

Positive Impact Report 2019

Methodology Case Study



This paper is primarily aimed at asset managers and finance industry professionals who would like to measure the social and environmental impact of their portfolios.

Going back to the [definition of impact investment](#) by the Global Impact Investing Network (GIIN), impact investments are those made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return. As part of aligning to the [core characteristics of impact investment](#), we try to measure the underlying impact of the companies we hold in the portfolio. We think this is an important step of our process, allowing us to deliver on our dual mandate and report to clients, and also manage our impact by informing our engagement and investment activities in a feedback-loop.

While we are aware of the limitations of our methodology, we are firm believers in that we cannot wait for best practise to form – but we need to help drive its development. This methodology case study is our attempt at being as transparent as possible.

What data do we focus on?

All the data included in our [impact calculator](#) relates only to the social and environmental benefits generated by the core products and services of the invested companies. This is because we believe that products and services are the reflection of the purpose of the business, and most often carry the largest associated impact.

By not incorporating data on the impact achieved by the operational side of the business, we are significantly reducing the risk of social- or [greenwashing](#), i.e. making an unsubstantiated or misleading claim about the social or environmental benefits of a product, service or company practice.

This analysis covers the equity and fixed income portion of our portfolio.

What impact are we measuring?

Our impact measurement methodology is guided by the [UN Sustainable Development Goals](#) (SDGs). While a number of impact funds still limit their impact analysis to the intentional impact of investments in relation to the SDGs (usually by mapping their portfolios to the SDGs), our methodology goes further by measuring the achieved SDG-linked impacts of our portfolio's investments within the past year (2018). As our analysis focuses on the impact achieved by the products and services, the progress made towards a few SDGs like Gender Equality or Partnerships for the Goals cannot be measured through this methodology.

Case study

We are publishing this case study on the impact indicator 'tonnes of waste material recycled', which refers to the waste material recycled by waste management businesses. We chose to examine this indicator due to its relative simplicity, but also as its measurement process is broadly representative of most other reported indicators. This case study, which is broken into four steps, covers the decision to report upon the particular SDG target, the impact data collection, the indicator finalisation and the final impact analysis calculation.

Step 1) SDG target selection

In order to select the SDG targets to report on for our portfolio, we needed to first understand the extent to which reporting is currently possible. This is obviously dependent on the level of companies' disclosure of impact data, and the state of research linking the SDGs to the investor level.

To gain an overview, we examined numerous impact funds and their reported indicators, and combined this with existing SDG-indicator guides (e.g. [Sinzer impact standards search](#), [SDG Compass](#), [SDG Impact Indicators](#), [IRIS +](#), [UN PRI Impact Investing Market Map](#)).

The 17 UN SDGs have 169 underlying, specific targets. This research gave us an insight into what SDG targets are currently reported on, and allowed us to develop a set of the most relevant SDG targets with an extensive list of potential indicators. (The finalised indicators only emerged after our impact data collection (See step 3)).

One SDG target that emerged was SDG target 12.5: 'by 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse'.

Step 2) Impact data collection

In our portfolios, SDG target 12.5 is primarily contributed to by the impact achieved through waste management and resource recycling companies. Therefore, all companies that produce core products and services with these purposes were determined relevant, and reviewed for disclosed impact data collection.

Data sources included the companies' most recent annual reports, corporate social responsibility (CSR) reports, financial disclosures and investor presentations. Annual data for the 2018 period was preferred, but 2017 was recorded if unavailable. We collected any SDG 12.5 related impact data we could find, covering data of 18 different relevant indicators. These 18 could form the final aggregated indicator.

Those companies that were reporting data on waste recycled without it being a key part of their commercial activities were not included in our calculations. This is a key part of our process and has two main benefits. Firstly, it reduces the risk of double counting. Secondly, it helps to avoid reporting impact data on companies which might be making their operations less harmful to society or the environment, but where their core activities are going against the SDGs. Examples would include tobacco or armament manufacturers that send a proportion of their manufacturing scraps to recycling.

Step 3) Indicator finalisation

Table 1: Details of the final indicator

SDG target	Final indicator	Business activity
12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse	Tonnes of waste recycled (input to recycling; if data unavailable then output), per year	Providing waste recycling services Upcycling waste into new products

After a review of the collected impact data, the final impact indicator was discussed internally and agreed upon based on its SDG-relevance, its impact [additionality](#) and the level of data availability we found.

In this example, the finalised indicator for the portfolio's SDG 12 impact is 'tonnes of waste material recycled' (Table 1).

- This is an aggregate indicator of companies' disclosed data on the volume of waste material input to a company's recycling process and, if this data was unavailable, included volume of waste material output from the recycling process.
- As companies disclose related impact data in slightly different manners, Table 2 below details which individual sub-sets formed part of the aggregate indicator. It is worth mentioning that annual data for 2018 was preferred, but 2017 data was used when unavailable.
- There were indicators for which data was collected under this SDG target but not included in the final indicator, such as volume of waste burned for energy recovery or volume of waste prevented through use of products. This is because these did not logically form a sub-set of the finalised indicator and refer to slightly different impact outcomes and business activities.

Table 2: Sub-sets of the finalised indicator included in the impact measurement

	1 Waste material input to recycling	2 Waste material output from recycling
Sub-sets of finalised indicator	'Total waste material inputs to recycling', 'Recycling volumes', 'Recycling commodities', 'Sewage sludge treated for material recovery', 'Steel dust recycled'	'Total material recovered', 'Secondary raw materials produced', 'Biological waste recovery', 'Tonnes of plastic bottles used in new products'

Step 4) Impact data analysis

This analysis is based on the assumptions:

- By being a shareholder, you are partly responsible for the impact of the companies you own.
- By investing in a bond issuance, you are partly responsible for the impacts of the activities the bond proceeds finance.

Thus, the investor is contributing to the total 'impact' of that company, or that of the bond projects. A proportion of that impact can be assigned to the investor depending on the size of their share in the company.

For each company with available impact data for 'tonnes of waste material recycled', the disclosed data was divided by the company's enterprise value and then multiplied by the percentage size of this specific company within the portfolio. This was then multiplied by £1,000,000, to indicate the 'impact efficiency' of a £1 million invested in regards to the 'tonnes of waste material recycled' indicator.

Illustrating this analysis using Veolia Group as an example

Veolia group is a French listed company and the global leader in optimized resource management. Waste management is one of its three core activities and the company operates in nearly 50 countries.

Veolia produced 33.124 million tonnes of secondary material from its waste material recycling operations in one year (2018-19).

The company presents an aggregate of approximately 3.59% of one fund within the impact portfolios. This fund presents 5.75% in the EQ Positive Impact Portfolios (Risk level: Adventurous).

Veolia has an enterprise value of about 18,616 million GBP (as of 31/12/2018).

Per £1 million investment in the impact portfolio, Veolia contributes to:

$$= \frac{33.124}{18,616} \times 0.035 \times 0.0575 \times 1,000,000 = 3.58 \text{ tonnes of waste recycled}$$

The individual contributions to this indicator by each of the relevant companies and corporate bonds were then aggregated to give an overall portfolio impact on to 'tonnes of waste material recycled'.

Concluding remarks

This case study demonstrates an example of the impact measurement process underlying our impact report. We undertook this process multiple times, resulting in us reporting on 12 different indicators that were both the most reported upon (from the underlying companies) and also the most SDG-related.

The methodology allows us to connect individual investors' investments to the impact that their investments in companies are proportionately contributing to. Relating back to the definition of impact investment describing the dual mandate, we are displaying a way to communicate 'impact' returns alongside the financial returns.

Finally, we believe that this impact measurement methodology represents an understatement of the real impact contributed to by each investor. Indeed, we believe that the measurements of our 12 impact indicators are conservative in their approach, because we relied solely on the companies did not disclose any impact data, we have not tried to estimate them by using average peer group data.

At EQ, we are committed to improve on the available methodologies to report on the social and environmental impact achieved through any investment. To push the boundaries of impact measurement further, we are cooperating with a number of asset managers and institutions and always welcome any feedback on our reports and methodology.

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