



EdenTree SRI Expert Briefing – September 2015

Amity Fund SRI Company Profiles

Introduction

The EdenTree range of SRI screened 'Amity' funds hold over 250 different company stocks and debt instruments across their portfolios. As well as having a strong and compelling investment case, each holding must be researched and approved by the SRI team. Here we profile two interesting holdings that deliver strongly against our nine positive screens: specialist property company Morgan Sindall (Amity UK), and a Retail Charity Bond issued by Hightown Housing Association (Amity Sterling Bond).

Morgan Sindall

Morgan Sindall is a UK focused construction and regeneration specialist operating across five divisions: construction & infrastructure; fit out; affordable housing; urban regeneration and investments. The company employs around 5,700 people and operates through well-known subsidiary businesses including Overbury (specialists in commercial refurbishment), Lovell (design and regeneration specialist) and Muse Developments (a sustainable regeneration and urban renewal specialist). The company plays particularly well to our urban regeneration, community and environment pillars.



Five Business Segments

The company achieved revenues of £2.2bn in 2014 across its five divisions: Construction & Infrastructure (52%); Fit Out (23%); Affordable Housing (19%); Urban Regeneration (5%) and Investment (1%). Over half of Group revenues come from infrastructure projects in the education, healthcare, transport energy and water sectors, with 36% related to public sector bodies, 26% from regulated markets (such as water and energy) and 38% private sector.

One typical Morgan Sindall project is the sustainable waterways neighbourhood being developed in Brentford, West London in partnership with the Canal & River Trust to deliver 520 waterfront homes as part of an overall urban plan comprising leisure, pedestrianised spaces, community facilities and a commercial hub. The company's particular expertise is realising potential from derelict land such as the mixed-use community development in Plymouth that has transformed a 15 acre derelict site in the docks area into a landscaped residential development of 102 homes with a 'go-to' hub of bars, restaurants and shops. The company's affordable housing division constructed nearly 2,000 units in 2014 and 475 regeneration mixed-use properties; nearly 300 units were constructed directly for housing associations, making Morgan Sindall one of the key players in the UK affordable housing sector.

Investment Proposition

Morgan Sindall is a well-diversified business with exposure to the key public, regulated and private construction sectors. The company has a strong order book of £2.7bn – up 11% on 2013. Although 2014 was challenging, income grew by 6%. Operating profit fell compared to 2013 impacted by a small number of construction contracts, however the order book strengthened and the company has a strong balance sheet with a maintained dividend¹.

ESG (Environment, Social & Governance) Positives

In addition to the company's urban regeneration activities having strong social utility, it also scores well in terms of overall corporate responsibility.

In 2014, the Group's carbon emissions represented an absolute reduction of 18% against 2013, and 41% against a 2010 baseline. 86% of construction waste was diverted and recycled in 2014. Monitoring of water consumption and use commenced in 2014, with a view to setting quantitative reduction targets. The company procures sustainably and has a risk matrix of 'high-risk' materials that require additional screening due diligence. 49 Morgan Sindall projects were independently benchmarked against industry leading sustainability ratings such as BREEAM, CEEQUAL, LEED and SKA. Morgan Sindall is the first non-FTSE350 company to achieve leadership status in the Carbon Disclosure Project.

Morgan Sindall Positive Amity Score

The company scores positively across six of the nine Amity pillars, particularly urban regeneration and environment. EIM has supported all recent governance proposals and does not view executive pay as problematic.

Business Practices	Community	Governance
Education	Environmental	Healthcare
n/a	STRONG	n/a
Human Rights	Labour Relations	Urban Regeneration
n/a		STRONG

Hightown Housing Association

At EdenTree Investment Management (EIM) we continually search out innovative investments that meet our investment and SRI criteria. Social or impact investments represent a specialist area of investment that are attracting interest from mainstream investors. One such area is the Retail Charity Bond space, where EIM is already well represented, and took advantage of a £27m bond issue by one of the UK’s largest housing associations: Hightown.



Hightown is a charitable housing association operating in Herts, Beds and Bucks. It provides a wide range of housing support for families and single people including those with special needs. The Association manages over 4,700 homes, and has a turnover of £48m per annum. Established in 1967, the Association has ambitions to grow its portfolio by 300-400 new units per year.

Investment Proposition

For EIM this represented an attractive investment yielding 4.4% per annum, maturing in 2025. The Association had nearly £12m in free cash flow generation in 2014, making it a particularly strong covenant. Financial strength places Hightown in the top quartile of UK Housing Associations, with income of £36m in 2014 and an operating surplus of over £14m. The Bond proceeds are earmarked for its ambitious affordable housing development programme where there is a strong local need of over 35,00 on the social housing waiting list. The portfolio is relatively young at an average 22 years ensuring a low-maintenance cost base; around 83% are two bedrooms or less, limiting exposure to the bedroom tax. The Association is well insulated from welfare reform proposals – as currently understood.

Sustainability Proposition

Supporting retail charity bonds plays well to our overall responsible ‘profits with principles’ approach. What we liked about the issue was not purely the strong emphasis on affordable housing, but on also providing specialist housing for marginalised groups. 100% of income is derived from social housing, but within that figure, nearly 35% arises from supported housing and care. This model ensures Hightown creates significant additional social impact via its support for people with learning disabilities and complex mental health needs, the homeless, young marginalised people and other groups such as women escaping domestic violence. Over 700 units (c17%) are given over to specialist or supported housing and care, some with 24 hour assisted care².

Refuge from Domestic Violence

Hightown Housing Association operates women’s refuges in Stevenage and Dacorum (Hemel Hempstead and surrounding areas), where safe, temporary accommodation is offered for women and children fleeing domestic abuse. The facility in Stevenage can host up to nine families. All female staff provide support and access to information to women whilst they are ‘in refuge’. All women are allocated a support worker to assist with future options such as permanent accommodation, accessing benefits and health welfare. The goal is to ‘empower women to move on with their lives’. "Thank you all for helping me realise it's not my fault. I felt guilty when I first came. Now I feel positive and ready to face things on my own..." (female resident).

This information is for Investment Professionals only and should not be relied upon by private investors.

Hightown Housing Association Positive Amity Score

EIM’s interest as a holder of debt and the unconventional nature of the Housing Association (a charity) means that conventional scoring is not appropriate. However, we view the Bond as providing very strong sustainability positives, social impact, as well as good financial and governance strengths.

Business Practices	Community	Governance
STRONG	STRONG	GOOD
Education	Environmental	Healthcare
n/a	NO DISCLOSURE	n/a
Human Rights	Labour Relations	Urban Regeneration
n/a	n/a	STRONG

Conclusion

Morgan Sindall and the Hightown Retail Charity Bond represent two investments that we regard very positively. Both are long-established businesses, providing strong social utility. Both are strong financially, and operate in areas of growing interest – brownfield regeneration – and affordable housing. These businesses therefore represent not only strong corporate responsibility plays, but have business models strategically centred on sustainability itself. Both also represent compelling and interesting long-term investment stories.

The EdenTree SRI Team

We have a specialist in-house Socially Responsible Investment (SRI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of [Amity Funds](#). Headed up by our Senior SRI specialists Ketan Patel, CFA, and Neville White, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. For investors, it’s an added layer of assurance that client money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts appointed for their knowledge and professional insight.



EdenTree - Ethical Investment Specialist



Since launching the **Amity UK Fund** in 1988, EdenTree has taken a leadership role in managing ethical investments through our research, engagement and strong fund performance. Consequently, we were delighted to receive the Moneyfacts Award for Best Ethical Investment Provider 2014, the sixth consecutive year of winning this award. We were particularly pleased to win as it is voted for by the IFA community. In 2013, the **Amity UK Fund** was rated ‘Highly Commended’ in the Investment Week Climate Change and Ethical Investment Awards. We were also awarded Money Observer Best Ethical-SRI Bond Fund for the **Amity Sterling Bond Fund**; the **Amity UK Fund** won Best Equity Fund in the 2014 Money Observer Ethical/SRI category, and we were nominated for an award in the category of Best Thought Leadership Paper on Sustainable Investing, in the Investment Week Sustainable Investment Awards 2014. Today we offer six SRI funds, four under the Amity brand and two charity funds, covering the major markets and investment classes.

Further information

For further information on EdenTree’s SRI range of Amity Funds please contact your EdenTree Business Development Manager, visit www.edentreeim.com or call our adviser support team on 0800 011 3821

Please note that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested. EdenTree Investment Management Limited (EIM) Reg. No. 2519319. Registered in England at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ, UK. EdenTree is authorised and regulated by the Financial Conduct Authority.

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Notes

¹ All figures Morgan Sindall plc www.morgansindall.com

² All figures Hightown Housing Association www.hightownha.org.uk

Glossary

BREEAM – Building Research Establishment Environmental Assessment

CEEQUAL – UK industry scheme for assessing environment and sustainability performance in civil engineering and public infrastructure works

LEED – Leadership in Energy & Environmental Design

SKA – RICS led environmental assessment for non-domestic fit-out