M&G (Lux) Positive Impact Fund

Annual Impact Report 2022: Bright spots

Contents

Impact in brief

The M&G (Lux) Positive Impact Fund invests across six differentiated impact areas, three of which are social and three environmental, and we measure specific impacts that our investee companies seek to deliver within each area.

In 2021...

Our Climate Action companies...

saved or avoided 38.1 million tonnes of CO_2

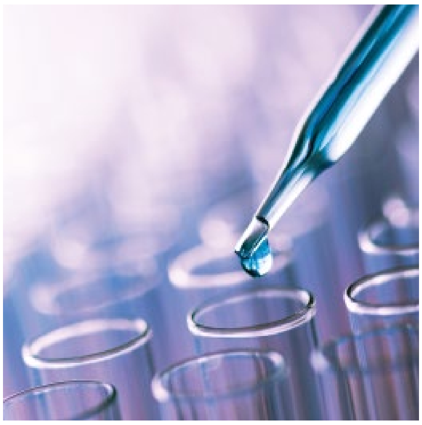
Our Environmental Solutions companies...

directly saved 300.2 million tonnes of CO_2

Our Circular Economy companies...

saved 58 million trees, 4,470 megalitres of water, and handled 101.6 million metric tonnes of waste material

Our Better Health, Saving Lives companies...



treated or served more than 54.2 million people

Our Better Work and Education companies...

provided educational services for 2.7 million people, and wrote ~8,400 insurance policies protecting workers

Our Social Inclusion companies...

provided services to 192 million people in underserved or lower income markets

These figures are based on the key performance indicators (KPIs) against which we measure individual company impacts. These have been aggregated within each impact area, where companies within the area share similar KPIs. However, it is important to note that the data is largely taken from the latest available company literature, and is therefore backward looking. Furthermore, it relies on whichever methodology each company has used to calculate its impact, which may vary from one to another.

Introduction

Ben Constable-Maxwell
Head of Sustainable and Impact Investing

We are heading into the fifth year of running the M&G (Lux) Positive Impact Fund. The world has experienced extraordinary shifts in the global economy and markets in the past year, but also witnessed a health disaster and a terrible war on the borders of Europe, which has created serious societal and mindset-altering ripple effects. Expansive monetary policy during the COVID-19 pandemic, combined with supply chain and labour market bottlenecks, kickstarted an inflationary wave that was further boosted by rising commodity and energy prices. The human costs have been considerable, and the political agenda has shifted somewhat to prioritise national safety, energy security and the battle against inflation.

As impact investors, we are pleased to see that the fight against climate change remains firmly on the agenda. We don't expect the increased use of and investments into oil and coal to fundamentally alter the direction of policymakers or consumers, but we obviously hope that a sense of urgency can be maintained in spite of the expanded list of governmental priorities. With this in mind, we believe that companies delivering fossil fuel alternatives or energy-saving solutions are set to experience even stronger demand for their impactful products and services.

The human consequences of potential changes in global trade patterns, rising interest rates and high inflation might not be as obvious as those caused by war, climate change or the pandemic. However, they could very easily amplify the vulnerabilities of financially weak nations, and lead to increased social and financial inequality. Especially if the issues are not met with efficient policy responses. The need for companies providing solutions to promote social inclusion and equality for the most under-served populations remains clear.

John William Olsen
Fund Manager

Our portfolio companies generally displayed good resilience in a difficult market last year. It is important that they remain financially strong to continue pursuing their impactful purpose. We dedicate a huge amount of time and resource to analysing the business model and investment case when considering companies for the fund – not just their impactful credentials.

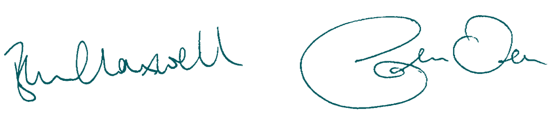
We continue to engage with investee companies, encouraging them to improve their practices – such as setting stricter targets for emission reductions, or broadening their disclosure of impact metrics. And when the risk of potential negative impacts arises, we will also engage with companies to find out how they are managing these.

In this year's report, where available we have continued to provide hard data on investee companies' impacts, and compared these with the previous year's figures (see page 8). We have also provided background information on a selection of these numbers. After all, impacts will often evolve, as companies innovate, measurement standards develop and the wider macroeconomic environment changes.

A new addition to this year's report is an overview of the main successes and challenges from the past 12 months, which you can find on page 32. Among others, we discuss encouraging progress on climate targets, and our ongoing engagements on the topic of bioethics.

As before, we have also provided in-depth case studies on six investee companies – one from each of our impact areas. These offer an insight into the impactful solutions offered by companies in areas such as energy efficiency, waste reduction and access to education.

We hope you enjoy reading this fourth edition of our annual impact report.



Approach and objectives

The M&G (Lux) Positive Impact Fund is a public equity impact fund. The fund makes long-term investments in companies that aim to generate a positive social and/or environmental impact alongside a financial return. We do this through a concentrated portfolio, usually holding fewer than 40 stocks from anywhere in the world where we can find investable opportunities.

We look for three different types of company, providing diversification across industries, end markets and maturity of business models:

Pioneers

Pioneers tend to be young companies whose innovative products or services have a transformational effect on society or the environment. They tend to spend large amounts of capital as a percentage of revenues on research and development, and are not mature in their development.

Enablers

Enablers provide the tools for other companies to deliver positive social or environmental impacts.

Leaders

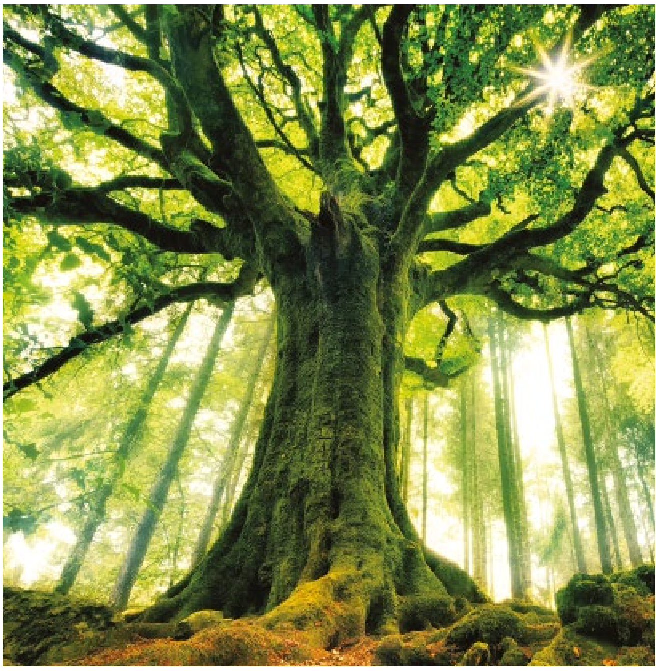
Leaders spearhead and normalise sustainability and impact in their industries. They maintain their leadership by continuing to invest in research and development, but this cost represents a smaller percentage of revenues compared with pioneers, as their profitability is more established.

The UN Sustainable Development Goals

The fund embraces the UN Sustainable Development Goals (SDG) framework. The SDGs are a collection of 17 interconnected goals, which collectively form a blueprint for peace and prosperity for people and the planet, now and into the future. The goals cover areas such as ending poverty and improving health, reducing inequality, tackling climate change and preserving our oceans and forests.

We believe the SDGs provide a solid, accepted framework for determining material impact areas, and help frame the measurement of how those positive impacts are being achieved. We assign all of our investments a primary SDG that we believe they are addressing, and determine specific, SDG-aligned key performance indicators (KPIs), against which we measure the materiality of their contributions. See page 16 for more information about the SDGs.

While we support the UN SDGs, we are not associated with the UN and our funds are not endorsed by the organisation.



Six impact areas

The fund aims to make positive impacts across six key social and environmental impact areas, each mapped to the UN's Sustainable Development Goals.

- Climate action
- Environmental solutions
- Circular economy
- Better health, saving lives
- Better work and education
- Social inclusion

Engagement

Investors can effect change by engaging with investee companies on a variety of issues, not least supporting responsible corporate behaviour and setting more testing sustainability objectives. We have company-wide engagement priorities, including climate action, and diversity and inclusion.

As impact investors, engagement also gives us the opportunity to provide additionality and encourage greater positive impacts from investee companies. For example, engagement allows for positive reinforcement of the company's long-term aims and impactful ventures. It also allows us to encourage more comprehensive disclosure of impact metrics, so that we might better measure the company's impact.

By proactively engaging with investee companies, we can also reduce the risk of negative impacts being generated, and, where peripheral negative impacts may occur, work with stakeholders to address these issues. On pages 26 and 30 we have highlighted two investee company engagements from the past year.

'Triple I' or III framework

The III framework (encompassing Investment, Intention and Impact) is a practical means of scoring candidate companies for the fund. The framework robustly and consistently applies set criteria and standards for rating the impact and investment case of these companies.

Each 'I' score is derived from the assessment and rating of its key drivers, outlined below. The team aims to achieve an optimal balance of quality companies, with a solid, established culture that is consistent with management's vision and strategy. We require above-average scores on each I, to ensure impact is not achieved at the expense of the investment case, or vice-versa, and to gain comfort that the company's activities are in line with our aims. We also examine how material the impact is to a company's revenues, helping to ensure that the company will continue to deliver that impact effectively, as it is core to its business.

Crucially, we look at the 'net impact' of every potential investment, to avoid the positive impact we have identified being outweighed by potentially negative activity. For example, a wind-turbine producer will have a material initial carbon footprint, as it makes large steel structures. However, we look over the lifetime of that structure to determine if it avoids more carbon emissions – through the generation of clean energy – than were expelled in its construction. Every company produces positive and negative impacts to various degrees, and we need to have certainty that our companies are on the right side of that balance.

Investment	Intention	Impact
Business model	Mission statement and purpose	Impact balance
Competitive position	Management and strategic alignment	Measurability
Capital allocation	Management transparency	Materiality/ revenues to SDGs
Business risk	Culture	Additionality
ESG		Impact risk
Liquidity		

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Impact results

The following pages list all of our investments by impact category, explain the KPIs we have chosen to measure them against, and how those KPIs have been achieved (or not).

Many of these measurements rely on company reporting, and hence are backward looking. Our 2021 report provided figures for 2020, and likewise this year's report provides figures for 2021, compared against the previous year's numbers.

There are some companies currently within the portfolio whose impact it has proven very challenging to quantify. This is particularly the case for the 'enablers', which by their nature allow others to deliver impact to society. Being one step removed from the end-client can, and has, made measurement of their ultimate impacts difficult. We have been working with our 'enabler' companies to develop more effective means of measuring their impact. In the meantime, where hard metrics have proven elusive, we have provided case studies on page 14 to highlight what we believe to be the impactful nature of these companies.

How do we select KPIs?

For every company in the fund, we assign at least one key performance indicator (KPI). KPIs allow us to measure a company's impact, and track how this progresses from one year to the next.

When selecting KPIs, we first determine the primary United Nations Sustainable Development Goal (SDG) which we believe the company is addressing. We can then select a metric which best assesses the materiality of the company's contribution towards that SDG.

Commentary

Encouragingly, we have seen the majority of portfolio companies report improved impact KPI figures for 2021, compared to 2020. However, it's important to remember that the delivery of impact is a long-term undertaking, and single year-on-year changes in metrics may not be considered meaningful, particularly where the impact a company is delivering is already material.

There were notable increases for a number of companies, including energy management specialist Schneider Electric. In 2021, Schneider helped customers of its EcoStruxure platform to save or avoid 83.6 million tonnes of CO_2 emissions, up from 75.6 million in 2020. Since 2018, the cumulative figure is now 347 million. While this is fantastic news, we must acknowledge that the company also expanded the scope of its calculations, to include additional technologies such as energy management systems and data centre design. Going forward, the company aims to progressively extend the scope of its methodology, until it covers all products and services.

We saw a number of healthcare companies increase their contributions towards better health and well-being, by reaching a growing number of patients with their treatments or services. These included allergy immunotherapy specialist ALK-Abelló and healthcare services provider UnitedHealth.

There was also encouraging progress from a number of companies promoting social inclusion and better education. For example, HDFC Bank enables greater access to financial products for underserved populations in India. The company aims to 'take banking to the unbanked', reaching the most remote areas of the country through its network of physical outlets and digital services. In 2021, the company opened accounts for an additional 200,000 people in economically weakened/low income groups, as defined by India's PMJDY social inclusion programme. It now ranks among the leading private sector banks in this area.

Telecommunications tower company Helios Towers also broadened its reach in 2021, serving an additional 32 million people as the company commenced operations in Senegal and Madagascar. Helios is enabling greater access to mobile and communication services in its underdeveloped markets, which is increasingly important for driving financial inclusion and access to health and education services, which we believe makes it highly impactful.

It is important to acknowledge that we have also reported lower KPI figures for a small number of companies, most notably for solid oxide fuel cell company Ceres Power.

Since Ceres Power licenses its technology to equipment manufacturers, estimating its future avoided emissions relies on forecasting the pace of equipment roll-out by its partners and on judgment around the end-use applications. The large decrease from last year's figure is a result of pulling forward our forecast year to 2025, from 2030, to reflect announced capacity plans from manufacturing partners, and better availability of data around the expected utilisation rate of fuel cells used for back-up power. We expect customer capacity and the range of applications to grow beyond 2025, especially as green hydrogen becomes cheaper and more abundant, but for now we believe this is a more accurate representation of the company's impact.

There are a number of companies for which we were unable to source updated metrics this year. For example, provider of centralised laundering services UniFirst. However, we have encouraged the company to prioritise this area and develop updated, absolute figures for the impact it provides. We will follow up in due course.

"Encouragingly, we have seen the majority of portfolio companies increase their impact since the previous year.

Climate action

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Ørsted	Directly contributes towards a world running on green energy.	# CO_2 emissions saved	**15.1m** tonnes	**13.1m** tonnes	**+2m** tonnes
SolarEdge	Directly contributes towards making solar energy more efficient and more affordable.	# CO_2 emissions avoided # of solar optimised homes	**23m** tonnes **2.27m** homes	**17.4m** tonnes	**+5.6m** tonnes

Environmental solutions

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Ansys	Helps reduce resource use through its simulation technology, which leads to cost and efficiency savings.	Case study			
Ceres Power	Enables the reduction of GHG emissions through its solid oxide fuel cell technology.	# tonnes of avoided emissions (GHG and non-GHG) in industrial, technological and/or other processes	**16,300** tonnes* per year (Based on first full year of results in 2024-2025)	n/a	n/a
Horiba	Enables the reduction of CO_2 emissions and the improvement of environmental practices through its range of measurement and monitoring tools.	Case study			
IPG Photonics	Enables the reduction of CO_2 emissions via its innovative laser technology used mainly for cutting, welding, marking and engraving.	# CO_2 emissions avoided	**2m** tonnes**	**2m** tonnes	No change
Johnson Controls	Directly contributes to the design and retrofit of smart and efficient buildings. This indirectly helps address climate change with residential and commercial buildings accounting for almost 40% of total energy use, which is more than the transportation and industrial sectors.	# CO_2 emissions avoided	**35.2m** tonnes saved since 2000 (**4.6m** tonnes saved in 2021)	**30.6m** tonnes saved since 2000 (**1.2m** tonnes saved in 2020)	**+4.6m** tonnes
onsemi	Enables the reduction of CO_2 emissions through its extended range of energy-efficient semiconductors, with its positive impact being particularly felt in the transport industry.	Case study			
Rockwool	Helps drive better sustainability in building construction via more resource-efficient and fire-resistant products. Rockwool insulation is also fully recyclable.	# CO_2 emissions avoided over the lifetime of insulation sold in one year	**210m** tonnes for products sold in 2021	**186m** tonnes for products sold in 2020	**+24m** tonnes
Schneider Electric	Enables the reduction of CO_2 emissions through its range of energy-efficient solutions designed for buildings and infrastructure.	# CO_2 emissions avoided	**83.6m**** tonnes avoided by EcoStruxure customers	**75.6m** tonnes avoided by EcoStruxure customers	**+8m** tonnes

*We have adjusted our forward-looking calculation for Ceres Power's impact, resulting in a large decrease compared to the KPI figure included in last year's report. See the commentary on page 9 for more information.

**We have used the annual emissions avoided figures for 2021 and 2020, rather than cumulative, which is why these figures are lower than those included in last year's report.

Circular economy

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Brambles	Helps preserve natural resources such as water and wood, minimise waste and reduce carbon emissions through its sharing business model.	# water saved # CO_2 emissions avoided	**4,470** megalitres of water and **2.5m** tonnes of CO_2 saved	**3,160** megalitres of water and **2m** tonnes of CO_2 saved	**+1,310** megalitres **+500k** tonnes
DS Smith	Directly helps reduce the amount of waste generated by packaging.	# of trees saved	**~58m** trees	**~59m** trees	**-1m** trees
eBay	Provides an online platform for the resale of used and refurbished goods.	# CO_2 emissions avoided # landfill waste avoided	**1.5m** metric tonnes of CO_2 emissions and **47,000** metric tonnes of waste avoided	n/a	(New holding)
Republic Services	Provides a solution to growing waste levels from population growth and promotes sustainable waste collection practices.	# materials handled per year	**101.6m** tonnes, **5m** tonnes of recyclables handled	**96.2m** tonnes, **6m** tonnes of recyclables handled	**+5.4m** tonnes
Unifirst	Provides centralised laundering services which are much less energy, water and chemical intensive than non-centralised models.	% reduced chemical use % reduced water use % reduced energy use	**90%** **64%** **73%**	**90%** **64%** **73%**	No change

Better health, saving lives

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Agilent	Helps improve lab economics and accelerate time to results. Helps develop biology-based solutions to some of the world's largest societal challenges such as healthcare, energy and the environment.	# of installed base	**265k+** labs	**260k+** labs	**+5k** labs
ALK-Abelló	Provides long-lasting allergy solutions via immunotherapy. Revolutionised treatment by pioneering immunotherapy in tablet form.	# of patients treated	**~2.1m** patients	**~2m** patients	**+100k** patients
Becton Dickinson	Directly contributes towards patient safety, infection prevention and waste minimisation.	# of devices made annually	**45** billion devices	n/a	n/a
Fresenius Medical Care	Directly helps maintain lives via its life saving blood cleansing procedure that substitutes kidney function in case of kidney failure.	# of patients treated	**345,425** patients	**346,300** patients	**-875** patients
Grifols	Helps treat a number of medical conditions such as immunodeficiency diseases and haemophilia via the separation of proteins from blood plasma.	# of blood donations tested # tested per minute	**36m** blood donations **>200** people every minute with **>70** donations tested per minute	**36m** blood donations **>200** people every minute with **>70** donations tested per minute	No change

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Illumina	Helps improve human health by diagnosing different diseases and guiding individual patient care via next-generation genome sequencing.	# of samples sequenced	**280** petabases (1,000 trillion base pairs of DNA sequence)	**170** petabases (1,000 trillion base pairs of DNA sequence)	**+110** petabases
Novo Nordisk	Helps address the rising prevalence of diabetes, a condition that affects more than 420m people worldwide.	# of patients treated	**34.6m** patients **5.6m** with vials less than US$4.00	**32.8m** patients **6.3m** with vials less than US$4.00	**+1.8m** patients
Oxford Nanopore	Helps researchers diagnose rare disease through portable, affordable real-time gene sequencing machinery.	# of active customers	**6,339** customers	**4,921** customers	**+1,418** customers
PureTech	Helps to discover, develop and commercialise highly differentiated medicines for underserved diseases.	# trial progress # potential addressable market	**26** therapeutic products and candidates, **18** clinical stage candidates, **2** taken from inception to regulatory clearances. **>150m** people in addressable market	**27** therapeutic products and candidates, **16** clinical stage candidates, **2** taken from inception to regulatory clearances. **>150m** people in addressable market	**-1** **+2** No change No change
Quest Diagnostics	Helps detect and prevent non communicable diseases, covering a wide range of areas including cardiovascular, infectious diseases and immunology.	# of test forms processed	**218m** test forms	**187m** test forms	**+31m** test forms
Thermo Fisher Scientific	Helps customers accelerate life sciences research, solve complex analytical challenges, improve patient diagnostics, deliver medicines to market and increase laboratory productivity.	# of customers reached	**~400k** customers	**~400k** customers	No change
UnitedHealth	Helps promote access to healthcare with its market share in Medicare (retirees) and Medicaid (low-income, long-term care).	# of underserved and low-income people insured	**17.2m** people	**15.8m** people	**+1.4m** people

Better work and education

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Amerisafe	Provides workers' compensation insurance to small and medium-sized hazardous industries, aiming to improve safety standards and practices.	# of policies	**>8,400** policies	**>8,000** policies	**+400** policies
Cogna Educação	Aims to fill the need for education for the lower-middle segment of the Brazilian population. Given its scale and discounted fees, Cogna is the most affordable and effective private option.	# of students educated	**2.7m** students	**2.4m** students	**+300k** students

Social inclusion

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Bank of Georgia	Aids financial inclusion, in a society left with little banking infrastructure following the end of communism.	# of people served in low-income groups or mass retail market	**2.9m** customers	**2.6m** customers	**+300k** customers
Bright Horizons	Provides family support services for dependents of all ages, meeting short-term and long-term needs. In particular, Bright Horizons forms a viable option for women to have their children cared for, while still participating in the workplace.	# women labour force participation	**~32,000** via full service children's centres **2.6m** via back-up centres	**~30,000** via full service children's centres **2.6m** via back-up centres	**+2,000** women No change
HDFC Bank	Directly contributes towards encouraging and expanding access to banking, insurance and financial services for all.	# of accounts opened to economically weakened sections/ low-income groups	**2.6m** accounts	**2.5m** accounts	**+100k** accounts
Helios Towers	Enables greater access to mobile and communication services in underdeveloped markets.	# of customers, revenues or assets from underserved or under- represented markets	Covers **>139m** people across Sub-Saharan Africa	Covers **107m** people across Sub-Saharan Africa	**+32m** people
Katitas	Provision of affordable housing through the purchase and renovation of vacant homes.	# of customers, revenues or assets from underserved or under-represented markets	Katitas has sold **64,000** homes, and **10,000** through the Reprice business. With Japan having on average **2.71** people per household, we estimate that Katitas could have reached **>200,000** people and reaches **~8,000-12,000** people per annum based on the **3,000-5,000** homes the company tends to sell in a year.	Katitas has sold **60,000** homes. With Japan having on average **2.71** people per household, we estimate that Katitas could have reached **>160,000** people and reaches **~8,000-12,000** people per annum based on the **3,000-5,000** homes the company tends to sell in a year.	**+14,000** homes
Safaricom	Provision of innovative telecom services that allow deep-reach mobile connectivity and financial inclusion for underserved communities.	# of customers	**42m** customers	**39.9m** customers	**+2.1m** customers

Measurement case studies

For companies whose positive impact has been difficult to quantify, we have provided case studies highlighting what we believe to be their impactful nature.

Ansys

Ansys describes itself as a world leader in engineering simulation software with unrivalled ability to integrate various branches of physics (thermodynamics, electromagnetism, quantum, optics, atomic), which allows its customers to efficiently perform complex simulations within a real-world environment.

Ansys has, for example, designed a system for Climeworks – creator of the first commercially available carbon-capture technology. Climeworks' CO_2 collector system captures, filters and concentrates the gas, which can then be used by greenhouses, the food and beverage industry, and manufacturers of renewable products. To optimise the system, Climeworks used computational fluid dynamics and structural simulation obtained through Ansys.

Horiba

Horiba specialises in state-of-the-art measuring equipment and analytical devices, used across a wide range of medical, environmental and automotive applications.

For example, Horiba has designed and manufactured a motor exhaust gas analysis system that measures pollutants in exhaust gas. This system is used by major automobile manufacturers, as well as testing and research agencies, around the world. The company also offers a suite of testing solutions for electric vehicles, ranging from battery cells and brakes to automatic driving systems.

onsemi

onsemi manufactures energy-efficient power and sensing components. These are used across a variety of green technologies, enabling its customers to contribute towards reducing emissions and limiting global warming.

For example, its products are used in power management and energy storage systems, which will likely be essential as renewable energy grows its share of the global energy mix. Similarly, the widespread adoption of electric vehicles will require increasing numbers of traction inverters, DC-DC converters and fast vehicle chargers, which require components such as onsemi's MOSFETs (metal-oxide semiconductor field-effect transistors) and IGBTs (insulated-gate bipolar transistor module technologies).

Impact and the SDGs

The United Nations Sustainable Development Goals (UN SDGs) are used as a framework for measuring investee companies' positive impacts. Every company is assigned a primary SDG, which we believe it directly contributes towards through its products and services, and potentially a number of secondary SDGs. Here, we consider the fund's overall exposure to the SDGs, and look at the primary SDGs for each of the companies we hold.

Fund exposure to the SDGs

More than a third of the fund is invested in companies contributing towards SDG 3: Good health and well-being. With a growing and ageing global population, and the increasing prevalence of lifestyle diseases, demand for healthcare is set to increase over the coming years. The COVID-19 pandemic also highlighted the issues with the global healthcare system, and the need for international cooperation to reduce inequalities in healthcare access. Innovation will be a key driver in meeting this increasing demand and ensuring good health for all. See page 26 for more information about one of our investee companies on the forefront of healthcare innovation.

A considerable portion of the fund is also invested towards SDG 9: Industry, innovation and infrastructure. Our investee companies range from those aiding social inclusion by providing essential telecommunications infrastructure in developing countries, to the manufacturers of energy-efficient electrical components.

We have increased our exposure to SDG 12: Responsible consumption and production, in the past year, with the addition of eBay to the fund. On page 24, we go into more detail about the impact case for the online marketplace. The shift from a linear to a circular economic model will be an essential component of global efforts to reduce emissions and prevent biodiversity loss, and our investee companies are making positive contributions in areas such as sustainable packaging and waste collection.

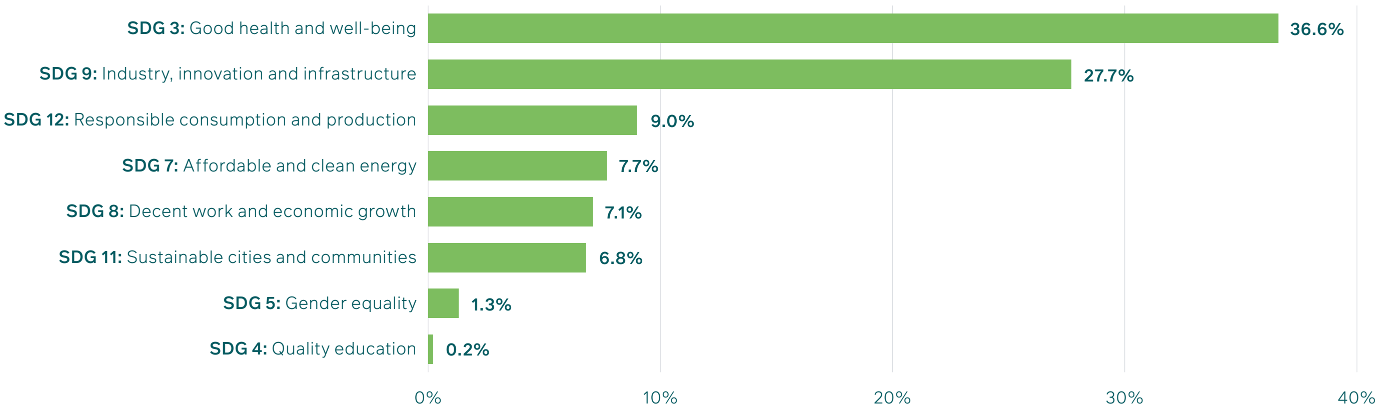
The fund invests in several companies contributing towards SDG 11: Sustainable cities and communities, such as stone wool insulation firm Rockwool, and waste collection specialist Republic Services. The UN estimates that six out of 10 people will live in cities by 2030, highlighting the urgent need to develop sustainable urban living environments. High energy prices and the need for drastic emission reductions are also increasing demand for companies offering energy-efficiency solutions, with nearly 40% of global CO_2 emissions coming from buildings.

SDG 8: Decent work and economic growth, is a goal which is currently far behind schedule, with little positive progress observed in the past year. COVID-19, rising inflation, supply chain disruptions, labour market challenges and geopolitical issues are all barriers to progress.

SDG 7: Affordable and clean energy, has seen good progress in recent years, but there remains a huge infrastructure funding gap. The fact that some governments have reverted to highly pollutive fossil fuels to address the current energy crisis also highlights the need to invest in renewables to ensure energy security. Two of our investee companies are contributing towards this challenge in the wind and solar power industries.

The fund has a small exposure to companies contributing towards SDG 5: Gender equality, and SDG 4: Quality education. It is more difficult for public equity investors to influence progress towards these goals, and we have found fewer quality companies making positive impacts in these areas. However, we continue to actively seek out companies making intentional, measurable contributions towards both goals.

Fund SDG breakdown



Source: M&G, February 2023.

While we support the UN SDGs, we are not associated with the UN and our funds are not endorsed by the organisation.

SDG 3: Good health and well-being

Investee companies	Revenue to SDG
Agilent	100%
ALK-Abelló	100%
Becton Dickinson	100%
Fresenius Medical Care	100%
Grifols	100%
Illumina	100%
Novo Nordisk	100%
Oxford Nanopore	100%
PureTech	100%
Quest Diagnostics	100%
Thermo Fisher Scientific	100%
UnitedHealth	100%

SDG 4: Quality education

Investee companies	Revenue to SDG
Cogna Educação	100%

SDG 5: Gender equality

Investee companies	Revenue to SDG
Bright Horizons	100%

SDG 7: Affordable and clean energy

Investee companies	Revenue to SDG
Ørsted	90%
SolarEdge	100%

SDG 8: Decent work and economic growth

Investee companies	Revenue to SDG
Amerisafe	100%
HDFC Bank	38%
Horiba	73%

SDG 9: Industry, innovation and infrastructure

Investee companies	Revenue to SDG
Ansys	100%
Bank of Georgia	80%
Ceres Power	100%
Helios Towers	100%
IPG Photonics	90%
Johnson Controls	61%
onsemi	41%
Safaricom	100%
Schneider Electric	80%

SDG 11: Sustainable cities and communities

Investee companies	Revenue to SDG
Katitas	100%
Republic Services	78%
Rockwool	90%

SDG 12: Responsible consumption and production

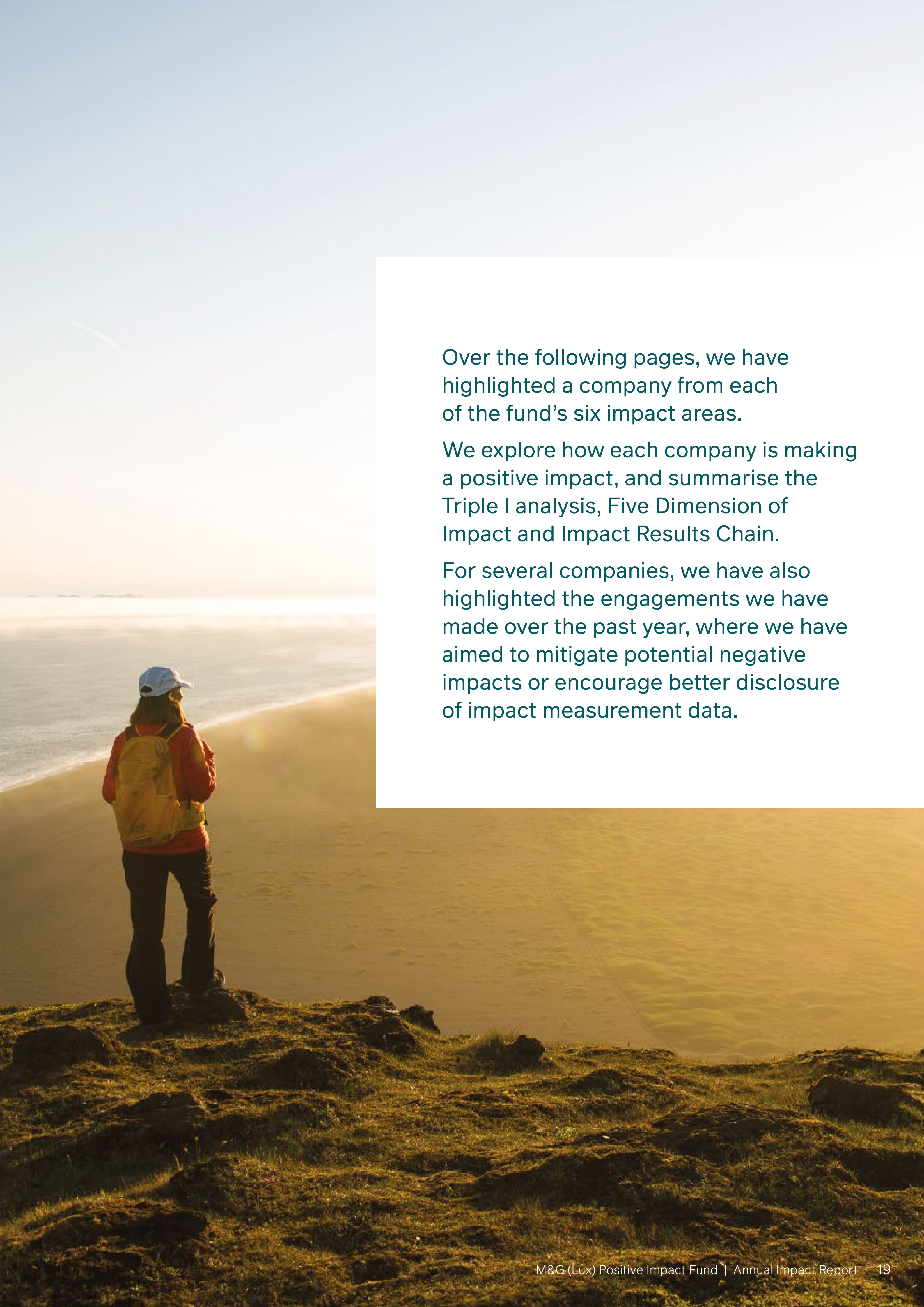
Investee companies	Revenue to SDG
Brambles	100%
DS Smith	100%
eBay	30%
UniFirst	89%

How are we progressing?

Over the past few years, progress towards the SDGs has been tentative at best. We believe that the world is currently on track to deliver just seven of the 17 goals, with no significant progress towards 13 of the goals in the past year.

According to our research, there have been marginal improvements towards two of the goals in the past year. These are SDG 3: Good health and well-being, and SDG 9: Industry, innovation and infrastructure. Conversely, progress towards SDG 7: Affordable and clean energy, and SDG 10: Reduced inequalities, has decelerated.

Our SDG Reckoning report reviews the current progress towards each of the 17 SDGs in more detail. Read it at **www.mandg.com**.



Over the following pages, we have highlighted a company from each of the fund's six impact areas.

We explore how each company is making a positive impact, and summarise the Triple I analysis, Five Dimension of Impact and Impact Results Chain.

For several companies, we have also highlighted the engagements we have made over the past year, where we have aimed to mitigate potential negative impacts or encourage better disclosure of impact measurement data.

Case study

Ørsted

Impact area:

Climate action

Primary SDG:

SDG 7:

Affordable and clean energy

KPI:

CO_2

emissions saved

KPI measurement:

15.1m

tonnes

Ørsted is a global leader in renewable energy production, specialising in onshore and offshore wind. The company has undergone a significant decarbonisation journey in recent years, transforming from one of the most coal-intensive energy businesses in Europe, to a leader in sustainability.

Necessary for the climate challenge

According to the latest IPCC report, we stand no chance of limiting global warming to well below 2°C, and avoiding the worst effects of climate change, without rapid and deep emission reductions from the energy sector. And yet, geopolitical disruption to global energy systems has seen many countries ramp up highly pollutive fossil fuel power generation to 'keep the lights on'. With global energy demand continuing to rise, renewables capacity must also increase, and we believe companies such as Ørsted will play an essential role.

Increasing the positive while reducing the negative

Ørsted continued to compound its positive impact in 2021 by increasing its renewable power capacity to 13 gigawatts (GW), from 11.3 GW in 2020. With a variety of new facilities either built or currently being developed, including Hornsea 2, the largest offshore wind farm in the world, this figure will continue to grow over the coming years. Ørsted is also exploring technological innovations, including floating wind farms, to further increase renewables capacity. This technology will bring offshore wind power to regions where waters were previously considered too deep for bottom-fixed turbines.

At the same time, Ørsted is taking steps to reduce negative impacts. The manufacturing and transport of components for wind energy releases significant emissions, and so the company has developed a comprehensive strategy to encourage decarbonisation in its supply chain. It is engaging with suppliers to improve emissions disclosures and set science-based emission reduction targets, to increase the use of green electricity, and to optimise vessel fleets. Elsewhere, the company has stated that newly commissioned projects must have a net-positive biodiversity impact.

It is worth mentioning that the Danish government ordered Ørsted to continue or resume operations at three coal and oil power stations last year, to ensure the security of the electricity supply. Two of the facilities had already been decommissioned, while the third was scheduled for March 2023. The units must be kept running until June 2024, however, the company maintains its goal of becoming carbon-neutral by 2025.

Input
A leading developer of wind power

Activity
Constructs and operates wind farms in Europe, the US and Asia

Output
Revenue from 13 GW of clean energy capacity

Outcome
Provides renewable energy to over 15 million people

Impact
Enables access to affordable and sustainable energy

III in brief

Investment

- A leader in the offshore wind market
- Global onshore and offshore wind capacity is set to grow by 67% from 837 GW in 2021 to 1,394 GW in 2026

Intention

- Ørsted's aim is to 'create a world that runs entirely on green energy'

Impact

- In 2021, Ørsted helped to avoid 15.1 million tonnes of CO_2 emissions

Five Dimensions of Impact in brief

What
Ensures access to affordable, reliable and sustainable energy through the increase of renewable energy in the global energy market.

Who
Ørsted's renewables benefit individuals and companies, and ultimately the wider environment.

How Much
Green energy comprises 90% of Ørsted's total power generation, with 13 GW of installed renewable capacity.

Contribution
Ørsted's willingness to take on development risk has driven down costs and increased the overall efficiency of the wind market.

Risk
The need for energy security could slow down the green energy transition and reduce the impact of companies like Ørsted, as governments aim to 'keep the lights on' using any available power sources.

Case study

Schneider Electric

Impact area:

Environmental solutions

Primary SDG:

SDG 9:

Industry, innovation and infrastructure

KPI:

CO_2

emissions avoided

KPI measurement:

83.6m

tonnes avoided by EcoStruxure customers

Schneider Electric is a French company specialising in energy management and automation solutions, from standard plug sockets to fully automated industrial systems. The company aims to 'empower all to make the most of our energy and resources', and has been named in the Corporate Knights top 100 most sustainable companies in the world for 12 years in a row.

Better energy efficiency

Schneider Electric's biggest business divisions are Buildings and Industry. According to the IEA (International Energy Agency), 38% of global CO_2 emissions come from the built environment, and a further 32% from industry, so Schneider's products offer significant potential to reduce global emissions by improving efficiency.

The company's flagship EcoStruxure platform enables the control, monitoring and management of buildings. It is used in homes, commercial buildings, data centres, infrastructure and industry. Integrating with Schneider's vast array of sensors, controllers and other electrical components, the software connects with subsystems such as electrics, lighting, security, fire, power and HVAC (heating, ventilation and air conditioning), bringing real-time data streams together in a single platform. With this knowledge, energy use can be monitored, optimised and ultimately reduced.

A focus on innovation

Since its beginnings in the first Industrial Revolution, Schneider has been innovating for more than 180 years. Today, the company invests heavily into research and development (R&D), to create innovative new products and continue driving positive impacts. In 2021, Schneider's R&D spend equated to 5.1% of sales, which is in line with the company's long-term average.

For example, the company recently announced a new set of digital tools, which integrate with industry-leading building design software, allowing electrical engineers to plan, design and analyse efficient electrical distribution systems. Schneider has also released an eMobility system, to cater to the increasing prevalence of electric vehicles (EVs), and the need for convenient charging. The system can be installed at home or in locations such as offices and shopping centres. It comprises EV chargers and a load management system, which dynamically distributes the available power, avoiding peak hours and integrating renewable energy where available.

Input
Investing in products and solutions to improve energy efficiency

Activity
Manufactures and distributes energy-efficiency solutions

Output
Revenue generated from the sale of products

Outcome
Helped avoid 83.6m tonnes of CO_2 emissions

Impact
Reduces emissions, contributing towards climate action

III in brief

Investment

- Strong distribution and breadth of products, with well-known and trusted brands
- High energy prices and the urgent need for large emission reductions are driving strong demand for energy-efficiency solutions, like those offered by Schneider

Intention

- Schneider's purpose is 'to empower all to make the most of our energy and resources'
- The company defines itself as 'a company which lives by a unique sustainability strategy and operating model, built to deliver positive impacts in the long-run'

Impact

- Helps to reduce emissions by producing solutions for improving energy-efficiency

Five Dimensions of Impact in brief

What
The company provides products and services for energy management and automation.

Who
Schneider's products are used by individuals and companies in residential and industrial settings, who are able to reduce energy usage.

How Much
Customers of Schneider's EcoStruxure platform saved 83.6 million tonnes of CO_2 emissions in 2021.

Contribution
Schneider's focus on innovation and the development of products encourages reduced energy usage, and by extension less emissions.

Risk
The company has competitors across its various markets, which could provide a similar impact. Its sales are also tied to industrial and construction cycles, and infrastructure spending.

Case study

eBay

Impact area:

Circular economy

Primary SDG:

SDG 12:

Responsible production and consumption

KPI:

CO_2

emissions avoided,
landfill waste avoided

KPI measurement:

1.5m

metric tonnes of CO_2 emissions and

47,000

metric tonnes of waste avoided

eBay is a large online marketplace, with approximately 147 million active buyers bidding on 1.5 billion listings across 190 worldwide markets. After passing through our comprehensive III review, eBay was added to the fund towards the end of 2022, as the company's share price offered good value compared with what we believe to be its intrinsic value.

The circular economy

eBay's business model centres around 're-commerce' – the sale of used, refurbished and out-of-season items, rather than new products. According to management, nearly 90% of gross merchandise value (GMV) is made up of used, refurbished and non-new products.

Therefore, eBay primarily makes a positive impact through its contribution to the circular economy. This involves re-using and recycling the products already in the economic system, rather than relying solely on new products. This change in consumption patterns helps to avoid the extraction of new materials, the fabrication of these materials (which can be energy intensive), and negates the need for products to be placed in landfill prematurely (where they will produce further emissions).

According to The Ellen MacArthur Foundation, of which eBay is a member, up to 20% of carbon emissions could be avoided by adopting a more circular method to the way in which our economy operates. It will therefore play an essential role in global efforts to reach net-zero emissions.

Impact data and reporting

The nature of eBay's business model makes the collection of impact data difficult. With so many listings, the company is somewhat reliant on sellers accurately categorising their products as new, refurbished or used. However, the company sends users surveys and engages with third parties to get a clearer picture.

Furthermore, eBay engages with independent specialists to calculate and validate its data for avoided emissions and landfill waste. The company believes the current numbers are conservative, and will look to improve the methodology and accuracy over time. Encouragingly, eBay also produces an annual impact report, covering the company's impact and sustainability priorities, new initiatives in these areas, and its methodology for calculating impact metrics.

Input
Provides an online marketplace

Activity
The resale of used and refurbished goods

Output
$87 billion of merchandise sold

Outcome
CO_2 emissions and landfill waste avoided

Impact
Promotes and facilitates a circular economic model

III in brief

Investment

- One of the largest and most recognisable online marketplace brands
- After a foray into international markets, eBay now focuses solely on core countries where it has scale

Intention

- The company sets out clear aims to reduce emissions and waste, and it is a member of The Ellen MacArthur Foundation
- Management compensation is linked to impact goals

Impact

- Promotes the circular economy by facilitating the resale of used, refurbished and out-of-season goods
- Helps to avoid CO_2 emissions and landfill waste

Five Dimensions of Impact in brief

What
An online marketplace allowing users to resell used, refurbished or out-of-season items.

Who
eBay has approximately 147 million active buyers across 190 global markets.

How Much
$87 billion of merchandise sold, 90% of which is used, refurbished and non-new products.

Contribution
The resale of goods through eBay's online platform helped to avoid 1.5 million tonnes of CO_2 emissions, and prevented 47,000 tonnes of waste going to landfill.

Risk
There are challenges when collecting data for the number of used/refurbished goods sold, and subsequent emissions and waste reductions. The large, open platform also poses a risk of illegal or counterfeit goods being sold.

Case study

Thermo Fisher Scientific

Impact area:

Better health, saving lives

Primary SDG:

SDG 3:

Good health and well-being

KPI:

# of customers reached

KPI measurement:

400k

customers

Thermo Fisher Scientific manufactures and distributes life sciences tools and equipment, from simple pipettes and testing reagents to electron microscopes and DNA sequencers. Its customers work in pharmaceutical and biotech companies, hospitals and clinical diagnostic labs, universities, research institutions and government agencies.

Enabling innovation

With ageing populations and the increasing prevalence of lifestyle diseases, global healthcare demand is set to grow over the coming decades. Innovation will be crucial to meet this need, and global pharmaceutical and biotech research & development (R&D) is forecast to grow significantly over the coming years.

Thermo Fisher will play a key role in driving innovation within the healthcare industry and beyond. The company is what we call an 'enabler' – it enables others to create positive impacts. Thermo Fisher provides scientists and researchers with the tools necessary to study diseases, develop new drugs, create new diagnostic tests and much more. Its technologies have supported the cutting-edge work of two Nobel Prize winners, and were used in the development of the first FDA-approved CAR-T immunotherapy to treat cancer.

Thermo Fisher's commitment to innovation also applies to its own operations. Every year, it invests $1 billion into R&D, with more than 5,300 scientists and engineers working on new technologies, and more than 10,000 patents. For example, the company created the first FDA-approved biomarker assay for sepsis, providing healthcare workers with potentially life-saving information in under 20 minutes.

As a trusted partner of researchers from a multitude of industries, Thermo Fisher has a unique insight into customer bottlenecks and barriers to progress, which feeds into its innovation and product development. This insight has also seen it branch out into adjacent business areas, such as product packaging and the running of clinical trials, in its efforts to better enable customers' positive impacts.

Engaging on bioethics

As an enabler, Thermo Fisher cannot control how customers use its products. A newspaper report linked its DNA sequencing equipment to the genetic surveillance of the Uyghur population in Xinjiang, China. The company subsequently stated that it would halt the selling of genetic sequencers in the region.

We met with the company to discuss the developments. We were satisfied that Thermo Fisher had taken the issue seriously, and responded by improving its policies and procedures. It has adopted and implemented a

Input
R&D from 5,300 scientists and engineers

Activity
Develops and distributes life sciences tools

Output
Number of products sold

Outcome
Scientists can conduct research and develop products

Impact
Facilitates healthcare innovation

Code of Business Conduct and Ethics, applicable to all directors, officers, and employees, who receive annual training on the code. The company implemented a multi-level purchasing process designed to prevent the ordering and resale of products to public security bureaux in the region (and has produced a broader list of countries it will not sell to). The company has an approved network of authorised distributors that agree to comply with this purchasing process under the terms of their contract.

III in brief

Investment

- A large and diversified life sciences tools company, supporting over 400,000 customers globally.
- Provides components to end markets where there is an element of regulation or supervised process, creating substantial barriers to entry.

Intention

- The company's aim is 'to enable its customers to make the world healthier, cleaner and safer'.
- Management annual bonuses are linked to innovation in target areas.

Impact

- Provides life scientists with the tools to drive positive impacts in the healthcare industry and beyond.

Five Dimensions of Impact in brief

What

Provides life sciences tools and equipment, ranging from single-use consumables and glassware to sophisticated measuring devices and machinery.

Who

Thermo Fisher's customers are scientists in pharmaceutical and biotech companies, hospitals and clinical diagnostic labs, universities, research institutions and government agencies.

How Much

In 2021, the company had more than 400,000 customers, and 100% of revenue is considered impactful.

Contribution

Provides scientists with the equipment needed to conduct research and develop products, driving innovation in the healthcare industry and ultimately improving patient outcomes.

Risk

As an enabler, there is a risk that Thermo Fisher's products are used unethically by customers. We are engaging with the company to manage this. Impact measurement can also be difficult, considering the company's huge range of products.

Case study

Amerisafe

Impact area:

Better work and education

Primary SDG:

SDG 8:

Decent work and economic growth

KPI:

# of policies

KPI measurement:

>8,400

policies

Amerisafe is a Texas-based insurance provider, specialising in workers' compensation insurance for small to mid-sized employers in hazardous industries. The company's customers reside in 27 states, operating across a range of industries including construction, trucking, agriculture, manufacturing and maritime.

People first

In the event of a workplace injury, Amerisafe will cover the injured employee's medical bills, and provide compensation for lost income due to injuries or death. This ensures that employees in hazardous industries receive adequate financial and medical assistance and safeguards their families' basic needs following a work injury. It therefore provides vital services to small and medium-sized enterprises, which may be considered too small to be adequately covered by larger insurers in the US.

Amerisafe believes that all injured workers deserve to be treated with respect, and the company carries out a personable, face-to-face approach to its cover. Amerisafe's Field Safety Professionals (FSPs) live in proximity to policyholders, so they are able to attend promptly and in-person in the event of an incident. Supported by Nurse Case Managers, FSPs will guide the employee through the process of medical treatment, rehabilitation and return to work.

'Safe above all'

Many of Amerisafe's customers are small businesses without their own dedicated safety divisions or well-defined procedures. The company plays a dual role, not only providing adequate cover which may not be available from larger insurers, but also helping to educate and improve customers' safety standards. It achieves this by having its FSPs attend prospective customers' workplaces, to carry out safety inspections and provide recommendations before quoting for an insurance policy. In certain cases, the company will mandate changes before providing cover, to minimise the risk of traumatic and debilitating injuries to workers.

This prioritisation of safety, which the company refers to as 'Safe above all', helps to drive a lower frequency and severity of claims, which benefits Amerisafe, its customers and their employees.

The company also provides comprehensive training on an ongoing basis, both in-person and through its online education and training centre. Training programmes are tailored to fit the industries the company serves, and cover topics ranging from accident investigation and fire prevention to forklift safety, overhead cranes and scaffolding.

Input
Knowledge and experience in the specialised insurance sector

Activity
Provides workers' compensation insurance for hazardous industries

Output
Revenue breakdown across different premiums

Outcome
Protected hazardous industry workers

Impact
Promotes safe and secure working environments

Amerisafe contributes to SDG 8: Decent work and economic growth, as it promotes safe and secure working environments for all workers and those in precarious employment, through the provision of workers' compensation insurance and active engagement with customers to ensure sound safety standards at their workplace.

III in brief

Investment

- Amerisafe has carved out a niche customer segment in the hazardous industries.
- Has developed in-depth knowledge in this niche group, with a solid track record of underwriting and pricing discipline.

Intention

- The company seeks to ensure safe, secure environments in order to protect workforces and keep them healthy and safe.
- By encouraging safer environments, insurance payouts are reduced, linking intentionality directly to the business model.

Impact

- The protection of labour rights and promotion of safe and secure working environments.
- Over 8,400 policies in place.

Five Dimensions of Impact in brief

What
Provides speciality workers' compensation insurance for small to mid-sized employers in hazardous industries.

Who
Small to medium-sized operations in the US representing construction, trucking, maritime and others, whose hazardous nature creates the need for specialist service provision.

How Much
In 2021 there were over 8,400 policies in place, and 100% of revenue is considered impactful.

Contribution
Smaller companies often do not have well-defined safety standards and can be overlooked by larger insurers. Amerisafe engages with these employers to improve safety in these often dangerous industries. This helps drive a lower number and severity of claims.

Risk
Evidence risk, as Amerisafe does not currently adequately track or disclose how much safer work environments are once it engages with employers.

Case study

Bank of Georgia

Impact area:

Social inclusion

Primary SDG:

SDG 9:

Industry, innovation and infrastructure

KPI:

# of people served in low-income groups or mass retail market

KPI measurement:

2.9m

people

Bank of Georgia is the second-largest bank in Georgia, providing retail banking, asset management and corporate financial services.

Promoting financial inclusion and stability

Bank of Georgia primarily makes a positive impact by promoting financial inclusion. The company offers banking services to retail and small business customers that were previously grossly underserved, with little banking infrastructure left after the end of communism. The company also provides affordable mortgages in an economy which has among the highest number of people per household in Europe, where young people have tended to live at home far into adulthood given financial constraints.

Bank of Georgia has also played a key role in making the Georgian economy more investible through its active engagement with the government, helping to drive improvements in areas such as ease of doing business and corruption perception. Now seen as a relatively stable Eastern European economy, Georgia has benefited from increased international investment, which may have previously been deployed elsewhere, since Russia's invasion of Ukraine. A stronger Georgian economy is beneficial for both Bank of Georgia and the wider population.

Engaging for improved disclosures

In the past year we have had several engagements with Bank of Georgia on the subject of impact data disclosures. We have asked the company to provide numbers around the underserved/unbanked people it has served, and how specifically it defines these communities. The company believes that the majority of its retail banking customers earn less than 1,000 lari per month, but agreed that it needs to improve visibility on this. The company is fully willing to develop KPIs and communicate these going forward. We asked for the data to be included within its annual sustainability reporting, and will follow up in due course.

During the meetings, the company also explained that it has grown its digital offering, making financial products available to a much wider population, particularly those in rural areas who are now able to integrate into the wider financial system. The bank is also aiding small businesses by providing a greater number of microloans, and offering mobile banking services, which allow companies to process transactions without buying more expensive point-of-sale systems. It has close to 1 million active digital users, where Bank of Georgia has played a pivotal role in expanding Georgia's digital footprint.

Input
The second-largest bank in Georgia

Activity
Provides retail banking, mortgages and corporate loans

Output
Revenue stemming from financial services

Outcome
More than 2.9 million people integrated in the financial system

Impact
Greater financial inclusion for underserved populations

III in brief

Investment

- The second-largest bank in Georgia, with significant pricing power and efficiencies of scale
- The company has good access to capital, and is effective at attracting and retaining talent, particularly expats with global commercial experience

Intention

- The bank's mission is 'to support its customers, investors, employees and society in building a successful future through its expertise, dedication and constant innovation'
- This highlights its intention to contribute towards the Georgian economy and prosperity

Impact

- Promotes financial inclusion for underserved customers
- Contributes towards a stronger, more resilient wider Georgian economy

Five Dimensions of Impact in brief

What
Provides retail banking, asset management and corporate financial services.

Who
Bank of Georgia's services are used by individuals and businesses in Georgia.

How Much
Approximately 2.9 million retail banking customers.

Contribution
People and businesses which previously had little access to financial infrastructure are now able to use banking services.

Risk
Bank of Georgia's links to government and regulators could become problematic if management's intentions were no longer aligned with customer well-being.

Successes and challenges

By its nature, impact investing involves a continual drive for improvements and greater impact. This could come in the form of engaging with investee companies, staying abreast of new industry developments, or simply taking stock of what is or isn't working at regular intervals. With this in mind, here we have considered several of the fund's recent successes and challenges.

Evolving impact

We have seen encouraging developments at a number of companies, where their positive impact has expanded into adjacent areas or otherwise increased materially.

Danish pharmaceuticals company Novo Nordisk has seen success with its innovative Wegovy™ obesity treatment, building on its expertise in diabetes care. Obesity and the associated health conditions are a growing societal issue. Obesity prevalence has tripled worldwide since 1975, and can be linked to a host of other conditions, including heart disease, stroke and osteoarthritis.

US waste collection company Republic Services announced a joint venture, where it will develop 39 new renewable natural gas projects. These will capture waste biogas from landfill sites (a natural by-product of organic decomposition) to create renewable natural gas, which can be used to displace fossil fuels and lower the carbon footprint of existing energy assets.

Genetic sequencing firm Illumina is using its technology to drive advances in a variety of areas. The company has partnered with AstraZeneca to research using AI and genomic analysis for drug discovery. The company is also part of an alliance researching the storage of digital data in DNA molecules. Every day, the equivalent of 11 million ultra-high-definition movies worth of data is created. DNA storage could provide an alternative to large, energy-intensive server farms.

Elsewhere, stone wool insulation company Rockwool is driving increased efficiency in horticulture, with growing substrates that allow for more precise cultivation and the recirculation of water. This technology can help to boost plant yields while saving water, which will be essential as the global population grows, and we will need to produce more food from fewer resources.

Decarbonisation progress

We have seen a number of investee companies make encouraging progress when it comes to reducing carbon emissions.

We have engaged with healthcare services provider UnitedHealth Group several times in the past year to encourage its decarbonisation plans. The company is taking a number of steps to cut emissions, such as optimising its real estate portfolio, investing in greater energy efficiencies, and procuring renewable energy. In 2022, the company also committed to setting science-based targets for emission reductions. These are targets in line with the reductions necessary to limit global warming to 1.5 °C above pre-industrial levels. We will continue to engage with the company along its decarbonisation journey.

Allergy immunotherapy specialist ALK-Abelló, a low emitter, has also committed to setting science-based targets for emission reductions, by 2023.

We also met with Rockwool to encourage its climate ambitions. The production of stone wool is energy intensive, traditionally relying on coking coal. The company is in the process of converting factories to biogas or electricity, and saw an 80% reduction in emissions at a Norway factory by switching from coal to electricity. The company has also set science-based targets for emission reductions.

Engaging on bioethics

We have carried out a series of engagements on the theme of bioethics. With several investee companies creating innovative solutions at the frontiers of biological and medical technology, there is a risk that their products could be used for nefarious purposes.

For example, genetic sequencers have been linked to the monitoring of the Uyghur population in China. In this case, we engaged with genetic sequencing companies Illumina and Thermo Fisher Scientific to find out what action they have taken to reduce this risk. While we were satisfied with both companies' responses, and their broader policies and procedures around the misuse of equipment, we will continue to monitor the issue and engage more widely where we see the potential for negative bioethical impacts. We cover our engagement with Thermo Fisher Scientific in more detail on page 26.

Impact measurement

Measurement is one of the most challenging aspects of impact investing, so we have continued to work with investee companies to improve their disclosure of impact data.

We met with Bank of Georgia to encourage improved disclosure on the nature and number of underserved or underbanked people that it currently reaches. The company agreed that it needed to improve visibility on this. While it is in the early days of developing KPIs in this area, the company is willing to communicate this information more meaningfully. We will follow up in due course to measure progress, and feed this into future impact reporting.

We also engaged with circular economy company UniFirst. We asked it to more accurately quantify its positive impact, by providing absolute figures for the amount of water, energy and chemicals saved through its mass laundering services (rather than a percentage reduction compared to at-home laundry).

Sustainability in the supply chain

Sustainability issues can be hidden deep within company supply chains. Not least, human rights violations such as forced or child labour in the manufacturing and mining industries. As impact investors we must thoroughly investigate the potential for negative impacts from our investee companies, including those in their supply chains. We carry out in-depth analysis of all companies during our Triple I process (see page 6). However, businesses evolve and source new suppliers, so we also continue this work on an ongoing basis, and will engage with companies for clarification on any potential issues which arise.

> **A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.**
>
> Global Impact Investing Network

Looking ahead

Since launching the fund in 2018, one of our major learnings has been that company impacts will evolve over time. Our primary reason for investing won't necessarily be the company's only positive impact further down the line. We highlighted several examples of these evolving impacts, such as increased crop yields and reduced water use from Rockwool's horticulture business segment, on page 32.

Going forward, we will look to incorporate more of these secondary impacts in our impact reporting. We hope this will provide a more complete view of our investee companies' contributions to the world's biggest challenges.

On the subject of reporting, we will also continue to work with investee companies to encourage better disclosure of impact data. For example, asking companies to better define the underserved communities they serve, or requesting absolute figures for avoided emissions. The ability to measure positive impacts is integral to our investment process, and there is always room for improvement in this area.

More broadly, in the year ahead we will continue to engage with investee companies to improve the impact balance where possible. This could involve identifying and mitigating potential negative impacts, identifying opportunities to compound the positives, or simply encouraging companies to become more sustainable in their operations.

This year, we also plan to continue increasing the profile and knowledge of impact investing within our organisation. In 2022, we ran a series of internal Impact Investing Forum sessions, with stakeholders from across the business coming together to share knowledge and exchange ideas. The sessions have proven popular with attendees, and we will continue them throughout the year ahead, focusing on topics such as engagement and the IMP's Five Dimensions of Impact.

Looking at the wider investment industry, in the UK we plan to continue our engagement with UK regulators and industry bodies over the upcoming Sustainability Disclosure Requirements (SDR) regulations.

After the publication of a draft in 2022, we provided feedback directly and engaged with the Investment Association, where we are part of the impact investor working group on the IA Sustainability and Responsible Investment Committee. While we support the need for UK regulations to define sustainable investment activities and avoid greenwashing, we have concerns that the proposed language may limit the opportunity for impact investment in public markets, therefore reducing the potential to drive positive change through these channels.

Finally, we are acutely aware of the environmental and social issues currently affecting much of the world. For example, at a time when emissions must be cut significantly if we are to negate the worst effects of climate change, many governments have increased their use of coal and other fossil fuels, as the need for energy security outweighs their climate ambition. Companies providing clean energy solutions and those focusing on improving energy-efficiency are likely to play an increasingly important role, as will those whose products help to reduce emissions across a host of industries.

Similarly, the prospect of an economic recession risks exacerbating the already significant inequalities across the world, as the most vulnerable groups stand to be worst-affected. Against this backdrop, there will be an increasing need for companies addressing underserved communities and enabling greater inclusion, whether through access to healthcare, financial services, employment opportunities or education.

There will likely be difficult times ahead. However, we remain fully committed to our purpose – finding truly impactful companies making significant, intentional positive contributions towards the world's most critical challenges. □