M&G Investments

M&G (Lux) Positive Impact Fund

Annual Impact Report 2020: Making waves

Contents

Making waves: 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...

Our Climate Action companies...

provided renewable energy to 4.5 million households and optimised solar power for 2.1 million households

Our Environmental Solutions companies...

directly saved 297.5 million tonnes of CO_2

Our Circular Economy companies...

saved 55 million trees, 2,600 megalitres of water, and handled 114 million tonnes of waste material

Our Better Health, Saving Lives companies...

treated or served more than 132 million people

Our Better Work and Education companies...

provided educational services for 1.9 million people, and wrote ~8,000 insurance policies protecting workers

Our Social Inclusion companies...

provided services to 31.1 million people in underserved or lower income markets

Figures are based on the key performance indicators (KPIs) against which we measure individual company impacts. These have been aggregated within each impact area, where companies within the area share similar KPIs. 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

A very warm welcome to our second Annual Impact Report. It has been an extraordinary year that highlighted the scale of the challenges the world faces, and also the urgency with which we need to address them. This was the thinking behind our decision when John William and I set up the Positive Impact Fund in 2018: that the world's great challenges – both social and environmental – needed funding and focus if they were to be addressed with the urgency required.

The UN Sustainable Development Goals (SDGs) 'funding gap' (currently estimated at $3 trillion per year but getting wider as the 2030 deadline for the Goals approaches) bears witness to the scale of this challenge. The role of impact investment, in supporting the core societal responsibility of government funding, seems more important than ever. Private equity and debt markets – the traditional home of impact investing – simply don't have the scale required to deliver the capital needed to address these issues. Listed market participants too need to reorient towards 'positive impact' and accelerate investment into the solutions.

As we started 2020, the deteriorating climate crisis remained the headline global concern. California was on fire, soaring temperatures were melting the Arctic ice sheet and atmospheric carbon dioxide levels had reached record levels, while the pivotal COP climate talks in Glasgow loomed ominously on the horizon. Then came the coronavirus and global lockdown, which shone a light on the scale of the social challenges the world faces, but also on how interlinked all these social and ecological issues are. The virus's real peril lay in its pervasiveness. Aside from the direct health impact, it also hit the real economy hard, shuttering businesses and even industries, halting other medical treatments and vaccination programmes, and deepening poverty and inequality. Lockdown-driven declines in the rate of emissions, meanwhile, did nothing to reduce atmospheric carbon levels, which of course continued to rise.

Against that backdrop, the year was always going to be a challenging one. But the emergence of a dynamic shift became apparent – whereas sustainability was previously seen as a programme for good times, it is now recognised as a corporate advantage; in building resilient business models and supply chains, in supporting employee morale and in driving customer loyalty. The pandemic only increased the focus on the need for companies doing good.

As lockdown hit, we wanted to check if the fund's investments were living up to these standards. We contacted all our holdings to assess how they were coping and to understand the role they were playing in delivering on their core purpose. For more on this see page 44, but in short, we feel our holdings more than lived up to our expectations.

However, we believe there is much to do. One of the rewards of managing the fund is the range of initiatives in the world of impact investing in which we can participate, including with the Global Impact Investor Alliance (GIIN), the IMP+ACT Alliance and others. Please see from page 51 for an overview of the initiatives we took part in over the year, all of which we believe are advancing the goals of investing for impact.

So, to balance out this year's various crises, we should not forget the positives (our focus is a positive one after all!). This was the year that the climate agenda gained genuine momentum; it was the year that (much of) the world united to confront the still-present spectre of racism in declaring that, 'Black Lives Matter'; and it was a year that sustainable and impact investing really began to prove its worth, and its resilience. We remain excited and energised by the role impact investing can play in addressing societal challenges while also delivering sustainable returns to our clients. We appreciate hugely the support of our clients and look forward to continuing the relationship in 2021.

John William Olsen
Fund Manager

I think it's safe to say that most will remember 2020 as the year of the pandemic. Some have felt the strain of isolation and others have had to manage home schooling children while also working from home. Many have even become unemployed, been seriously ill or lost loved ones as a consequence of COVID-19.

The societal and economic effects of the pandemic crisis are also profound, but probably not yet fully understood. Inequalities have grown, the vulnerable have been left even more exposed and the importance of an efficient and innovative healthcare system has been very clearly highlighted.

In light of this, the extraordinary events of last year have underpinned the importance of impact investing. Politicians across the globe have, through policy and rhetorical actions, shown that they are not just painfully aware of the need to solve these exacerbated social issues, but also to step up investments in clean energy and sustainable infrastructure. Leaders are looking to fight climate change and pollution, but also realise that today's subsidies to innovation and technology will create tomorrow's competitive edge.

Good and well-managed companies tend to stand out from the bad in times of crisis. A famous investor once said: 'Only when the tide goes out do you discover who's been swimming naked'. In this case, the tide might go out slowly, because government balance sheets have been deployed, but during the initial shock to the system we got good insight into the resilience of our companies. This was not just financial, but also their inclination to show compassion for their workers, take societal responsibility and, in some cases, to be part of the solution – we were generally pleased with what we saw. Good corporate culture and management attitude is part of what characterises long-term winners and impact champions.

Getting the Positive Impact team and fund to where we are today has been such an exciting venture for Ben and me. We believe that the next decade will belong to sustainable investors, and with the full backing of our organisation, we think we are in a great position to deliver to you, our customers, what you expect from us.

Overview of impact investing

If the world needed a cruel reminder of how crucial impact investing is, 2020 provided just that: the COVID-19 pandemic has brought the challenges our world is facing into sharp focus, and made obvious the fact that more needs to be done to address those challenges. Impact investing has been highlighted repeatedly during this extraordinary year as one of the key ways to move forward. With environmental risks already manifesting across the globe, and social inequalities and poverty sharply up as a consequence of COVID-19, there is increasing demand for companies capable of solving these extreme societal challenges.

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 Sustainable Development Goals (SDGs). COVID-19 has shone a blindingly 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 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.

> **"As the coronavirus pandemic unfolds around us, our entire world is changing in unimaginable ways. And yet, this crisis also points clearly toward the urgent need for the work of the global impact investing community."**
>
> Global Impact Investing Network (GIIN)

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 36.)

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 46 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.

Company engagement

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. For more on our engagement activities over the year, please see 'engaging with our investments' on page 44.

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 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.

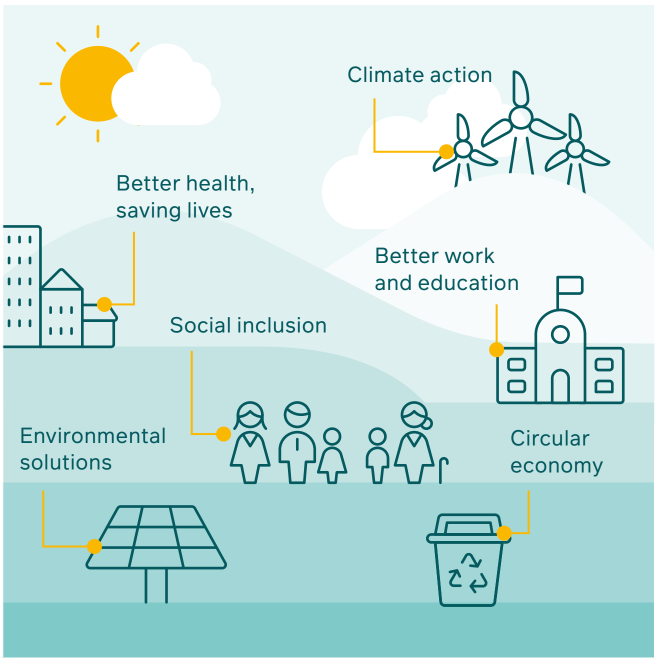
Crucially, we look at the 'net impact' of every potential investment, to avoid the positive impact we have identified being outweighed by potentially negative activity. For example, a wind-turbine producer will have a material initial carbon footprint, as it makes large steel structures. However, we 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 50).

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		
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.



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 have also begun 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 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.

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.

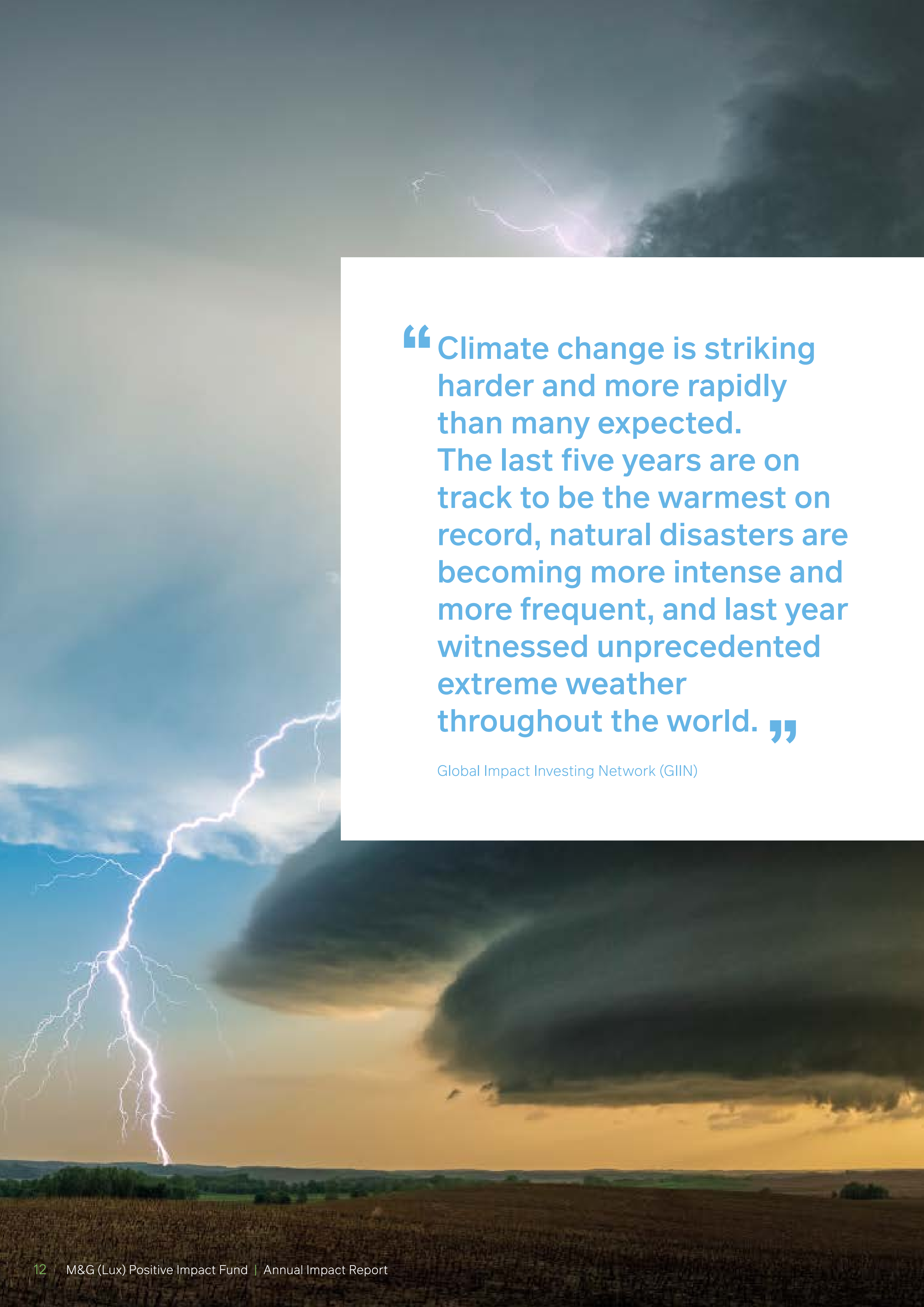
Who
Tells us which stakeholders are experiencing the outcome and how underserved they are in relation to the outcome.

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.

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. Within this report, we also highlight actions that we as investors, and the companies in which we invest, have taken in light of the pandemic, and how this has affected the different impact areas that make up the portfolio.



> Climate change is striking harder and more rapidly than many expected. The last five years are on track to be the warmest on record, natural disasters are becoming more intense and more frequent, and last year witnessed unprecedented extreme weather throughout the world.

Global Impact Investing Network (GIIN)

Impact area

Climate action

In 2019, our Climate Action companies...
provided renewable energy to

4.5 million

households and optimised solar power for

2.1 million

households

Climate change is arguably the greatest challenge of our time. Last year was the warmest on record, bringing an even greater sense of urgency to the Paris climate deal's objectives to prevent irreversible and hazardous levels of climate change. The World Economic Forum's most recent Global Risks Report revealed that, for the first time in the history of the study, climate-related issues dominated all of the top-five long-term risks by likelihood among members of the Forum's community. Investment in resilience and adaptation is crucial, ensuring the right policies and infrastructure are in place to protect against the change that is already happening, but also to prevent further damage.

One ray of light is that we have seen significant advances in both the scale and the economics of renewable energy over the last few years. This area has been a major focus for impact investors, who have been channelling private capital towards wind power, solar technology and other fossil-free or sustainable solutions. Investors have been attracted to, for example, the potential for stable, long-dated returns in offshore wind power companies – with the added benefit of knowing the investments contribute to addressing climate change and its impacts. Governments around the world are working to keep global warming to well below 2°C above pre-industrial levels, and striving to limit them further to 1.5°C in line with the Paris Agreement. Private investment in clean energy companies is also contributing towards the global effort to reduce carbon emissions and speed up the green transition. The postponement to November 2021 of the pivotal COP26 climate talks as a result of COVID-19, highlights the far-reaching impact of the pandemic.

We 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	Secondary SDGs
Ørsted	Operates wind farms	Reductions in GHG emissions through offshore wind generation	89%	7	13
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

Ørsted

Ørsted aims to develop and deploy green energy solutions

Ørsted provides an important solution to tackling climate change through the transition to renewable energy sources, such as wind power. Over the past decade, the company has been on a major decarbonisation journey to transform from one of Europe's most carbon-intensive energy companies to a global leader in renewable energy. Ørsted has reduced its carbon emissions by 86% compared to 2006, and in 2009 formulated its vision of a business transformation from fossil fuels to green energy by 2040. This target was achieved 20 years ahead of schedule. In light of this, in January 2020 Ørsted was ranked the most sustainable company in the world in the Corporate Knights' index of the top 100 sustainable companies globally – this was the first time an energy company topped the list.

The world is facing a climate emergency. Scientists have clearly demonstrated the need to limit global temperature rises to well below 2°C, as going above that threshold is likely to trigger irreversible consequences for nature and humans. To stay within 1.5°C global warming by 2100, the world needs to halve global carbon emissions by 2030 and reduce emissions to net-zero by 2050. Nearly three-quarters of these emissions come from fossil fuels, and the green energy that Ørsted produces allows for the world to transition away from these harmful power sources to renewable, carbon-neutral energy.

Both onshore and offshore wind power is at the core of the green solutions that Ørsted provides through the displacement of fossil fuels.

Offshore wind technology takes advantage of the powerful and abundant wind at sea. It is deployable at large scale and is especially useful for powering areas with high population density. It has the potential to be the backbone of the global green energy transformation, according to the IEA, and the European Commission estimates that in Europe alone, it is feasible to scale up the deployment of offshore wind from 20GW today to 450GW by 2050.

Onshore wind is currently the most price-competitive renewable energy source. While wind conditions are less favourable on land than at sea, the maturity of this technology makes it deployable globally, ideally in regions with large uninhabited areas of land.

Ørsted's contributions to climate action aligns most clearly to SDG 7: Affordable and clean energy.

Input
World's leading owner and developer of offshore wind power

Activity
Constructs and operates offshore windfarms in Europe, the US and Asia

Output
Revenue derived from 9.9 GW of renewable energy capacity in 2019

Outcome
Provides renewable energy to over 15 million people

Impact
Enables access to affordable and sustainable energy

World's leading owner and developer of offshore wind power

III in brief

Investment

- Leader in the offshore wind market, with 24% market share
- Global offshore wind capacity is expected to grow from 20GW today to 450GW by 2050
- Pipeline of contracted capacity of 13.6GW out until 2030

Intention

- Ørsted's aim is to 'develop and deploy market leading green energy solutions that benefit the planet and our customers alike, further driving down the cost of green energy'

Impact

- In 2019, Ørsted helped avoid 11.3 million tonnes of carbon emissions, which equates to removing more than 5.7 million cars from the roads
- Provides renewable energy to over 15 million people worldwide

Five Dimensions of Impact in brief

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

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

How Much
Wind power accounts for 79% of Ørsted's total power generation and 90% of its earnings.

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

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 Ørsted is delivering.

> **“Lockdowns during the COVID-19 pandemic may have some direct, short-term, positive impacts on our environment, especially in terms of emissions and air quality, although these are likely to be temporary.”**

European Environmental Agency

Impact area

Environmental solutions

In 2019, our Environmental Solutions companies... directly saved

297.5 million tonnes

of CO_2

One positive effective, albeit not a permanent one, of the attempt to halt the spread of COVID-19 was environmental. As much of the world went into lockdown, there were material reductions in air pollution, as millions of commutes were halted, planes grounded and factories shuttered. Satellite images showed significantly reduced levels of nitrogen dioxide in cities from New York to Beijing. In Venice, without tourist traffic, the water quality in its canals improved dramatically, while citizens in Northern India saw a view of the Himalayan mountain range for the first time in their lives as the air cleared.

This was a ray of light at a time of deep malaise, particularly as the World Health Organisation (WHO) estimates that ambient air pollution accounts for an estimated 4.2 million deaths per year, with around 91% of the world's population living in places where air quality levels exceed WHO limits.

However, as lockdowns lifted and the global machine rumbled back into life, many cities saw air pollution return, sometimes exceeding pre-COVID levels. The pandemic pushed air quality concerns down the agenda as policymakers grappled with immediate healthcare and economic impacts, while the short-term improvement in air quality created an artificial impression that the issue was less pressing; this is obviously not the case. What is clear is that we need additional public and private investment in environmental solutions through, for example, energy efficiency, clean technologies and electric charging infrastructure, to name a few.

We invest in companies that are delivering positive solutions, either directly or indirectly, to the environmental challenges the world is facing. Our investments are 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	Secondary SDGs
Ansys	Global leader in engineering simulation software	Increase the modelling and efficiency of products and prototypes	83%	9	8, 12
Horiba	Manufacture of precision instruments for measurement and analysis	Improving safety and the reduction of emissions while bettering environmental practices	33%	12	6, 3
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	52%	9	13
ON Semiconductor	Manufacture and distribution of efficient semiconductor products	Provide energy-efficient solutions into millions of products	70%	9	3, 11
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	59%	9	11

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

Case study

Rockwool

Rockwool is focused on energy efficiency as the key to achieving the Paris climate goals

With 83 years of experience in stone wool production, Rockwool has become one of the largest producers and manufacturers of insulation provision in the world. The company creates sustainable solutions to protect life, assets and the environment by helping buildings become more resilient to changing climate risks.

Its main product, stone wool, is made up of fibrous material that is formed by spinning or drawing molten mineral or rock materials. Stone wool is a versatile, neutral material with multiple benefits that make it ideal for application in buildings, industry, transportation and horticulture. Its impact on thermal insulation is immense, as this type of insulation is able to reduce heating needs by an estimated 70%, which can lead to a significant carbon saving. Rockwool's building insulation can, through its lifetime, avoid emissions that equate to taking more than 50 million cars off the road. In 2019, Rockwool insulation saved 201 million tonnes of CO_2, which is equivalent to 43,000 wind turbines running for a year.

The fire-resistant properties of stone wool also mean it can withstand temperatures of more than 1,000 degrees Celsius, helping to protect the inhabitants of buildings that are insulated with the material. Rockwool's range of products, offered through its five distinct divisions, help to tackle other sustainability challenges as well, including noise pollution, water scarcity and soil degradation. This includes a crop-specific range of substrate slabs for vegetable growing, allowing precision growth and higher crop yields; versatile stone wool-based products for water management; and acoustic ceiling systems for soundproofing.

Through its products, Rockwool aligns most closely with Sustainable Development Goal 11: Sustainable cities and communities.

Input
A leading manufacturer of mineral and stone wool products

Activity
The second largest producer of insulation materials

Output
Revenue through the sale of highly energy efficient and fire-resistant insulation

Outcome
201 million tonnes of CO_2 saved in 2019

Impact
Enables Sustainable Cities and Communities

Transforming volcanic rock into stone wool, creating safe and sustainable products that help communities thrive

III in brief

Investment

- Rockwool is market leader in the stone wool business, as a result of its advanced technology allowing for the manufacture of greater volumes at lower cost compared to peers

Intention

- Rockwool's ambition is 'to empower everyone to rise to the development challenges of modern living' through the use of one of the world's most abundant natural resources, stone
- It has executed on this strategy well, especially in Europe

Impact

- 201 million tonnes of CO_2 saved in 2019
- The company estimates that the energy saved over the lifetime of a building with its insulation will be 100x greater than the energy used to produce that insulation

Five Dimensions of Impact in brief

What
Allows for a substantial increase in the number of cities and human dwellings adopting and implementing integrated plans towards resource efficiency.

Who
Proper insulation alone can reduce heating needs by 70%, which leads to an increased carbon saving of each household fitted, ultimately benefiting the planet through reduced CO_2 emissions.

How Much
Rockwool building insulation sold in 2019 will save 201 million tonnes of CO_2.

Contribution
Rockwool is estimated to be the second largest competitor in the insulation industry. It is also the largest stone wool participant in the market, with most of its revenues stemming from stone wool-related products.

Risk
A slowdown in new build and retrofitting activity would negatively affect Rockwool's revenue, and hence the materiality of its impact. In the case of retrofitting, a slowdown would also result in less avoided emissions from existing buildings and infrastructure.

> "Transitioning to a circular economy does not only amount to adjustments aimed at reducing the negative impacts of the linear economy. Rather, it represents a systemic shift that builds long-term resilience, generates business and economic opportunities, and provides environmental and societal benefits."

Ellen MacArthur Foundation

Impact area

Circular economy

In 2019, our Circular Economy companies...

saved

55 million

trees,

2,600 megalitres

of water, and handled

114 million tonnes

of waste material

The UK Waste and Resources Action Programme (WRAP) has estimated that the amount of annual food waste generated within UK households, hospitality and retail sectors in 2018 reached around 9.5 million tonnes. Around 26% of the global population was affected by moderate or severe food insecurity in 2019, and yet 30% of food production is wasted, either in the agricultural process or by consumers. Food waste is not the only challenge we face worldwide. There are many other forms of waste, including the huge increase in non-sustainable single-use plastics over the last few decades. Although action and awareness of this issue has risen in recent years, a concerted shift from the 'take, make and dispose' linear economy to a more 'circular' one is crucial if we want to deal with the ever-increasing mountain of waste that society is producing, while mitigating the risks of resource scarcity.

Investors and consumers are becoming more aware of what is going into their food, where their clothes come from and how their choices impact the future of the planet and society. This year, Earth Overshoot Day, which marks the date when humanity's demand for services and resources in a given year exceeds what the planet can regenerate in that year, fell on 22 August. A small positive of the pandemic meant that overshoot day fell three weeks later than 2019's date due to lockdowns – but this does not necessarily mean progress has been made. We need investment in resilient, long-term solutions.

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 waste and recycling services.

Company	Activity	Goal	Revenue to Prime SDG*	Primary SDGs	Secondary 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	9
DS Smith	Corrugated packaging services, focused on closed-loop recycling	Provide truly sustainable packaging solutions, while protecting the environment	100%	12	11
Republic Services	Non-hazardous solid waste collection, transfer, disposal, recycling and energy services	Sustainable solutions for growing waste levels amid expanding populations	78%	11	

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

Case study

Brambles

As a pioneer of the sharing economy, Brambles has created one of the world's most sustainable logistics businesses

Brambles is an Australian logistics company, which perpetuates the share and reuse of the world's largest pool of reusable pallets, crates and containers. With global operations spanning 60 countries, Brambles specialises in the outsourced management of this equipment and associated services.

Brambles' platforms are the invisible backbone of global supply chains, primarily serving the fast-moving consumer goods, fresh produce, beverage, retail and general manufacturing industries. Some of the world's largest brands trust Brambles to help them transport life's essentials more efficiently, safely and sustainably.

Brambles' history extends as far back as 1875, when Walter Bramble established a butchery business in Newcastle, Australia, and then expanded into transport and logistics. This continued growth and expansion resulted in the establishment of W.E. Bramble & Sons in 1925, becoming a publicly listed company on the Australian Securities Exchange in 1954. Brambles entered the pooling solutions business in 1958, buying CHEP (Commonwealth Handling Equipment Pool – a collection of pallets and transport assets) from the Australian government. A 2010 acquisition of aviation container pooling company Unitpool saw Brambles also enter the aerospace segment.

Now a global business, Brambles' sustainability framework organises the group's sustainable activities and goals under three broad programmes: Better Business; Better Planet; and Better Communities. As a pioneer of the sharing economy, Brambles has created one of the world's most sustainable logistics businesses. Its circular business model perpetuates the share and reuse of the world's largest pool of reusable pallets, crates and containers. This enables Brambles to serve its customers while minimising the impact on the environment and improving the efficiency and safety of supply chains around the world. Importantly, Brambles' end-to-end supply chain solutions deliver operational, financial and environmental efficiencies not otherwise available through one-way, single-use alternatives.

As one of the world's most sustainable logistical businesses, Brambles services align most closely with SDG 9: Industry, innovation and infrastructure; as well as goal 12: Responsible consumption and production.

Input
Global supply chain logistics company

Activity
Provides the world's largest pool of reusable pallets, containers and crates

Output
Revenue stemming from sustainable logistics practice

Outcome
Reducing carbon emissions and water usage in supply chains

Impact
Enables responsible consumption and production

Sustainable supply chain solutions

III in brief

Investment

- End-to-end supply chain solution delivering operational efficiencies peers cannot offer
- Market leader in Europe and Latin America
- Advantage of scale

Intention

- Better business, better planet and better communities sustainability goals with the incorporation of 2020 goals
- Leverages sustainability, and its circular economic model, as a point of differentiation

Impact

Through the use of Brambles pooled equipment and logistical services, in 2019 there was an estimated:

- 2,600 megalitres of water saved
- Two million tonnes of CO_2 saved

Five Dimensions of Impact in brief

What

One of the world's most sustainable logistics businesses, Brambles' pooled transport equipment and end-to-end logistical services facilitate reduced carbon emissions and water usage in supply chains

Who

Brambles' sustainable logistics practices allow its clients to carry out their operations in a more environmentally friendly manner, while improving efficiencies. The ultimate beneficiary is the environment.

How Much

100% of Brambles revenues are derived from its sustainable logistics products and services. In 2019, these led to 2,600 megalitres of water, and two million tonnes of CO_2, saved.

Contribution

Brambles facilitates the sharing and reusing of more than 590 million pallets, crates and containers. The company operates in 60 countries across Europe, North America, Australia and Latin America, with the largest pooling network in both the US and Europe.

Risk

While Brambles is entirely tied to a circular business model, reduced volumes of global shipping, as was the case in light of COVID-19, would reduce its specific impact contribution. However, net-net, reduced volumes would ultimately equate to lower emissions overall.

Impact area

Better health, saving lives

In 2019, our Better Health, Saving Lives companies... treated or served

132,145,096 people

The COVID-19 pandemic has been both a health and economic crisis, highlighting that governments around the world need to work harder to make sure public health systems are fit for purpose and ready to withstand any future crises.

In some countries, often in developing regions, there are no public health systems so to speak of – leaving people massively exposed to pandemics or other health crises. The physical disruption has spread to crucial health services such as vaccination and screening, where progress has been set back years. Calculations by the London School of Hygiene and Tropical Medicine show that for every COVID-19 death prevented, 80 children may die from a lack of routine vaccination.

While ensuring healthy lives and promoting well-being for everyone is primarily a public sector responsibility, the private sector can contribute through impactful investment in certain areas. Earlier this year, for example, Thermo Fisher Scientific developed a diagnostic kit that shortened the processing of COVID-19 testing to four hours after samples reached the lab, while Quest Diagnostics rapidly scaled up the production of COVID-19 diagnostic tests, as well as developing and increasing production of antibody tests. The list goes on.

COVID-19 has highlighted the centrality of health and well-being as an area of much needed focus and funding, not only for governments, but also for the private sector in providing solutions to fill in the gaps.

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 and clinical-stage biotherapeutics.

> “The coronavirus pandemic presents a challenge unlike anything we’ve faced in this country for generations. But to be clear, COVID-19 didn’t create the problems in our health system, it revealed them in a way that can no longer be ignored.”

American Medical Association

Company	Activity	Goal	Revenue to Prime SDG*	Primary SDGs	Secondary SDGs
Agilent Technologies	Provides application solutions for laboratories	Enable customers to reach better health and environmental outcomes	68%		
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%		
PureTech (new holding)	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	84%		
UnitedHealth Group	Provides health insurance and speciality health services	Help people live healthier lives and make the health system work better for everyone	66%		

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

Case study

Quest Diagnostics

Quest is the largest low-cost diagnostic testing service provider in the US

Quest Diagnostics is a US-listed clinical laboratory, providing diagnostic services and solutions to aid better health and wellbeing. The company operates through two business: Diagnostic Information Services and Diagnostic Solutions. The Diagnostic Information Services business develops and delivers diagnostic testing information and services, providing insights that empower and enable a range of stakeholders, including patients, clinicians, hospitals, integrated delivery networks (IDNs), health plans, employers and accountable care organisations (ACOs). Its Diagnostic Solutions group includes its risk assessment services business, which offers solutions for insurers, and its healthcare information technology businesses, which offers solutions for healthcare providers.

Quest's diagnostic insights are derived from having the largest database of clinical lab results in the US, revealing new avenues to identify and treat disease, inspire healthy behaviours and improve healthcare management. The company has laboratories, patient service centres, offices and other facilities predominantly in locations across the United States, but also in Puerto Rico, Mexico, Brazil and India.

Quest was originally founded as a Metropolitan Pathology Laboratory in 1967, before undergoing a variety of name changes and ownership structures. At the end of 1996, it became an independent company, spinning off from multinational technology company Corning.

Since the turn of the century, Quest has been involved in a number of meaningful acquisitions and partnerships to extend the reach of its patient access. Notable collaborations have included retailers Safeway in 2016 and Walmart in 2017, bringing Quest's testing services into their store locations. In May 2018, the company also announced it would become an in-network laboratory provider to UnitedHealthcare, providing access to 48 million plan members. 2018 also saw the company launch QuestDirect, a consumer-initiated testing service, allowing patients to conveniently order lab testing from home. This naturally led to the launch of COVID-19 testing services – between March and July 2020, the company performed more than 9.2 million COVID-19 molecular tests and 2.8 million serology tests.

Through diagnostics, Quest allows the detection of non-communicable diseases and is now the leading provider of diagnostic information services, serving about 50% of all hospitals in the US, with the aim of extending its reach further, from one-third of the US adult population to one-half, in the next three years. The company's vision of empowering better health with diagnostic insights most clearly addresses SDG 3: Good health and well-being.

Input
Leading provider of diagnostic solutions and information services

Activity
Significant scale to reach patients

Output
Revenue stemming from diagnostic information services and solutions

Outcome
Serves one-third of the US adult population

Impact
Contributes significantly to good health and well-being

Leading provider of diagnostic information services

III in brief

Investment
- Largest low-cost diagnostic testing service provider in the US, with $16.7 billion market cap
- Brand, scale and reach difficult to replicate in a fragmented market

Intention
- The company's vision is 'empowering better health with diagnostic insights' with a goal to 'promote a healthier world'
- Retail store partnerships give greater access to the population and drive the group's vision

Impact
- Provides insights that empower and enable a range of stakeholders
- Serves about 50% of hospitals in the US
- Serves 30% of the US adult population and aims to reach 50% within three years

Five Dimensions of Impact in brief

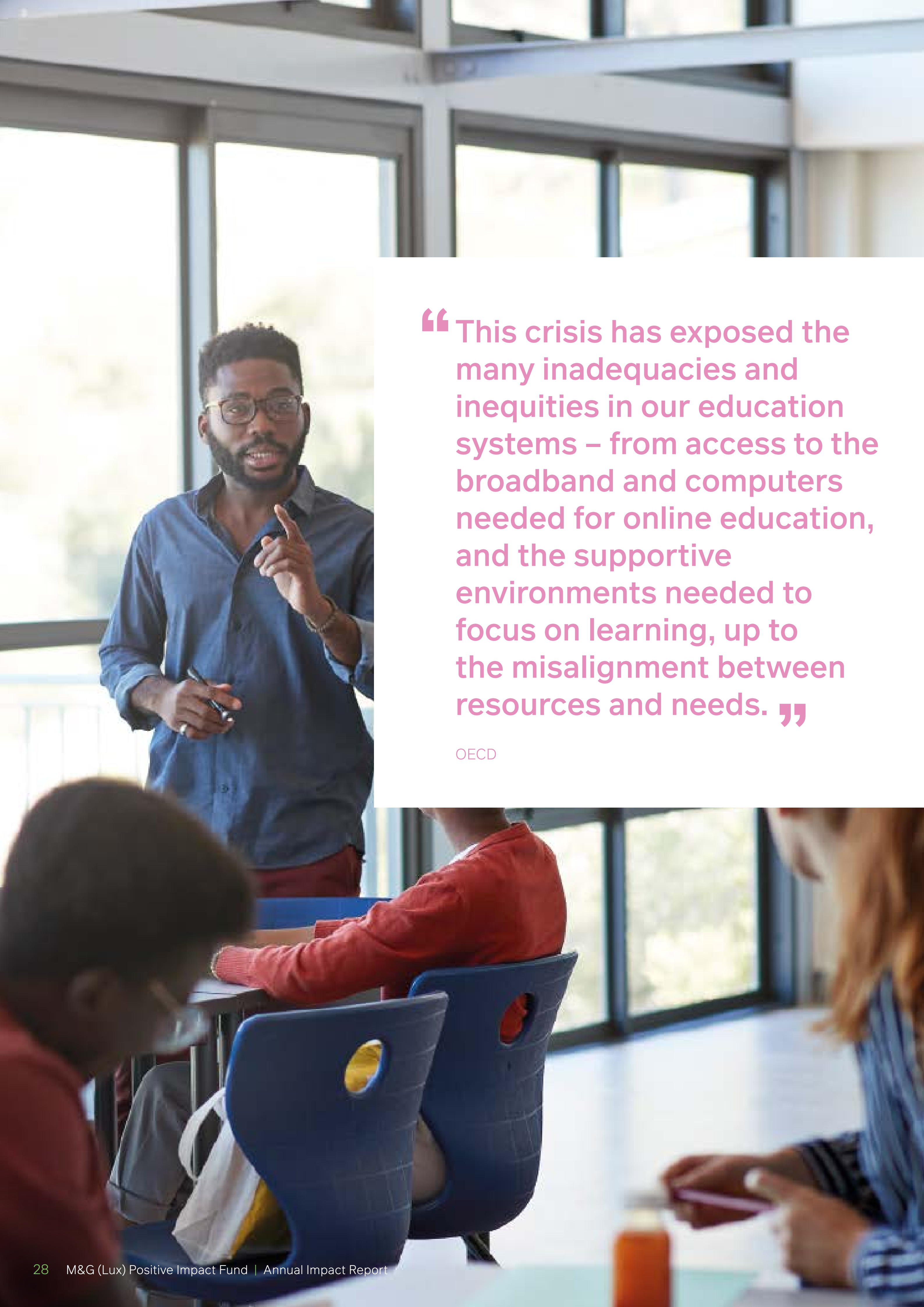
What
Quest provides low-cost diagnostic services and solutions that aid better health and well-being.

Who
Serves approximately one third of the US adult population, and aims to grow that number to one half.

How Much
100% of Quest's revenues go towards diagnostic services and solutions, with 96% of revenues stemming from diagnostic information and 4% from diagnostics solutions. This equates to providing low-cost diagnostics to ~85 million people.

Contribution
Quest has significant scale in the diagnostic industry in the US, which would be difficult for other providers, outside of its largest competitor, to attain.

Risk
With a strong focus on the US, the company's impact to underserved beneficiaries could be diluted – however, its low-cost nature means that, even within the US, those in difficult socio-economic circumstances can still be catered for.



> “This crisis has exposed the many inadequacies and inequities in our education systems – from access to the broadband and computers needed for online education, and the supportive environments needed to focus on learning, up to the misalignment between resources and needs.”

OECD

Impact area

Better work and education

In 2019, our Better Work and Education companies...
provided educational services for

1.9 million people,

and wrote

~8,000 policies

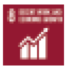
protecting workers

Better work and education is an impact area that has been particularly hard hit by the COVID-19 crisis. In terms of education, ensuring free, equal and quality primary and secondary education is crucial, given the elemental role of education in so many issues, from poverty alleviation, inequality reduction, social inclusion and even climate change. The pandemic has clearly been an enormous set back, given the vast majority of the world's pupils have had their education disrupted. While some have been able to continue learning from home, many simply didn't have access to the tools to continue their education remotely, or households able to support that learning. A huge amount of work is required to make up for the negative impact this has had on education systems globally. While some private sector companies have played a role, improving access to online learning for example, it will require effective partnerships between the public and private sectors to help reverse the damage. We had seen some slow progress being made in terms of educational improvements over the last five years, but the pandemic has taken us several steps backwards.

COVID-19 has also had obvious repercussions for the working lives of millions of people. Economies have been plunged into historic recessions, with warnings over an uneven recovery, and there remains deep uncertainty over job security for vast swathes of the working population. Pre-crisis, the world already had a problem with low-quality employment. According to an International Labour Organisation report, a majority of the 3.3 billion people employed globally in 2018 had inadequate economic security, material well-being and equality of opportunity; this has only been exacerbated. It goes without saying that progress made to promote sustained, inclusive and sustainable economic growth has been negatively affected by the pandemic.

The world has been moving in broadly the right direction since the 2007/08 Global Financial Crisis, but the spread of COVID-19 and the disruption it has caused have acted as a massive setback.

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	Secondary 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%		
Amerisafe (new holding)	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%		

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

Case study

Cogna Educação

Cogna bridges the educational gap in Brazil, where public options are underfunded

Founded in 1966, Cogna is the largest private educational company in Brazil. Generally speaking, affluent children in Brazil attend expensive private schools and progress into public universities, which creates a barrier for less-affluent children. In the past, the Brazilian government would help through grants and loan programmes, but this is no longer the case. As government is no longer able to fill this gap, Cogna has become a more affordable and effective private option.

Cogna began its educational services in 1966, when five friends founded the Pitágoras preparatory course for university admission exams – within two years, 600 students had enrolled. This initiative grew throughout the next decades, opening the first Pitágoras school in 1974, creating the Pitágoras network of schools in the 1990s and the first Pitágoras college in the 2000s. In 2014, under Cogna's former name Kroton, the company merged with Anhanguera Educacional, to make it the largest educational company in the world in terms of market cap and students.

Cogna provides quality and affordable education to place lower-income students in a better position to enter the university system. Its core business is operating private post-secondary education programmes, which also cater to students in the low- to middle-income groups. It operates across all educational segments, including pre-school, elementary, secondary, higher, professional and post-graduation education, and has 143 post-secondary education campuses across 101 cities in Brazil. The uncertainty which categorised 2020, due to the COVID-19 pandemic, meant Cogna saw fewer admissions and re-admissions into its educational services, and thus a reduction in the number of students reached; from two million to 1.9 million. However, a strong expansion in the volume of new first-year university students was influenced by a digital hybrid solution and the move to online courses at a reduced cost – this meant courses were more accessible to low-income students. Cogna now has a 28% market share in the distance-learning segment.

Cogna meets the need for affordable and effective private education that caters for less affluent students in Brazil. It provides affordable loans and financing for eligible students, which places them in a better position to succeed in the public university system. Cogna also offers distance learning, which democratises access to higher education for students living in rural areas. Students can access on-line lessons and discussion forums through a virtual learning environment, meaning that access to education is less restricted by geographical location.

Cogna's affordable and effective services align most closely to SDG 4: Quality education.

Input
Provider of educational services across Brazil

Activity
Reach across Brazil provides students with alternative education

Output
Revenue stemming from educational services

Outcome
Teaches nearly two million pupils in Brazil

Impact
Enables quality education in underserved areas

Bridging the educational gap in Brazil

III in brief

Investment

- Broad and high-quality educational portfolio
- Largest private educational organisation in Brazil, with 687 associated schools and 1,410 distance learning centres

Intention

- Helping children and students across Brazil reach their true potential through the provision of education
- Aims to fill the need for education to lower-middle income groups
- Fills the education gap left by the Brazilian government

Impact

- Better access to education in a country where only 17% of 25-34 year-olds have university degrees (vs 43% average in the OECD Countries)
- Educates 1.9 million students across Brazil
- Reaches 967 municipalities via distance learning

Five Dimensions of Impact in brief

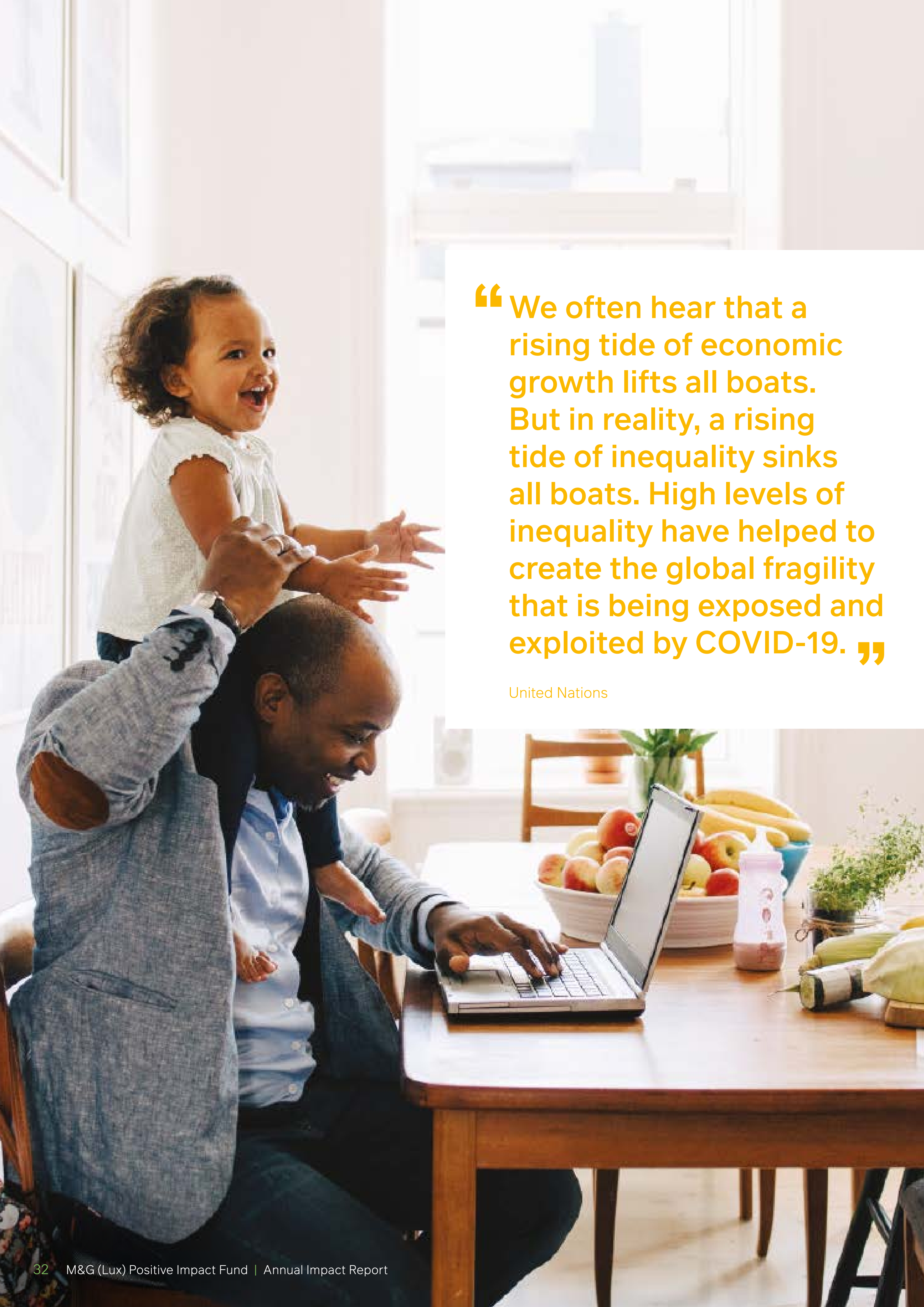
What
Cogna provides accessible educational opportunities, particularly in the post-secondary education space, filling the education gap left by the Brazilian government.

Who
With only 17% of Brazilians between the age of 25 and 34 having a university degree, Cogna fulfils a vital need for aspirational lower-middle income Brazilian students.

How Much
100% of Cogna's revenue stems from educational services – 70% from on-campus post education services, and 30% from primary and secondary education.

Contribution
Cogna is the largest private educational organisation in Brazil, with 687 associated schools and 1,410 distance learning centres, reaching 967 municipalities. This gives the company a 9.1% market share.

Risk
Fall in student admissions and re-admissions as a result of macro influences. This was specifically realised through the COVID-19 pandemic. However, due to hybridisation, the intake of digital education students grew by 32%, or 37,000 new students in absolute terms.



> “We often hear that a rising tide of economic growth lifts all boats. But in reality, a rising tide of inequality sinks all boats. High levels of inequality have helped to create the global fragility that is being exposed and exploited by COVID-19.”

United Nations

Impact area

Social inclusion

In 2019, our Social Inclusion companies... provided services to

31.1 million people

in underserved or lower-income markets

Social inclusion is the process of improving the terms on which individuals and groups take part in society, particularly when they have been disadvantaged on the basis of their identity, their access to housing and financial products, or limited opportunities to achieve a quality level of life. This includes the promotion of an equitable society, the alleviation of poverty and the provision of opportunities, particularly to underserved communities.

The COVID-19 crisis has brought social inequality into sharp focus, not only highlighting existing inequalities, but compounding them, with the pandemic impacting vulnerable people and those living in poverty most. Tackling inequality, poverty and discrimination in all its forms is a broad and universal responsibility. According to the UN, women with disabilities face multiple and intersecting forms of discrimination, workers are getting a smaller share of the output they helped to produce, and while income inequality is dropping in some parts of the world, levels still remain high in general.

Before the pandemic, and specifically in the realm of poverty alleviation, the world was moving in the right direction. In 2015, the percentage of the global population living in extreme poverty fell below 10% for the first time, with the World Bank reporting that 702 million people lived in extreme poverty, down from 902 million in 2012 and 1.9 billion in 1990. COVID-19, however, has interrupted this trend, causing the first increase in global poverty in decades – with more than 71 million people having fallen into extreme poverty this year. Tragically, the spread of coronavirus has pushed us in the wrong direction, hurting the least fortunate most.

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 transportation.

Company	Activity	Goal	Revenue to Prime SDG*	Primary SDGs	Secondary SDGs
AIA	The largest independent, publicly listed pan-Asian insurance group	Play a leadership role in driving economic and social development across the Asian region	46%	8	
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	8
Bright Horizons	Provides childcare, early education and educational advisory options	Nurturing children and supporting families, significantly aligned to aiding gender equality in the workplace	100%	5	4
East Japan Railway	Develops transportation links and services to grow the East Japan area	Contribute to a thriving Japanese economy through development projects and access to transport	81%	9	11, 8
HDFC Bank	India's largest private sector bank by assets	Provide banking services to underserved and low-income groups	30%	8	1, 10
Safaricom (new holding)	Provides integrated telecommunication and mobile transactional services in Africa	Deep-reach mobile connectivity and financial inclusion for underserved communities.	100%	9	8
Sanlam	Provides life and non-life insurance solutions in Africa	Provide access to financial services, including to those in the entry-level market	30%	8	

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

Case study

Safaricom

Safaricom provides mobile reach and financial inclusion for underserved communities

Safaricom is a Kenyan telecoms company that provides integrated telecommunication services, including mobile and fixed voice, data and internet. It has been able to significantly enhance the penetration of mobile data and mobile services to the point where Kenya is now one of the best-connected countries in Africa.

Safaricom also has the largest mobile payment system in Africa, called M-Pesa. A combination of the Swahili word for money, 'pesa' and the 'M' for mobile, M-Pesa was born in Kenya as a phone-based alternative to physical bank branches. The service was launched in 2007 by Vodafone and Safaricom, after receiving a grant from the UK's Department for International Development. The initiative was designed to support financial inclusion efforts globally, and Vodafone and Safaricom initially sought the grant to create a mobile phone-based microfinance service for rural Kenyans. This would allow them to borrow and repay money without having to visit physical banks that could be tens, if not hundreds, of kilometres away.

This cheap, easy-to-use service has evolved since its initial launch, and is now an efficient way of borrowing, transacting and, ultimately, keeping the economy going. M-Pesa has also been a key driver of social inclusion, as people who ordinarily would not be able to open a bank account or have a credit history can now transact using their mobile phones. This also means they are building up credit history, allowing them to get more credit down the line. As a result, Safaricom creates two-fold impact from a social perspective – investing in infrastructure to allow greater mobile reach, while creating financial inclusion through its payments business.

Safaricom also leverages its networks and services in other innovative and beneficial ways for underserved communities. For example, M-Tiba (Mobile Care) aims to improve access to quality and affordable healthcare services, providing an e-wallet health payments solution that enables its current 4.7 million users to save towards healthcare expenses. Safiri Smart, meanwhile, is a disease and epidemic surveillance platform that gives travellers alerts on infections risk.

Safaricom is driving access to information and communication, as well as financial inclusion, in a growing African country, and is now looking to do the same outside of its borders. The company's products and services most closely align with Sustainable Development Goal 9 – Industry innovation and infrastructure.

Input
Kenya's largest telecoms company

Activity
Coms and mobile money services within Kenya and beyond

Output
Revenues generated from sevices, including mobile banking

Outcome
Provides millions with mobile, transactional and health services

Impact
Contributes extensively to social inclusion

Innovative mobile solutions, driving social inclusion

III in brief

Investment

- Strong presence, brand and reach, with a 65% market share in Kenya
- Competitive edge through its mobile money services, with 78% market share

Intention

- Stated mission is 'to transform lives and contribute to sustainable living in Kenya'
- Central to achieving this is the commitment to managing its operations responsibly and ethically

Impact

- Reaches over 35 million people across Kenya
- Has over 25 million mobile payment users, servicing the unbanked society
- Has equipped 300,000 homes with fibre
- Creates platforms to deliver health provision, food delivery and other services to under-served communities

Five Dimensions of Impact in brief

What

The provision of innovative telecom services that allow deep-reach mobile connectivity and financial inclusion for underserved communities.

Who

Safaricom's primary market is within Kenya, although it is expanding into neighbouring African nations.

How Much

As market leader within Kenya, Safaricom reaches over 35 million people in this growing African country, and has over 25 million mobile payment users, many of whom previously had no access to banking or credit facilities.

Contribution

Safaricom has about 5,000 sites in Kenya, which represents c. 96% of coverage in the region. This kind of reach would be difficult to replicate and would take considerable time to build up if Safaricom were not there. The company is also pioneering in its approach to mobile banking, driving the industry forward.

Risk

If the company were to raise prices and fees, this would make it less likely to continue to have a material impact on underserved communities. However, an intensely competitive environment, which continues to drive down pricing for mobile data and services, as well as government shareholding (and thus influence) in the company should limit the potential of this occurring.

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, 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 2019 report provided figures for 2018, and likewise this year's report provides figures for 2019, compared against last 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 41 to highlight what we believe to be the impactful nature of these companies.

Portfolio

Climate action

Company	Impact	KPI explanation	KPI measurement	Year-on-year change
Ørsted	Directly contributes towards a world running on green energy.	# CO_2 emissions avoided # people reached	**11.3m tonnes**, powering **15.2m people**	**+3.2m tonnes** **+3m people**
solaredge	Directly contributes towards making solar energy more efficient and more affordable.	# CO_2 emissions avoided #solar optimised homes	**12.6m tonnes** **2.1m homes**	**+3.6m tonnes** **+200k**

Environmental solutions

Company	Impact	KPI explanation	KPI measurement	Year-on-year change
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	**6m tonnes**	**+1m tonnes**
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	**201m tonnes** for products sold in 2019	**-5m 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	**89m tonnes** saved by EcoStruxure customers	**+38m 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	**29.4m tonnes** saved since 2000 (1.5m tonnes saved in 2019)	**+1.5m tonnes**
ANSYS	Helps reduce resource use through its simulation technology, which leads to cost and efficiency savings.	Case study		
HORIBA	Enables the reduction of CO_2 emissions and the improvement of environmental practices through its range of measurement and monitoring tools.	Case study		
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		

Circular economy

Company	Impact	KPI explanation	KPI measurement	Year-on-year change
Brambles	Helps preserve natural resources such as water and wood, minimise waste and reduce carbon emissions through optimised logistics and recycled pallets.	# water saved # CO_2 emissions avoided	**2,600 megalitres** **2m tonnes**	**-1,500 megalitres** **-600k 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*	~**55m** trees saved	**+19m** trees
Republic Services	Provides a solution to growing waste levels from population growth and promotes sustainable waste collection practices.	# materials handled per year	**114m tonnes**, **6m tonnes** of recyclables	**-1m tonnes**, no change
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%**	(New holding)

Better health, saving lives

Company	Impact	KPI explanation	KPI measurement	Year-on-year change
ALK	Provides long-lasting allergy solutions via immunotherapy. Revolutionised treatment by pioneering immunotherapy in tablet form.	# of patients treated	**1.9m** patients	**+200k** patients
Fresenius Medical Care	Directly helps maintain lives via its life saving blood cleansing procedure that substitutes kidney function in case of kidney failure.	# of patients treated	**>345,000** patients	**+12k** 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	**35m** blood donations **>200** people every minute with **>70** donations tested per minute	**-3m** donations
PureTech BIG	Helps to discover develop and commercialise highly differentiated medicines for underserved diseases	# trial progress # potential addressable market	**24** therapeutic products and candidates, **13** clinical stage candidates, **2** taken from inception to regulatory clearances. **150m** people in addressable market	(New holding)

*Our estimate

Company	Impact	KPI explanation	KPI measurement	Year-on-year change
Quest	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 patients served	**85m** patients	**+500k** patients
illumina	Helps improve human health and guides individual patient care through diagnostics and next generation genome sequencing.	# of samples sequenced	**150** petabases (**1000 trillion** base pairs of DNA sequence)	**+50** petabases
novo nordisk	Helps address the rising prevalence of diabetes, a condition that affects more than 420m people worldwide.	# of patients treated	**~30m** patients 5m with vials less than US$4.00	**+~800k** patients
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	**14.9m** people	**-600k** people
ThermoFisher SCIENTIFIC	Helps customers accelerate life sciences research, solve complex analytical challenges, improve patient diagnostics, deliver medicines to market and increase laboratory productivity.	Case study		
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.	Case study		
BD	Directly contributes towards patient safety, infection prevention and waste minimisation.	Case study		

Better work and education

Company	Impact	KPI explanation	KPI measurement	Year-on-year change
AMERISAFE	Provides workers' compensation insurance to small-medium-sized high-hazardous industries, aiming to improve safety standards and practices.	#of policies	**>8,000** policies	(New holding)
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	**1.9m** students	**-100k** students

Social inclusion

Company	Impact	KPI explanation	KPI measurement	Year-on-year change
AIA	Helps narrow the social welfare gap through the provision of access to health and protection insurance in Asia. Also supports a number of wellness programmes (through sports programmes and the Vitality offering) in its emerging Asian countries.	# of individual policies	**36m** policies	**+6m** policies
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	**2.5m** 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 **1.75m** via back-up centres	No change **+250k** women
JR-EAST	Contributes to the building of energy-friendly transport infrastructure and to the inclusive and sustained industrialisation of the East Japan area, by generating easier civilian access to the East Japanese economy.	# of passengers or # of passenger kms	**6.48m**, equal to **137.6m** passenger kilometres	**-61k**, but **+1k** passenger kilometres
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	**+638k** accounts
Safaricom	Provision of innovative telecom services that allow deep-reach mobile connectivity and financial inclusion for underserved communities.	# of customers	**35.6m** customers (**23.5m** underserved)	(New holding)
Sanlam	Directly helps provide financial access and protection to the most vulnerable segments of the South African population, with 26% market share in the lower-income segment.	# of in force policies from underserved markets	**2.8m** in force policies	**+50k** in force policies

*Our estimate

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.

This year, Ansys leveraged its expertise extensively to help solve some of the practical challenges of COVID-19. To reduce the risk of transmission in public transport, it came up with a system using ultraviolet (UV) light, which allows for the quick and thorough cleaning of contaminated surfaces. This technology has proved very effective in decontaminating public transportation, including aircraft and trains, and has the advantage of being easily scalable.

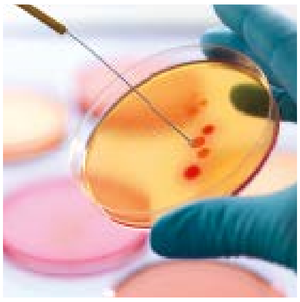
In another example, Ansys designed smart ventilation systems that allow contaminated air to be removed from hospital rooms. Using its fluent computational fluid dynamics (CFD) software, Ansys was able to create an innovative but easy to manufacture solution, helping to relieve the enormous stress under which hospitals have been operating.

Finally, the company collaborated with an Indian consortium to help develop a safe and reliable ventilator to fight the COVID-19 outbreak in India. The design was optimised to facilitate local manufacturing at scale.

Agilent

Agilent provides a wide range of tools and diagnostic equipment to laboratories around the world. Its broad portfolio of research technologies has proved particularly well suited to advance our understanding of the underlying mechanisms of COVID-19 and other infectious pathogens.

Agilent has, for example, introduced an effective and rapid system for calculating the concentration of infectious viral particles in samples, compared with the standard 'plaque assay' method. When using standard methods, it can take weeks or months after introducing a viral sample to a cell culture for structures formed to become visible. Agilent technologies have shortened this process to hours. It is also easier to use, as it does not require adding other substances to a sample, in contrast to the plaque assay method.



Agilent's technology was also used to research the various types of immune responses to COVID-19 in China. In this instance, Agilent used its NovoCyte flow cytometer equipment to analyse immune cells of subjects displaying various degrees of COVID-19 symptoms. Active research in this area is particularly critical given the wide spectrum of responses to the disease.

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.

To address immediate needs created by the COVID-19 crisis, BD significantly stepped up its supply of swabs and molecular tests this year. Between January and July 2020, the company provided healthcare workers 48 million swabs for flu and COVID-19 testing, as well as more than 2.85 million rapid molecular diagnostic COVID-19 tests. In July it went a step further, getting emergency authorisation from the US Food and Drug Administration (FDA) to introduce a 15-minute COVID-19 test using its existing BD Veritor testing equipment. Repurposing a device originally designed for flu testing, and already in use in more than 25,000 hospitals, was critical in expanding the access to diagnostic testing. BD worked towards a plan to increase the capacity towards two million units by September 2020.

Importantly, this device is easy to use and very portable, and hence can be deployed in pharmacies and doctor practices, significantly empowering communities in their efforts to manage the spread of the virus.

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.

Directly applying its blood analysis expertise to COVID-19 research this year, the company discovered that early routine blood tests conducted on COVID-19 patients were able to indicate the likely severity of the infection. This, in turn, could be used directly to optimise the screening and triage of patients, allowing medical workers to focus on those patients predicted to display the most severe reactions. This also helped with the early identification of those patients most likely to require intervention and/or intensive care. Another advantage has been reach, with these blood tests easily deployable in the community, helping to reduce unnecessary travel to hospitals for the most vulnerable.

ON Semiconductor

ON Semi 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.

Within automotive, one area where ON Semi's technologies drive positive environmental impact is electric vehicles (EV). The company manufactures a broad portfolio of energy-efficient processors that are core to vehicle electrification, such as electric power trains. In addition to facilitating the transition towards environmentally friendly EVs, ON Semi's technology also helps to significantly improve the efficiency of combustion engines. This is particularly useful for China, the largest market for new vehicles, which is set to introduce one of the most stringent emission standards in the world by January 2021, to properly lower vehicle emissions. At the same time, governments in many countries are in the process of banning internal combustion engine (ICE)-based cars completely. The UK announced in November 2020 that it will ban the sale of new ICE vehicles by 2030.

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 year a key concern for us was how our investee companies were being affected by the COVID-19 crisis, and, likewise, what they were doing to address the various negative ramifications of the pandemic. We sent a letter to the chair / chief executive of our investee companies asking about their experience and actions under these extraordinary conditions. By doing so, we aimed to express our continued support of the companies' core purpose during this period, and to gain insights into how management teams were pursuing their positive impact goals. We asked two specific questions:

- Firstly, for an update on efforts, activities or initiatives undertaken to help combat the impact of the coronavirus crisis through supporting the company's community of stakeholders (eg employees, customers, suppliers, local communities). In particular, we asked about steps that were directly aligned with the company's core purpose as an organisation.
- Secondly, how the company balanced the interests and well-being of its workforce on one hand, and issues such as executive compensation and shareholder returns mechanisms on the other.

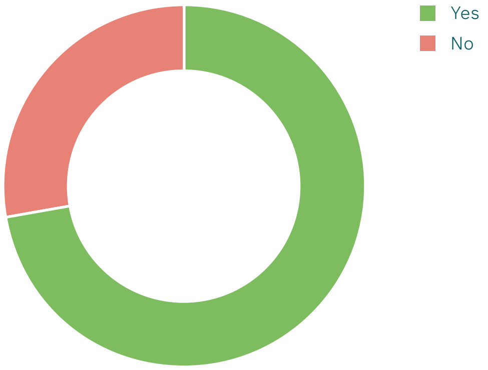
We received responses from the majority of our holdings, demonstrating overwhelming support for those affected by the pandemic. Overall, we were pleased to observe a strong alignment between the actions taken by companies and their mission statement. Distinct themes emerged from the responses, including the design of new products, repurposing of existing ones, innovation, supply chain resilience and business model flexibility.

Throughout the year we also carried out direct engagements with around two-thirds of our investee companies, generally via phone or video call in light of the pandemic. A variety of topics were discussed in these meetings, often in relation to COVID-19, and were generally broken down by: impact-specific discussions; other business activity; metrics and measurement (including requests for additional disclosures where necessary); and risk. Some meetings potentially covered all four areas, but here we break them down by the most relevant.

We also spoke with various companies being considered for our watch-list, to gain greater clarity on the impact and investment case for these businesses, to help develop our III analysis.

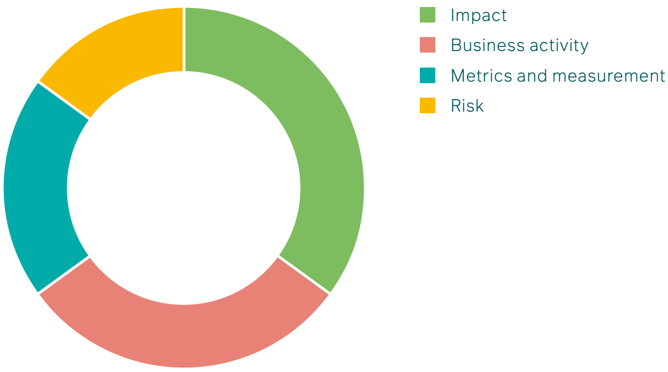
In our role of providing 'additionality' to the portfolio as investors, over the next year we are considering a more targeted engagement programme focussing on our companies' activities and how the impact being generated can be intensified. We will report our progress in due course.

Company responders to COVID-19 letter



Source: M&G, 2020.

Broad engagement topics by type



Source: M&G 2020.

Case studies

Engagement

ALK-Abelló

Objective: To encourage ALK-Abelló, the global leader in allergy immunotherapy, to enhance its sustainability targets and disclosures.

Action: In looking to develop its broader sustainability strategy, ALK has employed a Danish consultancy firm to help set out strategic priorities in this area. In particular, it is constructing a sustainability materiality map assessing the main ESG risks identified by the company and the priorities from the perspective of its range of stakeholders, including investors, employees and customers. ALK is a relatively small company, and while its positive impact on supporting allergy and asthma sufferers is clear, we believe there is room for improvement in its broader sustainability targets and disclosures.

We discussed the areas we believe the company should integrate into its sustainability strategy and disclosures. These included: Access to Medicine, where we discussed the actions being taken to improve affordability to lower-income patients, and highlighted the new Access to Medicine Index methodology, which ALK is considering; the company's experience/actions during the pandemic; better disclosures on the success of the company's allergy treatments, (eg cure/success rates); sustainability considerations in material sourcing and supply chains; and better disclosure of governance around product quality. We also encouraged clearer management and reporting of green house gas emissions goals (eg setting a Science Based Target) and broader sustainability reporting (eg an Integrated Reporting Framework).

Outcome: This is an ongoing discussion and we followed up the call with a meeting with one of ALK's board members to learn specifically about the company's response to the COVID-19 crisis from a sustainability perspective. We received an encouraging update about the measures taken to support the company's range of stakeholders and will maintain contact as it develops the disclosure around its sustainability strategy.

Becton Dickinson

Objective: To gain clarity over issues with US medical equipment maker Becton Dickinson's (BD) Alaris pump, and alleviate our concerns over potential negative ramifications.

Action: We met with the company in the first half of the year, and talked through the Alaris pump issue. Alaris pumps are used for infusing drugs into patients, and early in 2019 the company recalled some of the pumps over concerns that they could lead to quicker, slower or accidental delivery of medicine. Fixing the issue mainly required a change to the pumps' software, which Becton did not believe would require a new trial to be undertaken. The US Food and Drug Administration (FDA) disagreed, saying the pump had changed to such a degree from the original that a new trial would be necessary. The result was a loss of some US$450 million in sales for 2020.

Outcome: Becton assured us that it was working through this, and that it had changed procedures to ensure it doesn't have miscommunications with the FDA again.

On a separate note, in reaction to our COVID-19 letter, BD said it was anticipating the future mass administration of vaccines that will be initially available in vials, with pre-filled syringe applications likely to follow. BD devices have been used in some of the world's most critical vaccination campaigns, such as the Salk Polio trials in the 1950s, the Measles Initiative in partnership with American Red Cross, and the annual flu campaign across the globe. BD provides both typical syringes to draw and administer a vaccine and pre-fillable syringes for vaccine manufacturers. Its expertise in combination product development can support vaccine developers in predicting drug container compatibility before the manufacture is scaled-up.

How do we approach controversial areas?

Given the complex nature of the world we live and invest in, customers are rightly quizzing us about the way we approach certain controversial areas. Having now managed the strategy for two years, we are better able to explain our thinking here, and outline more explicitly 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 providing responsible microlending services 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 exploitative 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.

We factor a range of issues into our decisions to invest in this area. We focus on the affordability of the interest rates in both absolute terms (indicated by repayment rate vs default rate) and in relative terms (in comparison with prevailing rates in the country in question). 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 year or so. This has been partly driven by environmentalist David Attenborough's powerful coverage of the issue in his recent 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.

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.

Climate metrics

The M&G (Lux) Positive Impact Fund's aggregate greenhouse gas emissions are less than half those of the MSCI ACWI Index (as at January 2020), 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

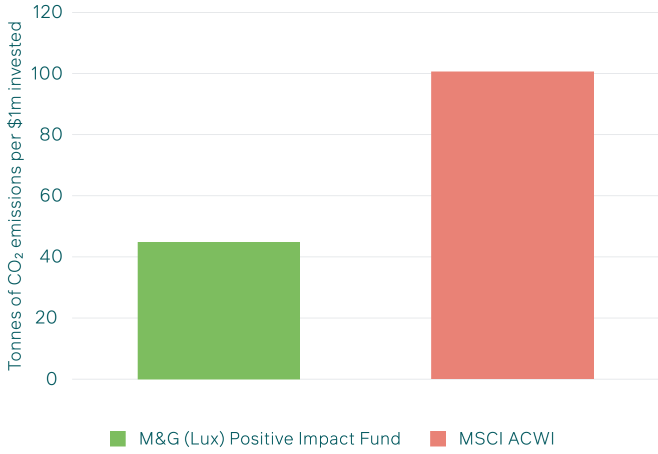
Upstream

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



Source: MSCI, Carbon Portfolio Analytics, 18 January 2020.

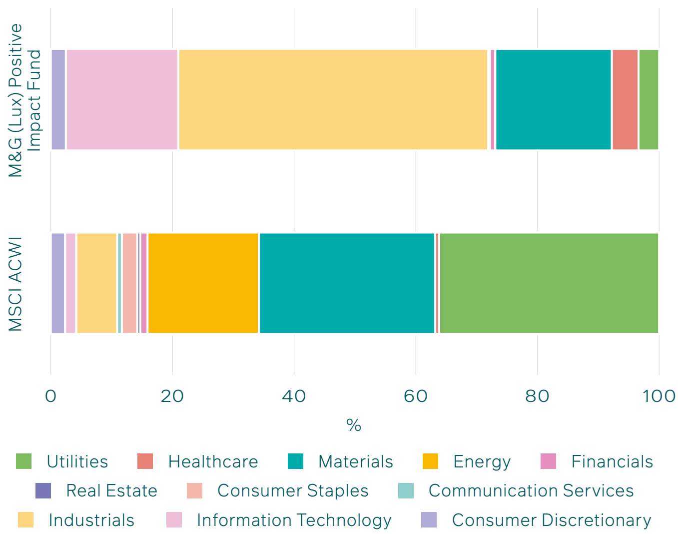
This considerable gap with the benchmark is driven by our lack of exposure to fossil fuel extraction and by investing in power companies that are either fully renewable or are close to having fully transitioned to 100% renewable. This is an enduring feature of the portfolio, aligned with the fund's sector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

While the fund does not have a specific emissions target in its prospectus, we consider the net impact of all of our holdings. We do not invest in companies that are positively impactful in one area, but causing harm in another. In light of this, we plan to provide further climate metrics for the fund in future reporting.

Sources of emissions

The industrial sector is responsible for over 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, 18 January 2020.

Insulation provider Rockwool, for example, has a carbon footprint of 1.75 million tonnes of CO_2 but the products it sold in 2019 will help save over 1 billion tonnes of CO_2 over their lifetime. Likewise, energy management company Schneider Electric reports a carbon footprint of more than 0.5 million tonnes of CO_2 but its products directly helped its customers save 89 million tonnes of CO_2 in 2019.

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 targets last August, aiming to reduce absolute scope 1 and 2 emissions by 35% by 2030 from a 2017 baseline.

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 >790,000 passenger cars off the road in one year

The equivalent of storing the carbon of >4.7 acres of US forest in one year

The equivalent of recycling instead of landfilling >178,000 garbage trucks of waste

The equivalent of not consuming >8.4 million barrels of oil

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

The M&G Positive Impact team

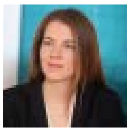
As part of our III analysis, the team internally scores companies on their III credentials, and requires above-average results for inclusion in the fund's watch-list, as well as consensus agreement of a company's merits from the entire Positive Impact team.

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

Thembeka Stemela Dagbo
Impact research

Randeep Somel
Impact research



Alice de Charmoy
Emerging markets specialist

Veronique Chapplow
Investment specialist

Rachel Roddy
Associate investment specialist

Ben Constable-Maxwell
Measurement, engagement and external networks

Jasveet Brar
Impact research

Maria Municchi
Multi-asset impact specialist

Michael Oliveros
Small-midcap specialist

Christopher Andrews
Sustainability specialist

Final word

The past year was another fascinating and rewarding one in the management of the fund. It was also the year that impact investing really started to live up to expectations. The Global Impact Investment Network's (GIIN) assessment is that impact investing assets globally are nearing the $1 trillion level, representing huge progress in the scaling up of capital required to meet the world's major challenges. However, given the size of invested assets under management globally ($140 trillion) and the annual funding required to meet the SDGs by 2030 ($3 trillion per annum), this is still a fraction of the impact assets required.

This is why those initiatives aimed at further developing impact assets are so important. One of the main organisations promoting impact investing is the GIIN, which has various workstreams looking at specific aspects of impact investing. One workstream is the Listed Equities working group, in which we have been an active participant since its creation in 2020. This focuses on the challenges and opportunities presented by taking impact investing into mainstream markets, balancing the opportunity to bring capital at scale to some of the world's most pressing challenges with the need to preserve the principles of impact investing. The workstream looked at each of the GIIN's 'core characteristics' of impact investing (intentionality, additionality, measurability) and assessed how they could apply to listed market participants. The concept of additionality is a particularly central one to impact investing and there is a strong consensus that engaging for impact is an important responsibility (please see the engagement section on page 44).

As with any developing field, the importance of definitions, categories and disclosures, while maybe mundane, are incredibly important. In the field of impact investing, the need to clearly define and categorise what is an impact investment is a crucial protection against the valid challenge of impact washing. The Impact Management Project (IMP) is another central organisation in the field that promotes and supports impact investing globally, and we engaged with them on a number of levels in 2020. At the start of the year we took part in a roundtable at the 'Finance for the SDGs' conference at the OECD, as the culmination of a working group coordinated by the IMP to develop definitions around impact accounting. We were also a founding participant in the newly created IMP+ACT Alliance (an affiliation of the IMP), a tool to help asset managers and their clients classify their impact investments, and their contribution to the SDGs. Also, as you will be able to see throughout this report, we are now using the IMP's 'five dimensions of impact' classification system to assess and illustrate the impact of our investments, according to a framework that is increasingly commonly used by impact investors.

We were also among a select group of companies and investors invited to participate in the Impact Weighted Accounts Initiative, which aims to adjust accounting methodologies to better reflect both positive and negative societal impacts that companies generate. We see this as an initiative that is pushing the boundaries of investing for impact and we are excited about the prospects for this initiative in 2021.

One of our continued goals has been to broaden the accessibility of impact investing in the mainstream investment world. COVID lockdowns presented real challenges here, but with the excellent support of our valiant sales team we continued to get the message out among existing and new clients. As a few examples, we attended a German client event on impact investing, one of the first events in that market dedicated to impact, featuring presenters from M&G as well as preeminent representatives in the fields of sustainability and climate finance. At the Worthstone Impact conference we presented on the role of the Circular Economy and showcased (with an engaging participation from the company) our investment in Brambles, the global logistics supply chain company that is moving beyond sustainability towards circularity and even regeneration. To help broaden awareness of and access to impact investing in our retail client base, for the second year we took part in the Personal Finance Society (PFS) Conference series presenting to hundreds of IFAs over the course of the summer.

We see impact investing as a hugely exciting prospect, not just for the M&G (Lux) Positive Impact Fund but for M&G and our clients more broadly. Reflecting this opportunity, during the fourth quarter we ran an internal 'design sprint' covering teams from across asset classes at M&G, who are either managing or developing impact investing-oriented strategies. It was a hugely collaborative and engaging experience and one that gives us great hope for the next stages of impact investing at M&G. □

The M&G (Lux) Positive Impact Fund is one of a growing number of funds that seek to invest in solutions to the global challenges addressed by the UN Sustainable Development Goals. This intentionality is backed up by a significant resource and commitment which enables a high level of understanding of the impact of investee companies. Transparency is high, with a clear determination to engage with investors and democratise impact investing. We are delighted to have awarded the fund a AAA 3D rating.

John Fleetwood
Founder, 3D Investing

We were kindly invited to take part in consultations when the fund was in its embryonic stage in 2018. We had met various M&G teams over the years, but it came clear during these discussions that the impact investment team had a genuine conviction to create positive outcomes for society and the environment, whilst providing our clients with competitive market returns. At the time, achieving impact through listed equities was seldom seen, but their triple 'I' approach to scoring listed equities ensured the mandate would be met. Since then we have had access to the team when required and been thoroughly delighted and impressed with both performance and reporting.

Craig Hart
Client Relationship Manager
King & Shaxson Ethical Investing

The dedication of the M&G impact team to seek out investment opportunities that capture impact attributes has impressed our analysts. The M&G (Lux) Positive Impact Fund attracts our highest five-star rating, awarded to the best-in-class impact funds which display a market-leading performance across all building blocks that make up the Worthstone rating.

Gavin Francis,
Founder and Director, Worthstone