments. The GST is likely to focus most on the growth capital area.
- **Infrastructure:** 40 investment professionals investing directly in concession and economic infrastructure across roads, schools, hospitals, transportation and renewable energy. All of these areas align with one or more of the SDGs.
- **Real estate:** 280 investment professionals investing across direct, listed and multi-manager real estate.
- **Private credit:** 30 investment professionals focusing on areas ranging from senior asset-backed loans and subordinated corporate debt, to special situations such as microfinance lending.
- **Natural resources:** six investment professionals investing in funds, secondaries and co-investments across agriculture, timber and other natural resources.

Portfolio construction will be bottom-up, based on both the investment prospects and expected social/environmental impacts of each asset, although the aim is to maintain an appropriate level of diversification across all five areas, in order to achieve the target returns with the expected level of risk and correlation with other assets. Pim says the GST management team is developing a strong pipeline of opportunities. Private equity impact investment is still a developing area, and there is expected to be little crossover between the GST portfolio and ASI's other private equity strategies. In real estate and infrastructure, the GST may invest alongside other ASI strategies, which Pim says will be positive for the trust, as the large ticket sizes for these deals could otherwise put them out of the GST's reach, particularly in its early days.

Investment process

The GST's investment process has been designed to be robust and repeatable, and incorporates both top-down investment ideas, portfolio construction considerations informed by ASI's private markets house view, and bottom-up analysis, with opportunities being sourced and due-diligenced by the investment teams on the ground. Both financial and non-financial analysis are fully incorporated within the investment process. Risks are monitored at all stages, in terms of asset allocation, portfolio construction, deal implementation and ongoing investment risk.

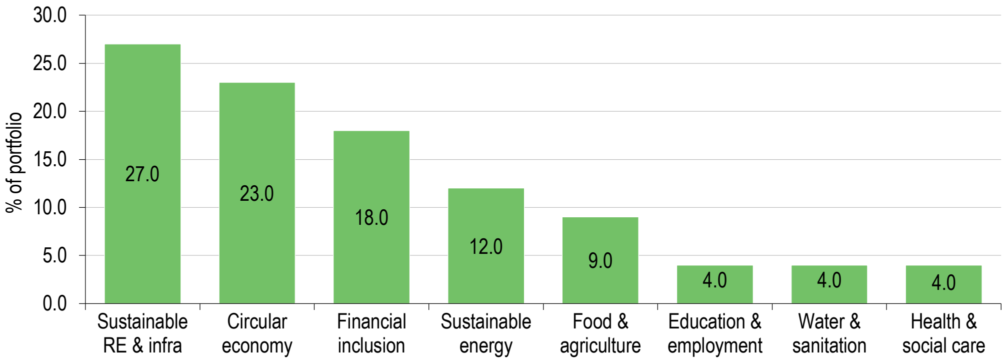
The intention is to build a balanced portfolio across the spectrum of private markets, including assets where returns come more from income (infrastructure, real estate and private credit) and those where more capital growth is expected, such as private equity. Ongoing financial and non-financial evaluation is key to ensuring the strategy is working from an impact as well as an investment perspective.

GST portfolio construction pillars

ASI has identified eight ‘impact pillars’, aligned with the UN Sustainable Development Goals, which it will use in constructing and measuring the impact of its investment portfolio. They are as follows:

- **Circular economy**, aligning with goal 12 – responsible production and consumption – and goal 15, life on land. This pillar focuses on resource efficiency and material recovery and reuse. An example of the kind of strategy this pillar might target is ‘cradle-to-cradle’ design, a philosophy that treats materials as though they were ‘nutrients’ in a living system; components are produced using renewable energy sources and are designed to be disassembled and recovered at the end of a project’s life.
- **Sustainable energy**, aligning with goal seven – affordable and clean energy – and goal 13, climate action. The focuses of this pillar are clean energy, energy efficiency, and access to energy.
- **Food and agriculture**, aligning with goals one, two, 14 and 15 – no poverty, zero hunger, life below water and life on land. This pillar will target investments that improve food quality, access to nutrition and the sustainability of agriculture.
- **Water and sanitation**, aligning with goals one, six and 14 – no poverty, clean water and sanitation, and life below water. The aims of this pillar are to improve access to water and hygiene, target water efficiency, and achieve cleaner water.
- **Health and social care**, aligning with goals one, three and five: no poverty, good health and well-being, and gender equality. This pillar will work to improve access to healthcare and social care for all, and support the development of drugs and enhanced healthcare systems.
- **Financial inclusion**, aligning with goals one, eight and 10 – no poverty, decent work and economic growth, and reduced inequalities. This pillar will act to improve access to financial services, including but not limited to providing microfinance to support smaller enterprises.
- **Sustainable real estate and infrastructure**, aligning with goals nine, 11 and 17 – industry, innovation and infrastructure, sustainable cities and communities, and partnerships for the goals. The aims of this pillar are to support eco-construction techniques and projects, improve access to housing in general, and provide more affordable housing.
- **Education and employment**, aligning with goals four, five, eight and 10 – quality education, gender equality, decent work and economic growth, and reduced inequalities. This pillar will support access to universal education and skills development, as well as projects delivering job creation and quality employment opportunities.

Exhibit 2: Indicative portfolio breakdown by pillar (once fully invested)



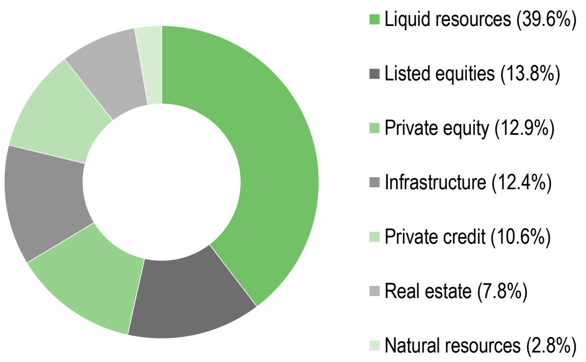
Source: Aberdeen Standard Investments, Edison Investment Research

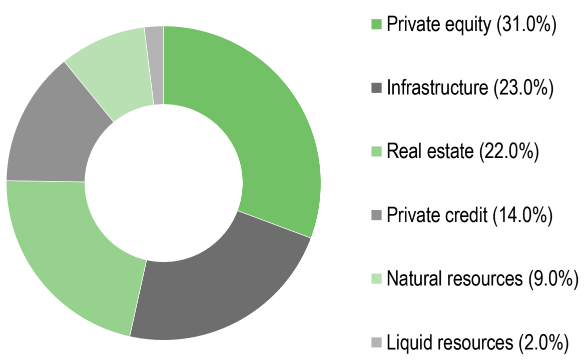
Indicative portfolio positioning

Pim explains that while it will take time to build the GST portfolio following the IPO, the strong pipeline of investment opportunities the team is already seeing means that the funds raised could be more than three-quarters invested or committed within 24 months of the launch. The manager expects that by the end of the fifth year, the portfolio will be fully invested across its five principal private markets areas, with a small amount (c 2%) in liquid resources for efficient portfolio management.

Exhibit 3 below shows how the GST portfolio might look in terms of strategy positioning at the end of the first and the fifth year after launch. Private equity is expected to have the largest weighting. Pim explains that there is an increasing number of private equity impact funds. Of these, the team will look to build relationships with five to eight funds, with the aim of making investments of between c £5m and c £15m. Pim says the majority of impact-focused private equity funds are providing growth capital rather than venture or buyout finance, and as such value is created by growth in revenues and profits, rather than targeting a specific exit multiple. In a number of the deals the team has researched, the business owners specifically wanted to be backed by an impact fund rather than a generalist private equity investor.

Exhibit 3: Indicative strategy positioning at end of first (LHS) and fifth (RHS) year





Source: Aberdeen Standard Investments, Edison Investment Research

Outside of private equity, the majority of investments are likely to be direct (Exhibit 5), rather than via funds. Each segment is expected to contain between five and eight investments, meaning the whole portfolio (including the underlying investments of the private equity funds) could number c 50-100 holdings once fully invested.

In geographical terms (Exhibit 4), the portfolio is likely to be slightly weighted towards developed markets in Europe and North America, which reflects the opportunity set and where ASI has a very strong track record in private markets investment. Based on the current investment pipeline, infrastructure and real estate will tend to be more weighted to developed markets, while microfinance in particular will be more in Africa and Asia. Pim says ASI is also developing its direct expertise elsewhere, for example in infrastructure investments in Latin America. From an impact perspective, the UN SDGs are global, and are therefore just as applicable in developed as in emerging markets.

In terms of portfolio construction parameters, a maximum of 10% of the GST's assets may be held in any one direct investment, and a maximum of 20% of assets may be held in any one fund.

Exhibit 4: Indicative geographical split (year 5)

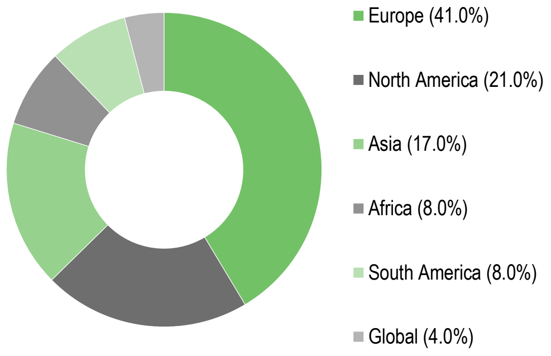
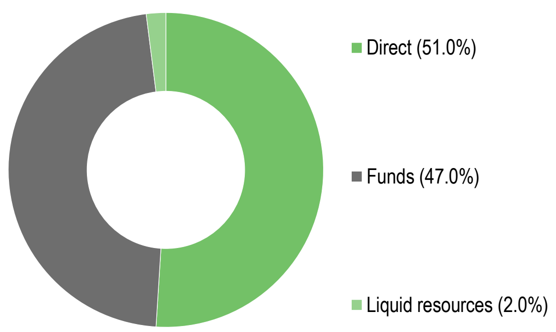


Exhibit 5: Indicative investment type split (year 5)



Source: Aberdeen Standard Investments, Edison Investment Research

Targeting attractive investment returns from private markets

The GST's manager believes that impact investing does not require investors to accept lower returns. The GST will have a diversified private markets portfolio, which should display lower volatility and have a low correlation to traditional assets such as listed equities (based on historical analysis of returns and volatility; past performance is not necessarily a guide to the future). The manager also believes that investing in businesses with sustainable business models reduces the risk of obsolescence.

Indicative stock examples

While no holdings have yet been confirmed for the GST portfolio, the managers have provided five illustrative private market examples, some of which are based on investments made in other strategies by Aberdeen Standard Investments' private markets teams, to show the type of investments they favour.

Example 1: Private equity

While sustainable and impact investing in a private equity context is relatively undeveloped, ASI highlights one fund manager – Bridges Ventures – with broad and deep expertise in the area. It has a range of Sustainable Growth funds, providing growth capital to high-growth, high-impact small and medium-sized UK businesses, with a particular focus on the impact pillars of health and social care, education and employment, financial inclusion, and circular economy. An example of a Bridges-backed company is a second-hand book specialist, which buys charity shop overstock by the tonne (thus providing revenue to the charities), uses sophisticated technology to scan books in its warehouses to determine their value, sells desirable books at a profit through its website, and recycles those with little resale value. It has double-digit annual earnings growth, is looking to expand overseas, and is generating significant positive impact in terms of both the resources saved and the £11m of revenue for the charities from which it buys its books.

Example 2: Infrastructure

Sustainable energy is a key investment area in economic infrastructure, as well as being one of the GST's eight impact pillars. ASI highlights a Norwegian hydroelectric power operator, with a portfolio of 15 projects spread across the country and an exclusive option to purchase newly developed plants, through a partnership with another Norwegian utility company. Norway is a well-developed renewable energy market, with 95% of the country's electricity needs generated by hydro power. Run-of-river power generation has particularly low environmental impact and is based on simple and long-established technology. ASI says the business generates an annual return of 8-10%.

Example 3: Real estate

Spanning the impact pillars of circular economy and sustainable real estate & infrastructure, ASI's real estate team has invested in the headquarters of an energy services business, part of a business park in the Netherlands built around the 'cradle-to-cradle' approach to materials, and designed to maximise the health, well-being and productivity of the occupiers. The development employs reusable materials and targets energy and resource efficiency (power generation and water treatment are carried out on site), and the strong environmental credentials and focus on the health and well-being of occupants have fed through into improved rental income, at c 30% above the market average.

Example 4: Natural resources

Another example of the circular economy impact pillar is an investment in a timber company, run by a team of timber investors with experience of working for and partnering with conservation-focused, non-governmental organisations (NGOs). The company has a dual focus, on one hand using active management to improve the operating efficiency of the forestry assets it owns, and on the other hand selling 'conservation easements' on some of its properties, protecting these areas of forest for future generations (thus aligning with SDG 15, 'life on land') while also generating an income stream from the sales.

Example 5: Private credit

Private debt impact investing often focuses on the provision of microfinance loans to individual entrepreneurs and small businesses, mainly in emerging and frontier economies. Because such loans can be given for a variety of reasons, they have a broad range of positive environmental and social impacts. ASI has identified the opportunity to invest with a leading provider of impact-focused credit, which aligns with the impact pillars of financial inclusion, education and employment, food and agriculture (many micro-loans go to farmers, for instance), and sustainable energy.

Differentiation of the GST

The board of the GST hopes that the launch of the investment trust will establish a model for other funds, further opening up return-seeking impact investment to a wide audience of both retail and professional investors around the world. Research by the Morgan Stanley Institute for Sustainable Investing (2017 survey) has shown a high and increasing level of appetite among investors for strategies that target market-rate returns while pursuing positive social and/or environmental impact. This was particularly true among women (84% said they were interested, up from 78% in 2015) and younger 'millennials' (86%, up from 84%). However, there are currently no direct peers for the GST. There are well-established ethical and environmental funds in both open-ended and closed-ended structures, but these focus largely on listed equity investment, and are not generally true 'impact' strategies. In private markets investment, there are no widely available funds that invest across unlisted asset classes with the aim of achieving social and environmental impact.

Risks and sensitivities

- The GST will be a listed investment trust, and as such will be subject to fluctuations in its share price according to supply and demand. The value of the shares can go down as well as up, and investors may suffer capital loss as a result. The value of the underlying assets may also fall as well as rise.
- The share price of an investment trust can diverge from the value of its underlying assets (the net asset value, or NAV). The shares may trade below the NAV (at a discount) in times of investor risk-aversion, even if the underlying investments are performing well. Equally, a high level of demand could lead to the shares trading above the NAV (at a premium), meaning investors may be overpaying for the underlying assets. The GST, once fully invested, will have a discount control mechanism to address this issue (see Proposed capital structure, fees and other items); however, there may be increased discount or premium risk in the early years of the strategy.
- Private market investment is by its nature illiquid, particularly in the case of a direct investment, where a buyer may need to be found for a whole asset (such as a building) before it can be sold. Assets may be valued infrequently (for example, in private equity, valuations are typically carried out every six months), which means the actual value of the assets may be hard to determine at intermediate points. This gives rise to the potential for significant changes to the NAV following valuation updates.
- Any investment in credit involves the possibility of default by the borrower.
- From an impact perspective, there is a risk that investments will fail to provide the intended social and/or environmental benefits. Aberdeen Standard Investments monitors the outcomes of its impact investments on an ongoing basis, and would seek to divest from assets where the intentionality of impact has shifted to the extent that it no longer aligns with the Sustainable Development Goals or ASI's eight impact pillars.

Proposed capital structure, fees and other items

The GST will be structured as a conventional investment trust, with a listing on the premium segment of the London Stock Exchange. The share price is 100p, and as such, if the issue reaches its target size, there would be 200m shares in issue with a nominal value of one penny. At the minimum issue size of £100m, there would be 100m shares in issue. It is not currently intended that the GST will use gearing.

Once the portfolio is fully invested, a discount management policy will allow the board (at its discretion) to use cash realisations from the portfolio in order to fund share buybacks if the discount to NAV exceeds 10% for more than six months. The board and manager hope that investor demand will allow them to grow the GST over time through the issuance of new shares. A continuation vote will be proposed at the seventh AGM, and five-yearly thereafter.

Aberdeen Standard Investments will be paid a base annual management fee of 0.70% of net assets, reducing to 0.65% on net assets above £200m. Where the GST invests directly in private markets opportunities using ASI's capability, the GST will pay a fee at the same rate as institutional investors, ranging from c 1.0-2.0% depending on the asset class, subsector and nature of the opportunity. There will be no double-charging. It is estimated that management fees will amount to c 0.87%[1] in the first year. There will be no performance fee. ASI has agreed to make a contribution to the GST's launch costs in the form of a management fee waiver, equal to one-half of the tiered annual management charge (described above), being 0.35% of the initial gross proceeds up to and including £200m, and 0.325% of the initial gross proceeds above £200m. Other costs of the vehicle (including custody, administration, marketing, company secretarial and directors' fees) are expected

[1] Assuming gross proceeds of £200m are raised.

to be in the region of 0.35% of net assets, meaning ongoing charges are expected to be broadly c 1.2-1.3%. While this is higher than the typical fees on an equity fund, it is broadly in line with the Association of Investment Companies' 1.16% average for all investment companies, and compares favourably with average ongoing charges for funds investing in areas such as infrastructure, renewable energy, private equity and direct property, which range from c 1.2% to 1.5%, plus in many cases have additional performance fees.

Dividend policy

The GST's primary objective will be to generate long-term capital growth, and, while some of its investments are anticipated to be income-producing, there has been no commitment as yet to payment of a dividend. Aberdeen Standard Investments is targeting total returns after fees of c 6-8% a year (measured across a cycle) once fully invested.

Director biographies

Company directors

Robert Elliott (chair of the GST) is a former chairman and senior partner of global law firm Linklaters, specialising in banking and corporate restructuring. He holds a number of other chairmanships: two in the financial services sector, one for a consortium of global shipping companies developing a sail-power concept to reduce fuel consumption, and one for an independent school. He is also a trustee of the 1851 Trust, a charity linked to the UK America's Cup sailing team, which focuses on inspiring young people from disadvantaged backgrounds to become innovators of the future and stewards of the environment by choosing careers in science, technology, engineering and mathematics (STEM) subjects.

Andrew Dykes (deputy chair) is the founder of the GST initiative. A qualified chartered accountant, he managed investment trust portfolios at Martin Currie before moving on to Berenberg Bank to design and manage a smaller companies fund focused on sustainability. In 2009 he founded a specialist sustainable investment management company in Geneva. Dykes has worked with the UN on sustainable finance projects, as well as with the Unilever-funded Toilet Board Coalition, aimed at increasing the access to and sustainability of sanitation systems. He has worked on the GST initiative since 2015 and has secured funding for its development from a number of individuals and charitable foundations.

Caroline Roxburgh (chair of the audit committee) is a chartered accountant and a former partner at PricewaterhouseCoopers. She has experience across a number of industry sectors, covering areas including strategy, risk management, financial reporting and governance. Roxburgh is also a director of Montanaro European Smaller Companies Trust, Edinburgh International Festival, VisitScotland and The Royal Conservatoire of Scotland.

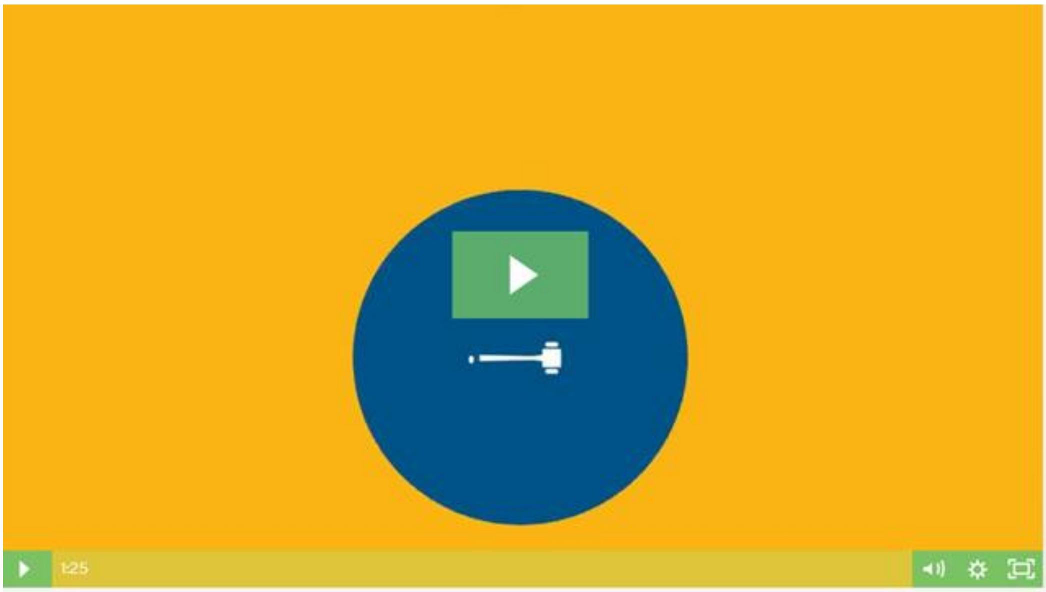
Chris Hills is chief investment officer of Investec Wealth & Investment, a private client wealth manager and one of the UK's largest investors in investment trusts. He has been involved in the product design of the GST to ensure it should appeal to a broad range of investors. Hills has over 40 years of investment management experience, and has been instrumental in building Investec's research capability in alternative assets such as infrastructure, real estate and hedge funds. He is a director of the Association of Investment Companies and Henderson Opportunities Trust, and has advised charities and universities on their investments.

Professor Dame Anne Glover has had a distinguished career in science and science policy, and is currently senior adviser to the principal at the University of Strathclyde, and president of the Royal Society of Edinburgh. A microbiologist by specialism, Glover has been both chief scientific adviser to the president of the European Commission, and chief scientific adviser for Scotland, influencing the way science, engineering and technology are used and discussed within government, and developing strategic initiatives to bridge the gap between science and policy.

Iain Henderson is Head of International Co-operation for the United Nations' Environment Inquiry team, which has worked on building up sustainable finance in more than 20 countries. The initiative was set up to examine how financial systems can align with sustainable development outcomes, including the SDGs and the Paris Agreement. Henderson has also worked for the UN Environment Programme Finance Initiative, leading an initiative to drive private capital into more sustainable land use, and also focused on sustainable finance with World Wide Fund for Nature (WWF) in Hong Kong. A CFA charterholder who previously worked in investment banking, Henderson is a former member of the World Economic Forum's (WEF) Global Agenda Council on Forests, and is currently part of the WEF's Expert Network.

Appendix: The UN Sustainable Development Goals

Exhibit 6: Introduction to the Sustainable Development Goals



Source/copyright: United Nations. Video plays on landing page for HTML note and in browser for PDF note.

The United Nations describes the Sustainable Development Goals as the blueprint to achieve a better and more sustainable future for all. The 17 interconnecting goals address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. The UN says: 'In order to leave no one behind, it is important that we achieve each Goal and target by 2030.'

Economic growth must be inclusive to provide sustainable jobs and promote equality. More than 700 million people around the world live in extreme poverty, not just in the developing world but also in rich countries. Growing inequality is detrimental to wealth and undermines social cohesion. It is estimated that we could end extreme poverty in 20 years for c $175bn a year, or less than 1% of the combined income of the world's richest countries.

The food and agriculture sector offers key solutions for development, and is central for hunger and poverty eradication. Globally, 800m people (mostly in the developing world) suffer from hunger and malnutrition. Hunger is detrimental to health, education, equality and social development. Poor harvesting practices and wastage contribute to food scarcity. Investment is needed in both urban and rural areas to ensure everyone has access to food.

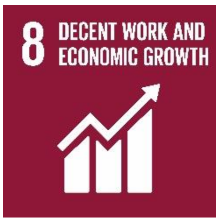
Ensuring healthy lives and promoting well-being for all at all ages is essential to sustainable development. Despite great strides in recent years, inequalities in healthcare access still persist. Fear and discrimination can limit access to services like vaccination and HIV/AIDS treatment. Although progress has been made in addressing maternal and child mortality and diseases such as measles and malaria, another $1bn investment in expanding immunisation programmes could save a million lives each year.

Obtaining a quality education is the foundation to improving people's lives and sustainable development. Education helps break the cycle of poverty and therefore helps to reduce inequalities and foster tolerance to others. While 91% of children in the developing world now have access to primary education, there are still barriers to entry, particularly for girls. Government and the private and voluntary sectors can work together to increase access, provide quality resources and change attitudes.

Gender equality is not only a fundamental human right, but a necessary foundation for a peaceful, prosperous and sustainable world. While nearly three-quarters of the world's countries now constitutionally support gender equality, nearly 15 million girls under 18 are married each year, curtailing their access to education and limiting their opportunities in the labour market. Initiatives to increase the age at which girls marry, and to improve women's job skills, return many times the amount spent on them.

Clean, accessible water for all is an essential part of the world we want to live in. Yet water scarcity affects more than 40% (and rising) of the world's population, and 2.4bn people lack access to basic sanitation services. More than 80% of waste water resulting from human activities is discharged, untreated, into rivers or seas. By managing our water sustainably, we can also better manage food and energy production, while better sanitation benefits the economy by reducing sickness from waterborne diseases.

Energy is central to nearly every major challenge and opportunity. A lack of access to energy supplies is a constraint to human and economic development, while a well-established energy system benefits all sectors, from education and medicine to communications and high technology. But with the developing world lacking reliable access to energy, and rich countries still over-reliant on polluting fossil fuels, we need to increase global investment in sustainable energy threefold, to $1.25trn by 2030.



Sustainable economic growth will require societies to create the conditions that allow people to have quality jobs. Nearly 2.2bn people – more than a quarter of the world's population – live on less than $1.90 a day. To eradicate poverty, everyone must have access to stable and decently paid jobs. To keep up with the growth in the working-age population, 470m new jobs are needed each year. By investing in education and training we can give young people of all backgrounds skills to match labour market demands.

Investments in infrastructure are crucial to achieving sustainable development. Industrialisation must be supported by innovation and resilient infrastructure from which all can benefit. Basic infrastructure like roads, communications networks, electricity and water is scarce for many in developing countries. The growth of new industries can have a positive effect on both the economy and the environment. Proper standards and regulation can help to ensure that industrial development is sustainably managed.

To reduce inequalities, policies should be universal in principle, paying attention to the needs of disadvantaged and marginalised populations. Inequalities based on income, gender, age, disability, sexual orientation, class, ethnicity and rural/urban location persist both within and between countries, threatening social and economic development. A life of dignity for all can and should be achieved. National political, social and economic policy needs to be universal, and developing countries must have a voice on the world stage.

There needs to be a future in which cities provide opportunities for all, with access to basic services, energy, housing, transportation and more. Half the world's population lives in cities, and this number continues to grow. Inequality is a major concern, with more than 800m people living in slums. Cities occupy 3% of the world's land but account for c 70% of energy use and three-quarters of carbon emissions. Better urban planning and public transport networks can have huge social, environmental and economic impact.

Ensure sustainable consumption and production patterns. A growing middle class globally is good for individual prosperity but increases demand for already constrained natural resources. To avoid causing further irreversible environmental damage, businesses and consumers need to focus on enabling and adopting more sustainable production and consumption patterns. By shopping more thoughtfully and reducing waste, individuals can help tackle pollution and the exploitation of workers.

Climate change is a global challenge that affects everyone, everywhere. We need to take urgent action to tackle both the causes and effects of climate change, which has a disproportionate impact on the poor and vulnerable. While investment in renewable energy – a key tool in the battle against global warming – has soared, the pace must be kept up, while reducing spending on fossil fuels. Furthermore, just $6bn invested in disaster risk reduction schemes over the next 15 years could return $360bn in avoided losses.

Careful management of this essential global resource is a key feature of a sustainable future. Over 3bn people depend on marine and coastal biodiversity for their livelihood. Oceans can provide us with food, medicines and energy, and maintaining healthy oceans helps to combat climate change. Marine Protected Areas benefit small-scale local fisheries, contributing to the reduction of poverty and gender inequality. Stopping overfishing, and better international co-operation to protect ocean habitats, are key to sustainability.

Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss. Forests cover almost one-third of our planet's land area, and are home to more than 80% of all land animals, plants and insects, while c 1.6bn people also depend on them for their livelihood. Deforestation results in loss of habitat, land degradation and soil erosion, as well as increasing carbon emissions. To achieve sustainable forest management globally would cost between $70bn and $160bn a year.

Access to justice for all, and building effective, accountable institutions at all levels. People everywhere need to feel safe and free from the fear of violence as they go about their lives, whatever their gender, ethnicity, faith or sexual orientation. Governments and society must work together on solutions to reduce violence, combat corruption, deliver justice and ensure inclusive participation. Everyone can make a difference by exercising the democratic rights they have, promoting inclusion and respecting others.

Revitalise the global partnership for sustainable development. In order to achieve the first 16 SDGs, governments, civil society, scientists, academia and the private sector all need to come together to ensure no-one is left behind. Developed countries must fulfil their official development assistance obligations, and multi-stakeholder partnerships will be necessary to maximise the interlinkages between the SDGs to enhance their effectiveness and impact. The UN will take stock of global progress annually.

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