M&G Investments

M&G (Lux) Positive Impact Fund

Annual Impact Report 2021: Winds of change

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Winds of change: 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.
Last year (2020)

Our Climate Action companies...

provided renewable energy to 19.3 million people and saved or avoided 30.5 million tonnes of CO_2

Our Environmental Solutions companies...

directly saved 324.3 million tonnes of CO_2

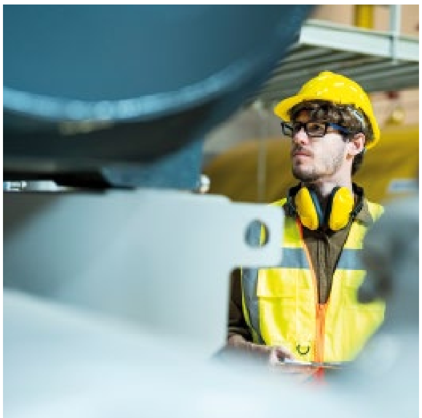
Our Circular Economy companies...

saved 59 million trees, 3,160 megalitres of water, and handled 96.2m metric tonnes of waste material

Our Better Health, Saving Lives companies...

treated or served more than 136.5 million people

Our Better Work and Education companies...



provided educational services for 2.4 million people, and wrote ~8,000 insurance policies protecting workers

Our Social Inclusion companies...

provided services to 154.5 million people in underserved or lower income markets

Figures above 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. These figures are largely based on the latest information available from company literature and hence are backward looking.

Introduction

Ben Constable-Maxwell
Head of Sustainable and Impact Investing

We are pleased to introduce our third annual impact report for the M&G (Lux) Positive Impact Fund. It has been another extraordinary year and it is difficult to introduce this report without referring to current events. Just as the world seemed to be emerging from COVID, another crisis has set in. Both have been profound in their impact, the former primarily on health, but with broader implications for the global economy, the second a crisis of violence enacted on a particular population, again with far-reaching consequences for economies and livelihoods around the world. Both have combined to drive up prices – for everything from bread and heating oil to metals and microchips – creating a further challenge to living standards, which, as ever, will hit those on the bottom rung hardest. And all these have played out against the backdrop of a warming climate and degrading ecology, whose effects are already being felt in parts of the world, but whose real impact is yet to be realised. What is evident from these examples is the hard-wired interconnections between social and environmental issues and the economic system.

Which brings us to impact investing, specifically designed to tackle social and environmental challenges while also achieving economic or financial objectives. Our strong belief is that in a world exemplified by challenges such as those referred to above, impact investing, or investing in the solutions to social and environmental challenges, has a huge role to play.

The momentum behind sustainable and impact investing continues to gather, driven by pressure from regulators and consumers alike. We see our clients increasingly embracing the concept of investing for positive impact alongside long-term financial returns. Standard-setters are starting to emphasise the importance of real-world outcomes, not just ESG processes. But impact investing should not overplay its hand. According to a recent assessment by the UK's Impact Investing Institute, this part of the market now amounts to £50billion in the UK and globally has probably surpassed US$1trillion. While big numbers, they're still a fraction of the hundreds of trillions of professionally managed investment capital – and a fraction of the funding required to effectively address the Sustainable Development Goals, whose 2030 deadline is now only eight years away. Impact investing still has a long way to go.

From the fund's standpoint, the year has been one of ongoing development – and we hope improvements – in our approach to impact investing. We continued to build the resources around the fund, further growing the team and creating adjacent strategies to support our six impact verticals. This has deepened the team's capabilities in core areas such as Climate Action, Better Health and Social Inclusion. We have developed a more structured approach to impact engagement, working with our colleagues in M&G's Sustainability and Stewardship team to push for positive outcomes around thematic priorities such as climate change and diversity and inclusion, but also focusing on individual opportunities to improve their holistic or 'net' impact.

We have embedded aspects of the Impact Management Project's framework further into our III impact investing approach. The IMP's Five Dimensions of Impact help us understand the depth and quality of the impact being generated by our investments; this then enables us to classify our holdings along the 'ABC' scheme, which categorises investments across the impact economy as 'Acting to Avoid Harm' (broadly ESG), Benefiting Stakeholders (broadly Sustainable) and Contribute to Solutions for people or the planet (broadly impact).

This lens is of real value, not just in orienting us towards much-needed solutions to global challenges, but also in uncovering investment opportunities that are set to benefit from powerful long-term drivers.

These are challenging times for the global economy, and an emerging period for the responsibilities and opportunities arising from Impact Investing. We believe that its role in allocating capital to address the most pressing challenges – as well as identifying some of the most compelling investment opportunities – is set to grow in importance. We are excited to be on the journey.

John William Olsen
Fund Manager

When we launched the M&G (Lux) Positive Impact strategy just over three years ago, there was very little experience to draw upon. Impact through listed equities was, and in many ways still is, a new concept. We quickly discovered that the inclusive nature of our approach also defines an investable universe that is quite different from a regular global benchmark.

Purely investing in quality businesses, which are delivering demonstrable solutions for big global issues and unmet needs, typically leads to a portfolio with no or little exposure to commodities, big banks, travel and leisure or large consumer companies. These are parts of the market that typically do well when the global economy is booming. This means that the fund will see short-term fluctuations around the global benchmark, depending on the macro-economic mood.

As managers of the M&G (Lux) Positive Impact strategy, we have set an objective to outperform our global benchmark over a five-year period, while delivering positive impact via the companies we invest in. This not only indicates the strategy's long investment horizon and the alternative investment universe, but also that we really believe in the long-term fundamental prospects of our holdings – not just this year and next year.

Our approach and beliefs drive us towards what we think are exciting businesses enjoying a very significant structural tailwind, as governments, industries and consumers direct capital towards lowering emissions, driving efficiency, reducing waste, bringing equality to underserved groups of the population or providing an efficient, innovative and affordable healthcare system.

We believe these trends will transcend the economic cycles, and our companies typically have the pricing power or scale to withstand inflationary pressures. We have picked them because we believe they can profitably pursue their purpose – compounding both financial returns and impact along the way.

Overview of impact investing

When the first set of pandemic-related restrictions started to ease last year, a global push to 'build back better' hit headlines and dominated business and policy discussions. The spread of COVID-19 had severely hindered progress towards achieving the United Nations' Sustainable Development Goals (UN SDGs) – exposing weaknesses across economic and healthcare systems while magnifying existing social and environmental challenges. The crisis wreaked havoc on education systems, exacerbated poverty and widened social equality gaps. The consensus is that reverting back to 'business as usual' is not a viable option. Instead, many nations have shifted their attention to a recovery that ensures a just and resilient future for people and the planet.

We think this shift in mindset and policy action should provide a tailwind for those companies able to address the environmental and social challenges the world is facing – in other words, the focus of impact investors. An impact investor's performance is measured against the dual objective of delivering positive societal impact, as well as financial returns. Often, as is the case for the M&G (Lux) Positive Impact Fund, these impacts are mapped to, or measured against, the UN SDGs. As was the circumstance in 2020, 2021 continued to see COVID-19 shining a harsh light on a range of development challenges, not least concerning access to healthcare and issues of social equality. The spread of the coronavirus has indeed represented the biggest health and economic crisis of our lifetime, hammering home the need for us to redouble our efforts and push forward to meet the SDGs and their underlying targets – before it is too late.

We believe impact investing is an obvious and meaningful way to address these challenges, directing capital towards companies that actively seek to provide solutions. In this way, impact investors aim to support, encourage and fund such companies, with the intention of meeting that dual objective of generating measurable, material positive impacts, alongside competitive financial returns.

> **“The pandemic, the climate crisis, and other social and environmental challenges have all signalled a fundamental need for change – to allocate more capital into investment products that incorporate some consideration for the real-world outcomes that the investments generate.”**
>
> Global Impact Investing Network (GIIN)

The historic nature of impact investing – primarily the use of private finance to fund specific impactful projects – means that it previously sat chiefly within the sphere of institutional or high-net-worth investors, with little access for the general public. The M&G (Lux) Positive Impact Fund, however, invests in the shares of listed companies through a liquid, open-ended investment vehicle. This effectively allows for the 'democratisation of impact investing', providing access to individual investors and institutions alike.

We think it is worth clarifying how impact investment differs from other responsible investment strategies, particularly as increasing diversity of thought in the market has created new layers of confusion. While general understanding of responsible investing has no doubt improved over the past few years, with investors better equipped to grasp the distinctions between ESG (environmental, social and governance) and impact investing, for example, many remain perplexed in other areas.

This is especially true around the differences between impact and ‘sustainability’. Both approaches have come to the fore as they cater to investors’ growing appetite for investments that help to combat environmental issues and improve social outcomes. Impact investing, though, takes a stricter approach, and there are several areas that impact investors specifically need to consider (beyond the financial investment case for a business).

Intentionality

This means a company specifically sets out to deliver a particular impact, with that goal being part of the company’s mission statement, strategy and actual day-to-day operations (inadvertent impact doesn’t count). There is also intentionality from the investor’s viewpoint; that is, the intention to generate positive social or environmental impact through an investment. To achieve this, we must actively pick stocks because of their positive impact, rather than simply screening out companies or picking the least bad from each sector. It is this intentionality, among other things, that separates impact investing from wider ESG or sustainable investing.

Additionality and materiality

In traditional impact investing, the ‘additionality’ of the investment is also considered. This is identifying and reporting the resultant impact of every pound, euro or dollar invested in a project. As we invest in listed equities, and are generally dealing in secondary markets where the directing of that funding is not always possible, additionality is considered in other ways, generally focused on understanding the additionality of the company. To do that, we might ask how the world would be different if that particular company did not exist or if it were not adequately funded, or how replicable its products or services are. We also consider the 'materiality' of those products or services – this is the level to which they help solve a given societal problem or contribute to a particular SDG, and the percentage of a company’s revenue derived from those activities.

Measurement

Another key differentiator between impact investing and other forms of responsible investment is ‘measurability’. This is one of the central tenets of impact investing, and also one of its most challenging aspects, especially so for investors in public equity markets where measurement can be less clear. This is because the quality of data, measuring intangibles and quantifying ‘enabled impact’ (the impact produced by companies we have qualified as 'enablers' – see page 9) are key challenges. (Please see ‘Measuring our companies’ impacts’ from page 38.)

Our approach to impact investing

We make 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 around 30 stocks from anywhere in the world where we can find investable opportunities.

Selection begins with a global universe of over 4,000 stocks, which is then initially screened for minimum liquidity and market-cap criteria, as well as screening out any companies deemed to be in breach of the UN Global Compact Principles on human rights, labour, the environment and corruption, as well as companies involved in the production of tobacco, alcohol, adult entertainment, controversial weapons, oil sands, nuclear power or coal-fired power, or the provision of gambling services (ie, companies that are not capable of delivering demonstrable net positive impacts to society). In addition, we exclude companies that test their products on animals for non-medical purposes.

From this remaining pool of stocks, we aim to 'screen in' a watch-list of some 200 impactful companies that can be purchased if we believe the timing and price are right. These companies are analysed under the team's 'triple I' approach, examining the Investment case, Intentionality and Impact of a company to assess its suitability for the fund. Since the publication of our first impact report at the beginning of 2020, we have been honing our III approach, gaining better understanding of some of the potential pitfalls of analysis and measurement, as well as developing our approach to potentially controversial areas within our investment universe (please see page 50 for more on this). We have also been steadily building our watch-list, creating a larger pool of impactful companies that we can buy when the timing and price are right, in our view.

As part of our analysis, we score companies on their III credentials, and require above-average results within each 'I' area for consideration within the watch-list, as well as consensus agreement of a company's merits from the entire Positive Impact team. For further details please see 'Our impact framework' on page 10.

A rigorous process

4,000 companies	Our investable universe 200 companies	Our portfolio 25-35 companies
Sufficient liquidity (market cap >$500 million and >20% of total portfolio invested in market cap <$2bn Strict limits: UN Global Compact principles, tobacco, controversial weapons, adult entertainment, gambling, alcohol, thermal coal, nuclear, oil sands	Watch-list consensually approved by Positive Impact team Above-average individual score for: Investment credentials Intentionality Impactfulness	Conviction-based approach Three distinct types of companies: Pioneers, Enablers, Leaders Portfolio construction and risk: Diversification* Volatility vs returns** Country/FX factor sensitivity***
Companies worth a closer look	**Companies we would like to own (at the right price)**	**A portfolio that can cope with different market conditions**

*Diversification is the practice of investing in a variety of assets, which typically should perform independently of each other. This is a risk management technique where, in a well-diversified portfolio, a loss from an individual holding should be offset by gains in other holdings, thereby lessening the impact on the overall portfolio.

**Volatility is the degree to which the price of a given security, fund, or index changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

***The relative exposure to specific country or currency risks. Please note the valuation currency of the M&G (Lux) Positive Impact Fund is US dollars.

Portfolio construction

The fund embraces the United Nations Sustainable Development Goals (SDGs) framework and invests in publicly traded companies focused on six key areas, mapped against the SDGs (please see 'impact framework' on page 10 for further details).

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

Within these impact areas, we invest in three categories of positive impact companies:

Pioneers
whose products or services have a transformational effect on society or the environment

Enablers
which provide the tools for others to deliver positive social or environmental impact

Leaders
which spearhead and normalise sustainability and impact in their industries

We believe investing in these categories provides diversification across industries, end markets, and maturity of business models.

Stewardship

Impact investors can effect change by engaging with investee companies on a number of issues, not least supporting responsible corporate behaviour and long-term thinking, but also pushing the company to improve disclosure or set more challenging sustainability objectives. Engagement also allows for positive reinforcement of the long-term aims of a company, while further supporting a business' impactful ventures. In terms of voting at company Annual General Meetings, our starting position is to be supportive of the management of companies in which we invest. However, there are occasions when company boards put forward resolutions that we feel are not in the best interests of the company. For more on our stewardship activities over the year, please see 'Engagement and voting' on page 46.

Our impact framework

III framework and methodology

The III framework (encompassing Investment, Intention and Impact) is a practical means of scoring candidate companies for the M&G (Lux) Positive Impact 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, and 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.

Once a company has been analysed through the III process and been deemed potentially appropriate for the watch-list, the wider Positive Impact team will debate the merits of the company. Only when the team is unanimously convinced of the appropriateness of the company will it enter the watch-list (meet the team on page 56).

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		

The fund embraces the UN Sustainable Development Goals (SDG) framework and invests in publicly traded companies focused on six key areas, mapped against the SDGs. These are: climate action; environmental solutions; circular economy; better health, saving lives; better work and education; and social inclusion.

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 the impacts they are achieving.

Climate action

Environmental solutions

Circular economy

Better health, saving lives

Better work and education

Social inclusion

Impact Results Chain

Input
Money/Effort spent on an activity

Activity
Activity that will be measured

Output
Volumes sold or revenue generated

Outcome
Number or % of target population that has been reached

Impact
Goal level change achieved (eg, educational attainment, health status, income level)

As part of the team's efforts to measure impact and direct our focus on the variables that are within a company's control, we have adapted the Impact Results Chain Framework used by the World Health Organisation and the Gates Foundation. This helps map the route to (or the logic of) impact investment from start to finish.

We also started to look at the impacts of our companies through the lens developed by the Impact Management Project (IMP) – a forum for building global consensus on how to measure and manage impacts (this has since become the 'Impact Management Platform', a collaboration between leading providers of public good standards and guidance for managing sustainability impacts). This lens is referred to as the 'Five Dimensions of Impact'. We believe the Five Dimensions dovetails neatly with our own III framework, and provides an additional means to understand the scope of the impact being generated by our investee companies. We have also begun considering the IMP's 'ABC' classification system for companies within the portfolio with 'A' companies acting to avoid harm, 'B' benefiting stakeholders and 'C' contributing to solutions. By considering the nature of the companies we invest in, and how their activities align with these classifications, we are able to steer the portfolio in an even more impactful direction.

Five Dimensions of Impact

What

Tells us what outcome the enterprise is contributing to, whether it is positive or negative, and how important the outcome is to stakeholders.

Who

Tells us which stakeholders are experiencing the outcome and how underserved they are in relation to the outcome.

How Much

Tells us how many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome for.

Contribution

Tells us whether an enterprise's and/or investor's efforts resulted in outcomes that were likely better than what would have occurred otherwise.

Risk

Tells us the likelihood that impact will be different than expected.

Classifying impacts into A, B or C

Dimension	Assessment to look for				
What	Unknown	Important negative outcomes	Important negative outcomes	Important positive outcomes	Important positive outcomes
Who	Unknown	Various	Underserved	Various	Underserved
How Much Depth	Unknown	Various	High degree of positive change	Various	High degree of positive change
Scale	Unknown	Various	Various	Various	For many
Duration	Unknown	Various	Various	Various	Long term
Contribution	Unknown	Various	Likely the same or better	Likely the same or better	Likely better
Risk	Unknown	Various	Various	Various	Various
Classification of impact	May cause harm	Does cause harm	**Act** to avoid harm	**Benefit** stakeholders	**Contribute** to solutions

Source: Impact Management Project

The following pages explain in greater detail each of our impact areas and the companies that we invest in, while providing a deeper look into companies within each area, including both the III case for the company, as well as the Five Dimensions as it applies to them.

> "The scale of recent changes across the climate system as a whole and the present state of many aspects of the climate system are unprecedented over many centuries to many thousands of years."

IPCC: Sixth Assessment Report

Impact area

Climate action

In 2020, our Climate Action companies...
provided renewable energy to

19.3 million

people and saved or avoided

30.5 million

tonnes of CO_2

The renewable energy drive has formed a large part of governments' 'build back better' plans over the last year, representing accelerating momentum post the 2015 Paris Agreement. This has helped to hasten progress towards decarbonising the electricity sector.

We need to cut energy-related greenhouse gas emissions by around 7% every year to meet the Paris Agreement goals, so huge progress is needed. The positive news is that, in addition to increasing public policy action on clean energy generation, private sector investment continues to rise. More than half of respondents to the 2020 GIIN Survey said they plan to increase their allocations to clean energy over the next five years. This is encouraging, and progress is even ahead of schedule in some areas, but more is needed to accelerate the transition away from fossil fuels, and the positive wind and solar growth trend remains far from being aligned with the goal to reach net zero by 2050.

Guiding capital towards green and sustainable energy generation can take many different forms. Solar and wind power are well-known solutions, but there are other promising sources of electricity generation including hydro-power, wave and tidal power and biomass. There are also opportunities in energy storage and emerging green hydrogen infrastructure.

We continue to invest in companies that are having a direct positive impact in trying to mitigate the effects of climate change, most notably through the production of renewable energy, or by increasing the efficiency of renewable energy being produced.

Company	Activity	Goal	Revenue to Prime SDG*	Primary SDGs
Ørsted	Operates wind farms	Reductions in GHG emissions through offshore wind generation	90%	7
SolarEdge	Smart energy products for residential and commercial use	Advancing smart energy use and technology	100%	7

*SDG = UN Sustainable Development Goal. Figures are based on latest information available from company literature.

Case study

SolarEdge

SolarEdge is a global leader in smart energy technology

SolarEdge was founded in 2006 by five engineers, who sought to revolutionise the solar industry. One of the company's earliest innovations was an intelligent inverter solution that transformed the way power is harvested and managed in photovoltaic (PV) systems, maximising the amount of energy generated by each solar module.

The business is now a provider of power optimiser, solar inverter and monitoring systems for solar power systems. These increase the efficiency of solar power systems, cleanly producing more energy and reducing fossil fuel use. SolarEdge products also help protect the safety of installers, maintenance workers and firefighters, as unlike traditional inverter systems the DC voltage is turned off when the inverter is disconnected.

SolarEdge power optimisers increase energy output from solar installations by constantly tracking the maximum power point of each module, thereby reducing the mismatch power losses that typically occur in traditional PV systems. The SolarEdge topology also enables more efficient use of available roof space. This allows more solar panels to be installed to increase energy output.

Global energy needs are expected to expand by 30% between today and 2040 as population growth continues apace. Improvements in efficiency play a significant role in taking the strain out of the supply side. Rapid deployment of PV could help solar become the largest source of low-carbon capacity by 2040, by which time the share of global renewables in total power generation is expected to reach 40% – or potentially more, given the enhanced focus on decarbonisation of energy production, as many governments, and corporations, around the world have committed to net zero emissions targets.

SolarEdge's mission is to become the leading provider of inverter solutions across all PV market segments and broaden the availability of clean, renewable solar energy. In 2020 alone, the company delivered the equivalent of 38% more clean energy than in 2019 through shipments of its optimised inverter systems. The company estimates that the 2020 cumulative impact of its systems, based on 22.4GW of optimised inverter systems shipped worldwide, translates into the prevention of 17.4 million metric tons of greenhouse gas emissions, equivalent to powering 3.1 million homes with electricity for a full year, every year.

SolarEdge directly contributes towards making solar energy more efficient and more affordable, aligning most clearly to SDG 7: affordable and clean energy.

Input
Benefits from being a top player in the PV inverter market

Activity
Supplies smart energy products for residential and commercial use

Output
Shipment and instalment from smart energy products

Outcome
Advancing smart energy use and technology

Impact
Leverages engineering capabilities to create smart energy solutions

III in brief

Investment

- Leader within the most efficient (power efficiency and cost-wise) PV inverter architecture
- Offers significant growth potential through adjacent customer bases (increasing commercial and utility-based), product innovation and geographic expansion

Intention

- SolarEdge's mission is to become the leading provider of inverter solutions across all PV market segments and broaden the availability of clean, renewable solar energy

Impact

- Estimated 2020 cumulative impact of 17.4 million metric tons of greenhouse gas emissions avoided
- With 22.4GW of optimised inverter systems, the equivalent of powering 3.1 million homes with electricity

Five Dimensions of Impact in brief

What
Provides power optimisers, solar inverters and monitoring systems or solar power systems.

Who
The beneficiaries include companies and individuals, who are provided with optimised, renewable power, ultimately benefiting the environment.

How Much
100% of revenues stem from smart energy solutions with PV inverters as the core product. As a leader in improving the efficiency of solar power, SolarEdge's impact is both current and long term.

Contribution
SolarEdge developed the DC-optimised inverter solution that changed the way power is harvested and managed in PV systems. Through product innovations, it has materially impacted progress in scaling up solar energy solutions.

Risk
There has been a significant increase in competition by numerous industries in the renewable space. While this is positive in the bigger picture, it could dilute the specific impact that SolarEdge is delivering.

Impact area

Environmental solutions

In 2020, our Environmental Solutions companies… directly saved

324.3 million tonnes

of CO_2

Global greenhouse gas emissions continue to rise at a time when they need to be rapidly falling. To limit average global warming to 1.5°C, the Intergovernmental Panel on Climate Change (IPCC) has called for a 'rapid and far-reaching transition in energy, land, urban and infrastructure (including transport and buildings), and industrial systems'. The good news is that solutions to the challenge of climate do exist, but significant investment is required to increase their scope, scale and reach.

Reducing energy consumption, for example, across both industry and consumer use is necessary to meet net-zero carbon emission targets. Current industrial processes must be made more efficient, or new methods of production need to be developed, in order to significantly reduce GHG emissions from the production of many goods and materials. Producing steel and cement, for example, are highly energy-intensive industries; however, new methods and technologies to reduce energy use in these industries could lead to a significant fall in GHG emissions. Reducing energy loss in industrial processes can also have a meaningful impact. This could involve reducing heat loss or increasing waste heat recovery, or simply adapting processes so that energy is only used when it is needed.

Improvements can also be made to electricity transmission and distribution systems to reduce energy losses and maximise the use of renewables in the energy mix. These include smart grid technologies, distributed generation and peak demand management – for example, battery storage to balance the supply and demand of electricity generated from intermittent renewable sources such as wind and solar.

> **"Energy efficiency trends are expected to return to their ten-year average after the worst year in a decade. However, the rate of improvement needs to double from current levels to match the gain outlined in the IEA Net Zero Emissions by 2050 Scenario."**
>
> IEA

Consumers also have a significant part to play in reducing their energy use to help lower CO_2 emissions and combat climate change. Homes can be made more energy efficient through the use of effective insulation and energy-efficient appliances, lighting and heating, or the installation of energy-efficient technologies, such as smart meters, which provide consumers with the information they need to monitor and more efficiently manage their energy use.

We invest in companies that are seeking to deliver positive solutions, either directly or indirectly, to the environmental challenges the world is facing. Our investments are currently focused on companies helping to reduce energy use, improve energy efficiency and provide environmental diagnostic solutions.

Company	Activity	Goal	Revenue to Prime SDG*	Primary SDGs
Ansys	Global leader in engineering simulation software	Increase the modelling and efficiency of products and prototypes	100%	9
Ceres Power (new holding)	Provide unique solid-oxide fuel-cell technology	Hydrogen-derived energy production with low or zero CO_2 emissions	100%	9
Horiba	Manufacture of precision instruments for measurement and analysis	Improving safety and the reduction of emissions while bettering environmental practices	73%	13
IPG Photonics	Distribution of highly efficient fibre lasers	Meaningful electricity savings	90%	9
Johnson Controls	Produces building management equipment and systems	Allow building systems to run more efficiently and use less energy	61%	9
onsemi	Manufacture and distribution of efficient semiconductor products	Provide energy-efficient solutions into millions of products	41%	9
Rockwool	Leading supplier of fire-resistant stone wool insulation	Provide a range of energy-efficient solutions designed for buildings and infrastructure	90%	11
Schneider Electric	World leader in low-voltage electrical components	Enable transition to a sustainable future in buildings, data centres and the grid	80%	9

*SDG = UN Sustainable Development Goal. Figures are based on latest information available from company literature.

Case study

Ansys

Ansys is the global leader in engineering simulation software

The idea for Ansys was first conceived by its founder, John Swanson, while working at the Westinghouse Astronuclear Laboratory in the 1960s. He founded Ansys under the name Swanson Analysis Systems Inc. (SASI) in 1970, working out of his farmhouse in Pittsburgh.

Today, Ansys is the global leader in engineering simulation software. The company enables its customers to deliver better products by offering the best and broadest portfolio of engineering simulation software, to help them solve the most-complex design challenges without the need to produce multiple physical prototypes. This is intricately linked to better and faster product outcomes, improved product safety and positive impact on the environment.

Engineering simulation is the application of physics-based software solutions across the product lifecycle from idea stage to design, manufacturing and operation, enabling engineers to virtually test operational performance and predict how product designs will behave in real-world environments.

These simulation solutions save considerable raw materials and ultimately reduce Ansys customers' carbon footprint, by replacing physical testing with digital testing and accelerating time to market. Simulation can also help Ansys customers build effective and efficient products that are integral to meeting the environmental sustainability needs of the future.

Ansys engineering simulation software and services are widely used across a broad spectrum of industries and academia, including electronics, semiconductors, materials and consumer products. Many of these industries are using simulation software to develop innovative products and services which are anticipated to have a positive environmental impact. For example, with electric vehicles, Ansys can help improve power density and energy efficiency, while the use of virtual testing is also ideal in the production of autonomous vehicles.

As the global leader in simulation software, Ansys is well positioned to provide technology solutions that support and enable the sustainability goals of its customers across diverse industries. Its products and services ultimately promote and enable responsible production, aligning most clearly to SDG 9: industry, innovation and infrastructure.

Input
Leverage of unique simulation software capabilities

Activity
Develops and distributes simulation software

Output
Number of customers using products and services

Outcome
Increases the modelling and efficiency of products and prototypes

Impact
Promoting and enabling responsible production

III in brief

Investment

- Benefits from network effects, switching costs and unique intangible assets
- Highly cash-generative, with recurring revenues from lease licences and maintenance contracts

Intention

- Enabling customers to be more resource-efficient is a key selling point

Impact

- Ansys focus on efficiency and testing is intricately linked to positive impact on the environment and product safety
- Given the diverse client base, high-level specific KPI measurement has proven difficult

Five Dimensions of Impact in brief

What

Provides engineering simulation solutions to help customers solve the most-complex design challenges without the need to produce multiple physical prototypes.

Who

Used across a broad spectrum of industries and academia, ultimately benefiting the environment through the efficient development of environmental solutions and reduced raw material use through traditional prototyping.

How Much

100% of revenues stem from engineering simulation software and services. As a leader in simulation software, Ansys has a major impact in driving emissions out of engineering processes, which is set to grow as adoption increases.

Contribution

Has become the de facto software for simulation, offering the broadest range and combination of testing variables.

Risk

Elements within a diverse customer base could include those delivering negative societal impacts.

> “Circularity transforms our throwaway economy into one where we eliminate waste, circulate resources, and adopt nature-positive, low-carbon, resource-efficient systems and actions.”

WRAP

Impact area

Circular economy

In 2020, our Circular Economy companies...
saved
59 million
trees,
3,160 megalitres
of water, and handled
96.2 million metric tonnes
of waste material

Linear economic models have dominated the global economy since the start of the industrial era, extracting and depleting finite natural resources, using raw materials and creating waste. For too long, the world has relied on a throwaway culture – to the detriment of our planet.

It is time to shift to a circular economy, one that is based on the principles of 'designing out' pollution and waste, as described by the Ellen MacArthur Foundation. In a circular economy, waste from production and consumption becomes a resource to be recycled, repaired and reused – offering an alternative to the linear model that we have become so used to. Importantly, a circular, sustainable economy can help the world reach its biodiversity goals at the same time as benefiting society and combating climate change.

The UN's SDG 12 calls for responsible consumption and production. Progress has been made against this goal in some parts of the global economy, but a lot more is needed. The unsustainable use of natural resources is driving up pollution levels, accelerating climate change and wiping out nature. Take single-use plastic, for example. The UN's latest Sustainable Development Goals Report highlights that one million plastic drinking bottles are purchased every minute, and five trillion single-use plastic bags are thrown away each year. Plastic pollution drastically affects wildlife and marine ecosystems, as well as the livelihoods associated with these.

Circularity has become a hot topic, but confusion remains over what it really means to 'close the loop'. While recycling and reusing are important factors, a 'real' circular economy goes one step further: by not creating waste in the first place. Companies that embrace the circular economy should be better placed to make the most of long-term trends and deliver competitive returns for investors. Furthermore, they have the potential to generate a material positive impact for the global environment.

We invest in companies that are helping to create a more circular economy and effectively dealing with the ever-growing accumulation of waste that we as a society are producing. This is focused on sustainable logistics and packaging, as well as centralised workwear servicing and waste and recycling services.

Company	Activity	Goal	Revenue to Prime SDG*	Primary SDGs
Brambles	Global business perpetuating the share and reuse of the world's largest pool of reusable pallets	Create positive impact through sustainable supply chain and logistics practices	100%	12
DS Smith	Corrugated packaging services, focused on closed-loop recycling	Provide truly sustainable packaging solutions, while protecting the environment	100%	12
Republic Services	Non-hazardous solid-waste collection, transfer, disposal, recycling and energy services	Sustainable solutions for growing waste levels amid expanding populations	78%	11
UniFirst	Centralised workwear and textile services	Massively improve energy and water efficiency by the scale manufacture, collection and laundry of workplace uniforms	89%	12

*SDG = UN Sustainable Development Goal. Figures are based on latest information available from company literature.

Case study

UniFirst

UniFirst is one of North America's largest workwear and textile service companies

UniFirst began as an eight-stall garage in Boston in 1936. It was founded by the Croatti family, as the National Overall Dry Cleaning Company. The company had a horse barn that was converted into a makeshift laundry and consisted of a washing machine and a delivery truck.

UniFirst was incorporated in 1950, and today serves over 300,000 business customer sites in the US and Canada, including over half of the Fortune 500, and employs over 14,000 people. Its business is now the rental, lease and sale of work clothing, uniforms, protective apparel, career wear, and facility service products to businesses in virtually all industrial categories.

UniFirst helps improve energy and water efficiency by the scale manufacture, collection and laundry of workplace uniforms. The company is vertically integrated, where it rents, cleans, delivers and manufactures for a customer's needs. It is one of three companies in the US and Canada that has the necessary robust distribution network in place to effectively collect and launder workplace uniforms at scale. The company produces 70% of the uniforms it supplies, enabling customisation across its 270 sites in the US and Canada.

For the past three years, UniFirst has been named in Barron's 2021 list of the '100 most sustainable companies in the United States'. It was one of the first companies in the uniform and textile services industry to re-engineer all of its operations to become more environmentally friendly, and was also one of the first members of the EPA's Green Lights and ENERGY STAR programmes, which combine business strategies with environmental protection and energy conservation at all corporate facilities. Every UniFirst laundry production facility uses computerised processing equipment to maximise fuel and energy efficiencies while minimising waste.

The scale of UniFirst's circular operations, combined with its environmentally responsible processes, result in a number of impactful outcomes when compared to a decentralised model of home laundering. This includes 90% less chemical usage, 64% less water usage and 73% less energy usage. The environmental efficiency the company delivers is verified independently.

UniFirst's circular business model, and associated positive environmental impacts, align most clearly to SDG 12: responsible consumption and production.

Input
One of North America's largest workwear and textile service companies

Activity
Rental, lease sale and laundering of work clothing

Output
Number of customers and uniforms laundered

Outcome
Vastly reduced waste, compared to non-centralised processes

Impact
Promoting and enabling responsible production and consumption

III in brief

Investment

- One of only three companies in the US and Canada with the distribution network to collect and launder workplace uniforms
- A vertically integrated business, allowing for superior and differentiated product options

Intention

- Company espouses an unwavering commitment to operating in a true citizenship-minded manner, while having a conscious awareness of the global environment and local communities

Impact

- 90% less chemical usage, 64% less water usage, 73% less energy usage vs home laundry practices
- Reduces waste by promoting the reuse and recycle of clothing

Five Dimensions of Impact in brief

What
The rental, lease sale and laundering of work clothing, primarily in the US and Canada, providing a centrally-managed and therefore more sustainable and circular service.

Who
The beneficiaries include over 300,000 companies provided with circular economic uniform supply, ultimately benefiting the environment.

How Much
89% of revenues stem from circular economic activities. UniFirst is one of North America's largest workwear and textile service companies.

Contribution
UniFirst's circular operations, combined with its environmentally responsible processes, result in 90% less chemical usage, 64% less water usage, 73% less energy usage vs home laundry practices.

Risk
While UniFirst has excellent environmental credentials currently, there is still potential for environmental damage if processes are incorrectly managed.

Impact area

Better health, saving lives

In 2020, our Better Health, Saving Lives companies… treated or served

136.5 million people

It goes without saying that human health has come under the spotlight over the last couple of years due to COVID-19 and the devastating impact it has had on lives, livelihoods and economies. The global health crisis has exposed gaps in healthcare systems across the world, providing impetus for change. To a large extent, those gaps still exist – but there have been some advancements. The race to develop vaccines before rolling them out globally has shown how much can be done under pressure; pressure to save lives and restore economies.

The steady, long-term trend of improving health has been knocked off course in the short term by COVID-19. For example, routine immunisation services faced serious challenges in 2020 due to the pandemic, which caused the most widespread global disruption in recent history, according to research published in *The Lancet.* Frustratingly, access to coronavirus inoculations has been uneven and unfair. In July of 2021, the head of the World Health Organisation called attention to the 'horrifying injustice' that 75% of the vaccine shots that had been delivered globally were in just 10 countries.

While COVID-19 has acted as a serious setback to global health, there have been notable improvements to human health and well-being in recent years. For example, WHO Global Malaria Programme data show that in the last year, two more countries (El Salvador and China) have been added to the list of malaria-free regions. Investing in solutions that ensure good access to quality healthcare for everyone, regardless of their financial, family or cultural background, can improve the quality of life of individuals and increase life expectancy within societies. Evidence also shows that good physical and mental well-being improves labour market participation and productivity.

> **"We are still losing too many young lives from largely preventable causes, often because of weak and underfunded health systems which have faced enormous pressure over the pandemic. And the burden of these deaths is not carried equally around the world."**
>
> American Medical Association

We have identified a number of investable companies seeking to improve health and save lives, with around a third of the portfolio currently invested in this area. Our impact investments here cover both prevention and cure, including advanced, low-cost diagnostics, cutting-edge pharmaceuticals, DNA sequencing and clinical-stage biotherapeutics.

Company	Activity	Goal	Revenue to Prime SDG*	Primary SDGs
Agilent Technologies	Provides application solutions for laboratories	Enable customers to reach better health and environmental outcomes	100%	
ALK-Abelló	Produces immunotherapy allergy treatments and diagnostic products	Alleviate the suffering of people with severe respiratory allergies and asthma	100%	
Becton Dickinson	The largest manufacturer of medical surgical products, including syringes, needles and diagnostic instruments	Deliver healthcare solutions across the entire continuum of care	100%	
Fresenius Medical Care	The world's largest dialysis company	Provide critical, life-saving treatment for people who suffer from chronic kidney failure	100%	
Grifols	A vertically integrated manufacturer of proteins derived from blood plasma	Offer essential and frontline treatments, diagnostic products and hospital solutions to enhance quality of life	100%	
Illumina	Creates systems for the analysis of genetic variation and biological functions	Improve human health by unlocking the power of the genome	100%	
Novo Nordisk	World's leading producer of human insulin for the treatment of diabetes	Contribute significantly to research and development that improves the lives of people, doing so sustainably	100%	
Oxford Nanopore (new holding)	Leaders in long-read DNA sequencing	Crucial in enabling scientists and clinicians to leverage the power of genomics	100%	
PureTech	Clinical-stage biotherapeutics company	Discover, develop and commercialise highly differentiated medicines for underserved diseases	100%	
Quest Diagnostics	Leading provider of diagnostic information services	Empower better health with diagnostic insights	100%	
Thermo Fisher Scientific	Provides biotech, pharma and diagnostic services and products	Help solve complex analytical challenges, improve patient diagnostics, deliver medicines to market and increase lab productivity	100%	
UnitedHealth Group	Provides health insurance and speciality health services	Help people live healthier lives and make the health system work better for everyone	100%	

*SDG = UN Sustainable Development Goal. Figures are based on latest information available from company literature.

Case study

Oxford Nanopore

Oxford Nanopore is a leader in long-read DNA sequencing

Oxford Nanopore was founded in 2005 as a spin-out from the University of Oxford. The company now employs around 600 people from multiple disciplines including nanopore science, molecular biology and applications, informatics, engineering, electronics, manufacturing and commercialisation. It currently sells to more than 100 countries and is in a period of rapid growth, with a management team that has a track record of delivering disruptive technologies to the market.

ON benefits from the 'razor/razor-blade' business model, ie, selling or leasing out a durable product, with an ongoing revenue stream of related consumable products. The company leases DNA-sequencing equipment to the customer and benefits from a recurring stream of high-margin consumable revenue.

We believe genomics will drive a revolution in healthcare. There are over 300 million rare-disease patients globally and the average time for diagnosis is eight years. Genomics offers potential for much faster diagnosis and deeper understanding of rare diseases, by comparing a patient's genome against a reference genome.

Infectious diseases are an increasing threat. In 2019, the WHO recorded over 100 outbreaks of 19 different infectious diseases, each posing a potential epidemic or pandemic risk. Portable and scalable, real-time nanopore sequencing has been used to support rapid identification and control of many infectious-disease outbreaks across the world (including COVID-19, Ebola, Zika, and antimicrobial-resistant bacteria).

ON's technology is a small machine that costs as little as c.£1,000. The technology is i) accessible for researchers, who are often budget strapped, ii) portable, so can be used in remote and rural locations, and iii) relatively easy to use. This aligns with the company's mission to 'enable the analysis of anything, by anyone, anywhere'. Its goal is to disrupt the way that biological analyses are currently performed, and open up new applications that have a profound, positive impact on society.

The company has an installed base of over 14,000 machines as of 2020, and 100% of revenue is considered impactful. ON's contribution to the genomics revolution most clearly aligns with SDG 3: good health and well-being.

Input
Sales re-invested into RandD and production capacity

Activity
The manufacture and distribution of genome sequencing solutions

Output
Installed base of genome sequencing machines

Outcome
Enable scientists and clinicians to leverage the power of genomics

Impact
Delivering on many facets of good health and well-being

III in brief

Investment

- Benefits from the razor/razor-blade business model
- Given lower upfront costs of its equipment, has developed a niche among researchers – many of whom are new to genetic sequencing

Intention

- Goal to disrupt the way that biological analyses are currently performed, and open up new applications that have profound, positive impact on society

Impact

- Helping to drive the revolution in genomics
- An installed base of over 14,000 machines

Five Dimensions of Impact in brief

What
Provides lower-cost, portable DNA-sequencing machinery.

Who
Over 300 million rare-disease patients globally, where the average time for diagnosis is eight years. Genomics offers the potential for faster diagnosis and deeper understanding of the diseases from which patients are suffering.

How Much
An installed base of over 14,000 machines, as of 2020, with the potential to transform the diagnosis and treatment of numerous diseases.

Contribution
ON's portability and real-time sequencing means sequencing can be completed in the field with the help of a laptop. This is impactful in remote regions, regions with sporadic access to electricity, and facilities that only require temporary sequencing capabilities.

Risk
There is inherent execution risk, tied to commercialisation and the development of a sustainable business model.

> "The foundations of life as we know it, learning for our youth and work for adults, have been shaken by the COVID-19 global pandemic."

Kantar

Impact area

Better work and education

In 2020, our Better Work and Education companies...
provided educational services for

2.4 million people,

and wrote

~8,000 policies

protecting workers

Pupils across the world have experienced an extremely turbulent time since the pandemic first disrupted education systems and resulted in school closures. Some were able to continue learning remotely, but pupils in many parts of the world were not so fortunate. Children of poorer households with limited or no internet access suffered significant setbacks.

Education plays a fundamental role across a huge range of issues, including inequality reduction, social inclusion, poverty alleviation and climate change. Public funding in this area is important as the main source of provision for education. However, private investors can also take action and fill any education gaps left by limited government funding.

The pandemic has also had serious repercussions for the working lives of millions of people, exacerbating long-standing trends in the deterioration of job security. COVID-19 has created one of the biggest global shocks in modern economic history, with the world effectively shutting down in 2020 to protect human health, and the crisis triggered a raft of unparalleled fiscal measures designed to support economies and livelihoods. Unfortunately, the ongoing post-pandemic recovery is likely to be uneven. Despite the World Bank noting that growth for almost every part of the world has been revised upward for 2021, many countries – particularly emerging markets – continue to struggle against a backdrop of COVID-19 resurgences, vaccination disparity and withdrawal of support measures. Governments have provided emergency economic packages, but the support is inherently short term.

We seek to invest in companies that are delivering solutions to improve working conditions and educational attainment. This has remained a challenging area in which to find investable ideas, but we continue to search for impactful companies that are making a difference.

Company	Activity	Goal	Revenue to Prime SDG*	Primary SDGs
Cogna Educação	Provides educational services to under-served groups in Brazil	To fill the need for education, including university attainment, to lower-middle income groups	100%	4 QUALITY EDUCATION
Amerisafe	Provides specialty workers' compensation insurance for small to mid-sized employers in hazardous industries	To protect labour rights and promote safe and secure working environments	100%	8 DECENT WORK AND ECONOMIC GROWTH

*SDG = UN Sustainable Development Goal. Figures are based on latest information available from company literature.

Case study

Amerisafe

Amerisafe is a hazardous industry workers compensation insurer

Amerisafe, then known as AIIC, wrote its first workers' compensation policy in 1986, listed on the Nasdaq in 2005, and has now been providing speciality workers' compensation insurance for more than 30 years. Operating in 27 US states, the company serves small and mid-sized employers in high-hazard industries, including construction and trucking. The company prides itself on providing valuable, on-the-ground experience, allowing it to understand the unique challenges its policyholders face. This knowledge allows the company to use an informed approach in underwriting policies, ultimately helping reduce the overall incidence rate and cost of workplace injuries.

Amerisafe helps to accomplish this through a focus on safety. It provides safety training and resources to policyholders so they can reduce exposure to accidents. The company's field safety professionals are located in the same areas as policyholders, allowing them to provide in-person guidance and make practical recommendations.

To illustrate the success rate of this model, in 2020 the company's 'complaints-to-claims ratio' was 1 to 2,379. The company believes this extremely low number of complaints, and corresponding complaints-to-claims ratio, is due to that high-touch model and focus on customer experience.

Amerisafe has carved out a niche customer segment in the hazardous industries. Given that it works with smaller companies (average workforce of 17 people), these companies do not have well-defined safety standards and are often overlooked by larger insurers. Amerisafe therefore engages with these employers to improve safety in these often dangerous industries. This helps drive a lower number of claims (claims frequency) and lower severity (cost of claims) in claims.

Amerisafe also does not provide a quote to potential customers until it has undertaken an inspection of their premises. It then makes recommendations as to what safety features need to be added before it can provide that quote. This helps facilitate better safety measures in hazardous industries, where injuries can be dire.

In the event of an injury, Amerisafe then steps in to cover the injured employee's medical bills and compensates them for lost income due to these injuries or death. Therefore, employees in such industries are provided financial and medical assistance, so that they and their families' basic needs are not materially hindered in the event of injury and death.

Amerisafe's provision of insurance for hazardous sectors most clearly aligns with SDG 8: decent work and economic growth.

Input
Deep knowledge of, 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
Promoting safe and secure working environments

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 secure safe 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 8,000 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 2020 there were over 8,000 policies in place, and 100% of revenue is considered impactful.

Contribution
Smaller companies often do not have well-defined safety standards and are often 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.

Impact area

Social inclusion

In 2020, our Social Inclusion companies... provided services to

154.5 million people

in underserved or lower-income markets

The world is experiencing a consumer bailout unlike any before. An unprecedented flood of fiscal and monetary support has shored up billions of livelihoods and small businesses throughout the pandemic. But as the economic plasters come off, the social scars are looking deeper than ever.

The effect the global outbreak has had on social progress is profound. Despite governments and central banks wading in to help, the pandemic has continued to exacerbate a multitude of existing, deep-seated social issues. This crisis has hit the youngest generations hard. Add to this the existing pre-pandemic levels of intergenerational inequality, and it's easy to see why there is so much catching up to do. One of the biggest setbacks over the COVID-19 crisis has been the widespread disruption to education. Last year, the UN found that closures of schools and other learning spaces affected 94% of the world's student population – up to 99% in low- and lower-middle-income countries. And while the proportion of economically-active young adults either unemployed or fully furloughed halved between May 2020 and the end of May 2021 to around 16%, they are two-and-a-half times more likely to be out of work than older people, according to the Resolution Foundation.

There is also a great deal of work needed on gender equality. The gender gap in political empowerment has widened since 2020 by 2.4 percentage points – and is only 22% closed, according to the World Economic Forum's 2021 Global Gender Gap Report. Achieving gender parity would also make a huge, positive difference to other global issues, including nature loss. As the Mohamed Bin Zayed Species Conservation Fund points out, women in many parts of the world, particularly in indigenous communities, are among the first to experience biodiversity loss, and are well positioned to take action on conservation issues.

> “Stimulus packages for the COVID-19 recovery will need to be designed to counterbalance the widening social gaps and will have to guard against creating new forms of exclusion. The crisis is also an opportunity to focus on rebuilding more-inclusive systems that allow society as a whole to be more resilient to future shocks.”
>
> World Bank

We invest in companies that are actively trying to improve the level of social inclusion across societies, from gender equality in the US to mobile micro-financing in Kenya. Our investments focus on providers of financial services and telecommunication infrastructure, as well as the provision of childcare and affordable housing.

Company	Activity	Goal	Revenue to Prime SDG*	Primary SDGs
Bank of Georgia	Provides financial services to the Georgian economy	Support its customers, investors, employees and society in building a successful future for Georgia	80%	9
Bright Horizons	Provides childcare, early education and educational advisory options	Nurture children and support families, significantly aligned to aiding gender equality in the workplace	100%	5
HDFC Bank	India's quality-specialised mortgage company	Enhance the residential housing stock, including provision for lower income groups	38%	8
Helios Towers (new holding)	The third-largest independent tower telecommunication company in Africa	Enable greater access to mobile and communication services in underdeveloped markets	100%	9
Katitas (new holding)	Provides refurbished second-hand homes at affordable prices	Provide housing at typically half the price of new build, while addressing Japan's significant vacant home issue	100%	11
Safaricom	Provides integrated telecommunication and mobile transactional services in Africa	Deep-reach mobile connectivity and financial inclusion for underserved communities	100%	9

*SDG = UN Sustainable Development Goal. Figures are based on latest information available from company literature.

Case study

Helios Towers

Helios Towers is a telecommunication towers company operating in Africa

Helios Towers is the third-largest independent tower telecommunication company in Africa. Its principal business lies in building, acquiring and operating telecommunications towers that are capable of accommodating and powering the needs of multiple tenants. These tenants are typically large mobile network operators (MNOs) and other telecommunications providers who, in turn, provide wireless voice and data services, primarily to end-consumers and businesses.

Helios was formed in 2009, and today operates some 9,560 towers across Tanzania, the Democratic Republic of Congo (DRC), Ghana, Congo-Brazzaville, South Africa, Senegal and Madagascar. And, following acquisition agreements which are subject to regulatory approvals, it expects to establish a presence in five new markets across Africa and the Middle East, with the total site count expected to increase to approaching 14,000.

Helios Towers' business model is similar to that of a real estate firm, with the group's success dependent on being able to offer high-quality locations to clients. The company uses a geographical information systems (GIS) tool, which helps to find locations that maximise the transmission signal, improve coverage for MNOs, and have desirable population characteristics and topology. The group undertakes this analysis both when it builds towers and when it acquires them.

Helios operates in parts of Africa that have among the lowest mobile penetration in the region. Its main markets have an average mobile penetration rate of 50%, well below that of overall Sub-Saharan Africa (at 73%) and developed countries (at 98%). The group's co-location business model (where up to four MNOs can share a mobile tower) also results in lower costs for its customers and reduces their carbon footprint. In this way, Helios enables 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, making it highly impactful. In this way, Helios Towers' business most clearly aligns with SDG 9: industry, innovation and infrastructure.

Input
Leading telco tower company operating in under-penetrated parts of Africa

Activity
Building, acquiring and operating telecoms towers

Output
Operates over 8,600 sites across Sub-Saharan Africa

Outcome
Covers over 107 million people across Sub-Saharan Africa

Impact
Significantly increase access to information and communications technology

III in brief

Investment

- Helios is the third-largest mobile towers company in Africa
- Solid competitive position, with strong expertise, high barriers to entry and established within its markets

Intention

- The company's purpose is to drive the growth of communications in Africa, playing a pivotal role in advancing African mobile telecoms services, and the resulting development of economies and communities

Impact

- Helios covers over 107m people across Sub-Saharan Africa
- The company's infrastructure and services significantly increase access to information and communications for underserved communities

Five Dimensions of Impact in brief

What
Helios is the third-largest mobile towers company in Africa.

Who
Covers over 107m people across Sub-Saharan Africa, in areas with much lower mobile penetration than the average.

How Much
Over 8,600 tower sites across its geographies, and growing, and 100% of its revenues are considered impactful.

Contribution
Operates in some of the least mobile-penetrated regions in Africa, with a co-location towers model resulting in cost savings for mobile operators, which is passed on to customers. This business model also enables the provision of mobile services with a lower carbon footprint.

Risk
The provision of telecommunications towers could result in environmental damage, including biodiversity loss, if such risks are not fully accounted for. This would negatively affect the net impact case for the business.

Measuring our companies' impacts

'Measurability' is one of the central tenets of impact investing, and also one of its most challenging aspects. This is especially so for impact investors in public equity markets where the impact tends to be less direct than in private markets, so measurement can be less clear.

As bottom-up fund managers (that is, fund managers who focus on analysing individual stocks), we focus on company-specific impact measurement. We have a company-specific, fundamentals-focused approach to investment analysis, and feel it is appropriate to take a similar approach when it comes to managing and measuring the impact of our investments.

In addition, as the fund is diversified across quite disparate impact areas, we feel that attempting to aggregate our companies' impacts at a portfolio level would be meaningless at best, and disingenuous at worst.

Rather we have decided to focus on each company's given impact, assessing how its business activities are aligned to specific societal impact challenges that we have identified as both needing investment and being investable by public equity investors.

This year, though, as well as last year, we have provided headline figures within the individual impact area sections of this report, and where companies within a given area have been measured on the same key performance indicator (KPI), we have aggregated these numbers. We think this helps to demonstrate the overall impacts being delivered across the portfolio in a genuine way.

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 2020 report provided figures for 2019, and likewise this year's report provides figures for 2020, compared against the previous year's numbers. Of course, 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 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, and think we are beginning to make progress in this area. In the meantime, where hard metrics have proven elusive, we have provided case studies from page 43 to highlight what we believe to be the impactful nature of these companies.

Portfolio

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	**13.1m tonnes**, powering **19.3m** people	**11.3m tonnes**, powering **15.2m** people	**+1.8m tonnes** **+4.1m** people
solaredge	Directly contributes towards making solar energy more efficient and more affordable.	# CO_2 emissions avoided #solar optimised homes	**17.4m tonnes**	**12.6m tonnes** **2.1m homes**	**+3.6m tonnes** **+200k**

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	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.	***10.1m tonnes** per year *Based on first full year of results in 2024-25	(New holding)	(New holding)
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	**7m tonnes**	**6m tonnes**	**+1m tonnes**
Johnson Controls	Directly contributes to the design, 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	**30.6m tonnes** saved since 2000 (1.2m tonnes saved in 2020)	**29.4m tonnes** saved since 2000 (1.5m tonnes saved in 2019)	**+1.2m tonnes**
ON Semiconductor	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			

Company	Impact	KPI explanation	KPI measurement	Previous Measurement	Year-on-year change
ROCKWOOL	Directly contributes towards making solar energy more efficient and more affordable	# CO_2 emissions avoided over the lifetime of insulation sold in one-year	**186m tonnes** for products sold in 2020	**201m tonnes** for products sold in 2019	**-15m 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	**120m tonnes** saved by EcoStruxure customers	**89m tonnes** saved by EcoStruxure customers	**+31m tonnes**

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	**3,160 megalitres** of water and **2.4m tonnes** of CO_2 saved	**2,600 megalitres** of water and **2.0m tonnes** of CO_2 saved	**+560 megalitres** **+0.4m tonnes**
DS Smith	Directly helps reduce the amount of waste generated by packaging. According to Eurostat, the average European generates 170kg of packaging waste per year	# of trees saved	**~59m** trees saved	**~55m** trees saved	**+4m** trees
Republic Services	Provides a solution to growing waste levels from population growth and promotes sustainable waste collection practices	# materials handled per year	**96.2m metric tonnes** of recyclables	**103.4m metric tonnes** of recyclables	**-7.2m metric 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 our planet's largest societal challenges such as healthcare, energy and the environment	Size of installed base	**600k+** equipment, **260k+** customer labs	Not previously measured	n/a
ALK	Provides long-lasting allergy solutions via immunotherapy. Revolutionised treatment by pioneering immunotherapy in tablet form	# of patients treated	**2m** patients	**1.9m** patients	**+100k** patients
BD	Directly contributes towards patient safety, infection prevention and waste minimisation	Case study			

Company	Impact	KPI explanation	KPI measurement	Previous Measurement	Year-on-year change
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	**>346,500** patients	**>345,000** patients	**+1.5k** patients
GRIFOLS	Helps treat a number of medical conditions such as immunodeficiency diseases and haemophilia via the separation of proteins from blood plasma	# blood donations tested # tested per minute	**36m** blood donations **>200** people every minute with **>70** donations tested per minute	**35m** blood donations **>200** people every minute with **>70** donations tested per minute	**+1m** donations
illumina	Helps improve human health and guides individual patient care through diagnostics and next-generation genome sequencing	# of samples sequenced	**170** petabases (**1,000 trillion** base pairs of DNA sequence)	**150** petabases (**1,000 trillion** base pairs of DNA sequence)	**+20** petabases
novo nordisk	Helps address the rising prevalence of diabetes, a condition that affects more than 420m people worldwide	# of patients treated	**32.8m** patients **6.3m** with vials less than US$3.00	**~30m** patients **5.1m** with vials less than US$4.00	**+2.8m** patients
Oxford NANOPORE Technologies	Helps researchers diagnose rare disease through portable, affordable real-time gene-sequencing machinery	# of machines/ installed base	**14k** installed based	(New holding)	(New holding)
PURETECH BIO	Helps to discover develop and commercialise highly differentiated medicines for underserved diseases	# trial progress # potential addressable market	**27** therapeutic products and candidates, **16** clinical stage candidates, **2** taken from inception to regulatory clearances. **>150m** people in addressable market	**24** therapeutic products and candidates, **13** clinical stage candidates, **2** taken from inception to regulatory clearances. **>150m** people in addressable market	**+3** **+3** 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. As a high-quality but low-cost provider, Quest provides affordable access to those who need it the most	# of test forms processed	**187m** test forms	**176m** test forms	**+11m** test forms
ThermoFisher SCIENTIFIC	Helps customers accelerate life sciences research, solve complex analytical challenges, improve patient diagnostics, deliver medicines to market and increase laboratory productivity	# customers reached	**~400k** customers	Not previously measured	n/a
UnitedHealthcare	Helps promote access to healthcare with its 22% market share in Medicare (retirees) and 9% in Medicaid (low-income, long-term care)	# of underserved and low-income people insured	**15.8m** people	**14.9m** people	**+900k** people

Better work and education

Company	Impact	KPI explanation	KPI measurement	Previous Measurement	Year-on-year change
AMERISAFE	Provides workers' compensation insurance to small- to medium-sized high-hazardous industries, aiming to improve safety standards and practices	#of policies	**>8,000** policies	**>8,000** policies	(No change)
cogna	Aims to fill the need for education for the lower-middle segment of the Brazilian population. Given its scale and discounted fees, Cogna is one of the most affordable and effective private options	# of students educated	**2.4m** students	**1.9m** students	**+500k** 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 infrastructure following the end of communism. 61% of group profits are derived from low-end and mass-market customers	# of people served in low-income groups or mass retail market	**2.6m** people	**2.5m** people	**+100k** people
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	**~30,000** via full service children's centres **2.6m** via back-up centres	**~30,000** via full service children's centres **1.75m** via back-up centres	No change **+900k** women
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	**2.4m** 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 **107m** people across Sub-Saharan Africa	(New holding)	(New holding)
カチタス Katitas	Provision of affordable housing through the purchase and renovation of vacant homes	# of customers, revenues or assets from underserved or under-represented markets	***20,311** people (*6,155 properties sold in the fiscal year, average of 3.3 people per property)	(New holding)	(New holding)
Safaricom	Provision of innovative telecom services that allow deep-reach mobile connectivity and financial inclusion for underserved communities	# of customers	**39.9m** customers	**35.6m** customers	**+4.3m** customers

Case studies

Impact measurement

Ansys

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

As we move towards increased automation when it comes to driving, Ansys Autonomous Vehicle Simulation solutions offer a set of dedicated features for sensors and headlamps for developing ADAS (Advanced driver-assistance systems) and autonomous systems. Testing and optimisation of the performance of vehicle mounted intelligent sensor units, the designers can utilise component-level 'model-in-the-loop' testing and can dynamically test physics-based sensor and lighting systems. Ansys software can then recreate real-world driving conditions to test systems under variable traffic, terrain, weather and lighting conditions.

Road vehicle accidents are one of the biggest causes of global deaths and injuries. Ansys software application is a key tool to help reduce this risk and provide a safer environment for all.

New co-simulation capabilities with IPG Automotive CarMaker allow OEMs (original equipment manufacturers) and automotive suppliers to help ensure the safety of ADAS feature and autonomous vehicles. This is through validating perception, fusion and control algorithms using Ansys physics-based sensors simulation (camera, radar, lidar) in sync with IPG Automotive CarMaker vehicle dynamics and scenarios.

Becton Dickinson

Becton Dickinson (BD) is a global medical technology company, with unparalleled expertise in medical surgical products such as needles, syringes and sharps-disposal units. Through constant innovation, it continues to improve the delivery of care to patients and the safety of health practitioners.

BD's purpose to advance the world of health is reinforced by its investment in research and development (RandD). BD spend north of $US1 billion on RandD annually, resulting in continuous product launches. As two examples, recently these have included:

Improving maternal and new-born health outcomes

Untreated prolonged or complicated labour can result in haemorrhage, asphyxia, maternal infections and even death. Complicated or prolonged labours occur with c.10% of pregnancies. In sub-Sharan Africa, only 54% of hospitals and 6% of health centres are able to conduct assisted vaginal births (AVB). The World Health Organisation (WHO) has called for AVB access at all obstetric facilities globally. BD are beginning to receive approvals (UK and France) for their low-cost Odon device, which provides a safe and effective alternative for assisted vaginal births. BD is supported by the WHO and Saving Lives at Birth in this ground-breaking product.

Access to HIV testing

According to the WHO, 38 million people globally are living with HIV, of which 67% reside in Africa. It is estimated that c.20% of the HIV population are unaware of their HIV status.

When a person is living with HIV, the virus attacks the CD4 cells in their blood. When the CD4 count is lower than 200 cell/mm3, a person will receive a diagnosis of AIDS. BD's FACSPresto point-of-care equipment is portable, lightweight and battery-operated allowing medical professionals to provide access for diagnosis in rural areas with intermittent power and a lack of an established healthcare system.

Horiba

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

This year Horiba announced its electrification offering, which serves all relevant stages of research, development, validation, certification and end-of-line verification. It covers material characterisation, component, system and vehicle for all varieties of e-powertrains, including those with batteries, fuel cells and hybrid architectures. The total solution ranges from single component testing to turnkey testing solutions, and includes consulting and other services throughout the total vehicle development process. Unique in its approach, HORIBA is able to integrate scientific expertise from a range of industries to offer a solution based on customer needs.

As countries across the world push towards their net-zero emissions goals and enact policies to phase out combustion vehicles, Horiba should play a crucial role in enabling electric vehicle adoption.

onsemi

onsemi (previously ON Semiconductor) develops and sells energy-efficient products and solutions to enable its customers to design green electronics. Its products are used across a variety of sectors, from automotive and medical to industrial power and personal electronics.

onsemi's long-term expertise and leading role in renewable energy generation, power management, and energy conversion helps customers across the globe handle the challenges of Energy Storage Systems and create suitable solutions for the evolution of the power grid. Its Silicon Carbide (SiC), SiC/Si hybrid, and IGBT (insulated-gate bipolar transistor module technology), as well as its broad offering of advanced discrete SiC MOSFETs (metal-oxide semiconductor field-effect transistor), IGBTs, and mid-voltage MOSFETs, together with versatile gate drivers, sensing, protection, and power management integrated circuits bring flexibility to tailor energy storage systems to the requirements of power grids.

As renewable energy grows as part of the energy generation mix, energy storage systems will become increasing critical in allowing solar parks and wind farms to provide base load power, as well as the current intermittent peak load power. The components that onsemi manufactures are essential for the efficient running of these technologies.

Case studies

Engagement and voting

Engaging with our investments

Impact investors can effect change by engaging with investee companies on a number of issues, not least supporting responsible corporate behaviour and long-term thinking, but also pushing the company to improve disclosure or set more testing sustainability objectives. This is important as impact investing, as with ESG investing, can present dilemmas and paradoxes. A company with a clear environmental purpose, like a wind-turbine maker, can have a relatively large CO_2 footprint (because it produces large steel structures), but also, equality, workers' rights or safety issues like any other company.

And even impactful companies can improve. There will always be reasons for investors to engage to improve company practices – alone or as part of a group – and advocate diversity, equality, safety and decent working conditions, as well as improved disclosure and target setting, particularly around climate. Engagement also allows for positive reinforcement of the long-term aims of a company, while further supporting a business' impactful ventures. In 2022 we plan to further engage with our investee companies on measurement and disclosure, helping to identify metrics and key performance indicators that best reflect, and measure, the impacts that our companies are delivering.

As a few examples from engagement activity over the previous year:

Helios Towers

Objective: To discuss the carbon emission reduction strategy and Science Based Targets with African telecoms towers company Helios Towers, asking it to adopt SBTi* approved targets, and if not, provide a reason as to why not.

Action: We met with the company to make our expectations known.

*Science Based Targets provide companies with a clearly-defined path to reduce emissions in line with the Paris Agreement goals, through the SBTi. This initiative is a collaboration between the Carbon Disclosure Project, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature.

Outcome: Helios has set out a carbon-reduction strategy where it has intensity-based targets linked to tenancy ratios rather than revenue, as it considers this to be an important KPI. Helios is currently focused on reducing carbon emissions per tenant by 46% by 2030 (while absolute emissions are maintained despite increase in activity) and intends to be net zero by 2040. It is investing US$100m in carbon reduction, across many initiatives, including increasing the use of solar/hydro/hybrid technology from 30% to 70% by 2030 (new and old sites). It is currently working on carbon risk assessment and modelling and will also report on its handprint – ie, how its products and services reduce carbon. The company acknowledged that Helios currently does not have targets validated by SBTi, but is working on the carbon strategy with a consulting firm. It confirmed that it submitted its first CDP disclosure and got a B- rating that it expects to improve going forward. We expect an update from the company in early 2022, and will further press for the establishment of Science Based Targets.

Rockwool

Objective: To ask Danish stone-wool insulation maker Rockwool for further details on processes, and request improved public disclosure on its remediation efforts, community engagement processes, management incentives and air quality monitoring, all in relation to community protests in the US.

By way of background, there have been protests at Rockwool's new site in Ranson, West Virginia. There were concerns by some community members that the pollution levels caused by the plant would be unsafe, risk contaminating groundwater and affect air pollution levels. An investigation into these claims by Danish independent adjudicator NCP concluded that, while there is no discernible risk to public health, Rockwool did not carry out adequate risk-based due diligence in the initial stages of the project and failed to properly involve and consult the local community and its views on the construction of the facility.

Action: We met with Rockwool's director of sustainability to make our request known.

Outcome: In terms of remediation efforts with the local community, Rockwool's response has been two-fold. Firstly, to reassure the residents that there was no risk to their health, Rockwool is monitoring the air quality (managed by a third party) on a daily basis and the results are accessible online via a website, which allows the community to access the data. This was implemented prior to the development of the plant to show that there has been little change in pollution levels. In terms of groundwater risk, no wastewater is being contained, but as part of standard floodwater protection measures for industrial sites, Rockwool has installed three membranes to reassure the community that contamination is not possible. Secondly, Rockwool has created an online community engagement forum whereby people can voice their opinions, as well as informing the local community of updates via email newsletters and social media platforms. One of the lessons that Rockwool has taken from the Ranson facility is that internal due diligence processes need to be strengthened. As such, the company is developing a comprehensive public engagement programme that will enhance opportunities for two-way communication with the community. The programme is expected to kick off in Q1 or Q2 of 2022. The company is speaking to other business units to share best practice in managing these risks more effectively. On management incentives, currently Rockwool does not feel there is a need to incentivise management in relation to ESG targets, stating these are already effectively managed in business-as-usual procedures, but this is something that M&G strongly encouraged them to adopt due to the effectiveness of such approaches and alignment with best practice. We will continue to monitor these issues on an ongoing basis, but overall M&G feels confident that the situation at the Ranson plant is being adequately addressed by Rockwool, and that the remediation efforts underway will help re-establish a good relationship with the local community.

Access to Medicine

Novo Nordisk

We had the opportunity to engage with companies at the Access to Medicine Foundation's annual conference. The Access to Medicine Index analyses how 20 of the world's largest pharmaceutical companies address access to medicine in 106 low- and middle-income countries. The index is managed by a non-profit foundation funded by the UK and Dutch Governments, Gates Foundation and Wellcome Trust.

Danish multinational pharmaceutical company Novo Nordisk scores highly when it comes to incorporating access to medicine into its corporate strategies, broader governance and on-the-ground actions to ensure equitable access in hard-to-reach markets and patient populations.

It has a guaranteed low fixed price for human insulin in the least-developed countries (as defined by the UN), low-income and some middle-income countries (as defined by the World Bank). Novo provided insulin globally to 32.8 million patients in 2020, of which 6.3 million were under the 'access to insulin' commitment.

Novo scored lower when it came to research and development, which is largely due to its focused approach on diabetes and adjacent areas. We also had the opportunity to speak to Mads Thomsen, who held the position of Novo Nordisk's chief scientific officer for 20 years. Impressively, Novo had spearheaded obesity treatment and developed treatments for liver disease. It continues to spend a low-double digit percentage of revenue on research and development.

Voting at Annual General Meetings

In 2021, we voted at 35 shareholder meetings – ie, all positions held during the period; at 25 meetings we voted against at least one resolution.

Our starting position is to be supportive of the management of companies in which we invest. However, there are occasions when company boards put forward resolutions that we feel are not in the best interests of the company and its stakeholders. We will, where possible, try to inform the company in advance if we are voting against. In most circumstances, especially on remuneration-related issues, there will have been a previous dialogue with the company.

The M&G Investments Voting Policy is published on our website and is regularly reviewed in consultation with our Stewardship and Sustainability team and other investment teams. We use the ISS voting platform to vote and M&G has built, with ISS, a custom voting service that reflects our public voting policy.

Meetings where at least one management recommendation was not supported

Votes cast as against, abstain or withhold by category and region

	UK	Europe	N. America	Japan	RoW
Directors-related	-	8%	40%	100%	-
Remuneration	-	25%	10%	-	-
Capital-related	83%	8%	-	-	-
Corporate activity	-	-	-	-	-
Anti-takeover	-	-	-	-	-
Routine other business	17%	42%	30%	-	100%
Shareholder resolutions	-	17%	20%	-	-
Total	100%	100%	100%	100%	100%

Our approach to controversial areas

Given the complex nature of the world we live and invest in, customers continue to ask us about the way we approach certain controversial areas. Here we outline some of the factors we take into consideration when confronted with these grey areas.

Microlending – issues surrounding predatory practices

Within our social inclusion impact area, we look for opportunities to invest in companies specialised in microlending. This generally involves lending money in small amounts to impoverished individuals and groups unable to obtain loans from mainstream banks. It plays, in our view, a crucial role in addressing poverty and promoting social inclusion among some of the world's poorest communities. Nevertheless, it is equally important to protect these more vulnerable individuals and groups against the risk of predatory lenders. These are companies that engage in deceptive or fraudulent lending practices such as pawn loans and doorstep loans, and often take advantage of the borrowers' poor access to financial services and insufficient financial knowledge to charge them punitively high loan terms.

One of the key challenges here is that a high nominal interest rate does not necessarily indicate predatory practices (particularly when looked at against a country's base rate). Our III framework allows for each case to be assessed individually and is designed to identify and support the best microlending practices. These include affordable lending rates compared with prevailing rates in individual countries, as well as financial-literacy programmes aimed at the underserved and mass-market customers, educating about the nature of the risks they take on. We also take into consideration company policies, sales incentives and management controls to ensure loan quality and responsible lending practices.

Animal testing – where it applies

We recognise this is a complex and sensitive area where certain conflicts exist between the advancement of human health and the importance of animal welfare. We avoid investments linked to animal testing in all areas other than where required for medical product testing. Within our better health, saving lives impact area, we understand the rationale for animal testing to determine the safety of new products such as drugs, vaccines, biologics and medical devices.

For drugs, vaccines and biologics, testing on animals helps to measure how the product is absorbed into the blood, metabolised in the body as well as its toxicity. For medical devices, the focus is the device's ability to be tolerated by living tissues as some will use new materials where compatibility needs to be assessed. There are still many areas within medicine where animal testing is necessary, as non-animal testing is either not an available option or not scientifically proven.

However, when there is no alternative to animal testing, the fund endeavours that best practices are followed. In this regard, the Positive Impact team checks that the 3R principles are adhered to. These principles were created over 50 years ago and provide a useful framework for performing more humane animal research. The first R stands for Replacement, which looks to promote new methods to help avoid or replace the use of animals. The second R is for Reduction, which seeks to reduce the number of animals used during each experiment. The third R is or Refinement, which aims to minimise the suffering of animals.

When animal testing is performed in areas outside of medical research, such as cosmetics and personal care products, the fund cannot invest. This exclusion is in place, even for countries such as China where animal testing is required by the government. We believe our stance on this issue strikes an appropriate balance, but we shall continue to evaluate our thinking as alternatives develop and practices improve.

Fossil fuel transition – at what point to get involved?

We often get asked if the fund considers investing in conventional oil and gas companies that are starting to shift towards renewables. While we do encourage the transition – and it is a major part of the broader ESG/climate programme at M&G – the fund only invests in companies that were either set up as renewable businesses from scratch, or those that are a significant way towards their explicit objective to transition to 100% renewables. In cases where the transition isn't complete, the fund only invests if there are clear commitments towards a full transition within a reasonable, science-based timeframe. This stance ties in with our III framework, which stipulates investment in companies that have a positive Net Impact Balance. While we applaud ambitions from companies like BP to reach net zero by 2050 and reduce the carbon intensity of their products over the same timeframe, these stocks would not pass our III examination: this is simply because BP still generates the majority of its revenues from oil and gas today, and continues to allocate a considerable portion of its capital towards these activities.

Healthcare – what constitutes impactful healthcare?

Our impact approach to healthcare is an area that triggers questions such as 'what qualifies as an impactful healthcare company? Given the nature of healthcare, are most companies in the sector eligible for impact or not?'

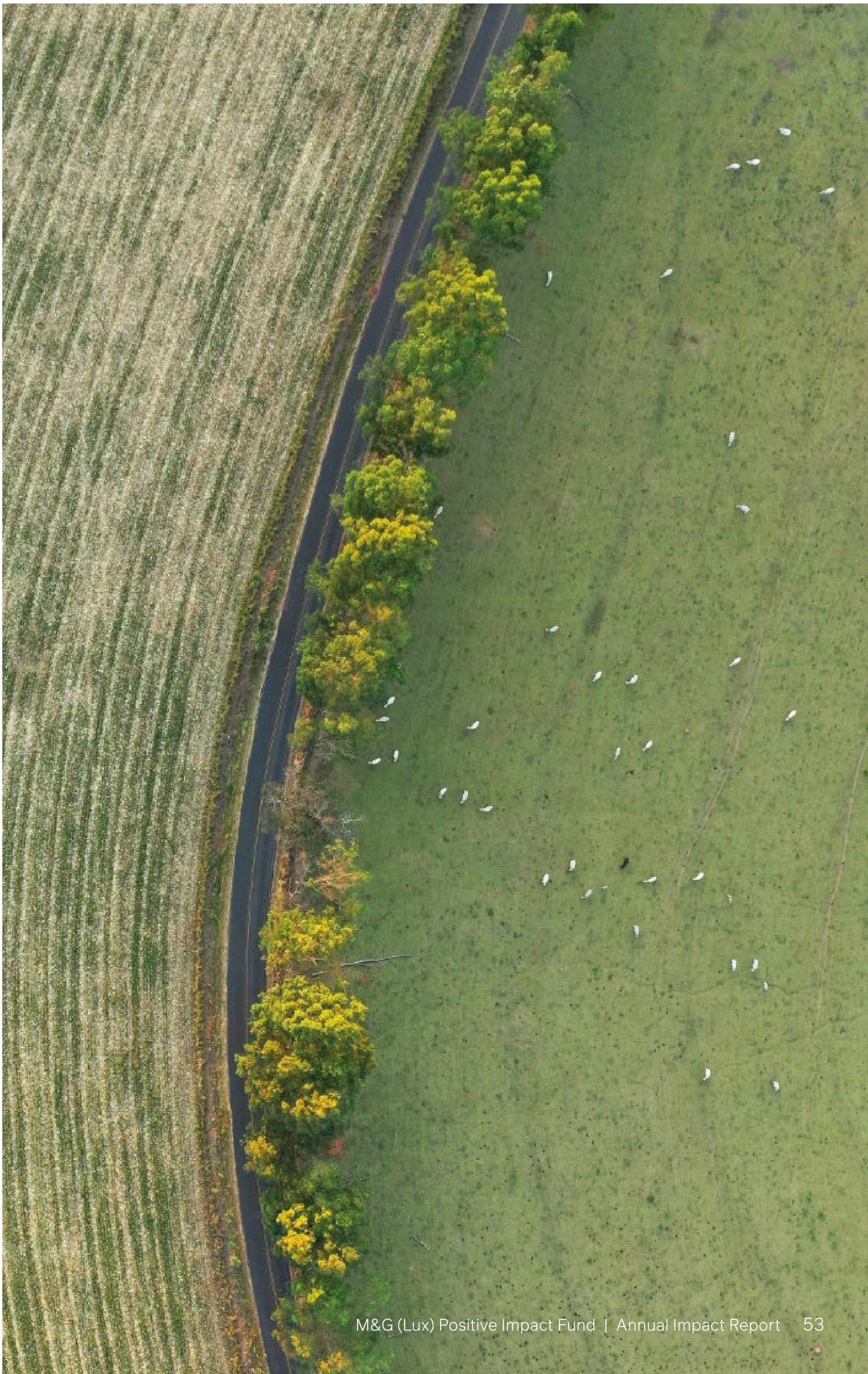
There are a number of factors incorporated into our III Impact framework which help us differentiate between healthcare companies that we characterise as impact investments, and mainstream ones. The first one is intention. An impactful healthcare company must have a clear intention to drive positive health outcomes. This is scrutinised across the activities of the business, starting with the analysis of its mission statement, but also checking that it aligns with the group's strategic priorities and targets, as well as its management compensation incentives. Another critical aspect that is assessed in detail is the extent to which the company is providing access to affordable healthcare services and products. Selling healthcare products that are only available to the wealthiest segment of populations would not qualify as impact. While we do not expect every dollar to be derived from sales to the under-served, there has to be genuine evidence that the company is making its products accessible to those lower down the income scale or to groups that are not traditionally served by mainstream healthcare systems.

Biodiversity loss – where to look

The topic of biodiversity, or rather, biodiversity loss, has risen dramatically over the past couple years. This has been partly driven by environmentalist David Attenborough's powerful coverage of the issue in his documentary series, and the striking findings of WWF's Living Planet Report which highlighted the genuinely scary 68% drop in wildlife populations since 1970, but also by the tragic possibility that this is one of the factors that could have contributed to the COVID-19 pandemic. Added to the mix, at the beginning of 2021 the Dasgupta Review was published. This was an independent, global review on the Economics of Biodiversity, led by Cambridge professor Sir Partha Dasgupta. The Review calls for changes in how we think, act and measure economic success to protect and enhance our prosperity and the natural world.

We can invest directly in companies that support natural ecosystems by preventing pollution, limiting the use of virgin materials or recycling waste that would otherwise leak into the natural environment. But we also need to look at the negative side of things: while a company might be engaged in positively impactful activities, we must make sure that it does not cause biodiversity damage along the way. Sectors where we conduct our due diligence range from utilities to engineering companies. Hydro power operations, for example, can interfere with freshwater ecosystems due to the impact of dams on natural river flow. Operating offshore windfarms can also affect marine and bird life if not properly integrated at the design stage. Engineering companies unsurprisingly have some impact on biodiversity as a result of their emissions, their land use and complex supply chains.

While we recognise that not every company will have the tools to monitor biodiversity perfectly, we look for those that take the issue seriously and are willing to disclose and improve their biodiversity footprint, including companies like Schneider Electric and Brambles, mentioned previously in this report.



Portfolio climate metrics

The M&G (Lux) Positive Impact Fund's aggregate greenhouse gas emissions are nearly half those of the MSCI ACWI Index, its reference benchmark. This is based on 'scope 1' and 'scope 2' emissions, which are those emissions within the direct control of a company. Scope 1 includes emissions from fuel combustion within owned furnaces or boilers and company vehicles, while scope 2 includes emissions from purchased electricity, heating, cooling and steam. Scope 3, or 'indirect emissions' currently remain difficult for companies to quantify with sufficient accuracy, and we have decided not to include them in this year's report.

What is scope 1, 2 and 3?

Scope 1 (direct)

All direct emissions from activities of an organisation or activities under its control

Scope 2 (direct)

Emissions created during the production of electricity, steam, heating and cooling used by an organisation

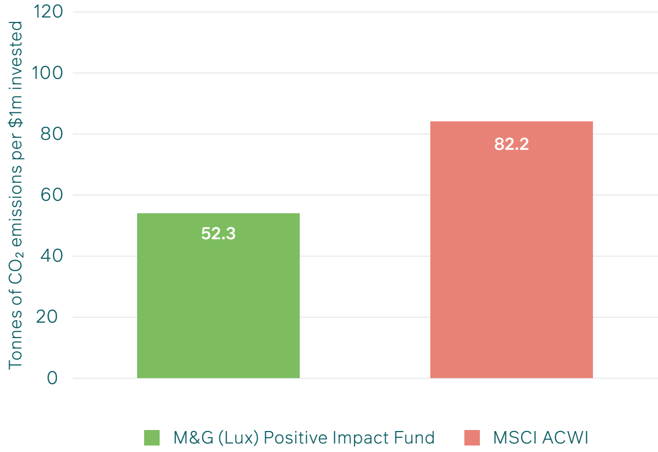
Scope 3 (indirect)

All other indirect emissions from activities of the organisation from sources they do not own or control

Upstream
Emissions generated from purchased goods and services, business travel and employee commuting

Downstream
Emissions generated from consumption of goods and services sold, end-of-life treatment of products

Carbon footprint



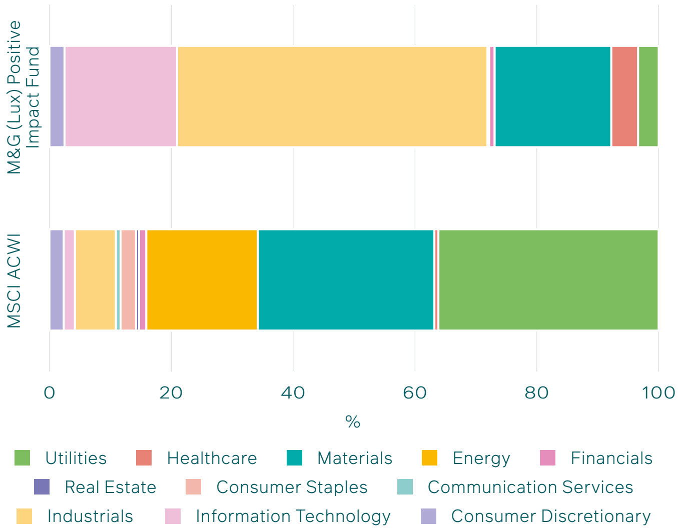
'MSCI Carbon Portfolio Analytics, as at 31 December 2021'

This considerable gap with the benchmark is driven by our lack of exposure to fossil fuel extraction and by investing in power companies that are either fully renewable or are close to having fully transitioned to 100% renewable. This is an enduring feature of the portfolio, aligned with the fund's sector exclusions.

Sources of emissions

The industrial sector is responsible for nearly half the portfolio's total footprint. It is within this sector where most of our Environmental Solutions and Circular Economy companies reside. While these companies rely on manufacturing processes that use substantial energy, they have been selected for the fund because their net impact is positive. In other words, the amount of emissions saved or avoided through the use of their products and services outweighs the emissions emitted during production.

Sector contribution to emissions



Source: MSCI, Carbon Portfolio Analytics, 31 December 2021.

While the fund's main focus is the impactful nature of a company's product or service, we do scrutinise the operations of all our holdings as part of our environmental, social and governance (ESG) assessments. In all cases, we look for meaningful carbon-reduction programmes and targets, and particularly encourage companies with energy-intensive manufacturing processes to develop and enforce Science Based Targets. We note that the fund's largest carbon emitter, waste management company Republic Services, published greenhouse gas emission reduction targets in August 2019, that have been approved by the Science Based Targets initiative*. The mid-term target includes a reduction in scope 1 and 2 greenhouse gas emissions by 35% compared to a 2017 baseline.

Stone wool insulation provider Rockwool is the second largest contributor to portfolio emissions. Although Rockwool's carbon footprint is 1.94 million tonnes of CO_2, the products it sold in 2020 will save 100 times the carbon emitted and energy consumed in building insulation's production. This includes upstream emissions from the extraction and transportation of raw materials and fuels.

To help visualise the climate benefits of saving/avoiding a million tonnes of CO_2, which has become the standard unit in climate reporting, the following equivalent measurements should be more familiar. This is purely to give a sense of scale, as the equivalencies calculator comes from the American Environmental Protection Agency and will, therefore, have a US bias.

Equivalents: the positive impact of saving/avoiding 1 million tonnes of CO_2

The equivalent of taking >197,294 passenger cars off the road in one-year

The equivalent of storing the carbon of >1.1 acres of US forest in one-year

The equivalent of recycling instead of landfilling >44,000 garbage trucks of waste

The equivalent of not consuming >2.1 million barrels of oil

Source: Greenhouse Gas Equivalencies Calculator, EPA, www.epa.gov/energy/greenhouse-gas-equivalencies-calculator

*The SBTi is a collaboration between the Carbon Disclosure Project, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature.

The M&G Positive Impact team

As part of our III analysis, the team internally scores companies on their III credentials, and requires above-average results for inclusion in the fund's watch-list, as well as consensus agreement of a company's merits from the entire Positive Impact team.

The team represents a wide range of expertise, and includes fund managers, impact analysts and specialists in various fields.

John William Olsen
Buy/Sell timing and portfolio risk management

Randeep Somel
Fund manager / Impact research

Jasveet Brar
Fund manager / Impact research

Jermaine Mensah
Impact Research

Lucy Hancock
Impact Research

Maria Municchi
Multi Asset Impact specialist

Alice de Charmoy
Emerging Markets specialist

Emily Lydon
ESG Investment specialist

Chris Andrews
Engagement specialist

Ben Constable-Maxwell
Measurement, engagement and external networks

Thembeka Stemela Dagbo
Fund manager / Impact research

Nayab Amjad
Impact Research

Laura Sturch
Impact Research

Michael Oliveros
Small-Midcap specialist

Martin Wales
Rotating Sector specialist

Susanne Grabinger
Investment Director

Philip Kemp
Impact Content specialist

Final word

The past year was another fascinating and rewarding one in the management of the fund, and we have carried on the evolution of our approach to impact investment, including an ongoing shift towards more clear-cut impact cases for new investments. In light of this, we added four new holdings in 2021, starting with solid oxide fuel cell technology specialist Ceres Power. This is a world-leading technology company with the capability to deliver clean, scalable, combustion-free power through the development of solid oxide fuel cell technology. The firm works with global pioneering companies to embed its technology into mass-market energy products that serve commercial, data centre, automotive and residential markets, equipping manufacturers, industry and governments to help accelerate the world's transition to clean, affordable energy.

We invested in Helios Towers, the third-largest independent tower telecommunication company in Africa. Helios operates in parts of Africa that have among the lowest mobile penetration in the region, helping to enable greater access to mobile and communication services in these underdeveloped markets. We think this is increasingly important for driving financial inclusion and access to health and education services.

We bought shares in Japanese affordable home reseller KATITAS, the largest buyer and seller of vacant homes in Japan. The company purchases and sells used and vacant homes at affordable prices, primarily to the country's low to middle income groups. Japan has a significant vacant home issue, with some 8.5 million (and growing) vacant homes in the country as a result of a shrinking and aging population. KATITAS purchases these homes and refurbishes/remodels them, before selling them on. This results in more affordable housing – typically half the price of a new build property – with mortgage rates typically lower than the average rent in rural areas. This also leads to significantly lower carbon emissions than new build properties, making it impactful from a social inclusion as well as an environmental perspective.

Finally, we invested in DNA sequencing specialist Oxford Nanopore (ON). The company leases its DNA sequencing equipment to customer, and then receives a recurring stream of consumable revenue. The devices are small and cost as little as £1,000, meaning they are accessible for researchers – who are often budget strapped – portable, so can be used in remote and rural locations, and relatively easy to use. The company's goal is to disrupt the way that biological analyses are currently performed, and open up new applications that have a profound, positive impact on society. We believe that genomics will drive a revolution in healthcare. There are more than 300 million rare disease patients globally, and the average time for diagnosis is eight years. Genomics, meanwhile, offers potential for much faster diagnosis and deeper understanding of these diseases.

Conversely, we closed a few positions during the year. We sold pan-Asian life insurance group AIA on valuation grounds, as well as rail operator East Japan Railway and South African financial services group Sanlam. These were both small positions in companies where we no longer found it easy to identify clear support from both a valuation and quality perspective, driven by changes in fundamentals. This was also in line with our continuing shift towards more clear-cut impact cases.

During the year we continued to participate in external initiatives and activities to both promote and advance the impact agenda. As a few examples from the year:

We participated in the Harvard Business School's 'Impact Weighted Accounts' pilot project, alongside the Global Steering Group for Impact Investing and a number of other investors. This involves developing and testing a methodology to reflect a more accurate and holistic picture of the impacts generated by individual companies, adjusting their financial accounts to reflect the positive and negative real-world impacts that companies can have on people and the planet.

We continued our involvement with the Global Impact Investing Network (GIIN), as a member of the Listed Equities Working Group, with discussions focused on two crucial concepts within impact investing; 'investor contribution' and 'theory of change'. Contribution, or additionality, in listed equities is represented by the contribution a company makes to solving a real-world problem. It is also contribution the investor makes with regards to the company, primarily via engagement and influence, but also by signalling to other investors the case for sustainability and positive impact. Theory of change is the tool that impact investors use to plan and articulate how their investment is intended to address the issue at hand. Also linked to the GIIN, we participated in the Navigating Impact Project to

develop a ‘biodiversity toolkit’ to be used by impact investors. We took part in a working group alongside other investors and biodiversity specialists to add a new biodiversity theme within the GIIN’s IRIS+ system (for framing, measuring and managing impact). The aim was to design a framework for biodiversity impact assessment and measurement, to review the framework and to define a core set of metrics to measure biodiversity impacts.

Two of the ways in which impact investors can fulfil their ‘underserved’ mandate is via directing impact capital to countries where financing is scarce (ie, emerging markets) and via so called ‘place-based’ impact investing, which takes a more localised approach to support local communities. We participated in a series of workshops coordinated by impact consultancy The Good Economy to develop a place-based impact (PBI) reporting framework to help investors (such as Local Government Pension Schemes) identify and report on the place-based impact of their investments. The goal is to allow them to do this in a clear way that works for their members and promotes improved place-based impact measurement, management and reporting across the UK investment industry. The initiative covers a number of impact pillars, included housing, clean tech, infrastructure and regeneration.

We attended the London launch of the findings of the G7 Impact Taskforce, with recommendations from two workstreams on impact standardisation, reporting and mobilising more capital to geographies and issues that most need it. The first taskforce workstream focuses on standards, disclosure, and transparency. Key recommendations included support for efforts by ISSB — the International Sustainability Standards Board of the IFRS Foundation — to ‘create a global reporting ‘baseline’ on impact related to enterprise value’ and a call for G7 governments to participate in the board’s consultations. The second workstream focuses on scaling impact investing to address the SDGs and a just climate transition, in particular in emerging economies. It recommended coordinating across parts of the impact ecosystem to remove barriers limiting the flow of institutional capital to impact investments. It also urged support for mobilising capital by improving the regulatory frameworks that constrain their investing, and by improving institutional investor mobilisation.

M&G is also taking part in a working group of the Investment Association’s Sustainability and Responsible Investment Committee to support the creation of a definition for and characteristics of impact investing for UK market participants.

With COP26 a major potential driver of impact and climate finance, we attended a number of side events hosted by the Impact Investing Institute and Impact Management Project, (which has gone through a reorganisation to become the Impact Management Platform). □

You can find the M&G (Lux) Positive Impact Fund's sustainability-related disclosures **here.**

Explanations of the investment terms used in this document can be found in the **glossary.**

M&G Investments