Contents

Introduction ........................................................................................................... 4
  John William Olsen, Fund Manager
  Ben Constable-Maxwell, Head of Sustainable and Impact Investing
A brief overview of impact investing ................................................................. 6
Our approach to impact investing ................................................................. 8
Our impact framework .................................................................................. 10
Our impact areas
  Climate action .......................................................................................... 12
  Environmental solutions ....................................................................... 14
  Circular economy .................................................................................... 16
  Better health, saving lives .................................................................... 18
  Better work and education .................................................................. 22
  Social inclusion ...................................................................................... 24
Measuring our companies’ impacts ............................................................... 26
Company engagement .................................................................................. 34
The M&G Impact team .................................................................................. 36
Initiatives and activities ............................................................................... 37
When Ben and I set out to establish the M&G Positive Impact fund a couple of years ago, we felt part of a small and pioneering group of investors. The investment industry and most of our clients were, to some extent, coming around to the idea of avoiding harmful companies and engaging on environmental, social and governance (ESG) issues. However, a fund dedicated to investing in the small subset of companies trying to solve major societal issues, while measuring their impact, was still a relatively novel idea. Since then, interest in this area has exploded – and for good reason.

I have been involved in the sustainability journey of listed equities since the beginning of the century, and I believe that not only is impact investing the purest and most honest end-point for purposeful investors, but I also believe it has the potential to provide superior investment returns – when executed with care.

While investing in positively impactful companies is truly exciting, identifying them and weighing their impact requires great effort, a robust framework and meaningful data. But we also need to pick companies that will prosper and provide financial returns for our investors over the next decade, and this also requires strong investment values and a highly disciplined approach. Again, this dual approach requires a great deal of effort, but I believe it is worth it if we aim to deliver both meaningful impact and superior financial returns.

I feel positive that the M&G Impact team has got the balanced experience and ability to deliver on those dual objectives. My 15 years of experience running a long-term, concentrated equity strategy focusing on sustainable business models, combined with Ben’s long experience in dealing with impact, ESG and engagement on a strategic level, is solidly backed by our researchers and experts in small-cap companies (companies with small market capitalisations), emerging markets and multi asset management.

You, our clients, have been very receptive to the idea of investing with a positive impact and we are eager to prove you right; working hard to deliver results – societal as well as financial.

John William Olsen
Fund Manager
When we set out to design this fund two years ago, we thought the big social and environmental challenges were the right starting point: this century’s defining issue — climate change — was a clear target, but other environmental threats such as pollution and biodiversity loss are becoming just as pivotal, as indeed is the global ‘systems re-boot’ presented by the concept of the circular economy: improving efficiency and reducing waste will be central to dealing with two of the most engrained problems, resource scarcity and a wasteful global economic model.

Social issues were no less important: better health, social inclusion, decent work and education are all at the heart of the sustainable development agenda — we wanted to find the companies addressing these issues and developing the solutions. Reflecting the fund’s dual financial and impact objectives, the next step was to quantify the size of the market represented by each challenge and to identify the business models that could address them.

In bringing the concept of impact investing to the mainstream we faced a particular conundrum: how could we scale up the investment required to address these huge problems — while preserving the impact principles developed over many years in private debt and equity markets — specifically, how could we invest in companies that intentionally and measurably contribute to positive societal outcomes?

We devised a framework to help us navigate the potential investment universe. Our ‘Triple I’ or ‘III’ framework gives equal weight to ‘investment’ ‘intention’ and ‘impact’ and helps us identify those business models that are positioned to do well (financially) while also doing good (for society). The result is a portfolio made up of measurably impactful companies as diverse as Ørsted (wind power), Schneider Electric (industrial efficiency), DS Smith (sustainable packaging), and Cogna (access to education).

We recognise the importance of holding ourselves to high standards — the need to ‘scale up’ impact is balanced by the need to do it properly. As impact investing gains momentum, there are valid concerns about the risk of ‘greenwashing’ or ‘impact washing’. These are terms used to describe the process of conveying an unsubstantiated claim about the environmental/impact credentials of an investment product. We think a rigorous impact methodology is the best protection against this, and evidenced by full transparency to our clients.

As you would expect, we’re still on a learning curve: we’ve honed the framework as we’ve used it and will continue to develop it. We believe in the importance of learning and collaboration in what is still an emerging area.

As you would expect, we’re still on a learning curve: we’ve honed the framework as we’ve used it and will continue to develop it. We believe in the importance of learning and collaboration in what is still an emerging area. Thembeka Stemela (the fund’s deputy fund manager) and I spent time in the summer at the Oxford Said Business School learning about the principles, processes (and occasional pitfalls) of measuring impact. It was enlightening to spend a week with the brilliant teaching staff and some of the world’s most experienced impact investors, including non-governmental organisations (NGOs), governments and foundations, exploring together how to effectively and accurately evaluate the impacts of our investments.

Impact measurement is still an early-stage enterprise and one of the messages at Oxford was to start where you can and improve from there; we should strive for the ideal but recognise that measuring impact is a complex endeavour. Above all, it is one we need to do properly if impact investing is to demonstrate it can contribute to the much-needed solutions to the world’s biggest social, environmental and economic challenges.

Ben Constable-Maxwell
Head of Sustainable and Impact Investing
A brief overview of impact investing

There is a spectrum of approaches to responsible investment, from simplistic negative screens that exclude certain sectors or industries to the full integration of ESG factors in the investment process. There are also specific thematic or sustainable approaches an investor can take.

Investing for impact, meanwhile, explicitly aims to target investments that deliver positive, measurable and material change for society or the environment, with the potential to also generate financial returns.

The historic nature of impact investing – primarily the use of private finance to fund specific impactful projects – means that it has chiefly sat within the sphere of institutional or high net-worth investors, with little access for the general public. The M&G 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.

“Growing awareness of impact investing will require mutual fund managers to think creatively about how to select and manage publicly traded companies for positive impact.”

Global Impact Investing Network (GIIN)

Impact assets by instrument of investment

Source: GIIN, Annual Investor Survey 2018

A spectrum of responsible investment approaches

Source: 2018 Global Sustainable Investment Review, GSIA

* Exclusions based on generally accepted norms, eg, controversial weapons.

** CAGR stands for Compound Annual Growth rate. This is a “smoothed” rate of return showing the rate at which an investment would grow every year from the beginning of the period under review to the end of the period, assuming the profits were reinvested each year.
As we try to generate impact through listed equities, we need to invest in companies that have the explicit intention of addressing a range of societal and environmental issues the world is facing, and we frame these in the context of the UN Sustainable Development Goals (SDGs). For more on the SDGs and our framework, please see page 10. Along those lines, there are several areas that impact investors 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 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 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.

### 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 26)
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 coalfired power, or the provision of gambling services (ie, companies that are not capable of delivering demonstrable 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 ‘screen in’ a watch-list of some 150 impactful companies that can be purchased if 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. As part of this analysis, we score companies on these 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

Sufficient liquidity (market cap > $500 million and > 20% of total portfolio invested in market cap < $2bn)
Strict limits UN Global Compact principles, tobacco, adult entertainment, gambling, alcohol, thermal coal, nuclear, oil sands

Our investable universe: 150 companies

Watch-list consensually approved by impact team and sanctioned by responsible investment advisory forum
Above-average individual score for:
Investment credentials
Intentionality
Impactfulness

Our portfolio: 25-35 companies

Conviction-based approach
3 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

Source: M&G

* 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 Positive Impact Fund is US dollars.
Portfolio construction

The fund embraces the United Nations Sustainable Development Goals (SDG) 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).

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

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 34.
III framework and methodology

The III framework (encompassing Investment, Intention and Impact) is a practical means of scoring candidate companies for the M&G 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. The team believes that this will enable a company to effectively create positive environmental, social or economic impact for the regions and people it serves.

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.

SDGs

The United Nations Sustainable Development Goals (SDGs) are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. Its timeframes run to 2030. The SDGs provide a framework to deliver sustainable outcomes, and are increasingly being adopted by both investors and companies as a means of framing their sustainable, or impact, activities.
The fund embraces the Sustainable Development Goals 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.

Of course, some of the SDGs are more investible than others. While there is a relatively wide universe of companies contributing to, for example, good health and well-being (SDG 3) or industry, innovation and infrastructure (SDG 9), this is not really the case for Peace, Justice and Strong Institutions (SDG 16) or Partnerships for the Goals (SDG 17). Even within a goal like Gender Equality (SDG 5) it can be difficult to identify investible companies that are specifically contributing to this aim – this doesn’t mean having a gender-balanced workforce, but rather contributing to equality in wider society through a product or service.

As part of the team’s efforts to measure the impact and direct its focus on the variables that are within a company’s control, it has 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.

The following pages explain in greater detail each of our impact areas and the companies that we invest in.
Climate action

Concerns around the risks of man-made climate change have been building for years, with retreating glaciers, rising sea levels, increased instances of droughts and other extreme weather events all indications of rising global temperatures. Potential knock-on effects, such as social unrest and mass migration, further highlight the importance of the challenge. In December 2015, at the 21st annual Conference of the Parties (or COP 21) in Paris, for the first time a binding international agreement was arrived at. This stated that in order to address the threat of climate change, we would need to limit the global temperature rise this century to well below two degrees Celsius (2°C) above pre-industrial levels, and ideally below 1.5°C.

In spite of some high-profile push-back on the goals of the Paris Agreement, a renewed sense of urgency was provoked by the release in 2018 of the landmark report by the UN Intergovernmental Panel on Climate Change (IPCC). This stated that urgent, far-reaching and unprecedented action was needed to reduce global carbon emissions to net zero by 2050 and to keep global warming to a maximum of 1.5°C. While ‘mitigation’ efforts to reduce GHG emissions will be front and centre, understanding how business will adapt to a significantly warmer world will be equally important, and is receiving growing attention from governments and investors alike.

We invest in companies that are having a direct positive impact in trying to mitigate the effects of climate change, most notably in 2018 through the production of renewable energy, or by increasing the efficiency of renewable energy being produced.

“Climate change is now affecting every country on every continent. It is disrupting national economies and affecting lives, costing people, communities and countries dearly today and even more tomorrow.”

United Nations

<table>
<thead>
<tr>
<th>Company</th>
<th>Activity</th>
<th>Goal</th>
<th>Revenue to Prime SDG*</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Everbright</td>
<td>Environmental protection project management</td>
<td>Effective environmental outcomes in China</td>
<td>100%</td>
</tr>
<tr>
<td>Ørsted</td>
<td>Operates wind farms</td>
<td>Reductions in GHG emissions through offshore wind generation</td>
<td>75%</td>
</tr>
<tr>
<td>SolarEdge</td>
<td>Smart energy products for residential and commercial use</td>
<td>Advancing smart energy use and technology</td>
<td>100%</td>
</tr>
</tbody>
</table>

* SDG = UN Sustainable Development Goal.
Figures are based on latest information available from company literature.
III in brief: Ørsted*

World’s leading owner and developer of offshore wind power

Investment
• Number one player in offshore wind, with 24% market share
• Scale and experience helps shape the offshore wind market
• Potential for stable, long-dated and attractive returns

Intention
• Vision to create a world that runs entirely on green energy
• Transitioned from 80% fossil fuel-based generation in 2006 to 25% in 2018. Aims to reach 0% by 2023

Impact
• Generated 8.3m MW of renewable energy in 2018
• This equates to saving 7.7 metric tonnes of CO₂ emissions
• Leader in addressing climate change and its impacts

III in brief: SolarEdge*

Global leader in smart energy technology

Investment
• Number one operator for single-phase photovoltaic (PV) inverters based on megawatt market share – number four as PV inverter supplier ($ revenues)
• Well positioned, particularly in the US residential market, with 60% market share of new systems
• Significant growth potential through adjacent customer bases, innovation and geographic expansion

Intention
• Mission to become the leading provider of inverter solutions and to broaden the availability of solar energy
• Developed the DC-optimised inverter solution that changed the way power is harvested and managed in PV systems

Impact
• 10.6GW of systems shipped worldwide
• Powered 1.9m homes and saved 9m metric tonnes of CO₂ emissions

* III = Investment, Intention and Impact.
Information sourced from company literature.
Environmental solutions attempt to mitigate the harmful effects of human activity on the biophysical environment.

According to the World Health Organisation (WHO), 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. The WHO recommends policies and investments supporting, among others, cleaner transport, energy-efficient housing and better municipal waste management to effectively reduce key sources of ambient air pollution.

As another example, while many parts of the world face major challenges due to limited freshwater availability, a significant amount of freshwater resources are contaminated by pollutants from industry, farming, energy generation, and other activities. The UN has highlighted that every day, two million tons of sewage and other effluents drain into the world’s waters, while every year, more people die from unsafe water than from all forms of violence, including war.

We invest in companies that are delivering positive solutions, either directly or indirectly, to the environmental challenges the world is facing. In 2018 our investments focused on companies helping to reduce energy use, improve energy efficiency and provide environmental diagnostic solutions.

“Affordable, scalable solutions are now available to enable countries to leapfrog to cleaner, more resilient economies.”

United Nations

<table>
<thead>
<tr>
<th>Company</th>
<th>Activity</th>
<th>Goal</th>
<th>Revenue to Prime SDG</th>
<th>Primary SDGs</th>
<th>Secondary SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ansys</td>
<td>Global leader in engineering simulation software</td>
<td>Increase the modelling and efficiency of products and prototypes</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Horiba</td>
<td>Manufacture of precision instruments for measurement and analysis</td>
<td>Improving safety and the reduction of emissions while bettering environmental practices</td>
<td>73%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IPG Photonics</td>
<td>Distribution of highly efficient fibre lasers</td>
<td>Meaningful electricity savings</td>
<td>90%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johnson Controls</td>
<td>Produces building management equipment and systems</td>
<td>Allow building systems to run more efficiently and use less energy</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ON Semiconductor</td>
<td>Manufacture and distribution of efficient semiconductor products</td>
<td>Provide energy-efficient solutions into millions of products</td>
<td>41%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rockwool</td>
<td>Leading supplier of fire-resistant stone wool insulation</td>
<td>Provide a range of energy-efficient solutions designed for buildings and infrastructure</td>
<td>90%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schneider Electric</td>
<td>World leader in low voltage electrical components</td>
<td>Enable transition to a sustainable future in buildings, data centres and the grid</td>
<td>75%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* SDG = UN Sustainable Development Goal.
Figures are based on latest information available from company literature.
Annual Impact Report 2019
III in brief: Schneider Electric*

Enabling transition to a sustainable future in buildings, data centres and the grid

Investment

• World leader in low-voltage electrical components, with 20% market share
• Pricing power via scale, breadth of portfolio, distribution power and brand recognition

Intention

• Mission statement: to bring energy and efficiency to enable life, progress and sustainability for all
• Implementation via Planet and Society barometer
• Early adopter of the SDGs

Impact

• ‘Green premium’ ecolabel accounting for 46% of group turnover in 2018
• 50 metric tonnes of CO₂ emissions saved in 2018 – 100 metric tonnes of CO₂ savings targeted in 2018-2020

III in brief: Horiba*

Precision instruments for measurement and analysis

Investment

• Highly diversified, with solid positions in key technologies
• Strong brand, innovative products, and exceptional track record of delivery

Intention

• Business strategy is aligned with achieving better health, safety and environmental outcomes
• Builds state-of-the-art technology with a focus on social responsibility

Impact

• 73% of revenues stem from improving safety and the reduction of emissions while bettering environmental practices through measurement and monitoring tools

* III = Investment, Intention and Impact.
Information sourced from company literature.
Circular economy

Among the difficult challenges the SDGs are trying to address, one area of increasing concern is waste. Currently, the world generates some two billion tonnes of waste annually, and by 2050 it is estimated that, if we carry on as we are, there could be more plastic in the oceans, by weight, than fish.

The ‘take, make and dispose’ linear economic model which has led to the generation of so much waste has dominated since the advent of the industrial era, but this is no longer sustainable. Not only are many resources finite, or increasingly difficult to obtain, but their extraction and single-use has costly implications for the environment and society.

An alternative to the linear model and a potential solution to some of its challenges is moving to a more ‘circular economy’, where, for example, waste from production and consumption becomes a resource to be recycled and reused. As well as reducing unnecessary waste and mitigating the risks of resource scarcity, making the transition to closed-loop processes can provide both environmental and economic benefits.

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.

“Based on the simple concepts of reducing waste, reusing materials and redesigning how we create value from products and services, the idea of the circular economy has emerged as a beacon for moving away from a take-make-dispose culture and society.”

UNEF, United Nations

<table>
<thead>
<tr>
<th>Company</th>
<th>Activity</th>
<th>Goal</th>
<th>Revenue to Prime SDG*</th>
<th>Primary SDGs</th>
<th>Secondary SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brambles</td>
<td>Global business perpetuating the share and reuse of the world’s largest pool of reusable pallets</td>
<td>Create positive impact through sustainable supply chain and logistics practices</td>
<td>100%</td>
<td>![Icon]</td>
<td>![Icon]</td>
</tr>
<tr>
<td>DS Smith</td>
<td>Corrugated packaging services, focused on closed-loop recycling</td>
<td>Provide truly sustainable packaging solutions, while protecting the environment</td>
<td>100%</td>
<td>![Icon]</td>
<td>![Icon]</td>
</tr>
<tr>
<td>Republic Services</td>
<td>Non-hazardous solid waste collection, transfer, disposal, recycling and energy services</td>
<td>Sustainable solutions for growing waste levels amid expanding populations</td>
<td>78%</td>
<td>![Icon]</td>
<td>![Icon]</td>
</tr>
</tbody>
</table>

* SDG = UN Sustainable Development Goal.

Figures are based on latest information available from company literature.
III in brief: Brambles*

Enables the circular economy with its global logistics platform

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

Impact
• 2.6 million tonnes of CO₂ saved
• 4,100 megalitres of water saved
• 1.7 million trees saved
• 1.4 million tonnes of waste saved

III in brief: DS Smith*

Europe’s largest cardboard and paper recycler, and a leading full-recycling and waste management company

Investment
• Scale advantage, with highly efficient collection network and broad asset base
• A wide production and recycling footprint to provide services to large, multinational clients
• Seen as the industry’s quality operator

Intention
• Aims to ‘continually protect the natural environment and be recognised as a good neighbour in the local community’
• Leverages the sustainability of paper, and its circular economic model, as a point of differentiation
• Builds state-of-the-art technology with a focus on social responsibility

Impact
• Estimated to have saved 36 million trees in 2018

* III = Investment, Intention and Impact.
Information sourced from company literature.
Better health, saving lives

Investment to help improve the health of populations across the globe is paramount. According to the World Health Statistics 2018 report, the World Health Organisation’s annual snapshot of the state of the world’s health, less than half the people in the world today get the health services they need. 13 million people die every year before the age of 70 from cardiovascular disease, chronic respiratory disease, diabetes and cancer, while every day in 2016, 15,000 children died before reaching their fifth birthday.

It is estimated that 415 million people are living with diabetes in the world, which is estimated to be 1 in 11 of the world’s adult population, with that figure expected to rise to 642 million people living with diabetes worldwide by 2040. Currently, 46% of people with diabetes are undiagnosed.

Another widespread illness is allergy rhinitis, aka hay fever, which affects some 500 million people; related to this, there are around 339 million asthma patients globally, with the annual cost of asthma to the US economy alone amounting to some $80 billion.

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

“Ensuring healthy lives and promoting well-being at all ages is essential to sustainable development.”

United Nations

III in brief: Quest Diagnostics*
Diagnostic solutions to aid better health and wellbeing

Investment
• Largest low-cost diagnostic testing service provider in the US, aided by scale
• 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’

Impact
• Provides insights that empower and enable a range of customers
• Serves 50% of hospitals in the US
• Serves 1/3 of the US adult population and aims to reach 50% within three years

* III = Investment, Intention and Impact
Information sourced from company literature.
<table>
<thead>
<tr>
<th>Company</th>
<th>Activity</th>
<th>Goal</th>
<th>Revenue to Prime SDG*</th>
<th>Primary SDG</th>
<th>Secondary SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agilent Technologies</td>
<td>Provides application solutions for laboratories</td>
<td>Enable customers to reach better health and environmental outcomes</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ALK-Abelló</td>
<td>Produces immunotherapy allergy treatments and diagnostic products</td>
<td>Alleviate the suffering of people with severe respiratory allergies and asthma</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Becton Dickinson</td>
<td>The largest manufacturer of medical surgical products, including syringes, needles and diagnostic instruments</td>
<td>Deliver healthcare solutions across the entire continuum of care</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fresenius Medical Care</td>
<td>The world’s largest dialysis company</td>
<td>Provide critical, life-saving treatment for people who suffer from chronic kidney failure</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grifols</td>
<td>A vertically integrated manufacturer of proteins derived from blood plasma</td>
<td>Offer essential and frontline treatments, diagnostic products and hospital solutions to enhance quality of life</td>
<td>82%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illumina</td>
<td>Creates systems for the analysis of genetic variation and biological functions</td>
<td>Improve human health by unlocking the power of the genome</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Novo Nordisk</td>
<td>World’s leading producer of human insulin for the treatment of diabetes</td>
<td>Contribute significantly to research and development that improves the lives of people, doing so sustainably</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quest Diagnostics</td>
<td>Leading provider of diagnostic information services</td>
<td>Empower better health with diagnostic insights</td>
<td>81%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thermo Fisher Scientific</td>
<td>Provides biotech, pharma and diagnostic services and products</td>
<td>Help solve complex analytical challenges, improve patient diagnostics, deliver medicines to market and increase lab productivity</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UnitedHealth Group</td>
<td>Provides health insurance and speciality health services</td>
<td>Help people live healthier lives and make the health system work better for everyone</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* SDG = UN Sustainable Development Goal.
Figures are based on latest information available from company literature.
Case study: ALK-Abelló – allergy immunotherapy, tackling allergic asthma

What is allergic asthma?
Asthma is a chronic lung disease that makes breathing difficult, to varying degrees of severity. Asthma can be a life-threatening illness if not properly managed.

Allergic rhinitis (ie, hay fever) typically causes cold-like symptoms, from sneezing and itchiness to a blocked or running nose.

Just like allergic rhinitis, allergic asthma can be triggered by exposure to particular allergens, such as grass pollen, tree pollen, or house dust mites.

ALK-Abelló has shown that allergic rhinitis and allergic asthma are closely linked, and many people with allergic rhinitis go on to develop allergic asthma. Both the duration and severity of rhinitis have a direct influence on the development of allergic asthma and the likelihood of recovering from it.

As a result, evidence increasingly suggests that, rather than being two separate conditions, allergic rhinitis and allergic asthma are caused by the same allergy, and that treating the allergy can be beneficial for both conditions.

ALK-Abelló’s 100-year journey

Allergic disease is one of the world’s most common chronic conditions, affecting millions of people globally. Hay fever alone affects an estimated 400-500 million people worldwide, approximately 10% of whom experience a debilitating form of the condition. Left untreated, allergic rhinitis is considered to be a major risk for the development of asthma. Allergy also imposes a significant cost on society, through lower productivity, increased sick leave and significant healthcare costs.

ALK specialises in allergy immunotherapy (AIT), a unique treatment that not only reduces allergic symptoms, but also treats the underlying causes by inducing an immune response that provides protection against a particular allergy. The company produces vaccines for major respiratory allergies, and focuses on prevention, diagnosis and treatment of respiratory diseases, such as asthma.

ALK’s roots go back nearly 100 years to 1923, when Doctor Kaj Baagøe and pharmacist Peter Barfod produced Denmark’s first pharmaceutically manufactured allergen extract at Copenhagen University Hospital. Since then, the company has been working to improve the treatment of allergy patients, whose disease can severely affect their quality of life.

Over the company’s life it has been a pioneer in its field, launching the world’s first standardised allergy immunotherapy in the 1970s, and the first sublingual drops in the 1990s.

In 2006, ALK received European approval for the world’s first tablet-based allergy vaccine. This sublingual allergy immunotherapy (SLIT) tablet meant patients could now painlessly treat themselves at home, rather than having to attend a clinic to receive a series of injections over many years. It has continued to win approval for additional SLIT therapies.

The challenge

- Allergy imposes a significant cost on society, through lower productivity, increased sick leave and significant healthcare costs
- 80% of asthmatic children’s condition is linked to allergies

The addressable market

- 500 million people suffer from allergy rhinitis
- 339 million asthma patients globally
- Annual cost of asthma to the US economy alone is some $80 billion

Part of the solution

ALK-Abelló specialises in allergy immunotherapy, a unique treatment that not only reduces allergic symptoms, but also treats the underlying causes.

Annual Impact Report 2019
How ALK is helping to tackle allergic asthma

As a treatment concept, allergy immunotherapy is now more than 100 years old. As a constant pioneer in the field, ALK has challenged and pushed the boundaries of allergy treatment so that, today, allergy immunotherapy is entering a new era of evidence-based treatment following the advent of its more convenient tablet-based treatments.

In recent years, ALK has invested substantially in the research and development of new, evidence-based, SLIT-tablets covering a majority of the respiratory allergies – house dust mite, grass pollen, pollen from birch and related trees, and ragweed pollen, as well as Japanese cedar pollen, which is a major cause of allergy in Japan.

In parallel, ALK’s dedicated research and development has shown that allergy immunotherapy addresses the underlying cause of the allergy rather than just treating the symptoms and that it potentially prevents the development of asthma. With its latest product, ALK has become the first and only company to develop and launch a house dust mite SLIT-tablet which is indicated for usage in both allergic rhinitis and allergic asthma.

Recently, ALK also disclosed data from a long-term clinical trial into asthma prevention in children suffering from grass pollen allergy, which showed that its tablet-based allergy immunotherapy treatment for grass pollen allergy significantly reduced the proportion of children experiencing asthma symptoms, an effect which was sustained for two years after the end of treatment.

III in brief: ALK-Abelló*

Tackling allergic asthma and allergy rhinitis

Investment

- Leader in allergy immunotherapy, with 50% market share
- R&D expertise: 13% of sales and 6% of industry total
- Production knowhow and unique full portfolio offering (covering 80% of all respiratory allergies)

Intention

- The company’s aim is to ‘improve quality of life for many allergy sufferers whose disease remains uncontrolled by developing products that provide long-lasting relief’

Impact

- Reached 1.7m people in 2018, 150,000 via tablets, or 4% of addressable market
- Seeking approval for treatment of children’s asthma, aiming to double the number of patients over the next 7-8 years

* III = Investment, Intention and Impact.
Information sourced from company literature.
Better work and education

We are currently in the midst of a ‘learning crisis’, with some 617 million children and adolescents worldwide not achieving minimum proficiency levels in reading and mathematics, according to the United Nations Educational, Scientific and Cultural Organisation (UNESCO). The report suggests some 387 million children of primary school age (or 56% of the global primary age population) and 230 million adolescents of lower secondary school age (61%) will not achieve minimum proficiency levels in reading and maths. Worriedly, some two-thirds of the children who are not learning are actually in school. Of the 387 million primary-age children unable to read proficiently, 262 million are in classrooms. Along with a lack of access to school and a failure to retain children in school, the poor quality of education in the classroom is a major concern.

We also have a problem with poor-quality employment, which the International Labour Organisation has described as the main issue for global labour markets, with millions of people forced to accept inadequate working conditions. A report from the group has found that a majority of the 3.3 billion people employed globally in 2018 had inadequate economic security, material wellbeing and equality of opportunity. Progress in reducing unemployment globally is not being reflected in improvements in the quality of work.

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

“Education is a human right for all throughout life and access must be matched by quality.”

Unesco

“Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.”

United Nations

<table>
<thead>
<tr>
<th>Company</th>
<th>Activity</th>
<th>Goal</th>
<th>Revenue to Prime SDG*</th>
<th>Primary SDGs</th>
<th>Secondary SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cogna Educação</td>
<td>Provides educational services to under-served groups in Brazil</td>
<td>To fill the need for education, including university attainment, to lower-middle income groups</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* 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 provides quality and affordable education to place lower-income students in a better position to enter the public 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.

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 Web lessons and discussion forums through a virtual learning environment, meaning that access to education is less restricted by geographical location. Cogna’s provision of education aligns most closely to Sustainable Development Goal 4: quality education.

III in brief: Cogna*

Bridging the educational gap in Brazil

Investment
• Broad and high-quality educational portfolio
• Largest private educational organisation in Brazil, with 687 associated schools and 1,310 distance learning centres

Intention
• Aims to fill the need for education to lower-middle income groups
• Fills the education gap left by the 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)
• Educates two million students across Brazil
• Reaches 967 municipalities via distance learning

* III = Investment, Intention and Impact.
Information sourced from company literature.
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.

While norms relating to social equality will differ by countries and regions, inequalities based on income, sex, age, disability, sexual orientation, race, class, ethnicity, religion and opportunity continue to persist across the world, within and among countries. As the UN points out, inequality threatens long-term social and economic development, harms poverty reduction and destroys people's sense of fulfilment and self-worth. This, in turn, can breed crime, disease and environmental degradation.

We invest in companies that are actively trying to improve the level of social inclusion across societies, from gender equality in the US to accessible mortgages in India. In 2018 our investments focused on providers of financial services, as well as the provision of childcare and transportation.

“A socially cohesive society is one where all groups have a sense of belonging, participation, inclusion, recognition and legitimacy.”

United Nations

<table>
<thead>
<tr>
<th>Company</th>
<th>Activity</th>
<th>Goal</th>
<th>Revenue to Prime SDG*</th>
<th>Primary SDGs</th>
<th>Secondary SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIA</td>
<td>The largest independent, publicly listed pan-Asian insurance group</td>
<td>Play a leadership role in driving economic and social development across the Asian region</td>
<td>44%</td>
<td>🍀</td>
<td>🍀</td>
</tr>
<tr>
<td>Bank of Georgia</td>
<td>Provides financial services to the Georgian economy</td>
<td>Support its customers, investors, employees and society in building a successful future for Georgia</td>
<td>80%</td>
<td>🍀</td>
<td>🍀</td>
</tr>
<tr>
<td>Bright Horizons</td>
<td>Provides childcare, early education and educational advisory options</td>
<td>Nurturing children and supporting families, significantly aligned to aiding gender equality in the workplace</td>
<td>100%</td>
<td>🍀</td>
<td>🍀</td>
</tr>
<tr>
<td>East Japan Railway</td>
<td>Develops transportation links and services to grow the East Japan area</td>
<td>Contribute to a thriving Japanese economy through development projects and access to transport</td>
<td>81%</td>
<td>🍀</td>
<td>🍀</td>
</tr>
<tr>
<td>HDFC Bank</td>
<td>India’s quality specialised mortgage company</td>
<td>Enhance the residential housing stock, including provision for lower income groups</td>
<td>38%</td>
<td>🍀</td>
<td>🍀</td>
</tr>
<tr>
<td>Sanlam</td>
<td>Provides life and non-life insurance solutions in Africa</td>
<td>Provide access to financial services, including to those in the entry-level market</td>
<td>30%</td>
<td>🍀</td>
<td>🍀</td>
</tr>
</tbody>
</table>

* SDG = UN Sustainable Development Goal.
Figures are based on latest information available from company literature.
III in brief: Bright Horizons*

Pioneer in childcare and early education

Investment
- Capital light and cash-generative on-site child centres, generally financed by client
- Leader in employer-sponsored centre-based childcare
- Brand recognition for quality childcare built over 30 years

Intention
- ‘Nurturing children and supporting families’
- ‘Commitment to provide environments that capture the joy of childhood and paves the way for success in school’

Impact
- Capacity to serve over 117,000 children and their families
- 1,000+ centres in the US, Canada, the UK, Holland and India
- Over 1,100 client relationships

III in brief: Sanlam*

Providing financial solutions in Africa

Investment
- South Africa’s second-largest life insurance and financial services group, with a presence in over 30 countries in Africa
- High barriers to entry and able to fend off competition, given its strong brand and ability to price competitively

Intention
- Aims to support people in ‘living their best possible lives through financial resilience and prosperity’
- Effective in implementing its strategy, providing access to financial products to lower-income customers in the region

Impact
- Sanlam insures eight million lives across Africa
- In South Africa, 2.75 million of Sanlam’s four million in force policies are from the entry-level market

* III = Investment, Intention and Impact.
Information sourced from company literature.
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.

To assess business exposure/alignment, company revenues are a good proxy; however, for earlier-stage businesses whose impactful products are yet to generate revenues, we may use proxies such as asset mix or investments in research and development.

In the case of measuring the impact of insurers and banks, affordable insurance coverage will, by and large, be low-ticket items that are not captured in a company’s top line or premium line. In this case, it is more appropriate to collect the proportion of low and mass-market customers to appropriately gauge the impact.

As examples, for Bank of Georgia, 87% of its 2.3 million customers are from the low-income and mass market groups, while half of Sanlam’s customers are ‘entry level’.

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).

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 – and in some cases seemingly impossible.

For these types of companies, in particular, we have engaged to encourage better disclosure, and will look for different ways to measure their impact as we move into the fund’s second year of operation.

Within this report, we have highlighted what we believe to be the impactful nature of these companies as case studies from page 31.
## Portfolio

### Climate action

<table>
<thead>
<tr>
<th>Company</th>
<th>Impact</th>
<th>KPI Explanation</th>
<th>KPI Measurement*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Everbright</td>
<td>Directly contributes towards a cleaner, energy-efficient China.</td>
<td># CO₂ emissions avoided</td>
<td>10.8m tonnes in 2018 via supply of 8.3 kWh of green energy</td>
</tr>
<tr>
<td>Orsted</td>
<td>Directly contributes towards a world running on green energy.</td>
<td># CO₂ emissions avoided</td>
<td>8.1m tonnes in 2018, powering 12.9m people</td>
</tr>
<tr>
<td>SolarEdge</td>
<td>Directly contributes towards making solar energy more efficient and more affordable.</td>
<td># homes powered</td>
<td>~1.9m homes powered via ~10.6GW of optimised inverter systems shipped</td>
</tr>
</tbody>
</table>

### Environmental solutions

<table>
<thead>
<tr>
<th>Company</th>
<th>Impact</th>
<th>KPI Explanation</th>
<th>KPI Measurement*</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPG Photonics</td>
<td>Enables the reduction of CO₂ emissions via its innovative laser technology used mainly for cutting, welding, marking and engraving.</td>
<td># CO₂ emissions avoided</td>
<td>3.2m tonnes in 2017</td>
</tr>
<tr>
<td>Rockwool</td>
<td>Helps drive better sustainability in building construction of the future via more resource-efficient and fire-resistant products. Rockwool insulation is also fully recyclable.</td>
<td># CO₂ emissions avoided over the lifetime of buildings</td>
<td>200m tonnes for products sold in 2018</td>
</tr>
<tr>
<td>Schneider Electric</td>
<td>Enables the reduction of CO₂ emissions through its range of energy efficient solutions designed for buildings and infrastructure.</td>
<td># CO₂ emissions avoided</td>
<td>51m tonnes saved by EcoStruxure customers in 2018</td>
</tr>
<tr>
<td>Johnson Controls</td>
<td>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.</td>
<td># CO₂ emissions saved</td>
<td>&gt;27.9m tonnes saved since 2011</td>
</tr>
</tbody>
</table>

* KPI = Key Performance Indicators. Based on latest information available from company literature.
<table>
<thead>
<tr>
<th>Company</th>
<th>Impact</th>
<th>KPI Explanation</th>
<th>KPI Measurement*</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANSYS</td>
<td>Helps create products that are energy efficient and environmentally friendly.</td>
<td>Case study</td>
<td></td>
</tr>
<tr>
<td>HORIBA</td>
<td>Enables the reduction of CO₂ emissions and the improvement of environmental practices through its range of measurement and monitoring tools.</td>
<td>Case study</td>
<td></td>
</tr>
<tr>
<td>ON Semiconductor*</td>
<td>Enables the reduction of CO₂ emissions through its extended range of energy-efficient semiconductors, with its positive impact being particularly felt in the transport industry.</td>
<td>Case study</td>
<td></td>
</tr>
</tbody>
</table>

## Circular economy

<table>
<thead>
<tr>
<th>Company</th>
<th>Impact</th>
<th>KPI Explanation</th>
<th>KPI Measurement*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brambles</td>
<td>Helps preserve natural resources such as water and wood, minimise waste and reduce carbon emissions through its sharing business model.</td>
<td># water saved</td>
<td>4,100 megalitres in 2018</td>
</tr>
<tr>
<td>E.S. Smith</td>
<td>Directly helps reduce the amount of waste generated by packaging. According to Eurostat, the average European generates 170kg of packaging waste per year.</td>
<td># of trees saved</td>
<td>~36m on the basis of 2.8m tonnes of paper recycled in 2018</td>
</tr>
<tr>
<td>Republic Services</td>
<td>Provides a solution to growing waste levels from population growth and promotes sustainable waste collection practices.</td>
<td># material recycled</td>
<td>~115m tonnes each year, of which 8m tonnes are recyclable products</td>
</tr>
</tbody>
</table>

## Better health, saving lives

<table>
<thead>
<tr>
<th>Company</th>
<th>Impact</th>
<th>KPI Explanation</th>
<th>KPI Measurement*</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALK A/S</td>
<td>Provides long-lasting allergy solutions via immunotherapy. Revolutionised treatment by pioneering immunotherapy in tablet form.</td>
<td># of patients treated</td>
<td>1.7m in 2018</td>
</tr>
</tbody>
</table>

* KPI = Key Performance Indicators. Based on latest information available from company literature.
<table>
<thead>
<tr>
<th>Company</th>
<th>Impact</th>
<th>KPI Explanation</th>
<th>KPI Measurement*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fresenius Medical Care</strong></td>
<td>Directly helps maintain lives via its life-saving blood cleansing procedure that substitutes the function of the kidney in case of kidney failure.</td>
<td># of patients treated</td>
<td>&gt;332,000 in 2018</td>
</tr>
<tr>
<td><strong>Grifols</strong></td>
<td>Helps treat a number of medical conditions such as immunodeficiency diseases and haemophilia via the separation of proteins from blood plasma.</td>
<td># people reached</td>
<td>&gt;200 people every minute with &gt;70 donations tested per minute</td>
</tr>
<tr>
<td><strong>Quest Diagnostics</strong></td>
<td>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.</td>
<td># of patients served</td>
<td>~86m people of which &gt;6.5m registered users of MyQuest patient portal or mobile app</td>
</tr>
<tr>
<td><strong>illumina</strong></td>
<td>Helps improve human health by diagnosing different diseases and guiding individual patient care via next-generation genome sequencing.</td>
<td># of samples processed</td>
<td>24m samples genotyped and sequenced to date</td>
</tr>
<tr>
<td><strong>Novo Nordisk</strong></td>
<td>Helps address the rising prevalence of diabetes, a condition that affects more than 420m people worldwide.</td>
<td># of patients treated</td>
<td>29.2m of which 5m people were treated with Novo’s human insulin at $4 max per 10ml vial in 2018</td>
</tr>
<tr>
<td><strong>UnitedHealthcare</strong></td>
<td>Helps promote access to healthcare with its 22% market share in Medicare (retirees) and 9% in Medicaid (low-income, long-term care).</td>
<td># of underserved and low-income people insured</td>
<td>6.7m</td>
</tr>
<tr>
<td><strong>ThermoFisher Scientific</strong></td>
<td>Helps customers accelerate life sciences research, solve complex analytical challenges, improve patient diagnostics, deliver medicines to market and increase laboratory productivity.</td>
<td>Case study</td>
<td></td>
</tr>
<tr>
<td><strong>Agilent</strong></td>
<td>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.</td>
<td>Case study</td>
<td></td>
</tr>
<tr>
<td><strong>BD</strong></td>
<td>Directly contributes towards patient safety, infection prevention and waste minimisation.</td>
<td>Case study</td>
<td></td>
</tr>
</tbody>
</table>

* KPI = Key Performance Indicators.
Based on latest information available from company literature.
## Better work and education

<table>
<thead>
<tr>
<th>Company</th>
<th>Impact</th>
<th>KPI Explanation</th>
<th>KPI Measurement*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>cogna</strong></td>
<td>Aims to fill the need for education for the lower-middle segment of the Brazilian population. Given its scale and discounted fees, Cogna is the most affordable and effective private option.</td>
<td># of students educated</td>
<td>&gt;2m with an average 95% rise in income gained after post-secondary graduation</td>
</tr>
</tbody>
</table>

## Social inclusion

<table>
<thead>
<tr>
<th>Company</th>
<th>Impact</th>
<th>KPI Explanation</th>
<th>KPI Measurement*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AIA</strong></td>
<td>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.</td>
<td># of individual policies</td>
<td>30m</td>
</tr>
<tr>
<td><strong>BANK OF GEORGIA</strong></td>
<td>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.</td>
<td># of people served in low-income groups or mass retail market</td>
<td>2m out of total 2.3m customers</td>
</tr>
<tr>
<td><strong>Bright Horizons</strong></td>
<td>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.</td>
<td># women labour force participation</td>
<td>~30,000 via children’s centres’ capacity of ~120,000</td>
</tr>
<tr>
<td><strong>JR EAST</strong></td>
<td>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.</td>
<td># of passengers or # of passenger kms</td>
<td>6.5m in 2018, equal to 137.5 passenger kilometres</td>
</tr>
<tr>
<td><strong>HDFC</strong></td>
<td>Directly contributes towards encouraging and expanding access to banking, insurance and financial services for all.</td>
<td># of mortgages for economically weakened sections/low-income groups</td>
<td>100,000 in 2018</td>
</tr>
<tr>
<td><strong>Sanlam</strong></td>
<td>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.</td>
<td># of in force policies from underserved markets</td>
<td>2.75m out of total 4m in force policies</td>
</tr>
</tbody>
</table>

* KPI = Key Performance Indicators.  
Based on latest information available from company literature.
Impact measurement case studies

For companies held in the portfolio whose impacts this year have proven difficult to quantify, the following descriptions highlight what we believe to be the impact case for each company

**Horiba**

Horiba provides an exceptionally broad range of testing products dedicated to the automotive industry. Its products cover the entire production chain, from analysing materials to testing tyres, brakes, engines, batteries and exhaust systems.

Horiba’s automotive emission measurement systems have been adopted as the primary standard by national certification bodies in many countries. Since the Volkswagen scandal in 2015, the EU has agreed on new procedures to test vehicles on the road, in order to get more realistic results and minimise the risks that manufacturers can exploit the flexibility of tests conducted in laboratory conditions.

To help compliance with these new requirements, Horiba introduced a range of real driving emissions testing equipment together with a user-friendly mobile app that helps simplify the testing process. This can be used for research and development purposes to compare lab test results with real road test results, as well as for certification to the draft EU emissions regulations.

**Ansys**

Ansys’ high-end simulation software is used across a myriad of industries, from automotive to aerospace, construction, healthcare and consumer goods. They enable efficiency improvement and help speed the time from product design to commercialisation.

Aerospace is an industry where Ansys’ solutions are proving to be very impactful, with customers able to design more fuel-efficient and environmentally-friendly aircraft. One example is Magnix, a US company currently developing an electric aeroplane motor using Ansys’ simulation tools. Its goal is to transform the short-haul aviation market, connecting smaller communities to big cities and pioneering clean, low-cost air transportation. Magnix cites numerous advantages of using Ansys’ software, from the ability to model different elements simultaneously, such as fluid dynamics, air flow and drag, to its recognised status and legitimacy with the regulatory authorities.
ON semiconductor

Environmentally-friendly transport requires the use of energy-efficient materials across the board. This includes semiconductors, which are important components of the energy supply chain and are a key component of electric vehicles. Power semiconductors, and silicon carbide technology in particular, are key to enabling the shift to electric and hybrid vehicles due to their efficiency characteristics. The main benefits are smaller size, reduced weight and cooling requirements, which lead to improved performance (up to 40%) translating into reduced power consumption. As the world’s second-largest player in power semiconductors, ON Semi is a key enabler for electrifying transport.

Agilent

Agilent’s high-precision equipment directly helps advance medical research. Exploring the role of lipids using its innovative bio-analytics instruments is one example. While our knowledge of genes and proteins has exploded over the last ten years, lipids have not received the same scrutiny. Lipids are molecules that make up the building blocks of the structure and function of living cells. There are tens of thousands of lipids and our understanding of them is limited, with the exception of cholesterol. And even in that case, the medical profession is currently re-evaluating the ‘accepted’ link between high cholesterol and cardiovascular disease. The National University of Singapore is building a database to help determine if other lipids, and differences in metabolism, might have a role to play as well. The advantage of Agilent instruments is their high resolution and accuracy, which helps obtain very granular levels of information. Beyond cardiovascular diseases, understanding lipids provides the foundation for better understanding of other diseases including cancer, diabetes and neurogenerative diseases.
**Thermo Fisher**

One of the many applications of Thermo Fisher’s analytical tools is the promotion of health and safety standards in the food industry. Its food metals detectors, for example, equipped with multi-scan, multi-frequency technology, enable food processors to check for the presence of metals before their products are shipped to supermarkets. This is proving particularly useful for fruit and vegetable processors to identify the occasional metal and glass particles, mesh, nuts and bolts that can be accidentally harvested with produce and enter the production process. These are often missed in conventional inspection practices, but with Thermo Fisher equipment, the probability of detection goes up exponentially and the scope for contamination is dramatically reduced.

**Becton Dickinson**

Becton Dickinson (BD) pioneered needle stick safety. In the 1980s, as the HIV and AIDS epidemic began to take hold, health workers faced increasingly serious and potentially life-threatening risks from accidental needle sticks. In 1988, recognising the need for safer products, BD introduced the first safety-engineered syringe, with a sliding plastic shield that covered the needle after use. BD actively supported government guidance on needle safety in the early 1990s, and in 2000, President Bill Clinton signed legislation called Becton Dickinson: Creating Shared Value by Advancing Global Health: the Needlestick Safety and Prevention Act. Within five years, nearly all US hospitals had switched to safety-engineered blood drawing devices, IV catheters and syringes and the rate of sharps injuries among US nurses declined by 51%.

The company is constantly bringing innovation to drug delivery systems. It recently introduced a plastic blood collection tube that allows blood to be processed days after collection, critically helping labs that would normally be forced to process blood within hours.
Engaging with our investments

Impact investors can effect change by engaging with investee companies on a number of issues, not least supporting responsible corporate behaviour and long-term thinking, but also pushing the company to improve disclosure or set more testing sustainability objectives. This is important because impact investing, like ESG investing, can present dilemmas and paradoxes.

A company with a clear environmental purpose, like a wind turbine maker, can have a relatively large CO₂ footprint (because it produces large steel structures), but also equality, workers’ rights or safety issues like any other company. And even impactful companies can improve. There will always be reasons for investors to engage to improve company practices – alone or as part of a group – and advocate better disclosure, diversity, equality, safety and decent working conditions, among others. Engagement also allows for positive reinforcement of the long-term aims of a company, while further supporting a business’ impactful ventures.

86% of portfolio companies engaged in the past year

Meeting type

- Conference call
- Group meeting
- One-to-one meeting

Broad engagement topics by type

- Sustainability
- Risk
- Product safety
- Business model
- Metrics and measurement
- Impact update
- Activity update

Annual Impact Report 2019
Engagement case study: Republic Services

Objective: Encourage the company to add ‘sustainability’ to its key pillars, and add sustainability targets into its compensation KPIs.

Actions: Met with the company’s chief executive.

Outcome: The CEO appeared receptive to these ideas, and we will continue to monitor for implementation.

Background: We met with the CEO to discuss the group’s recycling activities, given recent headwinds in the recycling industry as a result of China rejecting recycling imports given their poor quality. The company said that China considered its waste to be of a good quality and appreciated its consistent flow. The group is now focusing investments on improving recycling processes, while also recently disclosing market-leading and ambitious 2030 sustainability goals. We encouraged the company to make sustainability one of its pillars (current pillars are: Market Position, Operating Model, People and Talent Agenda, Customer Zeal, Digital Platform). We also suggested that the group add sustainability targets into its compensation KPIs to further reinforce its commitment to sustainable and safe waste management.

Engagement case study: Bank of Georgia

Objective: Encourage the company to report in line with the Task Force on Climate-related Financial Disclosures (TCFD).

Actions: Met with the company’s CEO and regional management team.

Outcome: Management to consider reporting in line with TCFD.

Background: At the group’s investor day, it confirmed that it had a responsible lending policy and ethics codes related to its investments and lending practices. Bank of Georgia has established an Environmental and Societal Policy in order to effectively manage the bank’s direct and indirect impact on society and the environment. The group takes this seriously, as it operates in line with its brand of ‘helping customers reach their potential’.

Part of achieving that includes aiding women empowerment in businesses and promoting renewable energy usage. This is excellent for a bank operating in a frontier market such as Georgia. As a next step we encouraged the bank to show support for, and report in line with, the TCFD principles. This helps companies develop climate-related disclosures and is becoming increasingly important as a future regulatory framework.
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

- **Ben Constable-Maxwell**
  - Measurement, engagement and external networks

- **Thembeka Stemela**
  - Impact research

- **Jasveet Brar**
  - Impact research

- **Randeep Somel**
  - Impact research

- **Maria Municchi**
  - Multi-asset impact specialist

- **Alice de Charmoy**
  - Emerging markets specialist

- **Michael Oliveros**
  - Small-midcap specialist

- **Veronique Chapplow**
  - Investment specialist

- **Christopher Andrews**
  - Communications specialist
A year in impact: activities and initiatives

It has been an exciting first year for the fund, during which we participated in numerous activities and initiatives supporting impact and the SDGs, from communications and capacity building to impact measurement and development finance.

One of our core aims in setting up the fund was to broaden the appeal and accessibility of impact investing to the general investing public. In this spirit, we wanted to give our customers the opportunity to input into the design of the fund, so ahead of fund launch we took part in two broad initiatives. The first was a client consultation with a wide range of financial advisers, wealth managers and institutional investors whose inputs (and challenges) we incorporated into the strategy and implementation of the fund. Secondly, we wanted to tap into the views of our retail customer base, a voice that can often be overlooked. With that aim, we conducted a series of focus groups with our direct customers, enquiring as to which of the SDGs or impact challenges they wanted us to address and how they would like to see the fund’s impacts communicated.

Since last November’s launch, getting the word out there has been one of our main objectives. As a team, we spent many weeks on the road around the UK and Europe, explaining the concept of impact investing, setting out how it fits into the spectrum of responsible investment and exploring how the established principles of impact investing can be implemented in public equities. These discussions highlighted the varied levels of awareness among different investors, but what struck us was that the idea of directing one’s savings and investments towards something positive was embraced by almost everyone.

Getting the message out

During the year we spoke at a number of events focused on impact investing. Among these, we presented at the SDG Investing Fair at the UN headquarters in New York on how to use public equity markets to scale up impact; we spoke at the World Impact Summit in London on the challenges and opportunities of listed market impact investing; and at the Worthstone Impact investment Academy, we looked to bring equity impact investment to life through examples of how our III methodology can be applied to specific companies across sectors. We also held an event in our Paris office focused on sustainable and impact investing alongside our colleagues in private debt and multi-asset, where we invited one of the fund’s investments, Schneider Electric, to discuss how corporates and investors can align to push for positive sustainability outcomes.

Impact initiatives

As with any fast-developing area, the world of impact investing has generated a plethora of impact-related initiatives. These include the Impact Management Project (IMP), the Global Impact Investing Network (GIIN), the newly founded Impact Investing Initiative and the IFC Principles for Impact. For the M&G Positive Impact Fund, we have designed an impact methodology suited to our long-term investment approach, but we recognise the valuable role played by many of these initiatives in driving forward impact in the financial system. As a result, we have learnt from – and participated in – many of them.
The IMP is an initiative set up to support the uptake of impact investing globally; we were invited to join its working group to design a Conceptual Framework for Impact Accounting – a crucial step towards the standardisation of impact metrics. This is a much-needed catalyst if impact investing is to really take hold. As a member of the GIIN, we attended a number of conferences and workshops – and recently joined its Public Equities Working Group to help listed equity investors navigate the sometimes choppy waters of impact investing. We were part of the UK National Advisory Board’s (NAB) workstream on Emerging Market Impact Investing, which helped to develop our understanding of impact considerations in parts of the world that need most support (and investment), as well as bringing us into discussions with organisations such as the UK Department for International Development (DFID) and its development finance arm CDC. With the latter, we took part in its Africa Roundtable and hope to work together more closely in the future.

2020

While we are proud of the fund’s progress during its first year, we have ambitious plans and have set ourselves a number of objectives for 2020. These include:

• Continuing to improve our impact management and measurement processes – looking to more structurally integrate valuable external resources such as the Impact Management Project’s measurement dimensions into our existing methodology

• To use our voice as an impact investor to push for progress and better disclosure at our impact investments, as well as developing other pools of impact data from varied sources

• Developing partnerships across a range of fields to advance a ‘coalition of the willing’ that can support the growth of impact investing, including corporates, policy makers and NGOs

• And to scale up our impact communications, both by supporting the market with the right information to develop its understanding of impact and in developing new tools to enhance our communications to our customers

All in all, there is much work ahead, and we thank you, our investors, for joining us on this journey.
UN SDG Investment Fair
Oxford Impact Measurement Programme
UN PRI
CDC
GIIN
Access to Medicine Index
Impact Investing Institute
UN SDG Investment Fair
UN SDG Investment Fair
Impact Management Project
Impact Investing Academy
Sustainable Development Goals
UK NAB
World Impact Investing Summit
UNEP Positive Impact Initiative
Positive Investors Forum Paris
GIIN
Annual Impact Report 2019
Annual Impact Report 2019
Annual Impact Report 2019