

# POSITIVE REPORT

# IMPACT 2020

 investors



COCKBURN LUCAS  
INDEPENDENT FINANCIAL CONSULTING

# Welcome

Welcome to our 2020 Positive Impact report. We are at a pivotal moment in the Anthropocene era. The coronavirus pandemic has reset the global economy – now we have a unique opportunity to build back better.

Last year we articulated our vision for what the world will look like when everyone invests for Positive Impact. Our vision hasn't changed. We still aim to stimulate innovation by challenging the status quo, redirect capital flows by focusing on real value not just profit, and improve decision making for the benefit of all by utilising impact data. The path forward is clearer than ever.

Over the past year we have seen the negative effects of climate change destroy communities and displace populations. Coronavirus has shut down whole economies and governments have stepped in to offer unprecedented support. Public opinion has shifted: there is much wider acceptance that we need to invest in solution providers now, in order to create a future world for the benefit of all. As investment managers, we have proved once again that this is the place to be invested if you are looking for strong returns.

Today, you can invest in Positive Impact to benefit from a global, social and environmental economic recovery.

*"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, Founder**

## What's new in this year's report?

- ✓ Sections highlighting how our holdings are helping to fight the coronavirus pandemic today, and set the stage for a green economic recovery tomorrow.
- ✓ An in-depth focus on climate change, using scenario analysis to show how our investments are aligned to the Paris Agreement.
- ✓ A section devoted to our strategic engagement work in partnership with our fund managers. Engaging for change is one of the best ways to maximise our impact.

Certified



Corporation

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# Our impact

£1 million invested in the EQ Positive Impact Adventurous portfolio during 2019:<sup>1</sup>

## Environmental impact



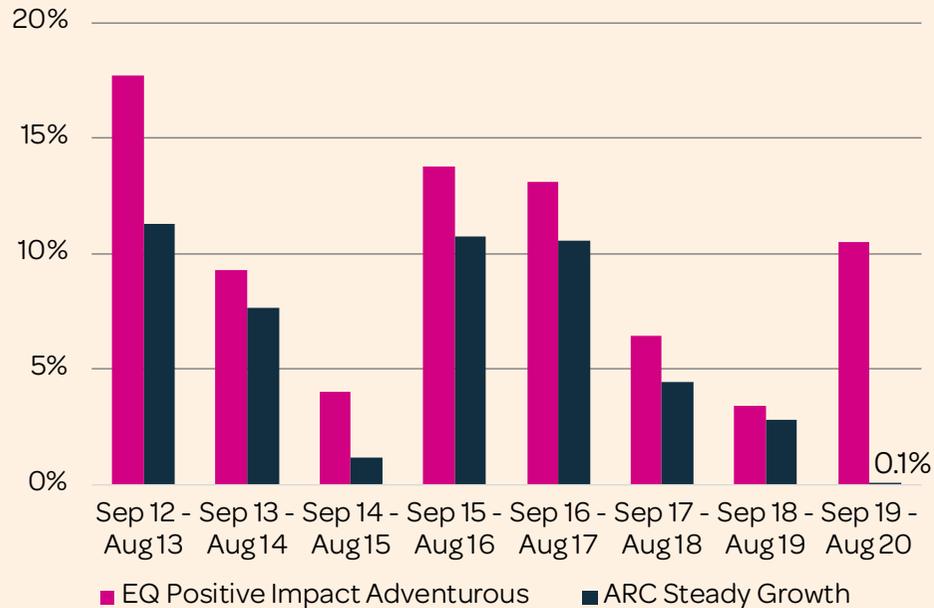
## Social impact



<sup>1</sup> For an in-depth explanation of our impact methodology, please visit: [eqinvestors.co.uk/library/positive-impact-methodology-2020/](http://eqinvestors.co.uk/library/positive-impact-methodology-2020/)

# Our performance

8 year track record of outperformance:<sup>1</sup>



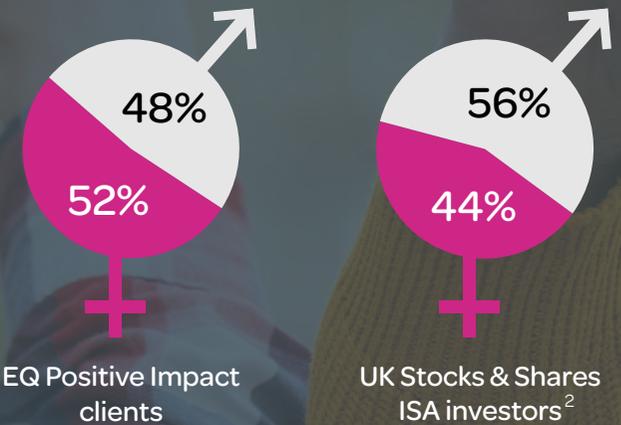
Cumulative		Annualised	
EQ Adventurous	109.4%	EQ Adventurous	9.7%
ARC Steady Growth	59.5%	ARC Steady Growth	6.0%

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.

<sup>1</sup> EQ performance figures include a management fee of 0.33%

# Our clients

More inclusive than traditional investments:



Appealing to investors of all ages:



<sup>2</sup> Source: HMRC (2017-18 tax year)

# Our approach

What makes Positive Impact unique is that we actively look to invest in solutions to social and environmental problems. Positive Impact has a dual focus on maximising both impact and financial returns.

**1 Invest in solutions**  
The EQ Positive Impact portfolios aims to invest in well-run companies whose core products and services help to address challenges like the climate crisis, healthcare, and access to education or safe water.

Our approach goes significantly beyond 'ESG' investing which picks companies based on how well they are managing their Environmental, Social and Governance risks.

**2 Engage for change**  
We work collaboratively with our fund managers to share best practice across the industry. We are continually pushing for change to improve our investment impact.

**3 Measure the difference**  
We specialise in proprietary, market-leading impact measurement and reporting. Being transparent helps us improve.



Adapted from: *The Bridges Spectrum of Capital*, Bridges Fund Management, 2013.

Signatory of:



The United Nations-supported PRI initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice.

## Assessment Report 2020

Each year, signatories must submit a transparency report on their investment processes.

**A** Strategy & governance **A** Listed equity

This year we were graded in two categories by the PRI. We scored an 'A' in both – an independent recognition of our approach to sustainable investing and our ESG-integrated investment process.

[Click here to download our report.](#)

# What we invest in

Our investment process is guided by the United Nations' Sustainable Development Goals. The Goals are a global framework for action to solve the most urgent and challenging needs of society and the environment.

We aim to invest in firms which solve social and environmental problems. Not all the goals are equally investable, but we nevertheless focus on

opportunities that either benefit people, planet or both:

## SUSTAINABLE DEVELOPMENT GOALS



## What we avoid

Our solutions-focused approach naturally avoids controversial sectors, including:

- ✗ Air freight
- ✗ Alcohol
- ✗ Armaments
- ✗ Fossil fuel service industries
- ✗ Gambling
- ✗ Military contracting
- ✗ Mining
- ✗ Ocean freight
- ✗ Oil majors
- ✗ Palm oil
- ✗ Poor environmental practices
- ✗ Poor labour standards
- ✗ Thermal coal
- ✗ Tobacco
- ✗ Unhealthy food and beverages

# Portfolio X-ray

Here you can see how our Adventurous portfolio contributes to the Goals.

We map our underlying investments by looking at the core business (products and services) that each company provides. While not every portfolio holding maps to a Goal, far more do compared to

market indices (see opposite). **Goal 3: Health and Well-being** is a key theme within the portfolios, and we focus on this in the next section, through the lens of the global pandemic.



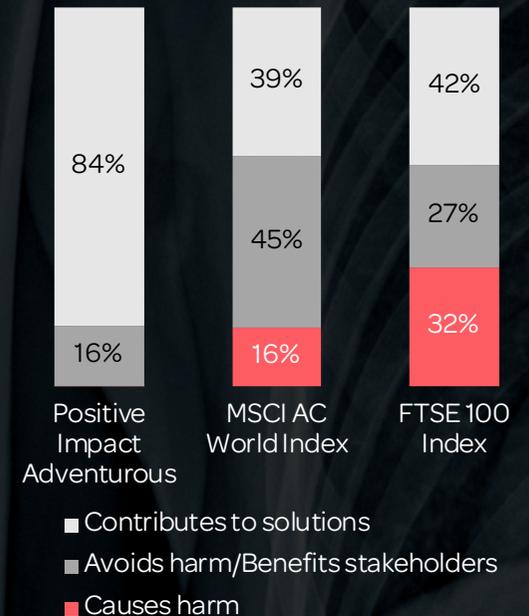
*These lists are not exhaustive.*

## IMPACT MANAGEMENT PROJECT

### How we compare to indices

We follow the Impact Management Project's framework in categorising all types of investment as either *Causes harm*, *Avoids harm/Benefits stakeholders*, or *Contributes to solutions*.

This last category consists of holdings that we map to the Goals (see opposite):



# 3 GOOD HEALTH AND WELL-BEING



# Investing in a pandemic

Many of the companies in the Positive Impact portfolios supply essential products and services into healthcare systems worldwide. Several are directly involved in the search for a Covid-19 vaccine.

As we write this, the coronavirus pandemic has claimed over a million lives. Tens of millions more people are living under restrictions that impact their physical and mental well-being. Economies have been shuttered, leading to a corresponding loss of jobs and livelihoods. The pandemic has highlighted our vulnerability and shone a spotlight on global challenges, including unequal access to healthcare and education.

Investing for social and environmental impact is not just about investing in solutions to tomorrow's problems. It's also about investing in companies that are helping us tackle acute challenges today.

In this section we focus on some of the companies that are actively supporting the front-line response to the pandemic, from diagnostics to treatment and the search for a cure.

*These holdings are examples in each category, and are not meant to be an exhaustive list.*

## 01 DIAGNOSTICS

As the outbreak continues countries have rapidly scaled up their point of care testing capabilities:



Producing blood testing kits to prevent and control widespread coronavirus infections across India.



Scaling up the manufacture of key components for Covid-19 tests – enabling over 35 million tests per week.

## RENALYTIX AI

Developing and scaling production of Covid-19 antibody test kits, which show how many people have previously been infected with the virus.

## ThermoFisher SCIENTIFIC

Launched an innovative diagnostic kit to speed up the diagnosis of Covid-19 by hospitals and laboratories.

## 02 TREATMENT

Over the course of the pandemic our ability to treat Covid-19 patients effectively has improved dramatically:



Provides patients suffering from the most severe Covid-19 symptoms with critical intensive care, including ventilators.



Part of an industry partnership to develop CoVlg-19, a potential plasma-derived therapy for treating individuals with serious complications from Covid-19.



Partnering with two biotechnology firms to develop, manufacture, and clinically test its Covid-19 hyperimmune globulin candidate for preventing and treating Covid-19 in the absence of a vaccine.



Allowing patients to see doctors digitally, avoiding the potential risk of a Covid-19 infection during the pandemic.

## 03 CURE

The race to develop a coronavirus vaccine is well underway. Four firms within the Positive Impact portfolios currently have vaccine candidates undergoing Phase 3 trials, while others are developing a range of vaccine alternatives:



Developing 'RNA interference' therapeutics that target and disable the coronavirus genome directly.



Manufacturing Gilead's antiviral drug remdesivir, which is being used in UK challenge trials.



Set the record for developing a vaccine candidate, just 25 days after the coronavirus genome was released. Currently undergoing Phase 3 clinical trials.



Vaccine candidate shown to trigger antibody-based immunity in early and mid-stage trials.

*These holdings are examples in each category, and are not meant to be an exhaustive list.*

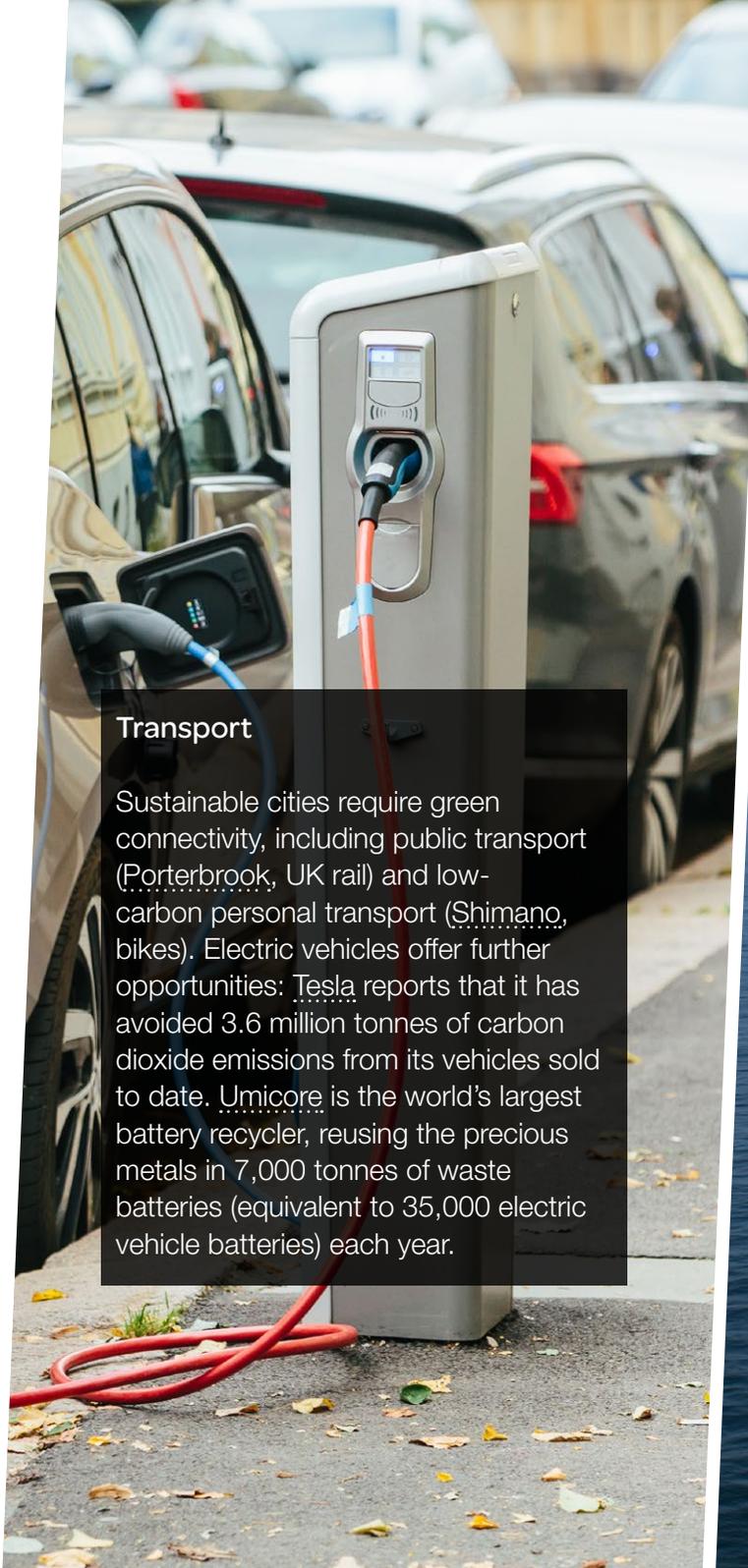


# Building back better

After coronavirus, then what? During the crisis we must focus on the present. But as investors we must also consider the longer term.

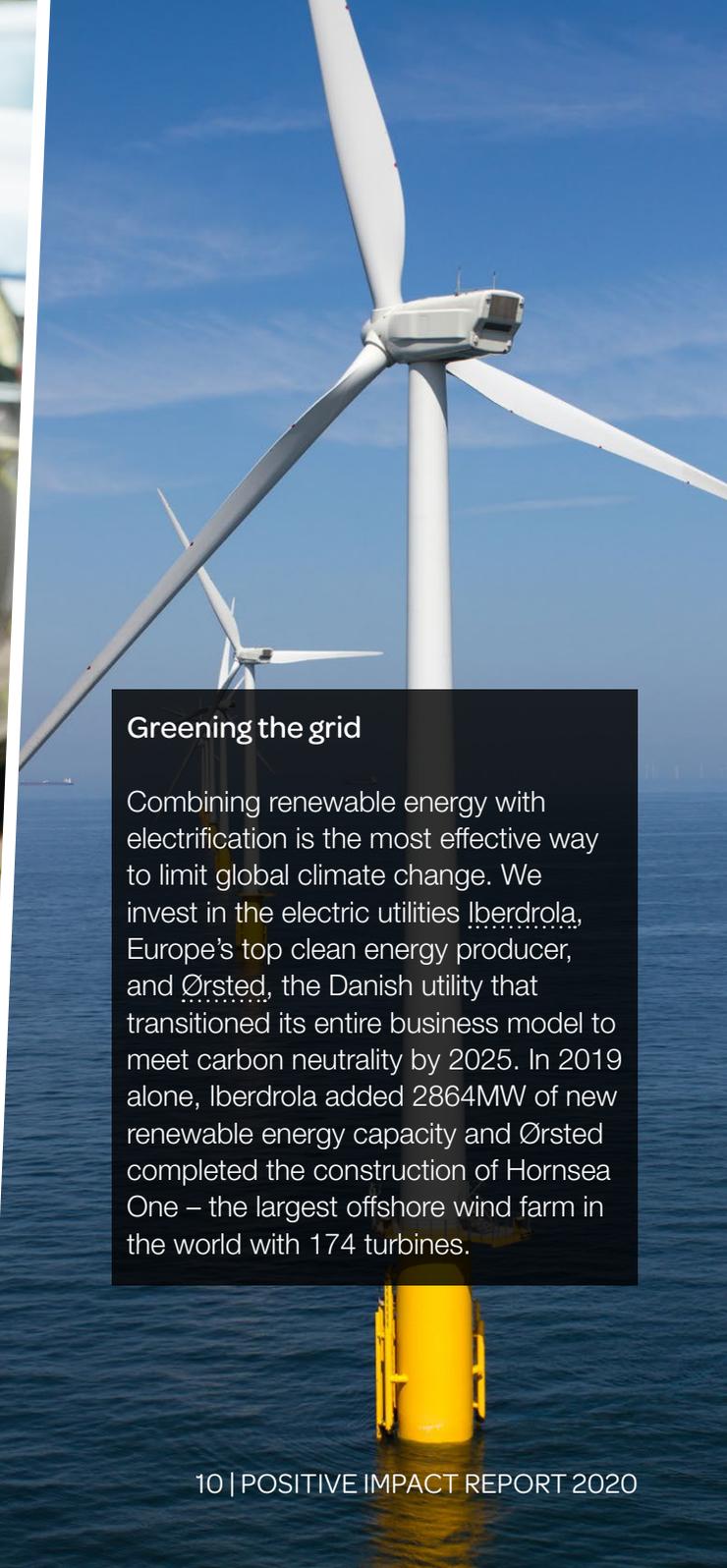
The economic slowdown due to the pandemic has led to record low levels of environmental pollution and more sustainable consumption patterns. We now have the potential to rethink the path we want to take going forward. Can we create a 'new normal' that operates within safe planetary boundaries?

To show our commitment to this on the global agenda, we have signed a [collaborative investor letter to EU leaders](#), advocating for a sustainable recovery from Covid-19. The Positive Impact portfolios are full of examples of companies that will help us to build back better by solving tomorrow's problems, today.



## Transport

Sustainable cities require green connectivity, including public transport (Porterbrook, UK rail) and low-carbon personal transport (Shimano, bikes). Electric vehicles offer further opportunities: [Tesla](#) reports that it has avoided 3.6 million tonnes of carbon dioxide emissions from its vehicles sold to date. [Umicore](#) is the world's largest battery recycler, reusing the precious metals in 7,000 tonnes of waste batteries (equivalent to 35,000 electric vehicle batteries) each year.



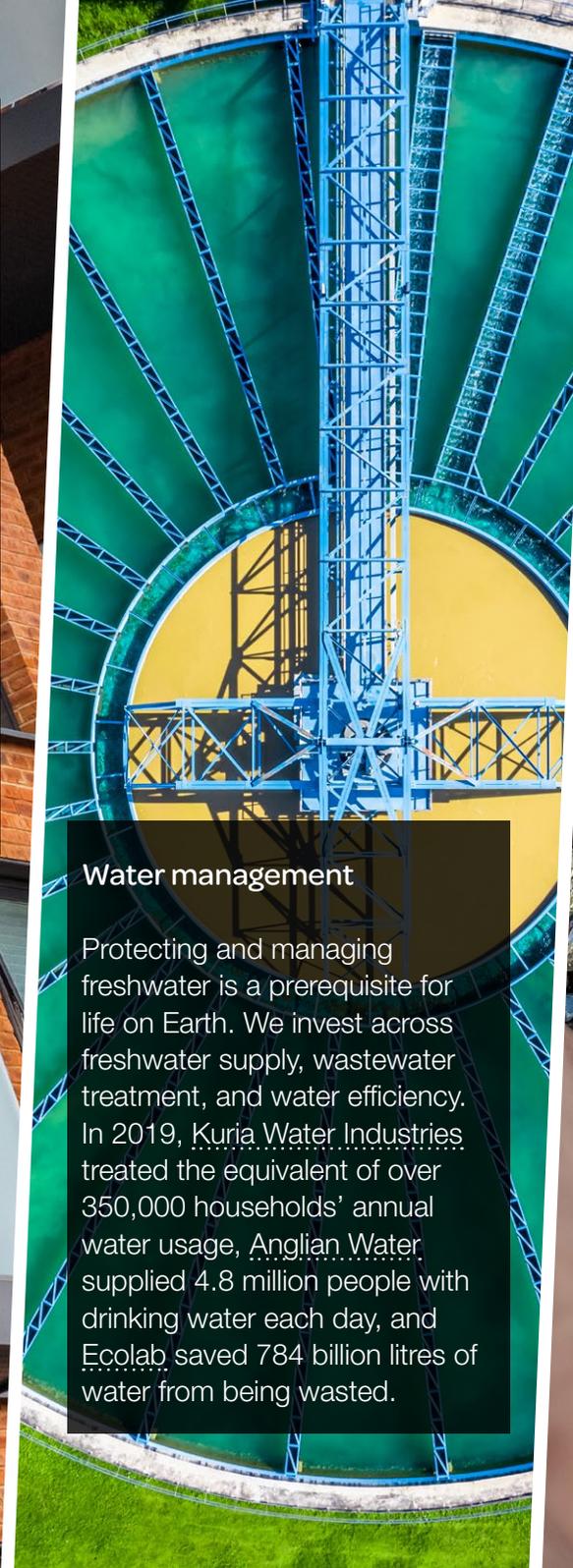
## Greening the grid

Combining renewable energy with electrification is the most effective way to limit global climate change. We invest in the electric utilities [Iberdrola](#), Europe's top clean energy producer, and [Ørsted](#), the Danish utility that transitioned its entire business model to meet carbon neutrality by 2025. In 2019 alone, Iberdrola added 2864MW of new renewable energy capacity and Ørsted completed the construction of Hornsea One – the largest offshore wind farm in the world with 174 turbines.



## Sustainable cities

Sustainable cities require sustainable living spaces. Affordability is also a key socioeconomic problem, and we invest in housing association bonds across the UK to finance affordable and social housing. Places for People acquired and constructed an additional 2,600 homes to rent at affordable rates in 2019. With 20% of carbon emissions originating from the built environment, insulation panels from Kingspan and smart LED lights from Signify can provide substantial energy and emissions savings.



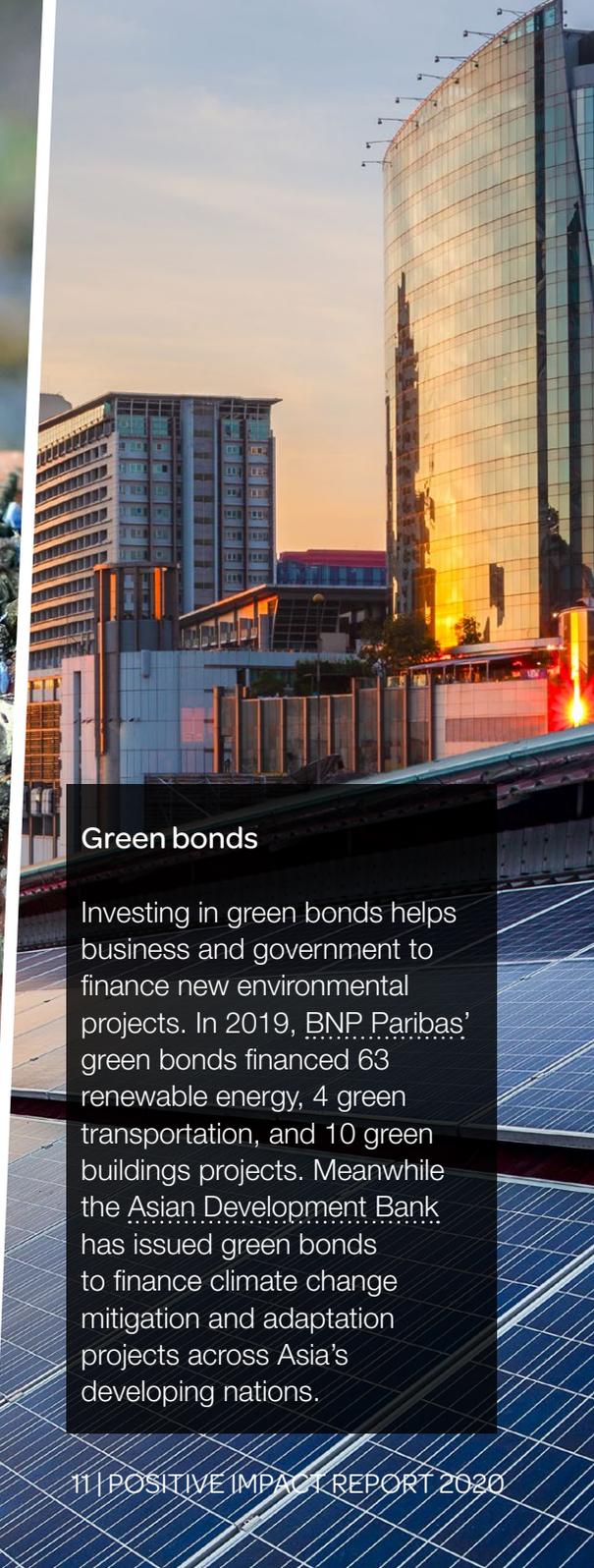
## Water management

Protecting and managing freshwater is a prerequisite for life on Earth. We invest across freshwater supply, wastewater treatment, and water efficiency. In 2019, Kuria Water Industries treated the equivalent of over 350,000 households' annual water usage, Anglian Water supplied 4.8 million people with drinking water each day, and Ecolab saved 784 billion litres of water from being wasted.



## Waste & recycling

Building back better should entail a more responsible use of scarce resources. Tomra is the world leader in 'reverse-vending machines' for plastic bottles – capturing 40 billion containers every year by offering consumers a cash bonus for recycling. Meanwhile Befesa provides recycling solutions for dangerous residues from the aluminium and steel industries.

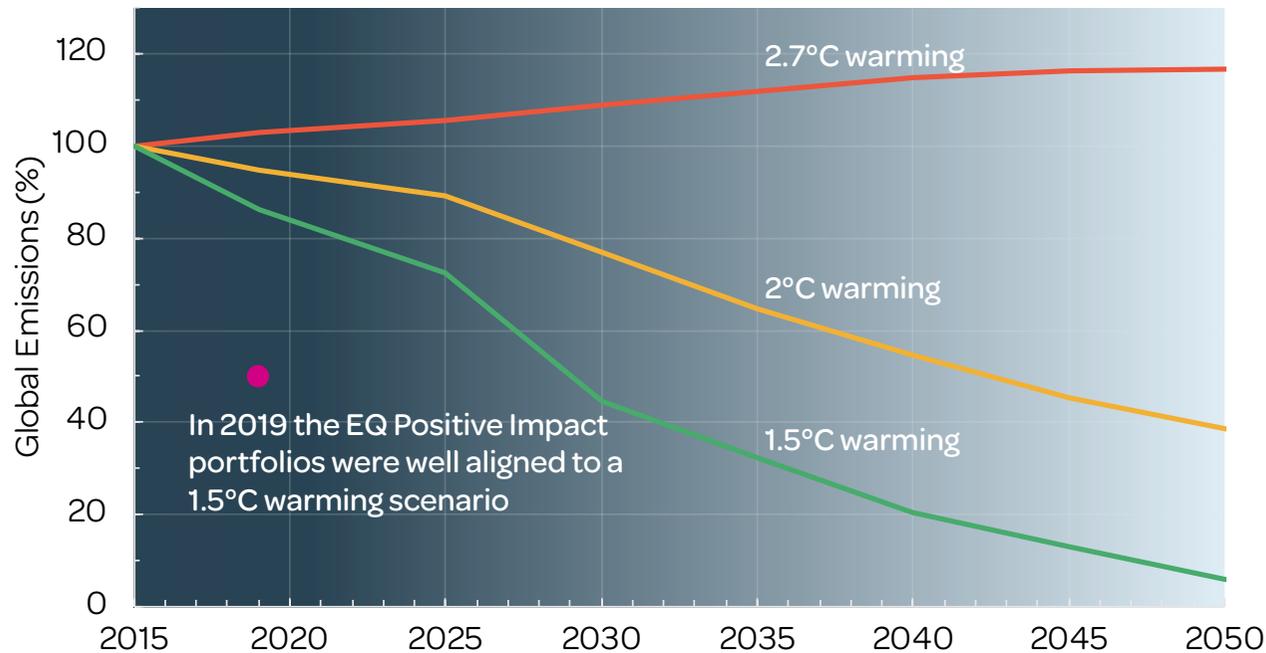


## Green bonds

Investing in green bonds helps business and government to finance new environmental projects. In 2019, BNP Paribas' green bonds financed 63 renewable energy, 4 green transportation, and 10 green buildings projects. Meanwhile the Asian Development Bank has issued green bonds to finance climate change mitigation and adaptation projects across Asia's developing nations.

# Our carbon footprint

Limiting the worst effects of climate change requires the rapid decarbonisation of our economies. This year we've partnered with [Urgentem](#), a leading carbon analytics company to see how the Positive Impact portfolios align with a low-carbon future.



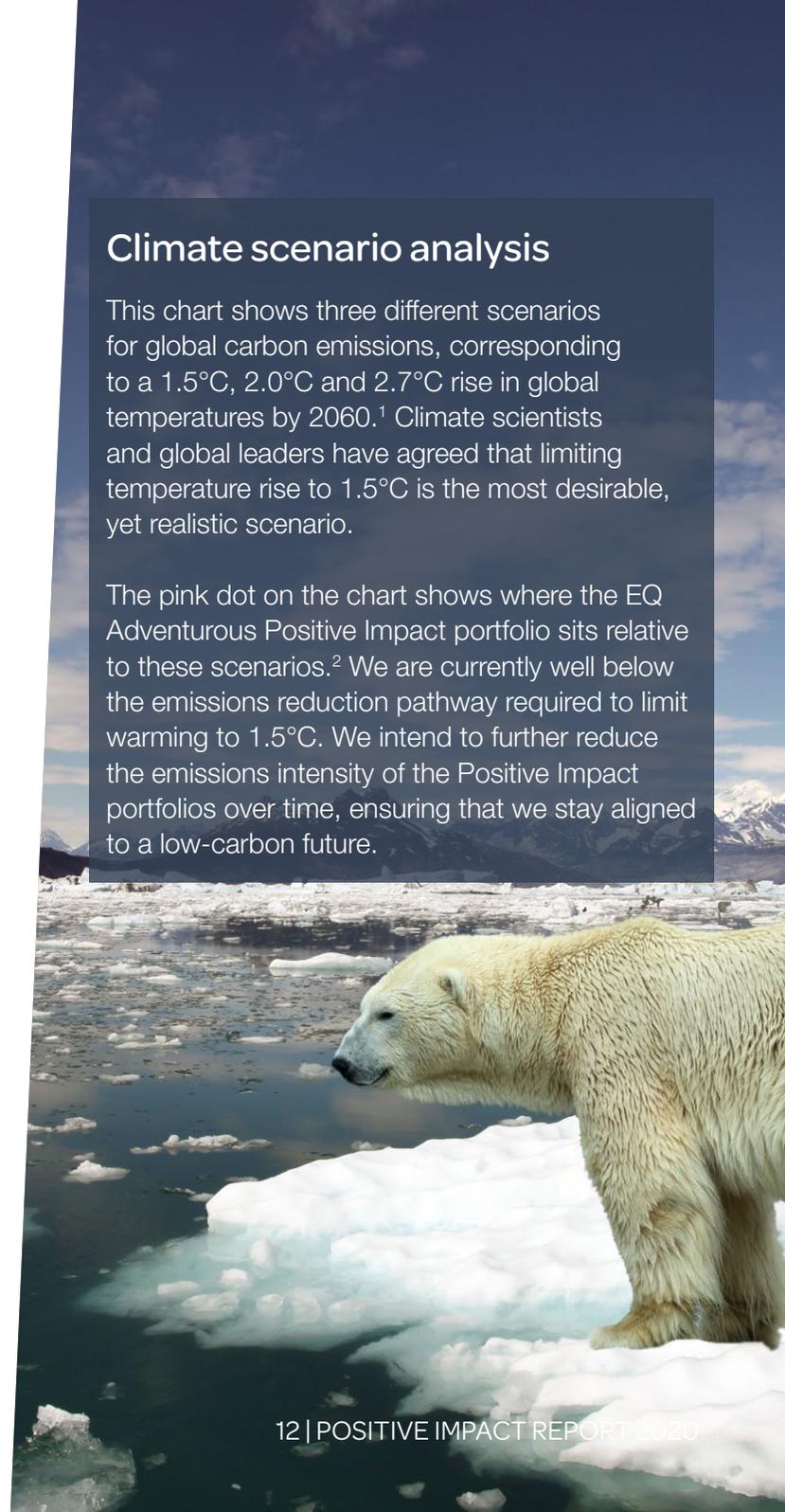
## Climate scenario analysis

This chart shows three different scenarios for global carbon emissions, corresponding to a 1.5°C, 2.0°C and 2.7°C rise in global temperatures by 2060.<sup>1</sup> Climate scientists and global leaders have agreed that limiting temperature rise to 1.5°C is the most desirable, yet realistic scenario.

The pink dot on the chart shows where the EQ Adventurous Positive Impact portfolio sits relative to these scenarios.<sup>2</sup> We are currently well below the emissions reduction pathway required to limit warming to 1.5°C. We intend to further reduce the emissions intensity of the Positive Impact portfolios over time, ensuring that we stay aligned to a low-carbon future.

<sup>1</sup> Climate scenarios are based on data from the International Energy Agency (2.7°C, 2°C) and the Intergovernmental Panel on Climate Change (1.5°C). Source: Urgentem, 2020.

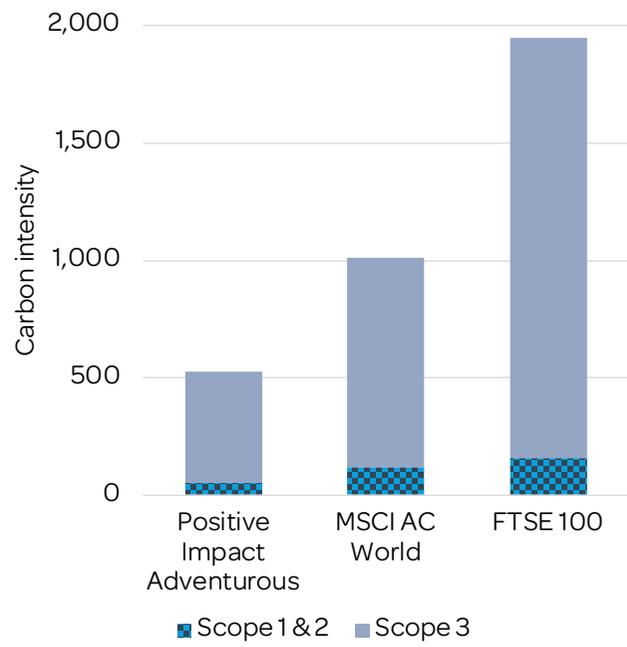
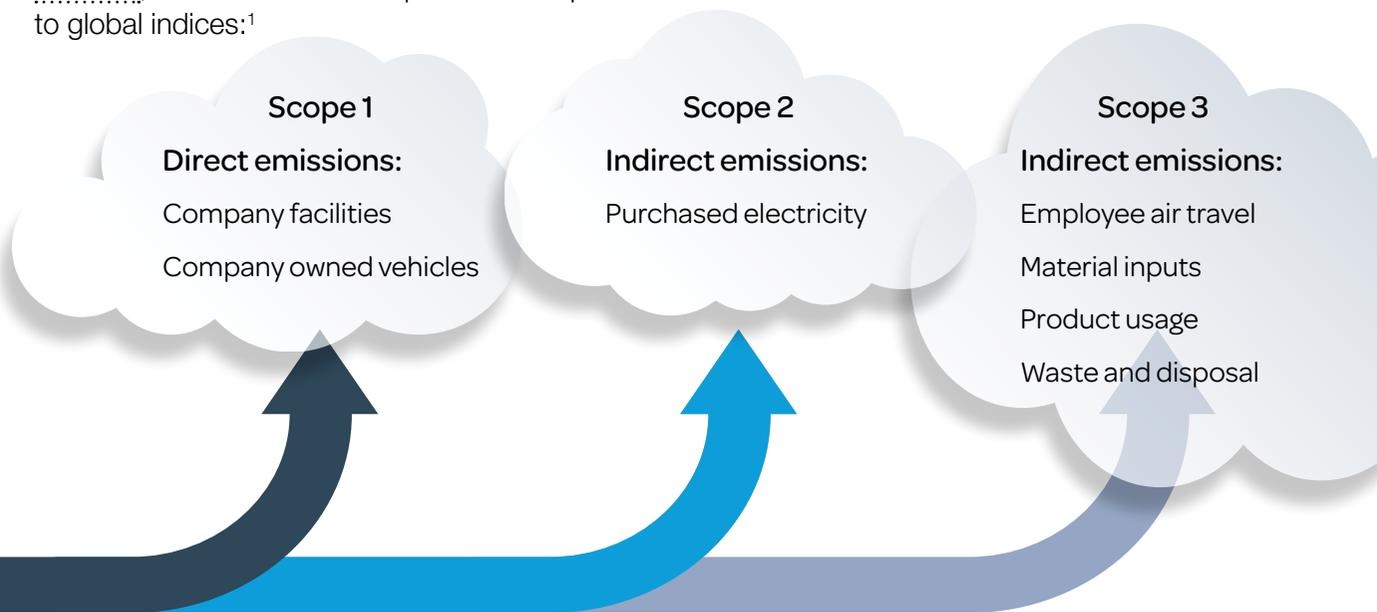
<sup>2</sup> This methodology currently allows for an analysis of our equity holdings only.



This year we have looked at carbon emissions across the entire value chain of our investments.

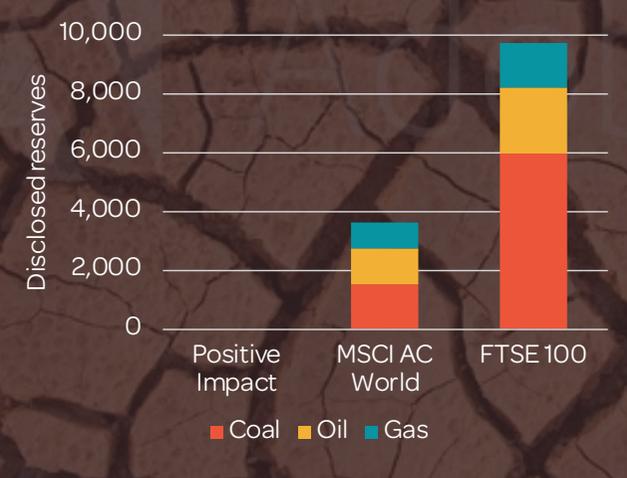
Over the coming years we anticipate more economic and policy measures aimed at mitigating climate change. Carbon emissions, due to their link to climate change, are the best proxy we have to understand how much a company or investment is potentially exposed to the 'transition risks' arising from these policies. Meanwhile these same policies will present tailwinds for companies helping to decarbonise our economies.

This chart shows the Scope 1, 2 and 3 emissions, as defined by the Greenhouse Gas Protocol, of our Adventurous portfolio compared to global indices:<sup>1</sup>



### Zero fossil fuel reserves

Our investment process naturally leads to the exclusion of fossil fuel extractors. These companies are major contributors to the climate crisis. Fossil fuel reserves may even become 'stranded assets' as their development becomes uneconomical and demand reduces. We have no exposure to oil majors, and none of our holdings have disclosed fossil fuel reserves.<sup>2</sup>



<sup>1</sup> Emission intensity: tonnes of CO<sub>2</sub> equivalent per £1 million market capitalisation. Source: Urgentem, 2020.  
<sup>2</sup> Disclosed reserves: embedded tonnes of CO<sub>2</sub> equivalent per £1 million market capitalisation. Source: Urgentem, 2020.

# Engaging for change

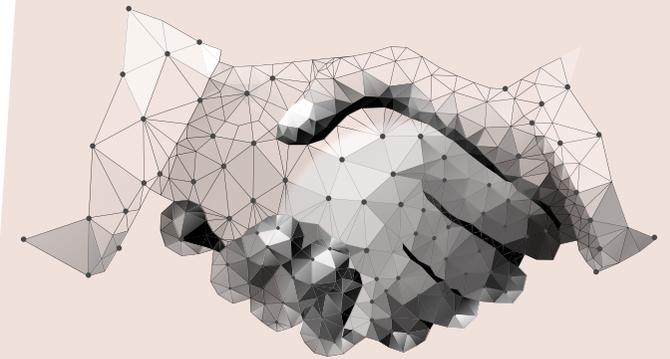
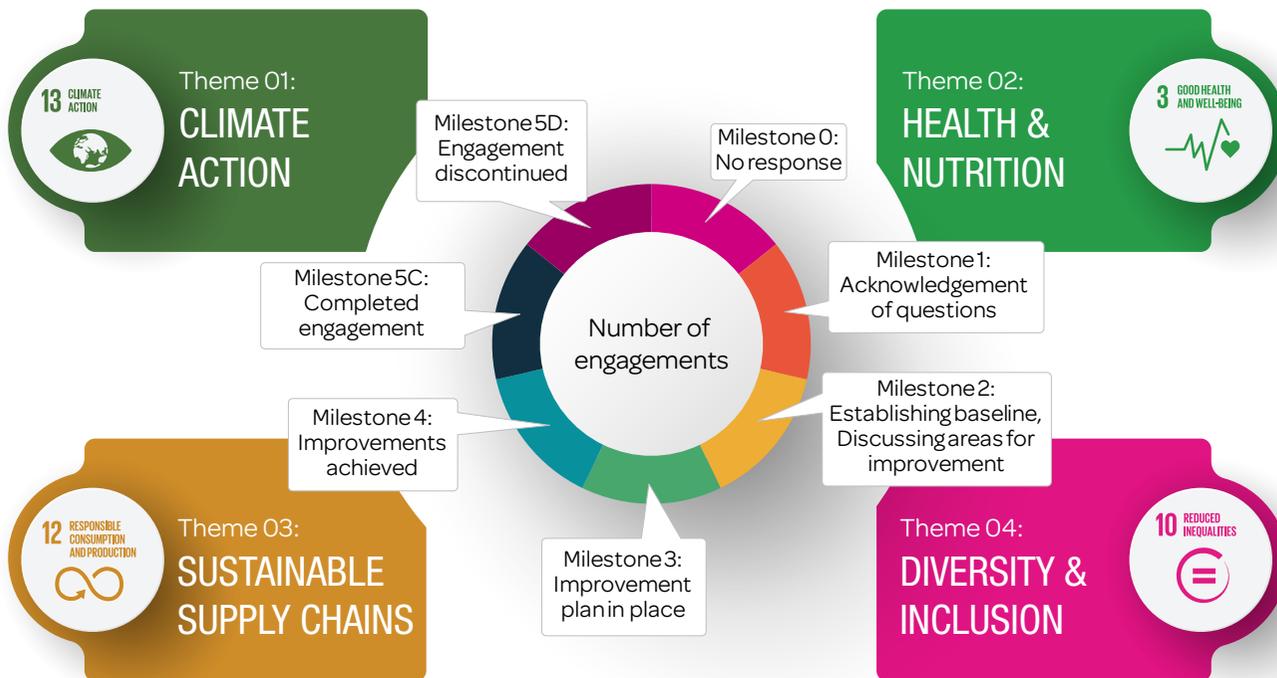
The first part of this report highlighted how we invest for positive impact. The other way we make a positive impact is by engaging for change.

Investors can influence companies by engaging directly with management teams and by using their voting rights to raise expectations and advocate for strategic positive change.

It's vital that we hold our fund managers to account, so they in turn hold their investee companies to account – in a wider mission to

improve sustainable impacts and long-term returns over time.

This year we have focused our engagement around four Goal-related themes, and used milestones to track our progress:



## EQ's approach to engagement

- 1 We seek to push the boundaries of sustainable investment by lifting the ambition of the fund managers we work with, maximising both positive impact and financial returns. We engage to spread best practice methods on an ongoing basis.
- 2 We advocate for greater transparency across the industry, with a vision to standardise reporting on 'impact returns' as much as financial returns.
- 3 While our investment strategy maximises alignment to companies providing sustainable solutions to the Global Goals, no company is perfect. We seek to exert our influence to create positive change in Goal-related themes which are material, but less investable.

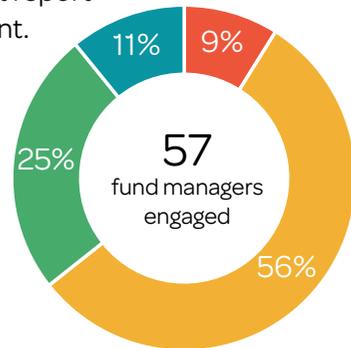
# Climate action



We have used this year to understand how fund managers are currently integrating climate risk into their investment and stewardship activities, as well as their internal business operations.

## Milestone 4:

Improved fund's impact management process. For example: firm-level roll-out of portfolio climate analysis, amended investment process to limit fossil fuel financing, first impact report on strategic climate engagement.



## Milestone 3:

Committed to improve an identified weakness in fund's impact management process. For example: committing to new carbon reduction targets, joining climate engagement coalitions or improving engagement strategy.

## Milestone 1:

Indication of interest to engage; awaiting discussions.

## Milestone 2:

Discussed current investment and stewardship policies, reporting, carbon targets, and participation in climate change initiatives. Identified areas for improvement.

# Climate Action 100+

Global Investors Driving Business Transition

## Did you know?

Our London offices are powered by 100% renewable electricity.



## ENGAGEMENT CASE STUDY:

### Advocating for renewable energy

We have joined ShareAction's *Investor Decarbonisation Initiative*, which engages with global businesses and advocates for setting ambitious targets for reducing emissions.

This year we have co-signed letters to 28 companies including GlaxoSmithKline, Vodafone and Welltower, requesting that they set 100% renewable energy targets.

[Click here](#) for more case studies on our climate action engagement.

# Health and nutrition

3 GOOD HEALTH AND WELL-BEING



We engaged with relevant fund managers based on a thorough research report on UK food retailers by the organisation Access to Nutrition Initiative.

Childhood obesity is a particular problem in the UK, where 1 in 5 children start school overweight or obese. The coronavirus pandemic is further underscoring the importance of a healthy society: several underlying health conditions associated with obesity are implicated in more severe cases of Covid-19.

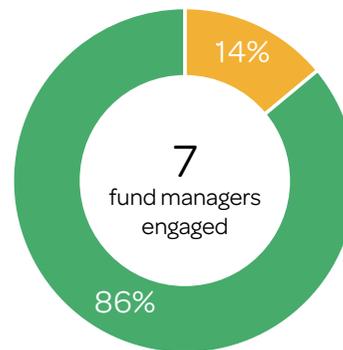
All the relevant fund managers we engaged with have committed to the new investor expectations published this year by the Access to Nutrition Initiative. These raise the standards that investors should expect from investee companies active in the food value chain, including responsible marketing, nutritional strategy setting, affordability and more transparent disclosure.



ACCESS TO  
**NUTRITION**  
INITIATIVE

## Milestone 2:

Discussed current engagement activity and investment policies on grocery retailers and food manufacturers. Identified areas for improvement.



## Milestone 3:

Committed to the new Access to Nutrition investor principles which will translate into more ambitious engagement.

ENGAGEMENT CASE STUDY:

Engaging with UK supermarkets

# ShareAction»

This year we also joined ShareAction's *Healthy Markets* campaign, an investor coalition targeting the major food and drink retailers and manufacturers that sell their products in the UK.

As part of the campaign we supported a live shareholder question at Tesco's annual general meeting. The question encouraged Tesco to disclose the proportion of its sales made up by healthy food and drink products, whilst setting ambitious targets to increase these over time. We have signed letters to Sainsbury's, M&S, Morrisons, Asda, Co-op and Iceland encouraging them to make similar commitments.

In response, Dave Lewis, Tesco's CEO acknowledged the need to improve its disclosure on nutritional value despite challenges at such a large scale. The investor coalition is now following up to create action on this.

# Diversity and inclusion



The UK's Women in Finance Charter commits all members to set targets on workforce gender diversity, report on these and address uncovered barriers to improvements. EQ has joined the charter and asked our fund managers to join too.

At the end of this year's engagement, 68% of funds included in the portfolios were managed by signatories of the *Women in Finance Charter* – our ongoing engagement will aim to fill this gap where commitment does not match our expectations.

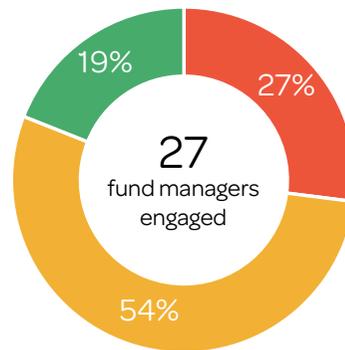
Our next target has been to encourage baselining and target setting to encourage other forms of diversity, including sexual orientation, disability and ethnic background, and setting related incentives.

## Milestone 3:

Improvement in line with suggestions. For example, new data gathered on workforce diversity beyond gender split, new incentives set around recruitment of Black, Asian and minority ethnic (BAME) individuals.

## Milestone 1:

Indication of interest to engage; awaiting discussions.



## Milestone 2:

Discussed current policies and initiatives, targets and reporting. Identified areas for improvement.



## ENGAGEMENT CASE STUDY:

### Diversifying company boards

Besides encouraging targets to close workforce diversity gaps, another focus was to understand how voting rights can be used as 'activist' tools to encourage gender diversity on boards in invested businesses.

We want to encourage asset managers to vote in line with the Hampton review (at least 33% women on boards) and Parker review (one person of colour on boards). While UK-focused fund managers had related policies, we are applying this same logic to push our global fund managers to apply similar targets.

# Sustainable supply chains



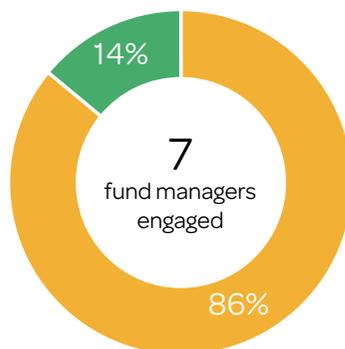
This year, our engagement on supply chains focused on gathering baseline information, to understand whether fund managers were pushing for best practice within their investee companies. We have initially focused on two sub-themes:

## Human rights in renewable energy

We utilised findings from the Business & Human Rights Resource Centre's *Renewable Energy and Human Rights Benchmark*, which analyses the policies of 16 of the largest solar and wind companies worldwide, and the *Solar Scorecard* by the Silicon Valley Toxics Coalition, which focuses on solar equipment manufacturers.

### Milestone 3:

Implemented engagement on supply chain risks has resulted in reported improvement in investee firm.



## Responsible sourcing of minerals

We are promoting enhanced engagement to test and monitor investee company operations in line with responsible conduct guidance. These include the *Initiative for Responsible Mining Assurance* and the *OECD Due Diligence Guidance for Responsible Mineral Supply Chains*.

### Milestone 2:

Baselining approaches to assess and engage supply chain trade-offs. Discussion around weaknesses.

## Acknowledgements

We would like to thank all our fund managers for their partnership in pursuing this engagement work. We value the collaborative nature of all our manager relationships immensely. As well as deepening our impact, they offer our team opportunities for learning and growth. Without your shared commitment to engaging for change, this work would not be possible.

We would also like to thank the teams from the Impact Management Project, IMP+ACT Alliance, ShareAction and the UN PRI. Your input, support and collaboration has been, and continues to be, invaluable in helping us keep our Positive Impact proposition at the cutting edge of sustainable investing.

# Spotlight on EQ

This year we celebrate five years since we certified as one of the UK's founding B Corporations. We're just as committed now as we were then to making business a force for good.

## Our company's impact

All Certified B Corporations must undertake an in-depth assessment of their impact on all their stakeholders – including their clients, employees, local community and their firm's impact on the environment. To learn more about the B Impact Assessment and to view ours online, [click here](#).

# NET ZERO | 2030

## On the road to net zero

At EQ we believe every member of society has a responsibility in aligning themselves with a sustainable future, so we have committed to net-zero emissions as a firm by 2030. We will start to report on our progress from next year.

## Our charitable work

Are you interested in the impact of your charitable giving? The EQ Foundation is transforming giving in the UK using an impact-driven approach.

Visit [givingisgreat.org](http://givingisgreat.org) to learn more.



## Thanks to you

Finally, a huge thanks to all the investors in the Positive Impact portfolios, without whom none of this would be possible.

**PENSIONS  
ARE POWERFUL.**

**WE COMMIT TO  
MAKING OURS MATTER.**

**PROUD PARTNERS OF**

**MMW**

**Make My Money Matter**

EQ is part of a UK-wide campaign calling for the trillions of pounds invested through our pensions to build a better world.

Right now, there is over £3 trillion invested through UK pensions alone. From tobacco to fossil fuels, weaponry to gambling, pension funds have invested trillions on our behalf without ever asking us the crucial question – do these investments create a world that we want to live in?

This is a critical moment where the decisions we all take will shape our lives for decades to come. After all, what's the point of saving for retirement if we don't have a world we want to retire into?



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