

### BORREGAARD AND LUCECO

#### 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 holdings that deliver strongly on our nine positive screens. Borregaard, held within our Amity International Fund and Amity Global Equity Fund and Luceco, held within our Amity UK Fund, provide innovative solutions for environmental challenges. Both companies are well positioned post the Paris agreement, which will further encourage the use of environmentally beneficial products and solutions. This SRI briefing explores the investment and sustainability case for holding them in the Amity Funds.

#### BORREGAARD

Borregaard is a Norwegian biochemicals specialist operating in three divisions: Performance Chemicals (which develops lignin-based products), Specialty Cellulose and Other Businesses. Borregaard offers environmentally friendly substitutes to more carbon-intensive petrochemical products by using natural, sustainable raw materials which can be used in various applications, including textiles, coatings, adhesives, food, pharma and plastics. It operates its own specialised biorefinery.

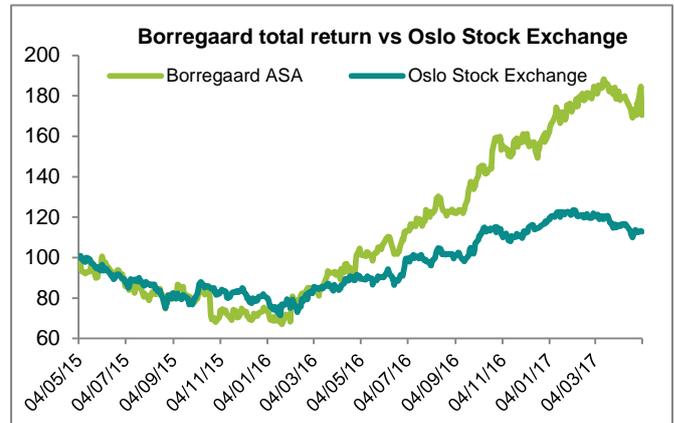


#### INVESTMENT PROPOSITION

Borregaard is well positioned in the biochemicals market with a leading position in lignin<sup>1</sup> and cellulose<sup>2</sup> as well as being the only provider of wood-based vanillin<sup>3</sup>. It has a 41% global market share in biochemicals. With a strong R&D capacity, the company is well set to benefit from the expected growth of the bio-chemicals market going forward.

The company listed on the Oslo Stock Exchange in October 2012; its share price has increased 99% on a total return basis (in Sterling terms) over the last two years vs a 17% gain by the Oslo Stock Exchange.

The company delivered a 7% increase in revenue at NOK 4,492m (31 December 2016) with operating profit up by 39.4% to NOK 743m. The company also has a promising innovation pipeline with specialty products such as Ice Bear (high-purity cellulose) and Exilva (microfibrillar cellulose).



Source: Bloomberg

The share price has performed strongly over the last year and currently yields a dividend of 4.1%, supported by the company's strong balance sheet.

#### ESG POSITIVES

Borregaard's product portfolio provides alternatives to fossil fuel based chemicals. In addition to the product's sustainability credentials, the company operates in a responsible way with a strong commitment to sustainability. Only environmentally friendly materials that do not compete for food are used in its biochemicals and all wood is sourced from Norway and Sweden from PEFC<sup>4</sup> or FSC<sup>5</sup> certified origins. The company is a carbon intensive business, but has made tremendous efforts to reduce its carbon footprint, cutting emissions by half in the last decade. As it develops products with a positive environmental impact, it is likely to benefit as greenhouse gas emissions regulations intensify and to thrive from increased demand for alternatives to petro-chemicals post the Paris Agreement.

#### BORREGAARD POSITIVE AMITY SCORE

Sustainability has been fully integrated into the company's business model and this is reflected in the company's transparent reporting. Borregaard provides environmentally friendly innovative solutions and scores well on all pillars.

Business Ethics	Community	Corporate Governance
Employment & Labour	Environmental Management	Human Rights
Education	Health & Wellbeing	Urban Regeneration
N/A	N/A	N/A

# EDENTREE SRI EXPERT BRIEFING – MAY 2017

## AMITY FUND SRI COMPANY PROFILES

### LUCECO

Luceco is a manufacturer and distributor of high quality and energy efficient LED lighting



products and wiring accessories distributed under different brand names: Luceco LED, BG Electrical, Masterplug and Ross. The group has an integrated model, with its own manufacturing sites in the UK and China. Luceco has over 70 years' experience and listed on the London Stock Exchange in 2016 to help it pursue its growth strategy. The innovative UK company has circa 2,000 employees and clients in over 75 countries.

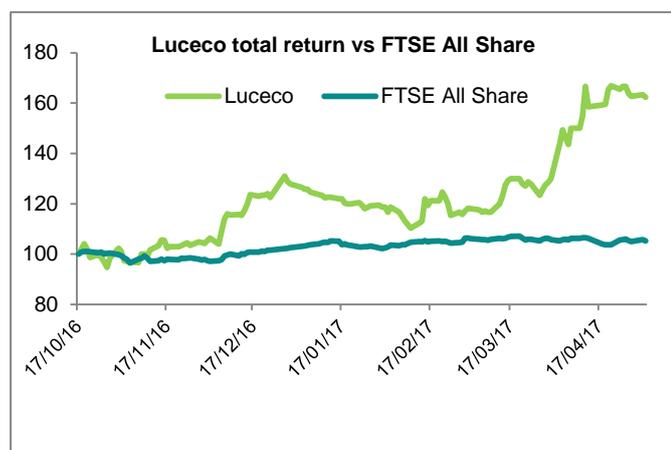
### INVESTMENT PROPOSITION

Luceco is well positioned to benefit from the growing LED market: in the UK, this is expected to grow to about £1.2bn by 2019 from £651m in 2015. Growth of LED lighting significantly exceeds GDP growth driven by retrofitting. The global adoption of LED lighting is also supported by public policy, as many countries have already introduced a ban on incandescent lighting.

Luceco launched its Luceco LED product in 2013 and revenues have grown from £1.5m in FY13 to more than £33m in FY16. Luceco estimates that it currently has a market share of 4% in LED products. It aims to increase this by benefitting from retrofitting activities and by entering new customer markets including UK house-builders.

The vertically integrated business model provides strong competitive advantages for the company, allowing it to control costs as well as the quality of its products.

The company has a market cap of £314m and achieved revenue growth of 30% in 2016 to £133.8m with a gross margin of 35.7%.



Source: Bloomberg

The share price has performed strongly since the IPO, returning 56% on a total return basis vs a 9% gain by the FTSE All Share Index. For its first year of listing the company paid a dividend of 0.3p per share, currently yielding a modest 0.13%. This has the potential to grow as the Board intends to adopt a progressive dividend policy based on an initial pay-out ratio of c.20% of profit after tax.

### ESG POSITIVES

LED lighting assists reduced carbon emissions as 80% of energy is converted into light rather than heat. LEDs last between 4 to 10 times longer than traditional lighting and are safer to dispose of. LED lighting also offers other benefits as it provides brighter light and generates cost savings for users. The company also focuses on reducing its own environmental impact; its China operation site has achieved ISO 140001 certification for environmental management system in line with best practice. The company also emphasises the importance of good working conditions and employee training.

### LUCECO POSITIVE AMITY SCORE

As a leader in LED lighting, Luceco presents strong product positives for the Amity range of funds. The company shows commitment to sustainable business while providing innovative solutions with environmental benefits. The company scores well on all pillars including recognising potential risks arising from human rights and working conditions.

Business Ethics	Community	Corporate Governance
Employment & Labour	Environmental Management	Human Rights
Education	Health & Wellbeing	Urban Regeneration
N/A	N/A	N/A

### Glossary

- <sup>1</sup> Lignin: plant derived polymer with cleaning, treatment or binding properties
- <sup>2</sup> Cellulose: plant derived fibres
- <sup>3</sup> Vanillin: flavouring agent used in food and pharmaceuticals
- <sup>4</sup> PEFC: Programme for the Endorsement of Forest Certification
- <sup>5</sup> FSC: Forest Stewardship Council

# EDENTREE SRI EXPERT BRIEFING – MAY 2017

## AMITY FUND SRI COMPANY PROFILES

### THE EDENTREE SRI TEAM



**Neville White**  
Head of SRI Policy  
and Research



**Esmé van Herwijnen**  
SRI Analyst



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 Neville White, Head of SRI Policy & Research, and supported by Associate Fund Manager Ketan Patel and Responsible Investment Analyst Esmé van Herwijnen, 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 specialist knowledge.

#### **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 2016, the eight consecutive year of winning this award. We were particularly pleased to win as it is voted for by the Adviser community. We were also highly commended in the category of Best Ethical Investment Fund Management Group at the Investment Week Sustainable Investment Awards 2016, whilst our Amity UK Fund was one of the finalists for Best Ethical Investment Fund. At the same awards, we won Best Thought Leadership Paper on Sustainable Investment for our Amity Insight on Natural Capital.

Today we offer six SRI funds under our Amity brand, four retail funds and two for charity investors, 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](http://www.edentreeim.com) or call our IFA support team on 0800 011 3821.

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