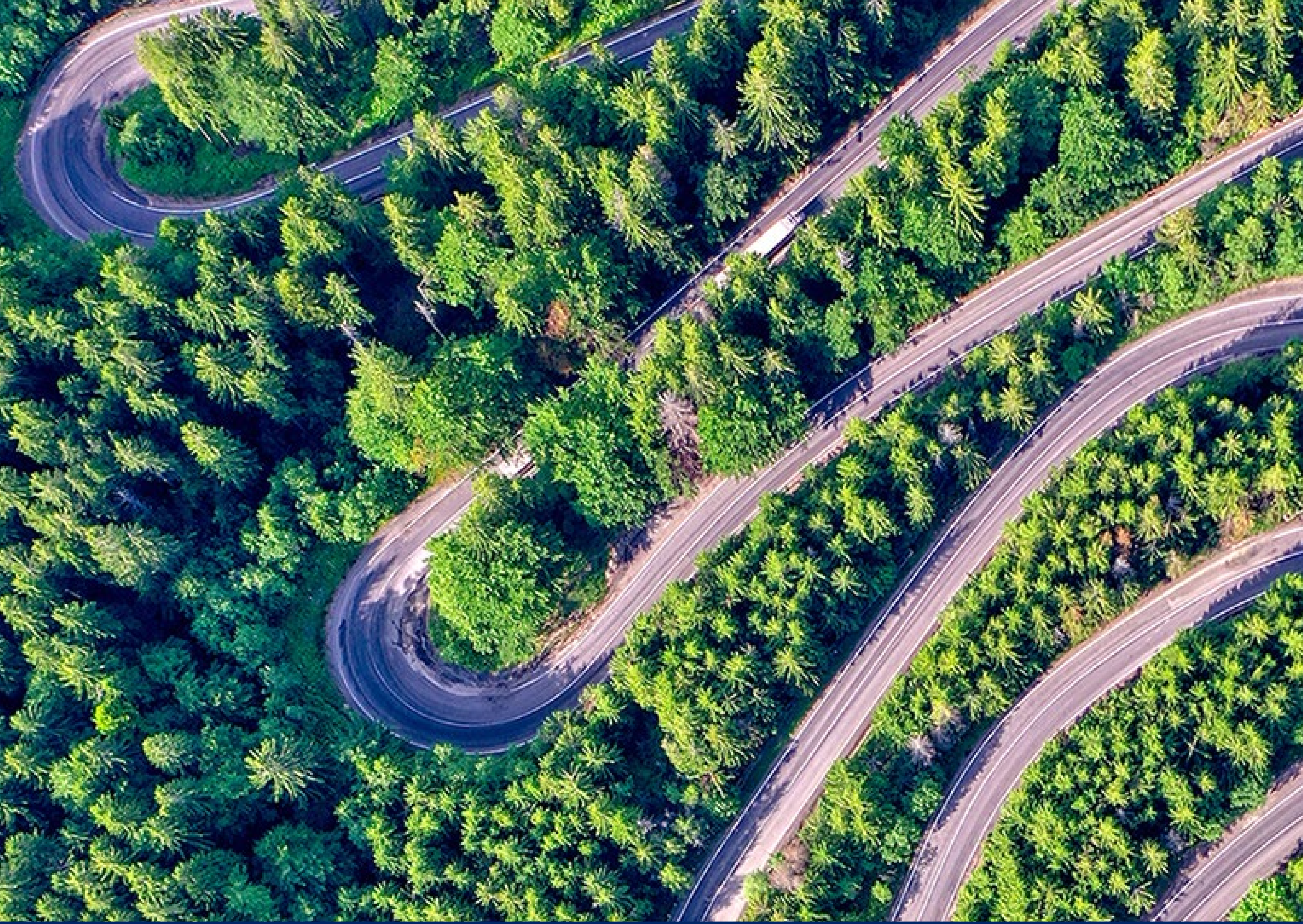


ESG impact report

Investment management service

mazars

Contents

Appendices

Foreword

We are pleased to provide our annual ESG impact report.

Despite the Coronavirus pandemic, ESG issues have continued to garner more attention in the investment management sphere, with much of this is driven by demand from clients and their stakeholders, particularly those in the not-for-profit sector. The landscape for 'responsible' investment has developed at pace, and it is no longer the case that ethical policies based upon exclusions only are seen as being sufficient for many public facing organisations.

Instead, the focus has turned to the need to demonstrate positive impact. This is an aspect of portfolio governance which is still in its infancy, with as yet little agreement on how best to measure and represent environmental and societal benefits, and challenges around the authenticity of the claims of some financial and corporate institutions, so-called 'greenwashing'. We expect further evolution, refinement and consensus on these issues over the next few years.

The report considers the positioning of our sustainable model portfolios through our proprietary Sustainability Score which is based upon the key characteristics of each of the underlying funds within the portfolio.

We then look to bring to life some of the key themes within the portfolio together with individual stock examples, assess the portfolio's alignment with the UN SDGs, highlight positive engagement by fund managers, and look forward to anticipated developments in the ESG arena.

We look forward to discussing the report with you.

David Baker
Partner
Chief Investment Officer

Portfolio Sustainability Score

We believe an internal Sustainability Scoring system is a necessary step to synthesize all material sustainability related information to further assess the funds we use in your portfolio. It is also the starting point to assess the ESG quality portfolios.

Our sustainable model portfolios are assigned a Sustainability Score based upon our proprietary scoring system. This approach involves an in depth analysis of each fund within the model against seven key ESG considerations, and the assignment of a fund sustainability score between 1 and 4.

The portfolio Sustainability Score is a simple weighted average of the scores of the underlying funds. Full details of our process are contained in the Appendix.

For reference, our sustainable model portfolios' Sustainability Score is as follows:

Sustainable Defensive – 3.1

Sustainable Cautious – 3.1

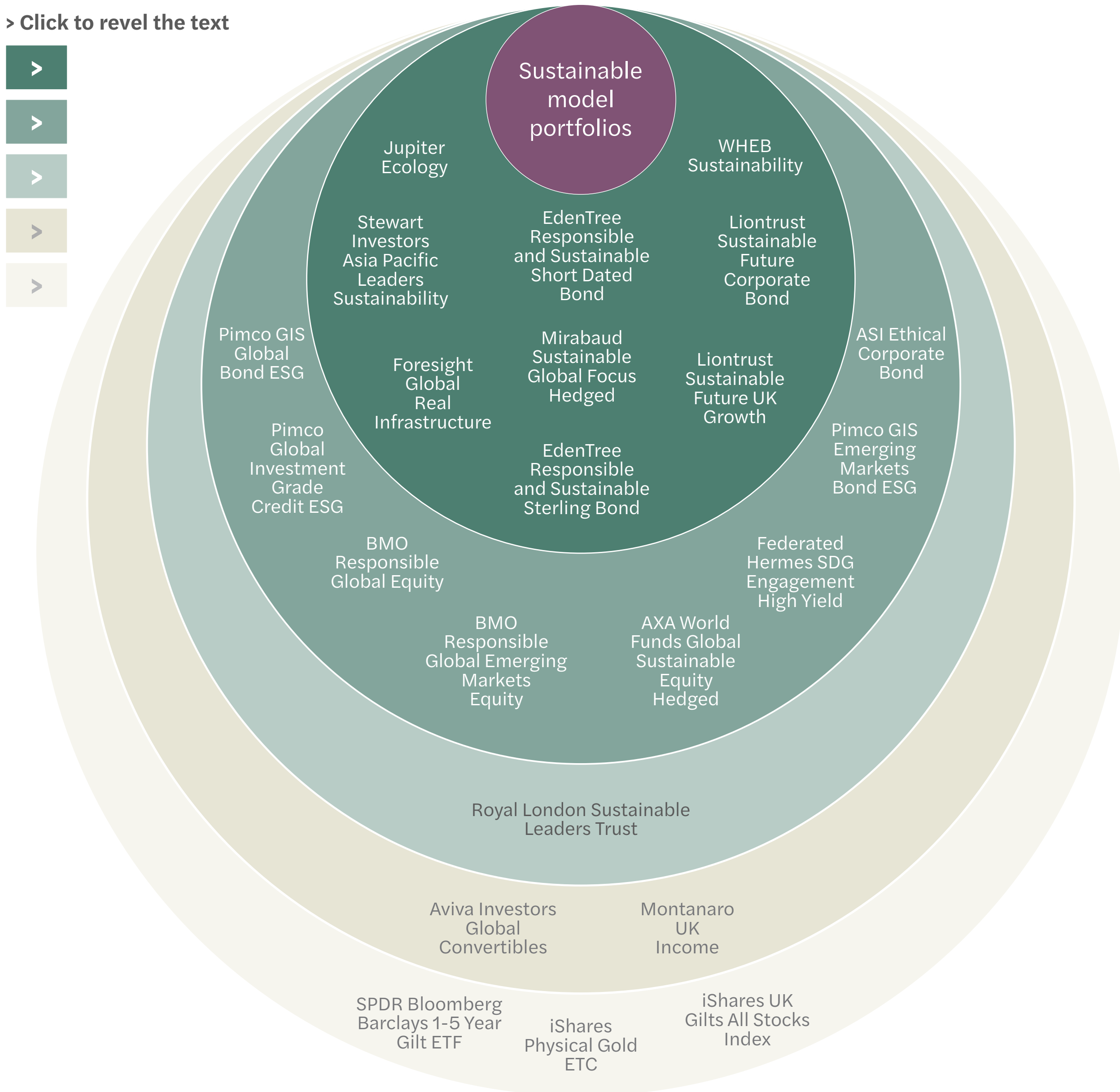
Sustainable Balanced – 3.2

Sustainable Capital Growth – 3.1

Sustainable Adventurous – 3.2

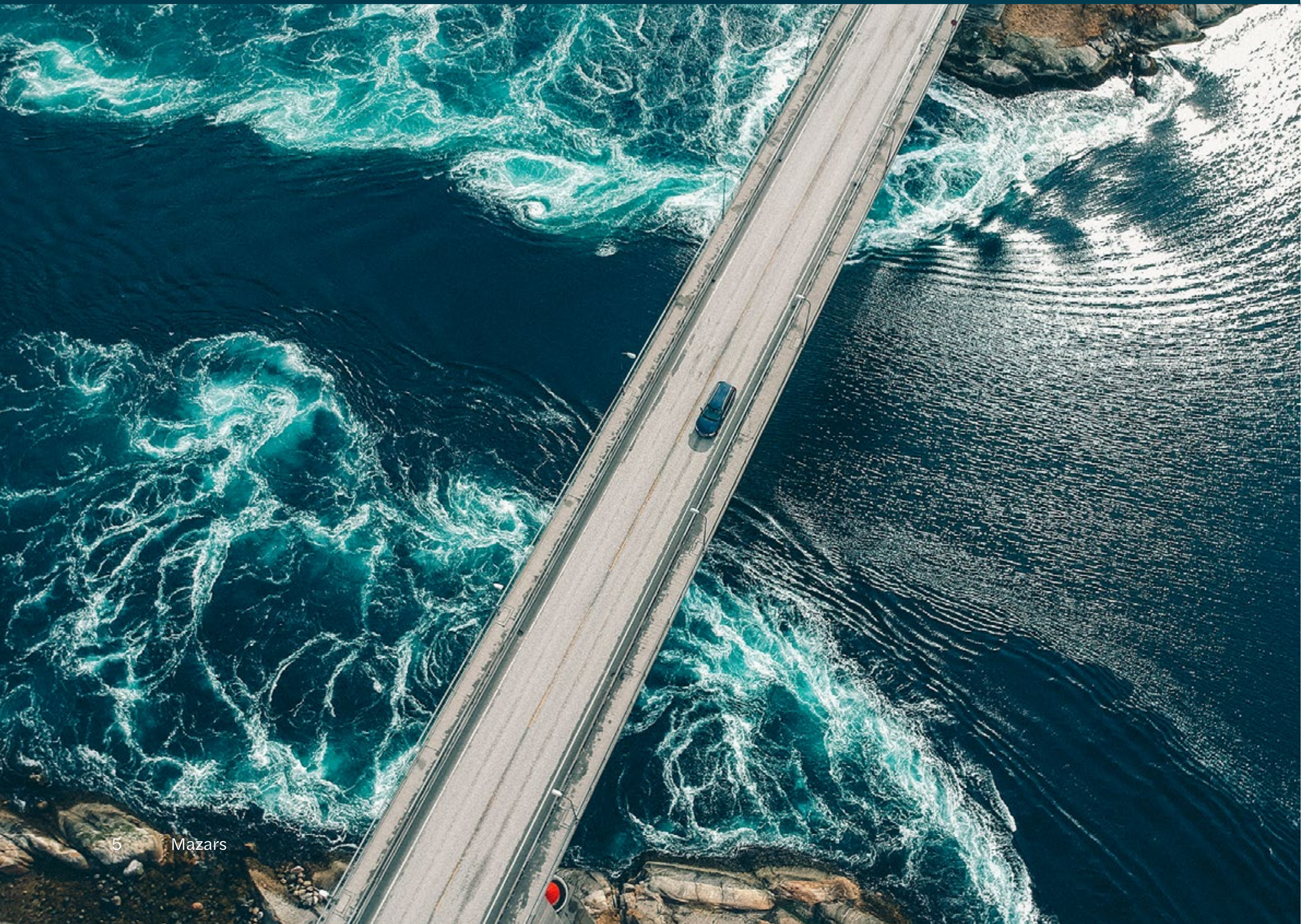
The graphic below shows how each fund in the portfolios contributes to the overall score.

> Click to revel the text



Sustainable themes

Our investment approach aims to gain exposure to businesses that contribute to creating a more sustainable future. By investing in a variety of sustainable funds we benefit from exposure to multiple sustainable themes at a portfolio level.



We have identified four core sustainability themes that our portfolio is contributing towards and have undertaken a detailed assessment of how they are helping shape long term secular trends.

This year, we have highlighted sustainable themes such as clean energy, circular economy, health and wellbeing, and sustainable mobility and infrastructure. We believe our sustainability themes contribute to 12 of the SDGs in a meaningful way. In the following sections, we have identified the relevant goals for each theme using the SDG icons.

Clean energy... >

Circular economy... >

Health and wellbeing... >

Sustainable mobility and infrastructure... >

Clean energy

According to the International Renewable Energy Agency (IRENA), to remain below the Paris Climate Agreement target of 2°C, the global power sector will need to be transformed to embrace renewable sources of energy.

Renewables will need to increase their contribution to global total final energy consumption six-fold from 10.5% (2018) to 66% (2050), meaning an annual investment of $735bn through to 2050 ($22.5tr in total). We believe this provides sustainable growth opportunities for leading businesses operating in this space. There are four pillars that provide significant tailwinds for companies in the renewables space.

Reduced costs – Increased R&D spending and economies of scale will continue to drive down the cost of renewable energy, creating a cheaper and cleaner alternative to gas powered electricity.

Regulation – Demand for renewables will rise as countries look for cleaner sources of energy to help them meet their Nationally Determined Contributions under the Paris Agreement.

Rising power demand – Overall power demand will increase significantly globally through to 2050, driven mostly by expanding non-OECD economies acting as a further driver of renewables.

Transitioning subsidies – The IRENA sees a transition of global subsidies from fossil fuels (2017: $447bn, 71% share) to renewables (2030: $192bn, 41% share) as governments try to meet their Nationally Determined Contributions under the Paris Agreement.

Clean energy can be leveraged to achieve multiple SDGs. It holds particular promise for achieving SDGs 7, 13, 3 and 11.

Case study... >

The Foresight Global Real Infrastructure fund invests in Encavis AG, a Denmark based producer of electricity from renewable energy sources. The company acquires and operates solar and wind parks and is one of the leading power producers in Europe.

Denmark is an attractive area as it boasts legally secure and attractive framework conditions for investment. The proportion of green energy in Denmark is already 53% - mainly thanks to wind energy which alone contributes 43%. In February 2019, Encavis announced the acquisition of a portfolio of eight fully operational Danish wind parks with a total capacity of 81 MW. The strength of this portfolio lies in the diversification of the local wind risk across eight different locations.

The annual electricity production of around 214,000 MW-hours is enough to provide more than 50,000 households with power. Revenues of 13.4 million euros per year are expected from the power marketing.

Go back to Sustainable themes

Circular economy

Circular economy is an alternative economic model to the traditional linear model of manufacturing. In particular, it addresses unsustainable trends of increasing production, single-use manufacturing, and poor end-of-life management of materials.

A circular economy requires companies to consider the product life cycle and the ways in which products can be reused and repurposed to reduce waste that is harmful to our environment and society. Industries that rely heavily on virgin materials are instrumental in the support for a circular economy and have the potential to shift the world economy to a 1.5-2°C pathway. By adopting a circular economy approach, companies can save on production costs and reduce dependence on external commodities, therefore improving margin stability and minimising energy consumption. Companies leading in circular economy activities are also more likely to be protected from impending regulation and increasing virgin material costs. Technology serves as a key driver of solutions to achieve sustainable development of at-risk industries that focus on recycling and reuse. Our funds' engagement efforts so far have sought to encourage companies to design out the need for virgin components or material and introduce the management of harmful by-products of business operations.

The circular economy can be leveraged to achieve multiple SDGs. It holds particular promise for achieving SDGs 6, 7, 8, 11, 12, 13, 14 and 15.

Case study... >

One fifth of Jupiter Ecology's portfolio is allocated to the 'Circular Economy' theme. It invests in TOMRA, a global leader in reverse vending, with approximately 80,000 machines installed across the world. Reverse vending is the more sustainable way to recycle. Through deposit return, it rewards consumers who bring their containers back – therefore giving value to a material that may otherwise be littered or sent to landfill.

More than 1.4 trillion drinks containers are produced every year. TOMRA is the largest player in the reverse vending market, collecting 40 billion containers annually across more than 60 markets. This is a huge number, but is only 2.5% of the total sum, presenting a massive opportunity for businesses to make a positive contribution to the environment.

Reverse vending doesn't limit use – it limits waste. Using recycled materials to create new products requires significantly less energy than producing new products from scratch. Across the world, TOMRA reverse vending machines have made recycling more convenient, efficient and profitable for everyone involved.

Go back to Sustainable themes

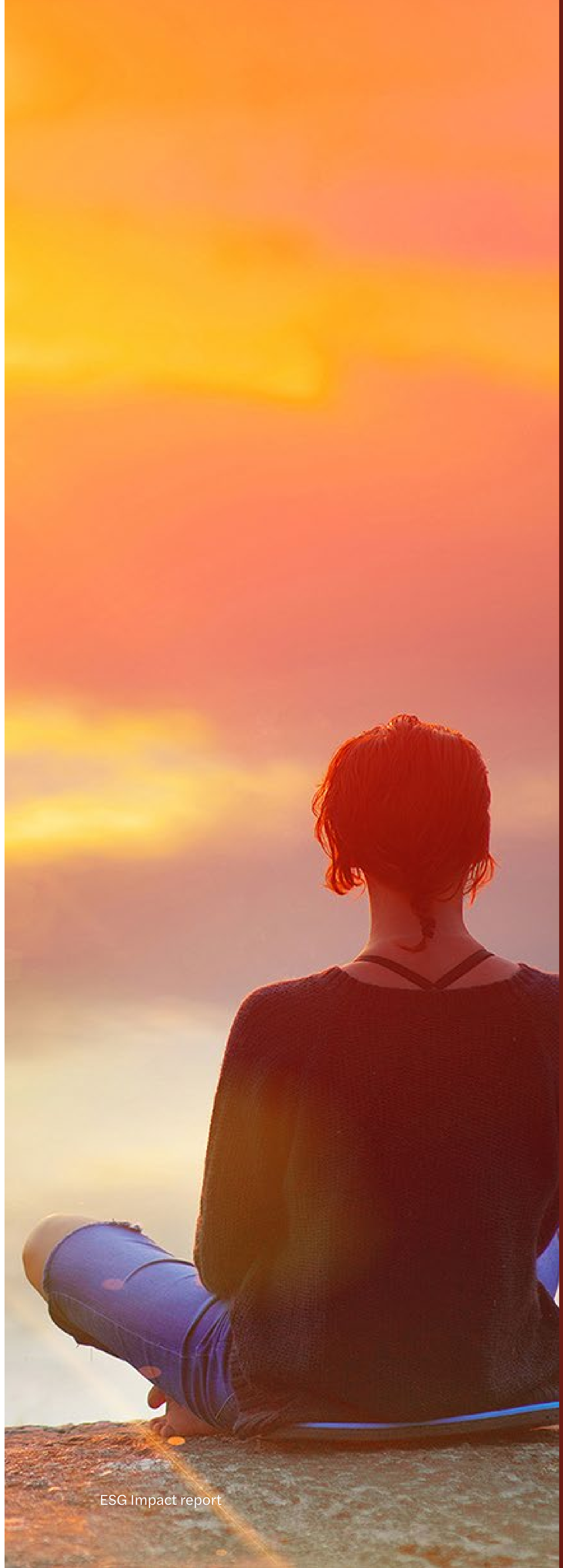
Ensuring healthy lives and promoting wellbeing is important to building prosperous societies. The pandemic has devastated health systems globally and threatens already achieved health outcomes. Most countries, especially poor countries, have insufficient health facilities, medical supplies and health care workers for the surge in demand.

The pandemic has shown that in rich and poor countries alike, a health emergency can push people into bankruptcy or poverty. Concerted efforts are required to achieve universal health coverage and sustainable financing for health; address the growing burden of zoonotic and non-communicable diseases, tackle antimicrobial resistance and environmental factors contributing to ill health.

Ensuring healthy lives for all requires a strong commitment, but the benefits outweigh the cost. Healthy people are the foundation for healthy economies.

In 2017, only around one third to half of the global population was covered by essential health services. If current trends continue, only 39% to 63% of the global population will be covered by essential health services by 2030. The Covid-19 crisis has disrupted essential health services around the world. Some services have been suspended to free up resources for Covid-19 patients and to reduce the risk of transmission. If universal health coverage is to become a reality by 2030, growth in the provision and use of essential health services must greatly accelerate.

Health and wellbeing can be leveraged to achieve multiple SDGs. It holds particular promise for achieving SDGs 3, 10, 8, 9 and 17.



Case study... >

The Stewart Investors Asia Pacific Sustainability Leaders fund invests a fifth of its portfolio in the healthcare sector. One of its holdings, Dr.Reddy's Laboratories is an entrepreneurial generic pharmaceutical company that is committed to providing affordable and innovative medicines in India and overseas.

Dr.Reddy's collaborated with the Russian Direct Investment Fund to bring 125 million people doses of the Sputnik V vaccine to India. Additionally, it partnered with Japan's Fujifilm Toyama Chemical to bring Favipiravir, an oral antiviral drug, accessible to the Indian population. Its partnership with US based Gilead Sciences to make Remdesivir, an injectable drug used to treat Covid-19 patients, available globally has been applauded.

Over 30% of the business continues to be owned by the founding family.

The provision of affordable healthcare in both developed and developing markets provides Dr.Reddy's with a long runway of growth.

You can read more here...

Go back to Sustainable themes

Sustainable mobility and infrastructure

Transport is a vital sector for achieving the SDGs. Transport supports the achievement of virtually all the goals, including those associated with economic and social development, connecting goods with markets, supporting agricultural productivity and access to services. Safe, clean and sustainable transport that is affordable and accessible to all is critical for sustainable development.

Transport is fuelled by energy and is therefore directly linked to SDG 7 on affordable and clean energy

Policy measures may affect transport mode choices including fuel taxes, congestion and emissions charges, labour and safety regulations and investments in infrastructure and service improvements. The construction of infrastructure to support a modal shift in passenger and especially freight transport is necessary in order to achieve a reduction in energy intensity of transport systems, especially in light of population growth projections and economic development targets.

Achieving a substantial increase of renewable energy in the transport energy mix will depend on setting ambitious targets for shares of advanced biofuels and other alternative fuels with low-carbon lifecycle emissions in the transport energy mix; deployment of higher proportions of EVs in vehicle fleets; and the expansion of renewable electricity generation capacities (on grid and decentralized). It is important to note that if the electricity powering EVs is not generated from renewable sources, the related emissions are simply displaced from the vehicle tailpipe to the fossil fuel power plant.

Sustainable mobility and infrastructure can be leveraged to achieve multiple SDGs. It holds particular promise for achieving SDGs 3, 13, 8, 9, 11 and 7.

Case study... >

The WHEB Sustainability fund invests in Aptiv, a key supplier to the automotive industry. Aptiv's mission is to 'enable a safer, greener and more connected future of mobility'. The company's products include high-voltage wiring and electrical centres, power distribution boxes and battery connectors, plug-in chargers and light-weight aluminium wiring all for use in electric vehicles. The company is also a major supplier of active and automated safety systems.

Aptiv's technology plays a key role in enabling both advanced safety technologies as well as greater powertrain electrification. Intellectual property in safety applications offers significant improvements in automotive safety benefits. Approximately 80% of revenues are derived from products and services with either environmental or safety benefits.

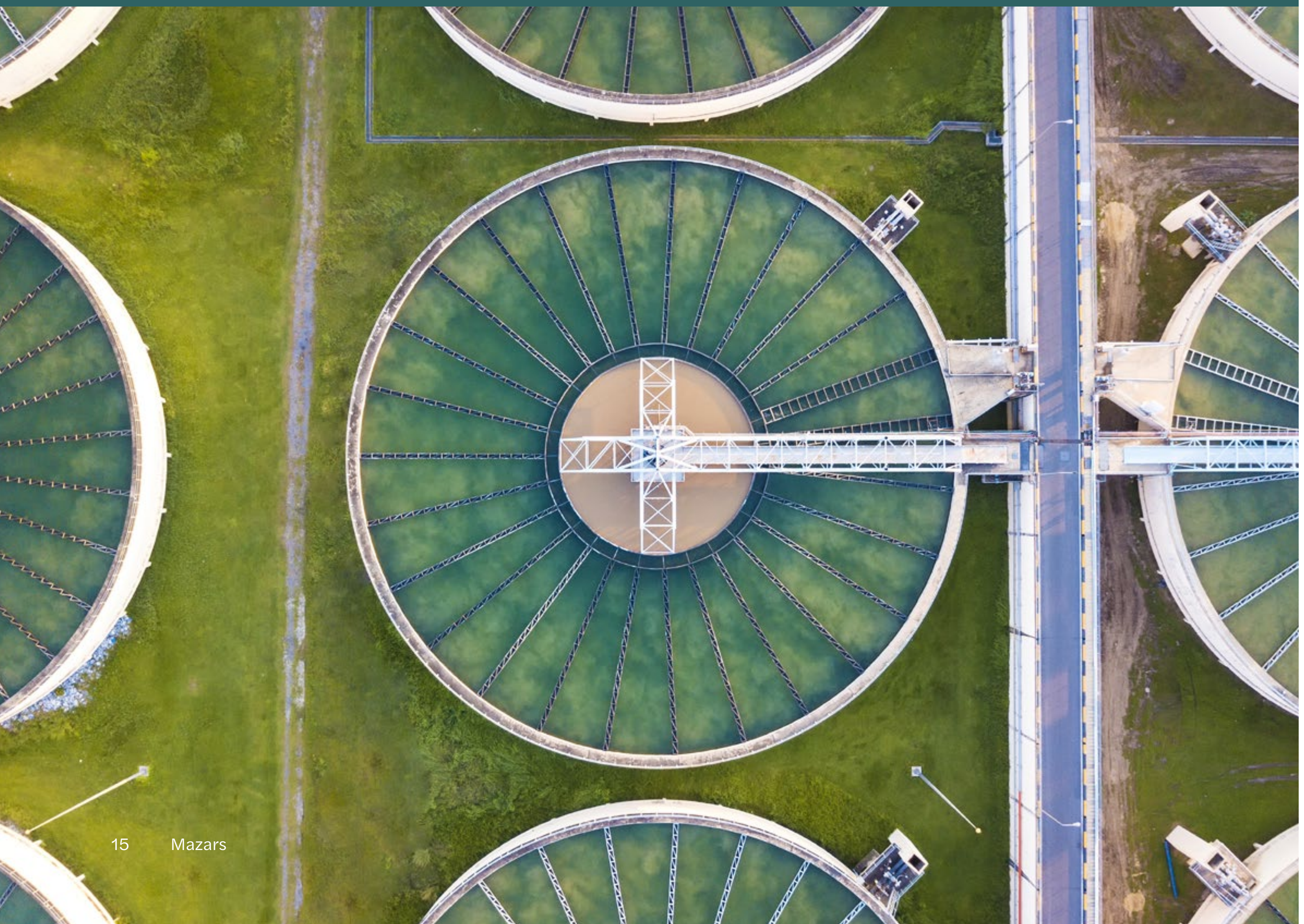
Supplying automotive components is typically seen as an unattractive market. A focus on electrification and active safety enables Aptiv to grow faster than the market as a whole. A strong competitive position and robust management of ESG issues also enable the company to earn attractive margins for the sector.

< Go back to Sustainable themes

Portfolio alignment to UN SDGs

“We must strongly accelerate our broader efforts to achieve the Sustainable Development Goals...and we need increased financing for those solutions.”

UN Secretary, General António Guterres, 2019



The Sustainable Development Goals (SDGs) were developed in 2015 by the United Nations (UN) and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world by 2030. The SDGs are 17 ambitious, high-level goals with 169 specific targets, that were endorsed by all UN member states.

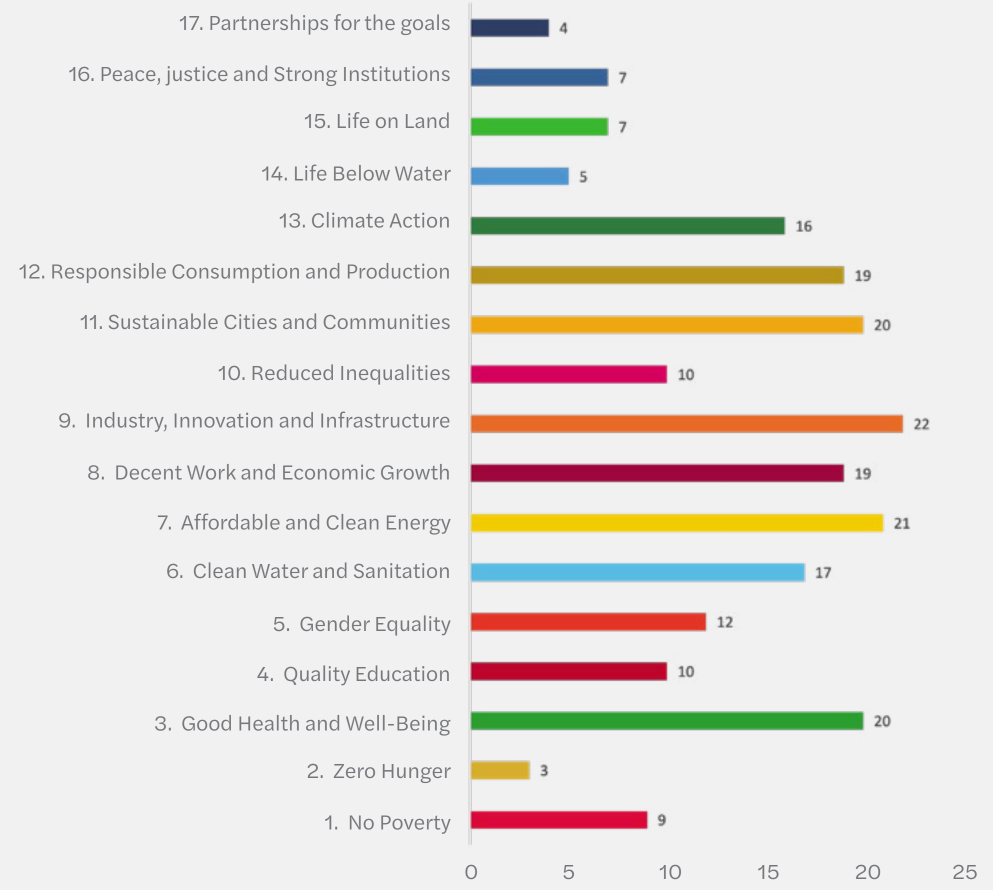
Achieving these targets typically requires a global perspective together with commitment and coordinated action from international organisations, governments, companies and individuals. We all have a role to play and the SDGs were designed with that in mind.

For example, the UN has estimated that achieving the SDGs will require investment of between US$5-7 trillion each year until 2030.

By investing in sustainable funds and using the SDGs as an engagement framework, we believe we can contribute to building a more sustainable world.

The adjoining chart explains how many funds in the sustainable balanced model portfolio contribute to each corresponding SDG. For example, 21 funds (out of a total 23) contribute to SDG7 – Affordable and Clean Energy via their investments.

Funds contribution to the UN SDGs



Engagement case studies

As investment managers, we believe we are acting on behalf of our clients for the long term. We are constantly engaging with our fund managers on ESG matters, demonstrating responsible stewardship.

> Click on the numbers to revel the text

Engagement case study

1... >

Engagement case study

2... >

Engagement case study

3... >

Looking ahead

The global response to Covid-19 has not held back the rapid evolution of the sustainable finance policy landscape. These policy shifts are set to change the way capital is channelled, and will be critical as we consider what our economic recovery may look like. We look at policy and regulatory trends shaping the sustainable investment landscape...

The 26th United Nations Climate Change Conference of the Parties (COP26) is set to take place in Glasgow in November 2021, with nations gearing up to discuss the progress made since the 2015 Paris Agreement and what steps should be taken next.

COP26 will be the most important global event yet for addressing the issue of climate change – especially given how far behind countries are in meeting the agreed target of limiting global warming to 1.5°C. Policy decisions and targets made during COP26 can have a significant impact on certain sectors and change investors perspectives.

For example, the UK has set some of the strictest carbon-reduction goals in the world. It has committed to cutting greenhouse-gas emissions by 68%, compared to 1990 levels, by 2030 – the fastest rate of any major economy. It plans to slash emissions by 78% by 2035 and reach net zero by 2050. To help achieve this, it has banned the sale of new petrol and diesel cars and vans from 2030, and hybrids by 2035. Given the likely growth of EVs, several manufacturers have already committed to ending pure-ICE sales before 2030. Bentley recently announced that it would sell only electric cars from 2030, while Volvo is committed to only offering electric or plug-in hybrid models from 2025.

The Sustainable Finance Action Plan (SFAP) is a major policy objective by the European Union which aims to promote sustainable investment across Europe. It was first laid out by the European Commission in March 2018 in response to the landmark signing of the Paris Agreement in December 2015, and to the United Nations 2030 Agenda for Sustainable Development earlier in 2015, which created the Sustainable Development Goals. A core tenet of the EU SFAP is the Sustainable Finance Disclosure Regulation (SFDR), which will classify investment funds according to their sustainability credentials for the first time. SFDR sets out a number of actions aimed at 'greening' the finance industry. It aims to make the sustainability profile of funds more comparable and better understood by end-investors, using pre-defined metrics for the ESG characteristics used in the investment process.

Greenwashing continues to be a major concern for ESG investors and regulators alike, due to which we are seeing an increase in disclosure related regulation being passed. In Europe, the EU Taxonomy – a framework for classifying environmentally-sustainable economic activities, comes into effect in 2022. On a global level, the Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information by public companies and other organizations. The TCFDs are important for businesses to improve their own understanding of their long-term climate-related risks and opportunities. Further, they matter because of the growing pressure on companies from governments, consumers and investors to respond to climate change. More governments will shift from recommending the TCFDs as guidance to enacting laws and policies to embed the recommendations into mandatory legislation and regulation. In the UK, the FCA is set to publish its own TCFD report next year.

We are proud to be working with our fund managers, many of whom are leading the call for action on net-zero disclosures with the UK Government. Legal & General Investment Management, Aviva Investors and Royal London Asset Management, among others have used the Net Zero Asset Managers initiative to urge the UK government to make net-zero disclosure a mandatory requirement for large firms.

Appendix 1

References

IRENA renewable energy and climate pledges

Circular Economy Facilitates UN Sustainable Development Goals

Net Zero Asset Managers initiative

Make net-zero strategies a mandatory requirement, UK firms urge government

FCA enhancing climate-related disclosures by standard listed companies

COP26 explained

EU Sustainable finance policies

Appendix 2

Sustainability Score methodology

We have developed a proprietary Sustainability Scoring Scale in order to synthesize all material sustainability related information to further assess the funds we use in our portfolios. It is also the starting point to assess the overall ESG quality of our Sustainable Model Portfolios.

The seven metrics we judge a fund on are:

ESG integration in strategy
1

The UN's Principles of Responsible Investing (PRI) defines ESG integration as "the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions to better manage risks and improve returns." Put another way, we are looking to make sure that our fund managers are not only looking at the financial information of a company but also analysing its ESG information and impact when they are conducting investment research and making investment decisions. ESG integration contributes to 10% of the total Sustainability Score.

Impact of the fund
2

When we assess the impact of a fund, it is done with an aim to determine how the fund is investing in companies with the intention of generating a positive, measurable social and environmental impact, alongside a financial return. Impact investments span a number of industries including healthcare, education, energy (especially clean and renewable energy) and agriculture. Impact of the fund contributes to 20% of the total Sustainability Score.

Stewardship and engagement
3

Both stewardship and engagement are very important factors that help us ascertain that our fund managers are active owners of their securities. Stewardship implies a two-way dialogue with companies that helps provide an opportunity for our fund managers to explain their expectations of corporate management in general and in relation to managing ESG risks. Stewardship also allows companies to provide clarifications on their strategy and the relationship between ESG factors, their business model and financial performance as well as receive early warnings on emerging risks and best practices. In our experience, our fund managers have been able to engage with companies they invest in and have brought about change in the attitudes towards ESG. Most of our sustainable fund managers actively vote in AGMs of companies and will vote against management on issues relating to sustainability if they see fit. Stewardship and engagement contribute to 15% of the total Sustainability Score.

UN PRI signatory
4

In early 2005, the then United Nations Secretary-General Kofi Annan invited a group of the world's largest institutional investors to join a process to develop the 'Principles for Responsible Investment'. The Principles were launched in April 2006 at the New York Stock Exchange. Since then, the number of signatories has grown from 100 to over 3,000. The six Principles are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. Every asset management firm we invest with across our portfolios is a UN PRI signatory. The signatory status of the asset management firm contributes to 10% of the total Sustainability Score.

Appendix 3
Sustainability Score methodology

Screening 5

Screening uses a set of filters to determine which companies, sectors or activities are eligible or ineligible to be included in a specific portfolio. These criteria might be based on the fund's preferences, values and ethics. For example, a screen might be used to exclude weapons manufacturers (negative screening) or to target only the lowest emitters of greenhouse gasses (positive screening). Our funds use a mix of negative and positive screening and in general exclude investments in sectors such as tobacco, oil & gas, mining, alcohol, gambling, armaments, pornography and nuclear power. Screening contributes to 10% of the total Sustainability Score.

Contribution to UN SDGs 6

During the United Nations Sustainable Development Summit in 2015, the Sustainable Development Goals (SDGs) were established. The UN SDGs are a globally accepted set of 17 overarching goals for real-world outcomes in areas such water, health, poverty, gender equality and biodiversity. We have created a UN SDGs matrix that helps us estimate how many SDGs each of our funds contribute to via their investments. A fund's contribution to the UN SDGs make up 15% of the total Sustainability Score.

Overall analyst score 7

We believe that analysing a fund and its sustainable strategy requires interrogation beyond marketing material. We have incorporated ESG into our existing fund research framework which includes talking to our fund managers directly to assess how their sustainable policies really stack up. As fund selectors, we try and understand the thinking behind the fund managers approach to ESG and how it is built into their portfolio. We also to look for data such as carbon emissions of the fund versus its benchmark. The overall analyst score contributes to 20% of the total Sustainability Score.

The table below shows the high level scoring system for underlying funds

Total Sustainability Score

> Click on the numbers to revel the text

4	The fund integrates ESG in its strategy and considers the positive, social and environmental impact of its investments as a critical part of its investment process. The Fund invests in companies providing solutions to sustainability challenges, is a UN PRI signatory, and contributes to the UN SDGs via all its investments.
3	The fund integrates ESG in its strategy and negatively screens out controversial companies operating in industries such as oil & gas, armaments, mining etc. and/or positively screens companies that set positive examples of environmentally friendly products and socially responsible business practices.
2	The fund does not explicitly follow a sustainable strategy or call itself a sustainable fund. However, ESG considerations are included within the process of the fund and it invests in quality businesses.
1	The fund is not a sustainable fund and can invest in any business it sees as a viable investment. Passive funds not tracking ESG indices also fall in this rating.

In addition to our sustainable investment management solutions we provide a range of services to corporate and not-for-profit organisations to help them define and achieve their own organisational goals in the Environmental, Social, and Governance areas.

Business. For good

Increasing public interest in ethics and in how companies create value, as well as regulators' growing focus on sustainability, is changing the way companies are expected to drive their business and performance and has given rise to Environmental, Social and Governance (ESG) metrics.

With global experts able to respond to increasing challenges within a more demanding and disparate ESG regulatory system, Mazars can advise clients in this ever more complex space. We have expertise aimed at reengineering trust in business, empowering people and nurturing collective responsibility.

Culture audit

A sound corporate culture that is aligned with strategy and reflects the values of the business is a key driver for financial and operational success, as well as a major influencer on ethical behaviour. It can drive innovation, attract the next generation of talent and protect the brand.

Mazars' Culture Compass measures cultural alignment throughout the business. When companies are going through periods of change – to the team, structure and operations – Mazars' Culture Compass can highlight both successes to be replicated and recommendations to address areas of divergence.

Sustainability

As auditors, consultants and entrepreneurs, we consider it our duty to help our clients become ever more sustainable and responsible. Our sustainability services include: non-financial assurance; data protection and information security to provide you with comfort that your GDPR processes are appropriate and effective; anti-bribery and anti-corruption, with Mazars being formally accredited as an approved certifier of anti-corruption programmes; cyber security; and CSR and ethics in business consulting.

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of more than 42,000 professionals – 26,000+ in Mazars' integrated partnership and 16,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.
*Where permitted under applicable country laws.

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