Positive Impact Report 2019

EQ investors

Investing for people and the planet

Introduction

Welcome to the latest issue of our annual review of the EQ Positive Impact Portfolios. In the last year we've achieved more positive impact than ever before and we are seeing an increasingly responsive corporate community, leading to better data and more focus on achieving change for the better. We are also pleased to have maintained our record of strong investment performance.

1 Our mission

"As one of the founding B Corps in the UK, EQ Investors strongly believes in business as a force for good. Our mission is to create systems change through the power of investments. By making it easy for our clients to invest in businesses that benefit people and planet, we can work together to create a better world."

John Spiers, CEO

Certified B Corporation

2 Our vision

What will the world look like when everyone invests this way?

- ✓ New businesses enter the market with innovative solutions to social and environmental problems.
- ✓ Incumbents shift their business models towards sustainability.
- ✓ Capital flows away from businesses that are resisting real change.
- ✓ Corporations maximise real value, not just profits.
- ✓ The financial system as a whole becomes more transparent.
- ✓ Impact data helps leaders make better decisions.

3 Our goal

With this vision in mind, we continue to work to maximise the impact of and return from our Positive Impact Portfolios.

This report is our way of showing how your savings can be invested for a more sustainable and equitable world – and exactly what a difference this makes.

What's new in this year's report?

- ✓ We've extended our impact measurement to the bond allocation of the portfolio, which meant looking at ~30% more unique companies than last year!
- ✓ We've mapped our efforts against two benchmarks: FTSE 100 for a familiar home benchmark and the MSCI All-Country World Index – a global index of over 2,000 companies.
- ✓ We've focused in on our engagement activities to show how we collaborate with fund managers to change the system.

Contents

Impact metrics 2019

Every £1m invested in our Positive Impact Adventurous portfolio...

Planet

Generated **189 MWh** of renewable energy equivalent to the electricity used by 57 households — 168 MWh

Avoided **228tonnes** of CO_2 emissions equivalent to taking 50 cars off the road — 217 tonnes

Recycled **24 tonnes** of waste material equivalent to the waste produced by 24 households — 45 tonnes

Avoided **2.7m litres** of water use equivalent to 61,000 showers — 1.6m litres

Treated **15m litres** of waste water equivalent to the waste water from 114 households — 3.5m litres

Added **14 KW** of renewable capacity enough wind power to supply 14 households — NEW!

People

Treated **45 patients** — 32 patients

Made **1,072 medical interventions** covering diagnostics, screens and treatments — 439 interventions

Reached **50 people** with preventative healthcare — NEW!

Delivered **380 hours** of school, higher and adult education — 338 hours

Given **6 people** in emerging markets new access to mobile networks — 4 people

Provided **11 people** in emerging markets new access to financial services — 11 people

−/+ Impact reported in 2018

NEW! New metric in 2019

The changes in reported impact from 2018-2019 arise from a range of factors, including: increased impact from the underlying companies, new impact data being disclosed, changes in portfolio weightings and improvements to our methodology.
For full details please visit: https://eqinvestors.co.uk/library/how-we-measure-impact-2019/

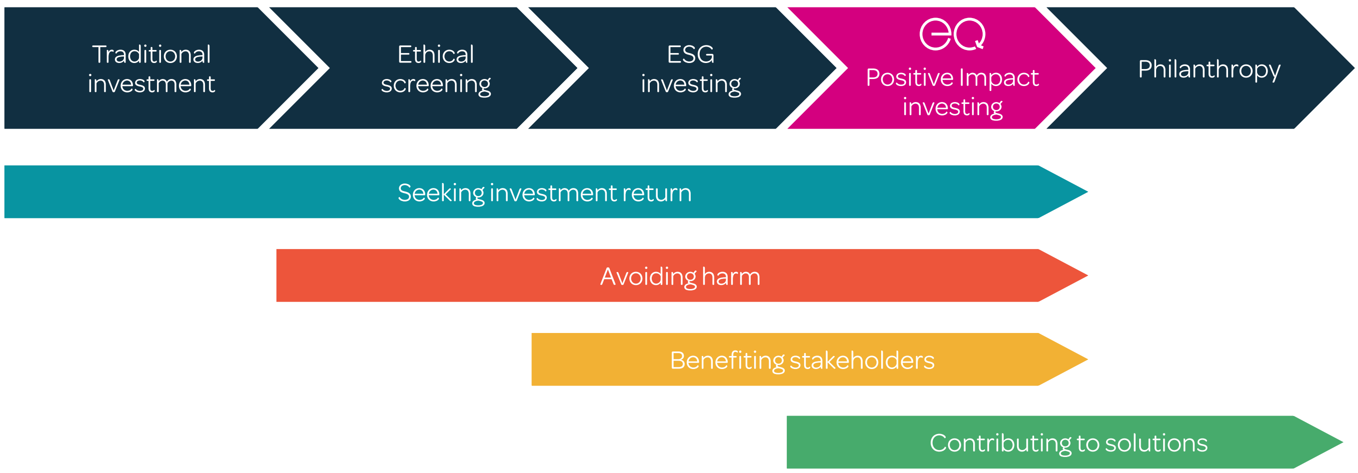
How we invest for change

Imagine if you could enjoy market-leading returns and invest in companies that are making a positive impact on people and the planet... Well, you can!

The EQ Positive Impact Portfolios have a dual mandate:

- ✓ Maximising risk-adjusted financial returns
- ✓ Maximising positive impacts on society and the environment

How our approach compares to other types of investing[1]



1 Invest in solutions

To solve real world problems, we believe the focus should be on companies and organisations which have developed solutions that are helping to build a more sustainable and equitable world. The EQ Positive Impact Portfolios invest in companies whose core products and services are helping to address challenges like the climate crisis, healthcare, and access to education or safe water.

We also invest in companies that are well run. We look at their 'ESG' (Environmental, Social, Governance) performance – to ensure that they are reducing their environmental impact and treating their customers, employees and suppliers fairly.

Given our focus on companies developing solutions to world problems, we naturally avoid harmful companies involved in controversial sectors.

2 Actively push for change

We work with fund managers who share our values, and we engage proactively to help them maximise their investment impact and to share best practice. We accept that no company is perfect. We favour those that are demonstrably improving their impact, and we work with managers who are prepared to actively engage with their investee companies to support them on this journey. This collaborative approach enhances our potential to change the system.

3 Measure the impact

We have developed proprietary, market-leading impact measurement and mapping tools to report on the impact achieved by our investments. They enable us to spot trends, engage more effectively with fund managers and improve our impact.

1 Adapted from: The Bridges Spectrum of Capital (2013). Bridges Fund Management.

How we measure impact

Our impact investments are made with the intention to generate positive, measurable, social and environmental impact alongside a financial return.

Measuring financial return is straightforward, but measuring impact is less so; it is also a rapidly evolving field. In terms of global best practice, we embrace the latest norms and definitions from the Global Impact Investing Network[1] and the Impact Management Project.[2]

For the second year we have conducted a detailed review of our portfolios' underlying holdings. We examine company annual reports, disclosures and investor presentations to determine how much impact they have achieved, and then work out how much we can sensibly attribute to our investments.

No progress is ever made if you wait to be 'perfect' – we would rather help to shape best practice in this fast-moving field. We have developed proprietary, in-house impact measurement tools because:

- No data provider offers the level of detail we require.
- We want to lead the industry in providing meaningful data to clients.
- Doing our own analysis helps us to avoid greenwashing.
- Sound data means we can engage with our fund managers based on evidence and maximise our impact over time.

Methodology

To prevent us over-claiming our impact, we only show a proportion of the absolute impact reported by all companies in our portfolio during one year of investment. Our logic is based on two assumptions:

1. By investing in a company you are partly responsible for its impacts.
2. By investing in a bond you are partly responsible for the impacts of the activities it finances.

Our impact calculations are based on a formula that takes into account the size of our investment relative to the overall enterprise value.

For the sake of transparency, and to help shape standardisation of impact measurement across the industry, we have published a case study which describes our methodology in full.[3]

Data availability

Impact data disclosure by underlying companies has visibly increased since last year. Now c.50% of the portfolio holdings that we link to the UN Sustainable Development Goals contributed to at least one of the 12 impact metrics on page 3.

GIIN
GLOBAL IMPACT INVESTING NETWORK

IMPACT MANAGEMENT PROJECT

1 The Core Characteristics of Impact Investing, https://thegiin.org/characteristics
2 Impact Class Catalogue, https://impactmanagementproject.com/impact-class-catalogue/
3 https://eqinvestors.co.uk/library/how-we-measure-impact-2019/

"The PRI initiative reached 2,232 signatories in 2018, a 21% increase on the previous calendar year. This reflects the growing desire among many investors to embed sustainability into their investment decision-making process, and we are proud to be a part of this movement.

We also welcome the recent implementation of minimum requirements for membership, to strengthen accountability and recognise best practice."

Damien Lardoux, Positive Impact Portfolio Manager

Signatory of:

PRI Principles for Responsible Investment

A compelling case to invest

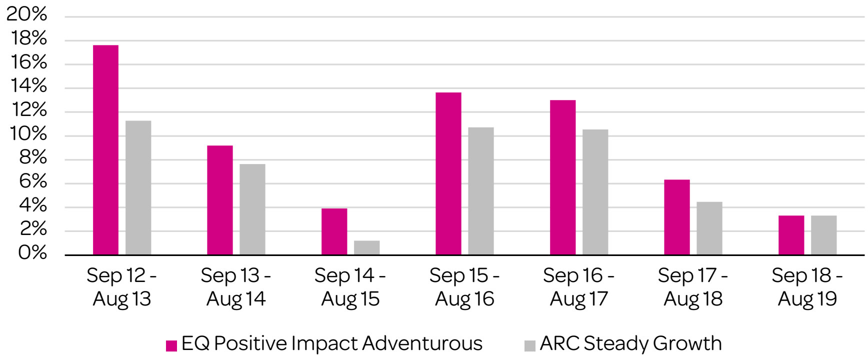
You can invest sustainably without sacrificing returns. The EQ Positive Impact Portfolios have consistently beaten industry-standard ARC benchmarks over the past 7 years. We see this as no coincidence.

The most recent study reviewing the performance of over 11,000 mutual funds adds to the mounting evidence that not only is there no trade-off, but that sustainable investing reduces downside risk.[1] Impact investing adds to this by capturing potential upsides from competitive advantages, megatrends and legislative support.

The most successful companies have always been those that build their business models around real needs by offering innovative solutions to real-world problems. Impact investing sets out to capitalise on just this type of opportunity. Companies that aim to maximise positive impact operate resilient business models, avoiding large risks such as increasingly stringent regulation.

By focusing on current and emerging growth opportunities these companies project themselves into the future – in line with investor's long term time horizons.

7 Year Portfolio Performance



Cumulative

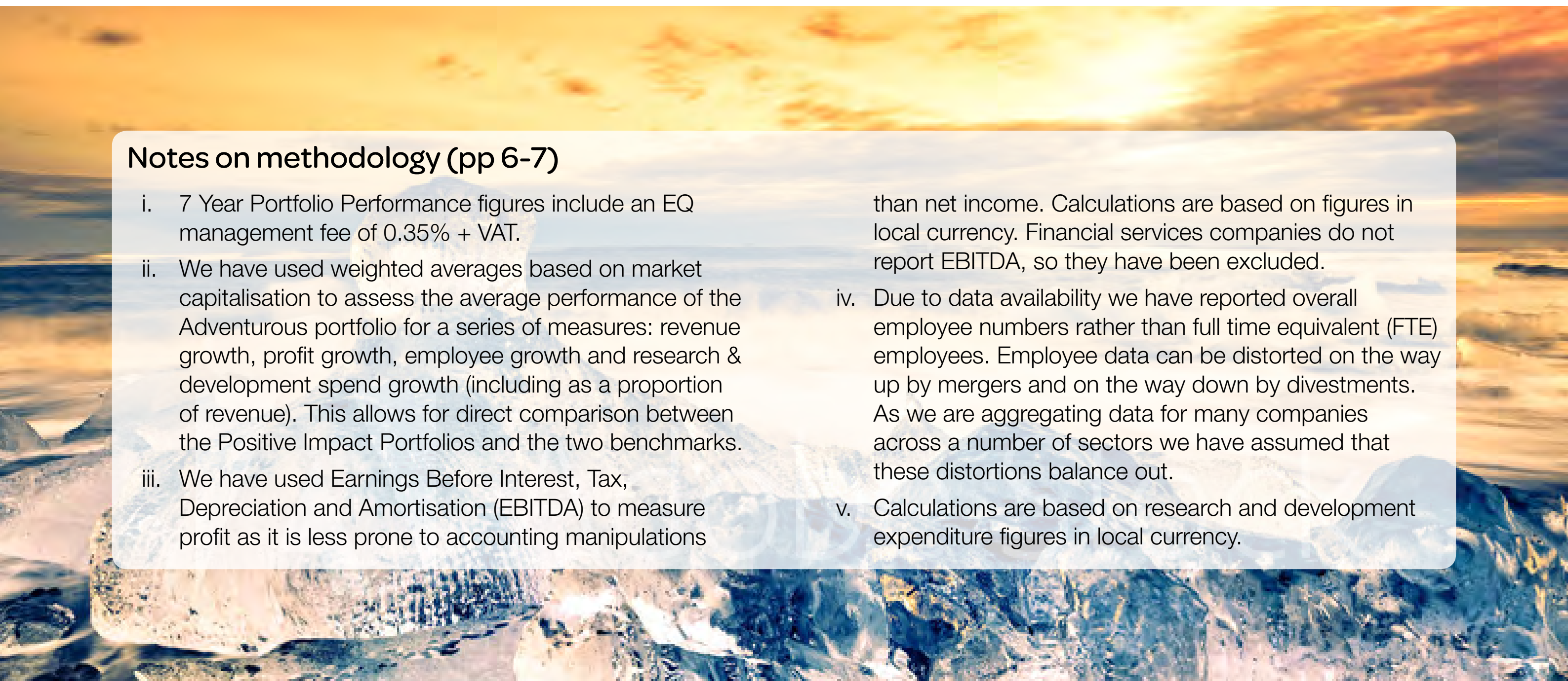
EQ Adventurous	88.3%
ARC Steady Growth	60.1%

Annualised

EQ Adventurous	9.5%
ARC Steady Growth	7.0%

Past performance is not a guide to future performance. The value of investments and the income derived from them may go down as well as up, so you could get back less than you originally invested.

1 Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds (2019). Morgan Stanley Institute for Sustainable Investing. https://www.morganstanley.com/ideas/sustainable-investing-competitive-advantages



Notes on methodology (pp 6-7)

i. 7 Year Portfolio Performance figures include an EQ management fee of 0.35% + VAT.

ii. We have used weighted averages based on market capitalisation to assess the average performance of the Adventurous portfolio for a series of measures: revenue growth, profit growth, employee growth and research & development spend growth (including as a proportion of revenue). This allows for direct comparison between the Positive Impact Portfolios and the two benchmarks.

iii. We have used Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) to measure profit as it is less prone to accounting manipulations than net income. Calculations are based on figures in local currency. Financial services companies do not report EBITDA, so they have been excluded.

iv. Due to data availability we have reported overall employee numbers rather than full time equivalent (FTE) employees. Employee data can be distorted on the way up by mergers and on the way down by divestments. As we are aggregating data for many companies across a number of sectors we have assumed that these distortions balance out.

v. Calculations are based on research and development expenditure figures in local currency.

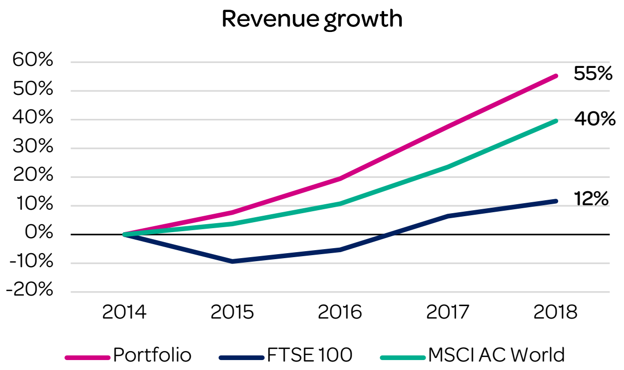
Underlying growth stories

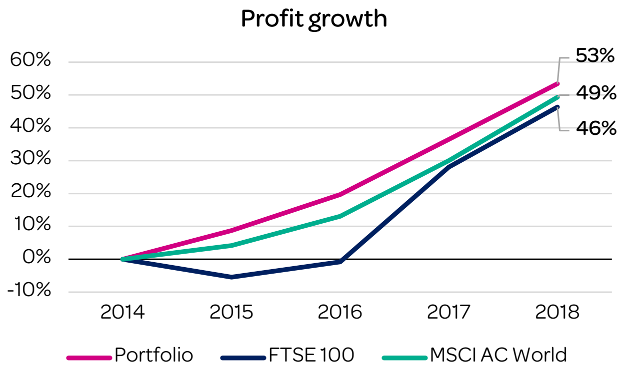
The companies within the Positive Impact Portfolios have shown positive underlying growth over the last five years. Whether you look at revenues, profits, headcount or research spending, our portfolio companies compare favourably with the broader market, as defined by the FTSE 100 and MSCI All Country World Indices.

Revenue and profit growth

The data shows that our Positive Impact Portfolio holdings exhibited more stable and higher growth in revenues and profits over the past 5 years, compared with both benchmarks.

Positive impact firms tend to be innovators, operating in growing markets. Their products and services address real needs and typically experience high growth in demand.



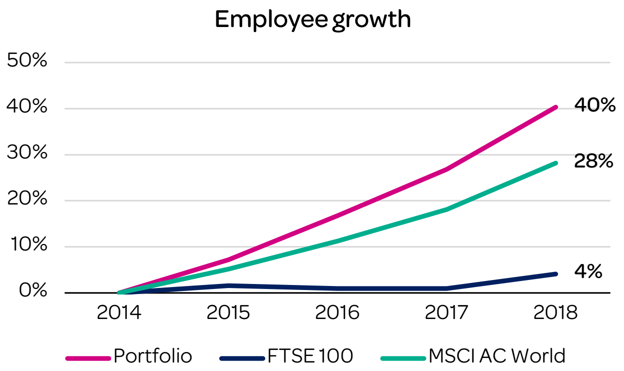


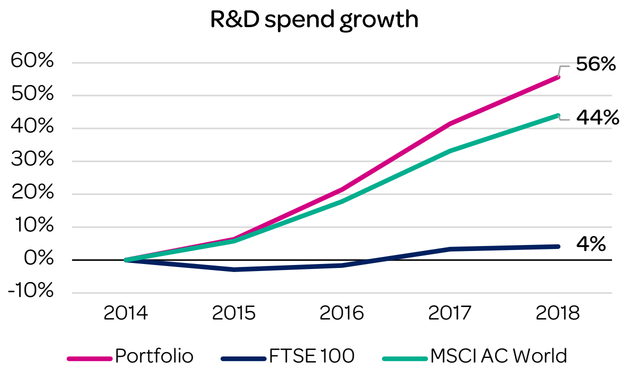
Employment growth

Employment growth is not only representative of a business' financial health, it is also a positive impact on society. Our Adventurous portfolio companies employed 40% more people over 5 years, compared to the relatively stagnant FTSE 100 with just 4% more.

Research and development (R&D)

R&D spending growth supports innovation which is key to achieving the UN Goals. It also reflects how much a company is investing in its own future, to stay competitive and adaptable over the long-term. The data shows that companies within our portfolios have been growing their R&D expenditure at an accelerated pace.

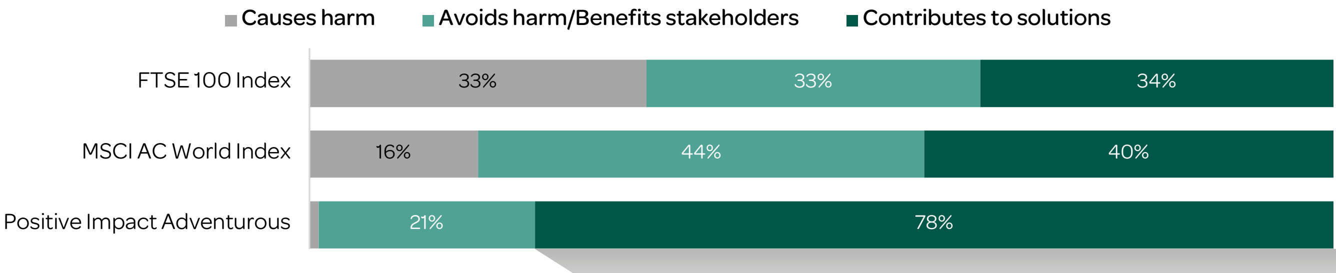




Past performance is not a guide to future performance. The value of investments and the income derived from them may go down as well as up, so you could get back less than you originally invested.

Solutions we invest in

We aim to invest in firms which solve social and environmental problems. We map all of our underlying investments against the UN Sustainable Development Goals (see Appendix), by focusing on the core products and services that each company provides. Here you can see how our Adventurous portfolio compares to major world markets, with examples to show some of the companies we invest in.



Aptiv

The company's proprietary software and sensor technologies are the enabling capabilities for future mobility – electric, connected, autonomous and safer driving.

World Bank (bond)

Part of the World Bank, IBRD finances essential infrastructure projects in the developing world. The bond proceeds fund various infrastructure developments, including public transport networks, schools and hospitals. The World Bank consults globally, supporting governments to develop policies in line with the Goals.

ASA International

ASA provides entrepreneurs with micro-loans in 12 countries across Asia and Africa.

HDFC bank

HDFC plays a key part in increasing financial inclusion in India, offering specialised products to small merchants who are physically and digitally disconnected from the formal economy.

Xylem

Xylem deploys engineering solutions and technology to increase efficiencies across the entire use-cycle of water – ranging from reducing utilities' losses to treating effluents.

CSL Ltd

Specialising in blood-plasma derived treatments, CSL leads treatment of blood hereditary disorders, infections and blood cancers, while also operating a large blood donor network.

TfL (bond)

The proceeds of the bond all directly contribute to making London's transportation greener, with extended bike pathways and hydrogen-powered buses helping solve the air pollution problem and the UK's move towards a zero-carbon economy.

Teladoc health

A leading innovator in 'telemedicine', Teladoc provides an online platform for remote medical care. The company supported 2.6 million virtual doctor visits in 2018.

Hightown Housing (bond)

The proceeds of this bond directly contribute to solving the social housing crisis by helping build new or improve existing housing stock. Specialising in care and supported housing, it helps the most vulnerable in society find long-term affordable homes.

Signify

As the global leader in LED lighting systems, it now transforming the buildings and the city scape into an energy-efficient and connected spaces through the Internet of Things (IoT).

Xinyi Solar

As the leader in solar glass manufacturing and R&D, Xinyi Solar has now also diversified into designing, operating and maintaining utility-scale solar projects. With a grid mix that is still dependent on coal, the company generates large CO_2 savings for China.

Kroton Educacional

The largest private sector education provider in Brazil, Kroton manages schools and universities across the country and develops educational content. Additionally, through its digital learning solutions, Kroton extends access to flexible further education to rural regions.

DS Smith

DS Smith specialise in sustainable packaging, including closed-loop cardboard and paper recycling solutions that track every single cardboard box used by their clients.

Glasgow Together

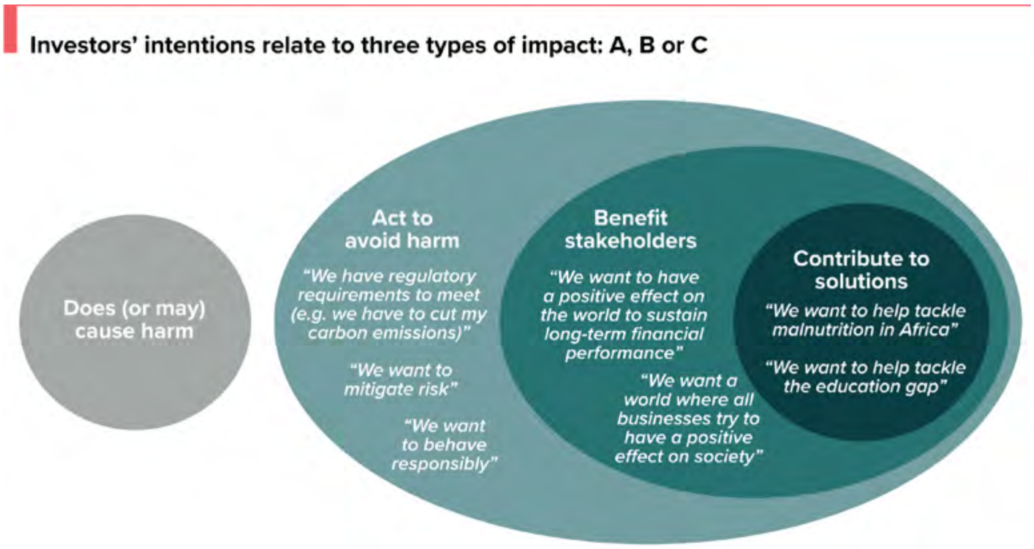
Glasgow Together buys old properties in Glasgow and refurbishes them with the help of ex-offenders. Through on-the-job training, prospects are created to help prevent reoffending.

Systems thinking on climate change

The Sustainable Development Goals address complex problems. Our solution is to take a whole ecosystem approach to investing. Climate change provides a good example of how we use systems thinking.

As investors there are three ways we can think about making an impact: we can A) act to avoid harm, B) benefit stakeholders, or C) contribute to solutions.[1]

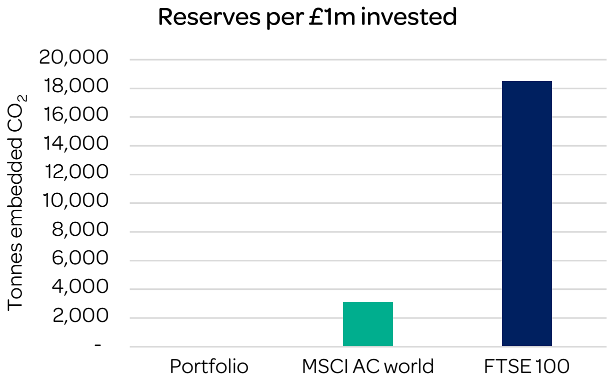
We target solutions (currently c.80% of our portfolios) but avoiding harm and benefitting stakeholders are also important parts of our process.



A. How we avoid harm

Avoiding fossil fuels

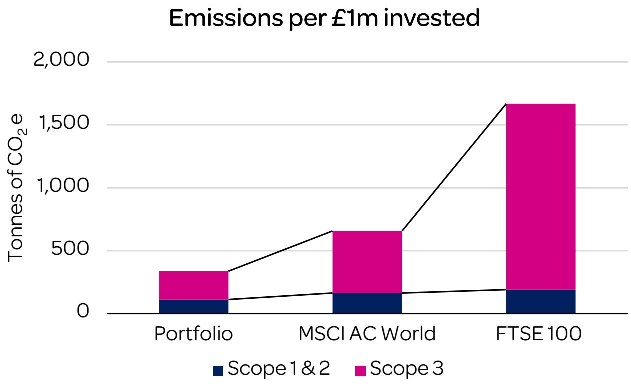
Our investment process naturally leads to the exclusion of fossil fuel extractors. These companies are major contributors to the climate crisis. We have no exposure to oil majors, and none of our holdings have disclosed fossil fuel reserves within the last 2 years. This avoids exposure to assets which are contributing to global warming and are highly likely to become the target of a policy response, potentially becoming stranded or worthless.



B. How we benefit stakeholders

Investing in companies with lower operational carbon footprints

To meet the Paris Climate Agreement targets, all companies have a shared responsibility to limit their emissions. This year, we have extended our carbon footprinting to include indirect emissions – those associated with companies' extended supply chains and the use of their products ('Scope 3'). This paints a much clearer picture: we invest in companies with much lower climate change potential than the broad market.[2]



1 Source: The Impact Management Project, https://impactmanagementproject.com/
2 Based on 2017-18 disclosures. Data availability: 60-100% (Scope 1 & 2), 40-83% (Scope 3).

C. How we contribute to solutions

Investing in companies that mitigate climate change

We invest to support companies that are leaders in the global green transition. We favour 'solution providers' that provide goods and services in green transport, renewable energy, energy efficiency, green buildings, sustainable agriculture, waste reduction and recycling.

Case study: renewable energy systems

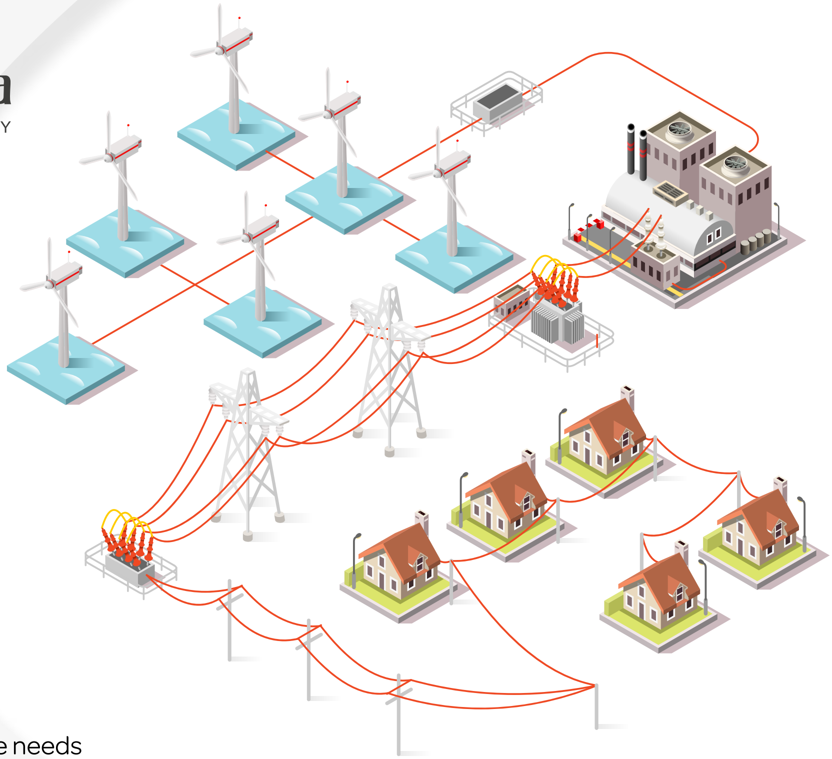
In order to mitigate climate change, transforming the energy sector is essential, as it is currently the largest contributor to global greenhouse gas emissions. Renewable energy sources like wind, solar and geothermal provide low-carbon alternatives to fossil fuels.

We invest in the entire chain of activities that allows electricity grids to become greener, year-on-year...

Companies developing and manufacturing renewable energy technology components, like TPI composites specialising in wind blades, supply the technology and drive innovation.

Wind farm owners like Greencoat UK Wind raise capital to buy wind energy technology, and expand total capacity.

Siemens Gamesa install and service wind turbines (onshore and offshore).



Specialists like Tekmar Group then help the planning and safe sub-sea installation of offshore wind farms.

The electricity generated offshore needs to be transmitted to the onshore grid, so it is passed through sub-sea cables built and managed by companies like TenneT.

Battery specialists like Tianneng Power provide the technology to store the green electricity before feeding it into the grid on demand.

Electric utilities like Orsted feed the electricity to the end user.

How we engage with fund managers

Active engagement is the main way that we can exert influence and change the system. We collaborate closely with fund managers to spread best practice, shape new investment opportunities, and help solve problems.

Our principles of engagement

1. We seek to improve and test the ambition of the fund managers to push the boundaries of sustainable investment, maximising both positive impact and financial returns.
2. We support fund managers to keep abreast of rapidly evolving best practice, for example demonstrating alignment to the GIIN's The Core Characteristics of Impact Investing.[1]
3. We advocate for greater transparency across the industry, with a vision to standardise reporting on 'impact returns' as much as financial returns. For example, by following the IMP's guidance on impact management.[2]

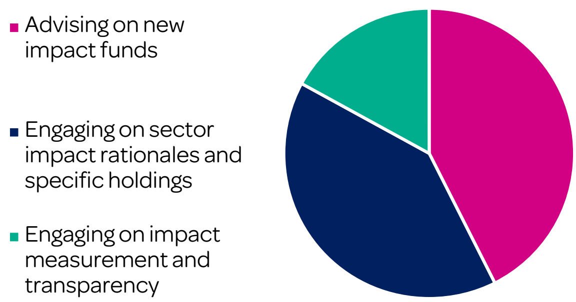
How to change the system #1 Our 'multiplier effect'

Our engagement with fund managers doesn't just have a positive effect on how EQ capital is invested, it influences all the capital in the fund. Thus our engagement efforts carry far more power than the assets we deploy at EQ.

What we've done this year

We engage regularly with all the funds we invest in. This improves the positive impact of our portfolios, holds investment managers to account, and allows us to share best practice for impact measurement. We also advise funds pre-launch, to create better impact investment opportunities. We have tracked our impact-related engagements over the past year (opposite).

Impact engagements over the past year



Our vision for change (2019-20)

We will continue to engage to make a positive impact using our principles of engagement stated above.

Additionally, we will focus on multiple impact themes across all our positive impact funds:

- Climate crisis
- Gender diversity
- Sustainable supply chains
- Farming, food and nutrition

1 https://thegiin.org/characteristics
2 https://impactmanagementproject.com/impact-management/how-investors-manage-impact/

How to change the system #2 Shape new opportunities

Case study: Collaboration with Investec

Context

We have a seven-year track record in impact investing in the listed space and have developed considerable expertise over this time. We were initially consulted on a UK-based equity strategy with a primary focus on avoiding those companies 'doing harm'. We also saw this as an opportunity to help shape a fund that could fill a gap in the market.

Activity

We conducted multiple meetings with the fund manager and team prior to the fund launch, over a 3 year period. We advocated for an approach that looks to invest in solutions, rather than just avoiding harm. We shared best practice and provided feedback on iterations of the proposed investment strategy for Investec's UK Sustainable Equity Fund.

Outcome

By investing in and engaging with companies that make a positive impact through their operations, products and services, Investec UK Sustainable Equity presents the best UK listed equity fund we currently see in the sustainable investment space.

We have been an early investor in the fund, and look forward to continuing our engagement with the team.

Investec
Asset Management

How to change the system #3 Solve problems

Case study: Investing for sustainable nutrition

Context

Farming and food is at the heart of the sustainability debate: how do we provide access to nutritious and sufficient food for all, while reducing the environmental footprint of intensive farming? Unhealthy diets are also a major contributor to rising obesity rates across the world. We wanted these factors to be reflected in the way we invest and engage.

Activity

We worked with the Access to Nutrition Index Foundation to develop an evidence-based approach that can be applied to our analysis. Based on their scientific methodology, we can now identify companies that sell unhealthy food products.

ACCESS TO NUTRITION INDEX™

Outcome

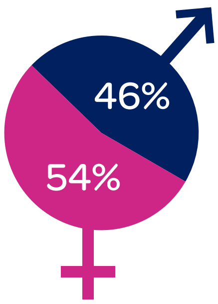
We have used the Index to inform a round of in-depth active engagement with our fund managers to understand the sustainability case for these stocks. Where appropriate we have urged them to put a strategic engagement plan in place for these companies, or to divest from them.

Who’s investing for change?

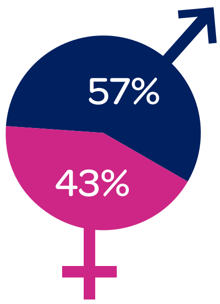
Our Positive Impact Portfolios are a more inclusive offering than traditional investments. They attract a higher proportion of female investors than the UK average, and are also more attractive to younger investors.

Women in the UK are less likely to invest in stockmarkets than men. Reducing the ‘gender investment gap’ is an important part of tackling the overall gender wealth gap.

Investing for positive impact attracts a broad range of age groups, with significantly higher interest relative to traditional investments from those under 50.



Clients invested in the Positive Impact Portfolios



UK individuals invested in Stocks & Shares ISAs[1]

The time to act is... now!

We believe that all investors can apply these principles. Whoever you are, you can invest to make a positive impact as well as a financial return. In fact, the alternative doesn’t bear thinking about! So...

If you are an individual...

You most likely have a pension or an ISA. The first step is to ask the question... What is it invested in?

Is it invested for positive impact? What are your top 10 holdings?

If you are an independent financial adviser...

Less that 10% of IFAs are discussing sustainable investing with a majority of their clients.[2]

But 51% of the British public are committed to positive impact investing in some way.[3]

If you run a foundation...

How is your endowment invested? What exposure do you have to companies that counteract your giving?

Are you asking your investment managers the right questions?

If you are a pension fund provider...

What options do you offer your clients?

Is the default option a sustainable option that supports a thriving future for people and planet?

If not, why not?

1 UK National Statistics (2016-17 tax year). https://www.gov.uk/government/statistics/number-of-individuals-subscribing-to-an-individual-savings-account-isa-by-age-and-gender.
2 Worthstone (2017). Seeking the views of the Financial Adviser and Wealth Manager Distribution Channel: Report to Advisory Group to UK Government on social impact investments.
3 Ethex (2017). Understanding the positive investor.

Appendix: Introducing the UN Goals

The United Nations' 17 Sustainable Development Goals ('the Goals') represent a global framework for action to solve the most urgent and challenging needs of society and the environment. The EQ Positive Impact Portfolios use the Goals as a famework to categorise impact investments based on their core business activities (products, services). Not all the goals are equally investable, but we nevertheless focus on opportunities that either benefit people, planet or both:[1]

People

We support

- ✓ Affordable housing
- ✓ Education
- ✓ Financial inclusion and insurance
- ✓ Healthcare
- ✓ Sanitation
- ✓ Social care
- ✓ Sustainable food

We avoid

- × Alcohol
- × Armaments and military contracting
- × Gambling
- × Poor labour standards
- × Tobacco
- × Unhealthy foods

Planet

We support

- ✓ Circular economy
- ✓ Clean energy
- ✓ Conservation of natural resources
- ✓ Energy efficiency
- ✓ Recycling
- ✓ Sustainable infrastructure
- ✓ Sustainable transport

We avoid

- × Air freight
- × Coal
- × Mining
- × Oil majors
- × Palm oil
- × Poor environmental practices

1 These lists are not exhaustive