

Regnan Global Equity
Impact Solutions Fund

Annual
Impact Report

2021



Regnan Global Equity Impact Solutions

Regnan Global Equity Impact Solutions fund invests in mission-driven businesses that provide solutions for the environmental and social challenges of our time. We aim to deliver market-beating, long-term returns by identifying “system changers” that innovate, disrupt and ultimately produce positive environmental, social and financial outcomes.



Regnan Global Equity Impact Solutions web page.
Short link: pend.al/rgeis

Strategy overview

- The fund aims to generate long-term outperformance by investing in the listed shares of solution-providing companies for the growing unmet sustainability needs of society and the environment. We use the United Nations Sustainable Development Goals (SDGs) as an investment lens.
- The team has built a comprehensive, proprietary framework to identify companies that provide solutions to the world’s environmental and societal challenges.
- The portfolio is actively managed, high conviction, diversified, global multi-cap with very low portfolio turnover and an emphasis on engagement.
- Benchmark: MSCI ACWI Investable Market Index.
- The use of the index does not limit the investment decisions of the fund manager. Composition of the portfolio may therefore differ significantly from the index.
- Please visit <https://pend.al/rgeis> or the QR code on this page for further details on the strategy’s sustainable objective¹

FROM PROBLEMS TO SOLUTIONS

Transport accounts for **21%** of global carbon emissions¹

Fashion represents up to **20%** of wastewater and 6% of global pesticide use⁴

People experiencing homelessness are **17x** more likely to have been victims of violence²

At the height of the covid crisis **1.6bn** children and young adults were out of school³

World Health Organisation (WHO) concludes that ~1.9bn people are **~1.9bn** 'overweight' and **650m** of the world's population are "obese"⁵

The gap between global **water** supply and demand is forecast to reach **40%** by 2030⁶



Food security

Tomra's food-sorting equipment is expected to reduce post-harvest food loss by **50%** by 2030¹⁶



PROBLEMS

SOLUTIONS

Cement is a hugely carbon-intensive industry, **8%** of global emissions.⁷

An estimated **~2.4bn** people do not have access to sufficient levels of safe and nutritious **food** in 2020.⁸



Energy transition

Lenzing's wood-based cellulosic fibres use **10x** less water than cotton, have a neutral carbon footprint and are highly biodegradable.⁹



Circular economy

Hoffmann Green Cement's clinker-free recipe has the potential to reduce the carbon footprint of cement manufacturing by **5x**¹⁰



Future mobility

Valeo produce: **50%** of ultrasonic sensors and **20%** cameras used in new vehicles globally.¹¹



Water

Evoqua's products and services treat the equivalent of **4.5** daily Niagara Falls worth of water.¹²



Education

YDUQS's student base more than doubled between 2018-2021 to **1.24m**.¹³



Health & wellbeing

100+m of Qiagen's gold-standard diagnostic test for tuberculosis, one of the world's deadliest infectious diseases, have been completed.¹⁴



Financial inclusion

HOME Reit has acquired **6,500** beds in the UK for homeless or those threatened with homelessness.¹⁵

¹Source: www.iea.org/reports/net-zero-by-2050

²Source: www.crisis.org.uk/ending-homelessness/about-homelessness/

³Source: www.weforum.org/agenda/2020/12/covid19-education-innovation-outcomes/

⁴Source: www.unep.org/news-and-stories/story/fashions-tiny-hidden-secret

⁵Source: www.who.int/health-topics/obesity#tab=tab_1

⁶Source: www.resourcepanel.org/reports/options-decoupling-economic-growth-water-use-and-water-pollution#:~:text=The%20Options%20for%20Decoupling%20Economic,considering%20environmental%20and%20welfare%20impacts

⁷Source: www.pnas.org/doi/full/10.1073/pnas.1821673116

⁸Source: www.fao.org/state-of-food-security-nutrition/2021/en/

⁹Source: Felgueiras et al, 2021.

¹⁰Source: www.ciments-hoffmann.com

¹¹Source: Valeo, 2021 universal registration document

¹²Source: Evoqua, 2021 sustainability report

¹³Source: www.yduqs.com.br

¹⁴Source: <https://financialreport.qiagen.com/2021/>

¹⁵Source: www.homereituk.com

¹⁶Source: www.tomra.com/en/investor-relations/capital-markets-day



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Letter to investors

IF 2020 is remembered as the year Covid came into our lives and vernacular, we might look back on 2021 as the year we started to emerge from the eye of the storm.

Perhaps it was a combination of shocking world news headlines and extended periods of isolation that gave many the chance to reflect on the sustainability of human progress – and the growing need to ensure we can continue to grow the collective pie.

The result is that 2021 was an eventful year for impact investing. More and more investors are looking to make a positive impact with their capital. Sustainable and impact strategies are becoming an allocation in their own right for many asset owners and allocators. Our investors tell us differentiated and diversifying holdings, the potential for long term capital growth and the opportunity to drive change for the better are all attractive characteristics.

Since this is our first annual report since the relaunch of the strategy at Regnan, it is worth remembering what impact investors are trying to achieve for their clients. These are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

The impact of these investments is central to the objectives investors such as ourselves are trying to deliver to clients. Measurement of this impact is a critical part of impact investing, so we can communicate how the companies in client portfolios have delivered an impact over the course of the year. We aim to report on whether we have managed to amplify this impact through the outcomes of our ongoing engagement with these companies.

This report is not meant to merely give investors a warm feeling inside. It's intended to communicate a critical part of the proposition we seek to deliver to clients, as long-term active supporters of these impactful, mission-driven businesses.

Managers should be as transparent and as rigorous as possible in how they measure and track impact over time, including how they source data and how they communicate with investors. That means holding ourselves accountable, which we try to do in our process.

Impact measurement comes with challenges. How can we fairly convey a solution's real impact on an environmental or social challenge? Reported outputs and outcomes are often scarce and less-than-perfect proxies for articulating success.

Our approach is to include impact in the investment decision, not to treat it as an afterthought. Investors can be confident that we assess impact at every step. This starts before we decide to invest.

Our experience is that companies are becoming more open to providing information, because they realise it's not solely about the short-term, bottom line.

We are long-term investors. Our engagement perspective is welcomed by most companies because we invest in businesses that largely want to improve. Our approach is a constructive one, which we see as a positive feedback loop. Typically, these companies are interested in mitigating any negative impact on the planet since it not only makes them better corporate citizens, it can also make good financial sense.

The core, four-person investment team that joined Regnan in 2020 has remained unchanged since Mohsin Ahmad joined Maxine Wille, Maxime Le Floch and myself in 2017. But we also use this report as an opportunity to introduce our new colleagues in the Regnan Insight and Advisory Centre.

This team of sustainability experts played a key part in attracting us to Regnan. They have contributed to our process by helping with the vast research effort we conduct around the invested impact solutions and the value chains that surround them, as well as assessing operational impacts and formulating an effective engagement plan. Regnan’s “systems thinking” approach to sustainability echoes our focus on investing in mission-driven, innovative businesses with solutions that tackle specific issues and create better, more sustainable systems.

Finally, we thank our investors for their support and belief in the investment process and team. We believe the ability to supply innovative solutions to help solve some of the planet’s major environmental and social challenges will prove a rewarding venture for those committed to long-term opportunities.

We are still in the early days of addressing these challenges. This means a significant opportunity exists to contribute toward better social, environmental and financial outcomes – because for us, the impact case is the investment case.



Tim Crockford

Senior Fund Manager,
Head of Equity Impact Solutions

Regnan Global Equity Impact Solutions



About Regnan

Regnan delivers innovative, sustainable and impact investment solutions, drawing on more than 20 years of experience at the frontier of responsible investment. Our roots trace back to Melbourne’s Monash University where we were established in 1996 to investigate and address ESG-related sources of risk and value for long-term shareholders.

An experienced and proven team

Investment services

Impact



Head of Investments



Portfolio Specialist



Sustainable Thematic



Client solutions:

Investment returns | Sustainability | Innovation | Purity

Engagement | Advisory | Research



Stewardship services

Regnan is Pental Group’s specialist sustainable and impact brand. Pental is an Australian-listed investment manager and owner of J O Hambro Capital Management (JOHCM).

We exist to drive positive impact and investing for a sustainable future. We want to help make responsible investment the standard way to invest by making it more nuanced, intellectually robust and effective.

Our funds:

- **Regnan Global Equity Impact Solutions** (launched October 2020)
- **Regnan Sustainable Water and Waste** (launched September 2021)
- **Regnan Credit Impact Trust** (launched January 2020)

In 2019 Regnan expanded into responsible investment funds management, backed by the considerable resources of Pental Group.

Our work with Regnan Insight and Advisory Centre

We work side-by-side with Regnan's Insight and Advisory Centre, benefitting from an experienced stewardship team with specialist knowledge. This continuous collaboration has been particularly beneficial in three areas:

1. The Regnan SDG Taxonomy

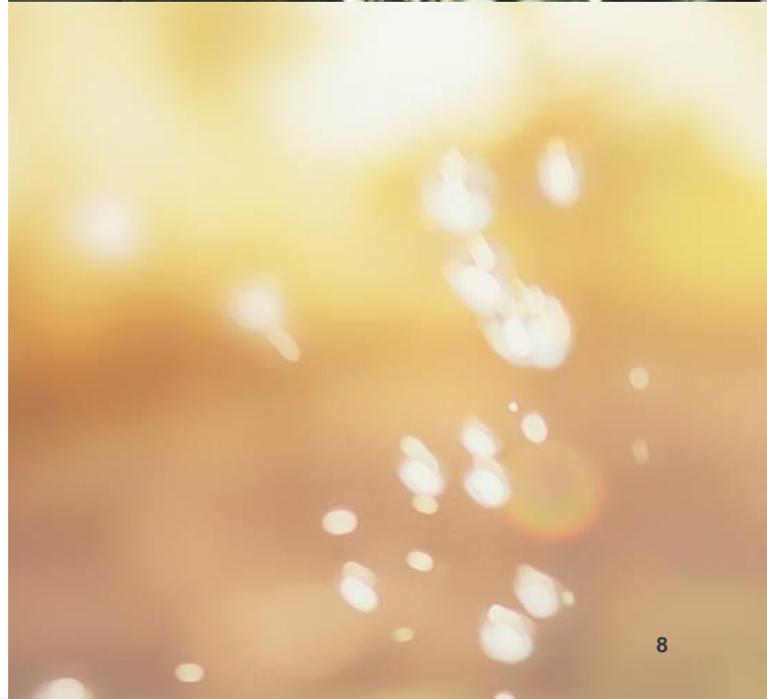
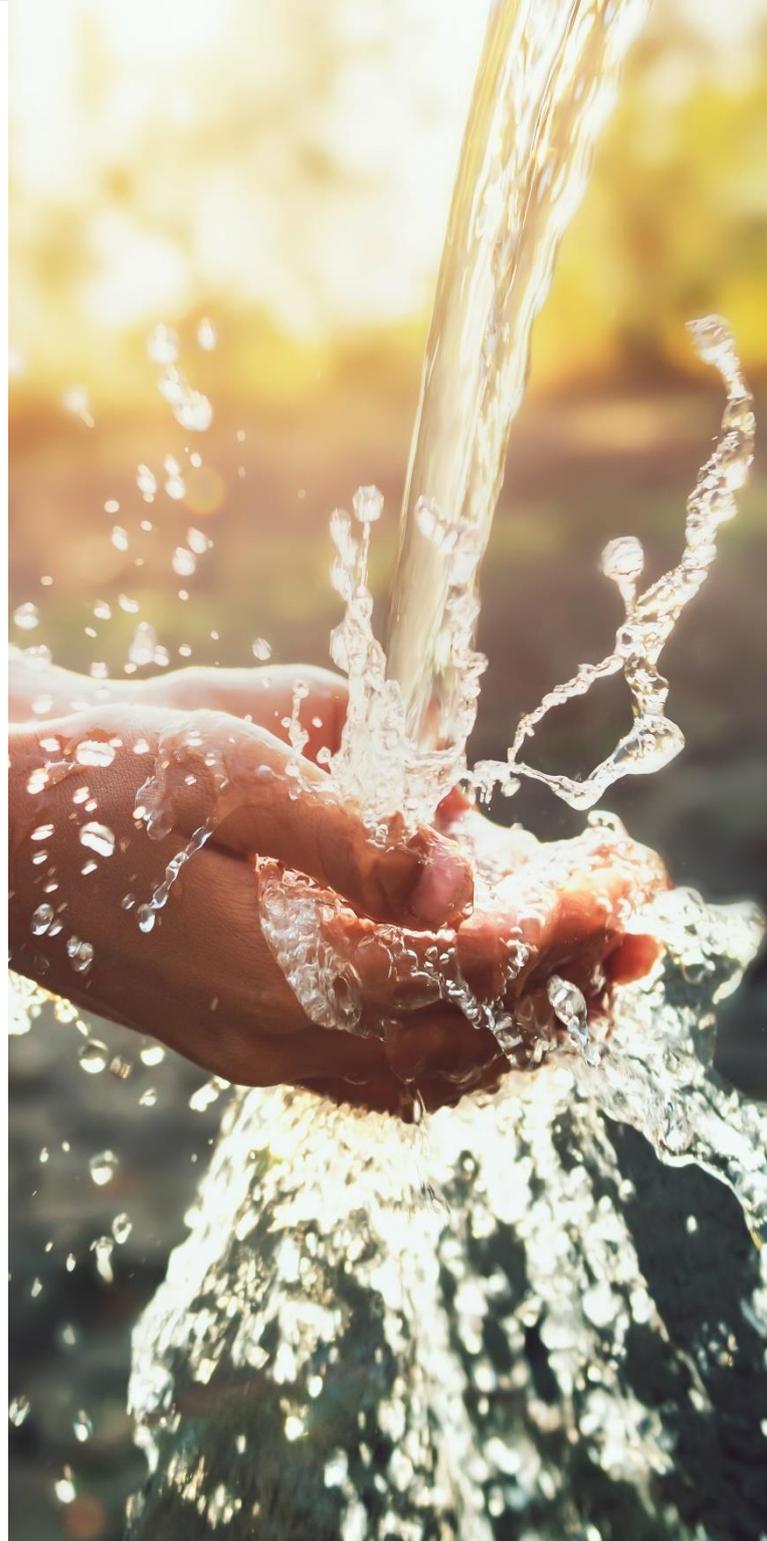
Starting in 2017, the team developed a taxonomy based on the 17 UN Sustainable Development Goals (SDGs) and their 169 underlying targets. The Regnan SDG taxonomy aims to match the most pressing global environmental and social problems to solutions provided by publicly-listed companies. By analysing these solutions we believe our taxonomy allows us to identify companies with a strong chance of producing market-beating returns and positive impact. Our work with the Regnan Insight and Advisory Centre allows us to significantly expand our taxonomy. For instance our universe of solution-providers has expanded from 1,600 to 2,400 companies.

2. Thematic research

Our work with the Regnan Insight and Advisory Centre has spawned several research projects and reports, including a sustainability assessment of the hydrogen value chain and an in-depth thematic research report of sustainable agriculture. Our *H₂ beyond CO₂* report was co-authored by Alison George, Osh Siyaguna (Regnan Insight and Advisory Centre) and Maxime Le Floch (investment team) to fill in gaps in the research literature about the impact of hydrogen technologies in supporting a comprehensive evaluation of hydrogen solutions applying the Regnan SDG Taxonomy.

3. Engagement

Engagement work is led by the team but also supported and enhanced by the research capabilities of the Regnan Insight and Advisory Centre. This provides long-standing, in-depth experience analysing sustainability factors and driving change through engagement. For instance, the Regnan Insight and Advisory Centre's *Beyond Diversity* report, which identified equity and inclusion as an overlooked opportunity for investors, directly informed diversity, equity and inclusion engagements with the team's portfolio companies.





By the numbers: Improvements to the Regnan SDG Taxonomy



2,400+
companies

The strategy's investible universe has expanded by 800 to more than 2,400 companies since June 2020.



160+
solutions

A theory of change and associated impact risks have been collaboratively developed or updated by the Regnan Insight and Advisory Centre and the investment team for more than 160 solutions now in the taxonomy.



51
of the 169 SDG
targets addressed

The Regnan Insight and Advisory Centre has worked with the team to expand these investible solutions to cover a large number of the targets.

Total addressable market (TAM) estimates – continual investment process enhancement to identify and measure the market opportunity of the product or service delivering the impact.

Portfolio Summary 2021

2021 was a busier-than-usual year for the portfolio.

We exited names when operational changes invalidated the potential for an impact solution to scale up to expectations. Or where the value gap between a company's expectations and those of the market had closed.

We used freed-up capital to add new companies from the buy list.

The team will often have completed due diligence well in advance of an investment, while fund managers await a better entry point.

The broader rotation in markets provided opportunity to make some of the changes summarised in coming pages.

We anticipate five-to-ten-year investment horizons. Market volatility often provides opportunities to enter new ideas at more attractive entry points than had been assumed during the due diligence process. Similarly, should the value gap close for a particular holding, the team will divest regardless of how many years have lapsed since the original initiation.



Companies added to the portfolio

Buys



Theory of change

Afya is the leading provider of undergraduate medical courses in Brazil (c10% market share).¹ Brazil has among the lowest level of medical density (2.1 physicians per 1000 inhabitants, which reduces to 1.3 excluding the capitals versus an OECD average of 3.4).² While the population of Brazil is rapidly ageing the pressure on medical services will only increase. Afya is helping address this unmet need through its plans to grow in this space with the addition of new medical seats, supported by the government's Mais Medicos ("More Doctors") program. There is exceptionally strong demand for medical seats with five applications for each seat. Occupancy rates in medical schools are therefore at or close to 100%.¹

Cement is the source of 8% of GHG emissions globally. There are few economically feasible decarbonisation options, so the sector is coming under increased pressure to innovate. **Hoffmann Green Cement** has developed one of the few scalable low-carbon solutions, with a clinker-free process that reduces emissions by 5x while providing superior technical performance. This approach contrasts with industry incumbents which are focused on improving existing processes. These changes are slower, have high costs and result in lower carbon abatement.³

Home REIT is the first real estate investment trust dedicated to fighting homelessness in the UK. Since its IPO in October 2020 HOME has acquired more than 3000 beds for individuals and families that were homeless or threatened with homelessness. The accommodation that HOME provides is cost-effective in absolute terms and is materially cheaper than other forms of accommodation available to local authorities, such as Bed & Breakfasts and hotels.⁴

Ilika is developing large-format, solid-state batteries for use in electric vehicles with the potential for 6x faster charging, 4x longer charge retention and 2x increased energy density. The products offer a better safety profile and easier recycling versus conventional lithium-ion batteries. Ilika has also developed micro solid-state batteries with a class-leading compact footprint. They can operate at higher temperatures (up to 150°C) and have 40% higher energy density compared to alternative solutions.⁵

Fashion represents up to 10% global CO₂ emission⁶, 20% of wastewater and 6% of global pesticide use. This is compounded by the fact that a new garment is used only about 60x, down from 120x 10 years ago⁶, and 87% of garments are incinerated or landfilled.⁷ Wood-based cellulosic fibres from **Lenzing** use 10x less water than cotton, have a neutral carbon footprint⁸, are highly biodegradable, and almost exclusively use chemicals that are recycled in a loop process. Lenzing is also developing a technology that can include 30-50% recycled cotton together with Lyocell.⁹

¹Source: www.afya.com.br/en-US

²Source: www.oecd.org

³Source: www.ciments-hoffmann.com

⁴Source: www.homereituk.com

⁵Source: www.ilika.com

⁶Source: www.ellenmacarthurfoundation.org

⁷Source: Felgheiras et al, 2021.

⁸Source: Shen et al, 2010.

⁹Source: www.lenzing.com

Companies exited from the portfolio Sells

Brambles

CSL

emergent
biosolutions*



illumina



Divestment Rationale

We sold **Brambles** after a thesis change driven by, in our view, disappointing progress on their digitalisation strategy. The strategy outlined for coming years remains focused on Brambles' own asset efficiency vs commercialisation of new solutions for improving customer supply chains using data gathered from smart pallets – a key pillar of our investment thesis. The digitalisation strategy is also coming at a higher-than-expected cost.

CSL was sold in early March 2021 following a period of strong performance. CSL is the global leader in plasma solutions, but concerns exist around its collection policies and practices in the US – by far the biggest market which allows payment to plasma donors (for the drawing of plasma). The team engaged across a number of areas including the donor and franchise models as well as its approach to public policy and workplace health and safety.

Divested **Emergent BioSolutions** in response to an error which led to 15m doses of COVID-19 vaccine being wasted at its CDMO unit.¹ This event could seriously hamper the company's ability to win further business and grow its CDMO segment after the initial COVID-19 vaccination programs in 2021. The ability to grow beyond 2021 was a key part of the investment thesis. While operational improvements may be implemented quickly, the reputational impact may be longer-lasting and reduce the company's ability to win new contracts longer-term.

Hella was removed from the portfolio in November after its acquisition by Faurecia. The combination of the two entities dilutes the impact case by reducing exposure to impactful future mobility solutions below a level we are comfortable with. It therefore presents a less attractive investment case.

Illumina was exited after downgrades to the core business and uncertainty on the extent to which Illumina can monetise the opportunity around its GRAIL acquisition. The commercial potential for GRAIL is difficult to forecast at this early stage. We determined that the market was pricing in an extremely optimistic scenario. This made it difficult to justify the valuation on a risk-reward basis given uncertainty over potential cash flow growth implications.

¹Source: www.emergentbiosolutions.com/

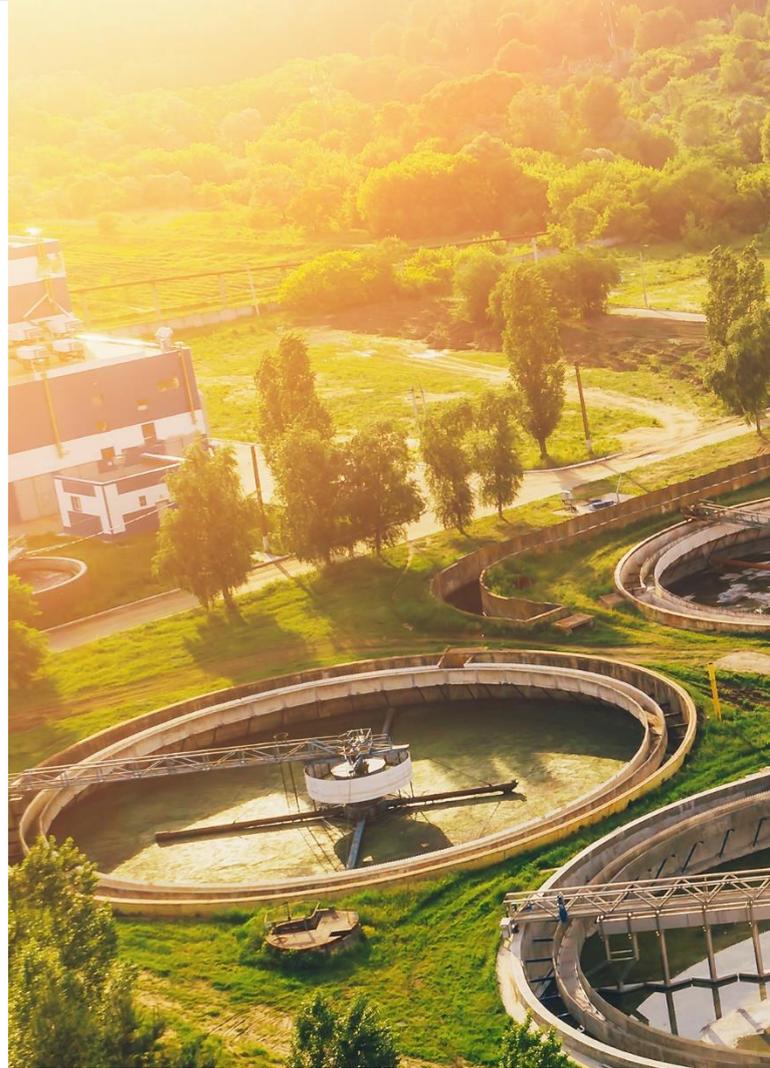
Thematic recap: 2020 vs 2021

Our proprietary Sustainable Development Goals (SDG) Taxonomy has driven the creation of impact solution groups or themes. These are collections of the investible solutions identified by the taxonomy and are built from the bottom up.

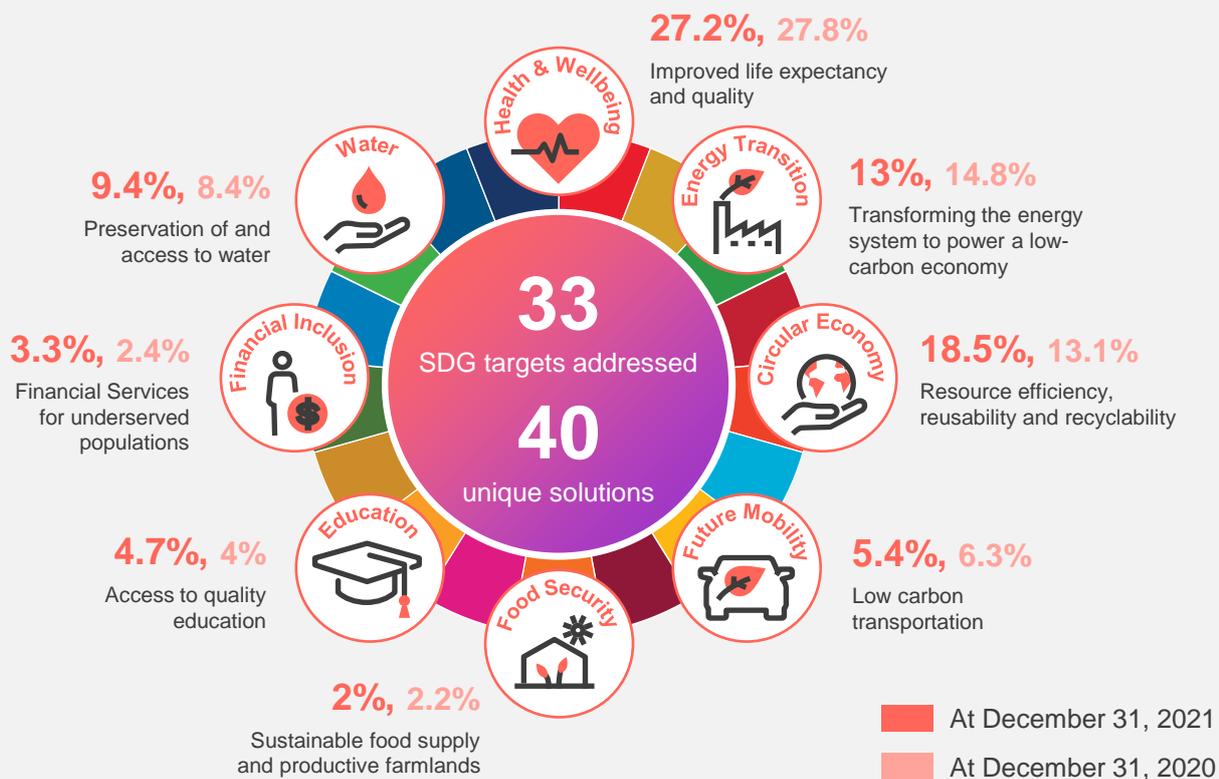
We do not explicitly target thematic exposures when constructing the portfolio.

At year-end the collective theme exposure across the eight themes was 83.5%. The number varies according to individual portfolio holding weights. We calculate it by apportioning revenue and end-market exposure across the themes and multiplying by the security weight. We apportion neutral and negative revenues where appropriate but recognise that the relationship between impact and corporate revenues can be ambiguous.

Over the year we increased exposure to names within “Circular Economy”. Net exposure to “Energy Transition” names were reduced.



Portfolio exposure by impact theme December 31, 2020 vs December 31, 2021



Source: Regnan/JOHCM at December 31, 2021. Note: Thematic exposure attribution to eight impact themes based on estimates of company revenues or other relevant metrics. Chart does not include the cash position, neutral impact (estimated where revenues not directly tied to any theme) and negative impact (estimated where revenues may be detrimental to UN Sustainable Development Goals (SDGs)).

Thematic spotlight



Health & Wellbeing

Contribution to SDG targets:

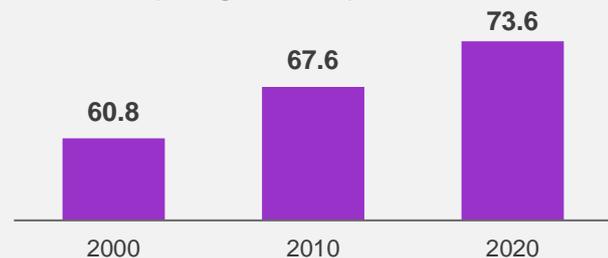


Innovations in healthcare and medicine have spurred remarkable achievements in the duration and quality of human life. In the past 60 years average life expectancy has risen by 39% to almost 73 years.¹ This progress has not been confined to more affluent economies. In lower-income countries life expectancies have risen from 39.5 years in 1960 to about 64 in 2020.¹ While lower than the global average, the 62% increase over the period is evidence of the impact opportunity afforded by health & wellbeing solutions on a go-forward basis. We have also seen a drastic decline in worldwide child mortality rates. In the previous two decades infant mortality (per 1000 births) has nearly halved from 52.8 in 2000 to 27.4 in 2020.² With the growing roll-out of HIV medicines, bolstered by ground-breaking new treatments and vaccines, the number of new HIV cases in children has fallen by 71% globally since 2000, and by a remarkable 77% in South Africa.³

In the past 60 years, the average life expectancy has risen by **39%** to just under 73 years¹

Despite this progress, public health continues to face challenges from higher incidences of non-communicable diseases including heart conditions, cancers, diabetes and autoimmune diseases. The proportion of global deaths attributed to non-communicable diseases has risen from 61% in 2000 to more than 73% now. That amounts to about 41 million deaths each year.⁴ Diabetes and heart disease rates remain high in developed economies and are rising sharply in developing economies as wealthier populations adopt “western” diets.

Deaths from non-communicable diseases (% of global total)



Source: World Health Organisation, Global Health Estimates, 2020.

HIV cases in children since 2000 has fallen by **71%** on a global level³

Notwithstanding these challenges, one silver lining from the Covid-19 pandemic has been a greater emphasis on healthcare provision, wellbeing and prevention among policymakers and consumers. Health expenditures as a percentage of GDP have risen steadily in recent decades. Initial data suggests the pandemic is likely to have accelerated this global trend.⁵

There are significant impact opportunities in economies where healthcare and wellbeing expenditures remain below the global average. We have seen how life expectancies have risen over the previous half century. This is strongly correlated to higher levels of per capita spending. Developed economies look to be approaching peak life-expectancy. But Asian and Latin American EMs life expectancies and healthcare expenditures remain below the global average. This implies a long-duration growth runway.

Add to this the population rates in these countries and the potential impact opportunity is vast. More broadly, innovations in diagnostics, prevention and areas such as genetic sequencing are likely to further improve the quality of healthcare and further democratise access.

The proportion of global deaths attributed to non-communicable diseases has risen from 61% in 2000 to more than **73%** presently⁴

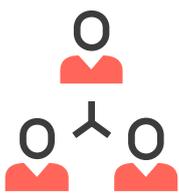
¹ UN World Population Prospects, 2019; Eurostat Demographic Statistics; World Bank, 2020.
² UNICEF, WHO, World Bank, UN DESA Population Division; childmortality.org.
³ UN AIDS estimates, 2020.
⁴ World Health Organisation, Global Health Estimates, 2020.
⁵ WHO, Global Health Expenditure database.

Thematic spotlight



Natural and finite resources are consumed globally at a higher rate than they can be replaced. Prolonged single or limited-use consumption of resources will exacerbate this problem as the global population expands by an expected 2.2 billion people by 2050.

A circular economy is a systemic approach to economic progression designed to benefit a wider group of stakeholders – businesses, society and the environment. The circular economic model is an alternative to the traditional “linear” model – or what has been called the “take-make-waste” model. A circular economy is regenerative. The over-arching mission is to decouple future growth from an unsustainable level of natural and finite resource consumption. The Ellen MacArthur Foundation concludes that the circular economy is centered on three core principles: 1) the elimination of waste and pollution; 2) the circulation of products and materials (at their highest value); and 3) to be regenerative.¹ The transition to a circular economic model will impact all sectors, from energy and construction to consumer goods and waste management.



The global population is set to expand by another

~2.2bn

inhabitants by 2050²

A key challenge – and long-term impact opportunity – is to reduce what’s known as the “circularity gap”. At present the global economy is only about 9.1% “circular”. What does that like in practice? It now takes the Earth about 1.5 years to regenerate what humans use and consume in a single year. Just 5% of the remaining value of the material goods is recaptured and used when the products are disposed of.³ A major issue is the production and waste of single-use plastics. Not only are they highly carbon-intensive. It’s now thought that at least 14 million tons of plastic end up in the ocean each year, making up 80% of all marine debris.⁴ It’s forecast that plastic waste flowing into oceans could triple by 2040 without major reformative practices.⁵

Contribution to SDG targets:



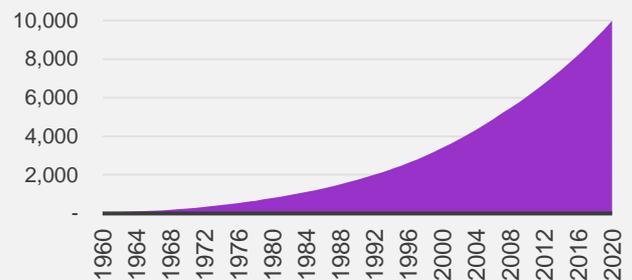
It is now thought that at least 14m tonnes of plastic end up in the ocean each year and that this makes up

80% of all marine debris⁴

A common misconception with the circular economy is that the transition away from the linear model will have the effect of curtailing growth. Circularity and growth are not opposing forces. Rather, the move towards a circular model is likely to promote a more sustainable form of growth over the longer-term across sectors and geographies. In the fast-moving consumer goods (FMCG) sector, for example, circular opportunities could amount to some \$700bn in material savings each year. This demonstrates that a circular approach makes both good environmental and financial sense. In China, implementing a circular economy could decrease the consumption of non-renewable resources, including fossil fuels, by as much as 49% in 2030.⁶ Another significant positive impact will manifest in the global labour force. The Global Climate Action Summit has estimated a commitment to circular objectives could lead to the creation of more than 65 million new, low-carbon jobs by 2030.⁷

We believe the successful companies in the long-term will be those offering new and innovative solutions to ameliorate what are increasingly unsustainable and highly inefficient methods of procurement, production and distribution.

Cumulative global plastics production (m/tonnes)



Source: Our World in Date; Gayer et al., “Production, use and fate of all plastics ever made”, *Science Advances*, 7 (2017); Regnan analysis.

¹“What is a circular economy”, Ellen MacArthur Foundation.

²UN World Population Prospects, 2020; World Bank 2020.

³“Effects of the Circular Economy on jobs”, International Institute for Sustainable Development, 2020.

⁴“Issues brief: Marine plastic pollution”, IUCN, 2021.

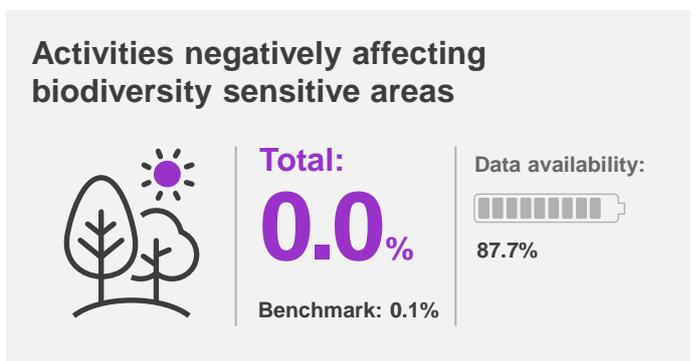
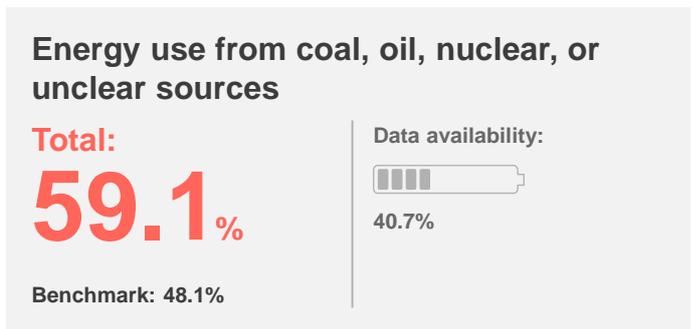
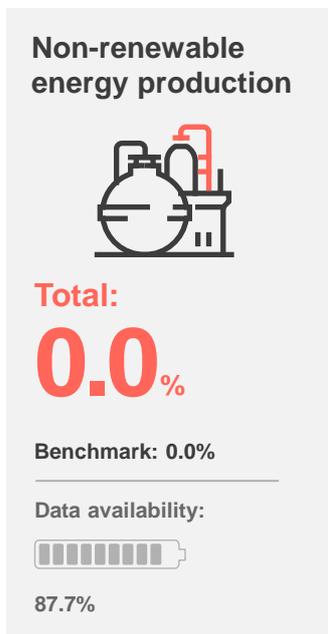
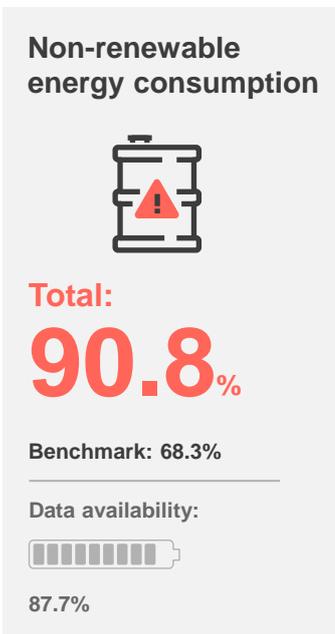
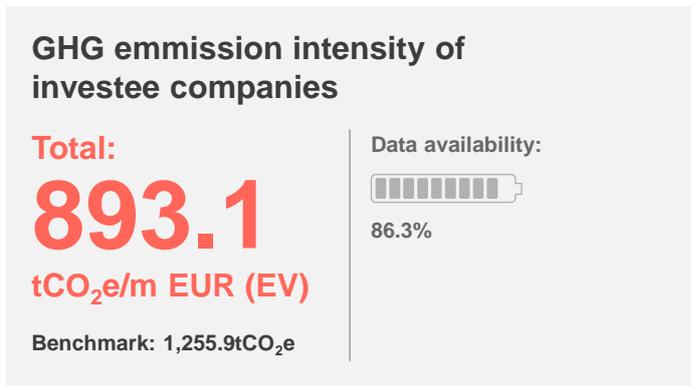
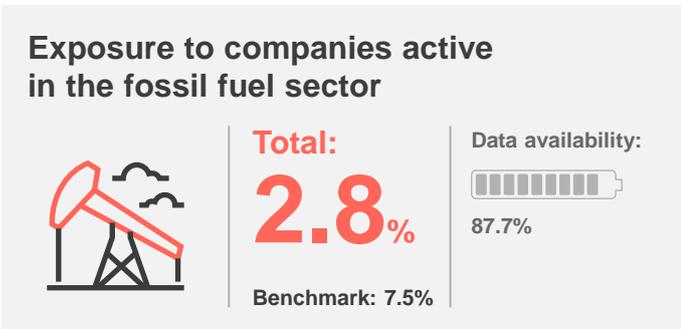
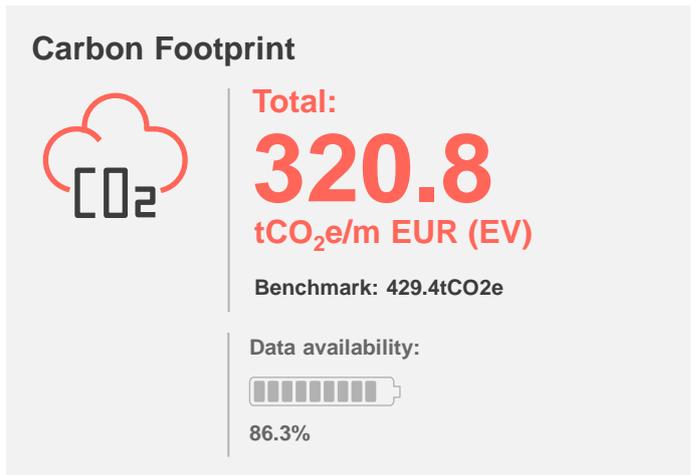
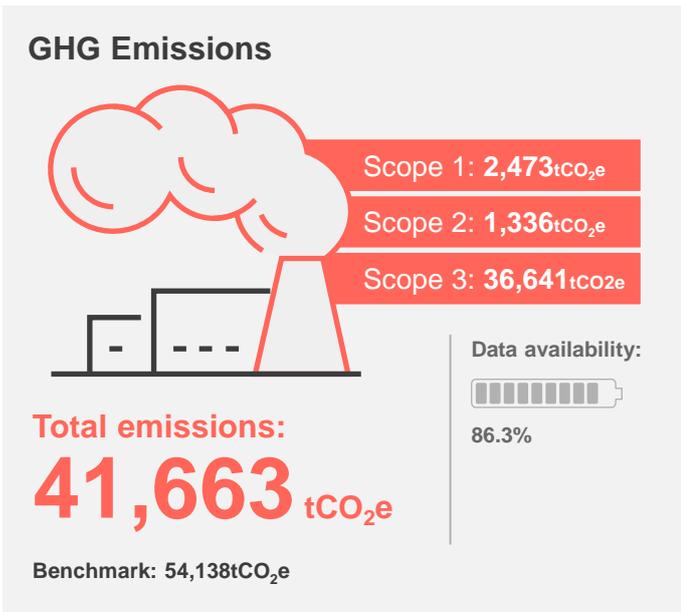
⁵“Plastic trash flowing into the seas will nearly triple by 2040 without drastic action”, National Geographic, 2020.

⁶“Circular economy and the private sector”, World Bank, 2020.

⁷UN, Global Climate Action Summit.

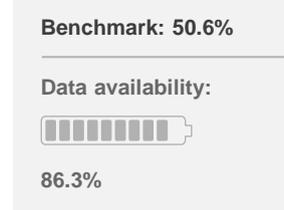
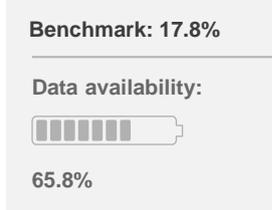
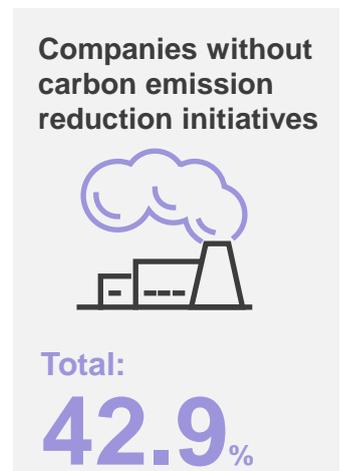
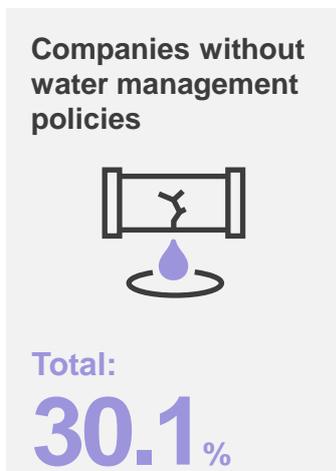
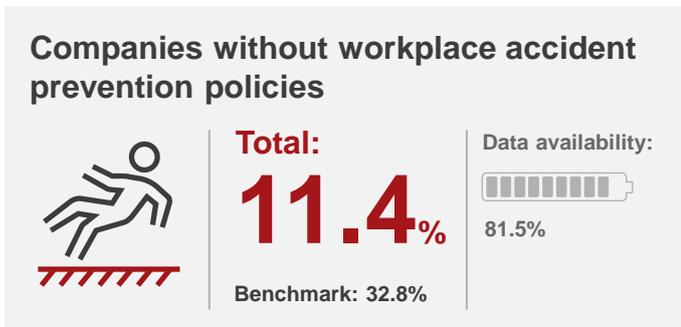
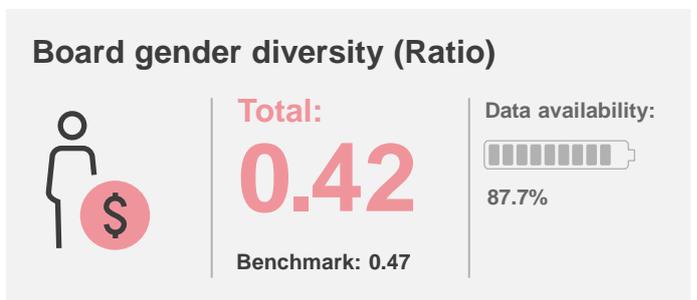
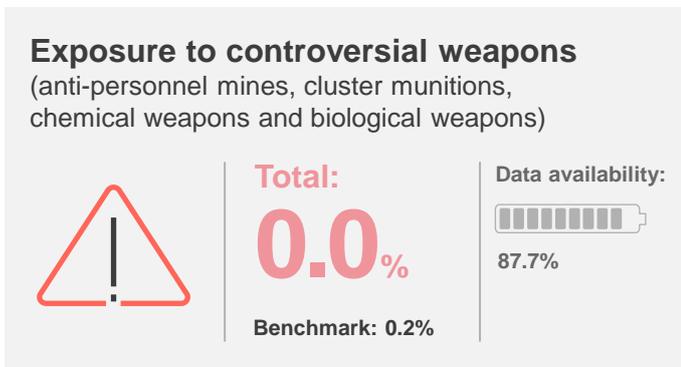
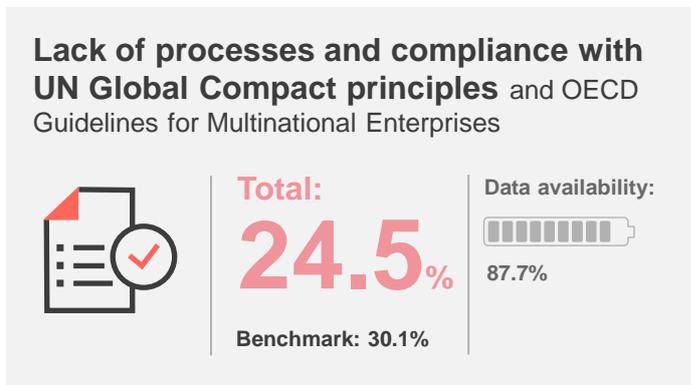
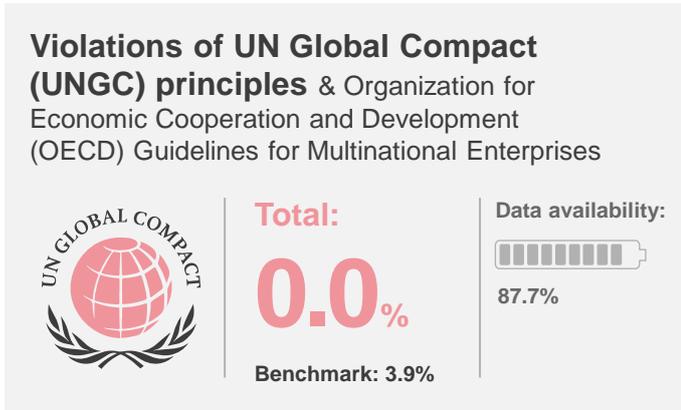
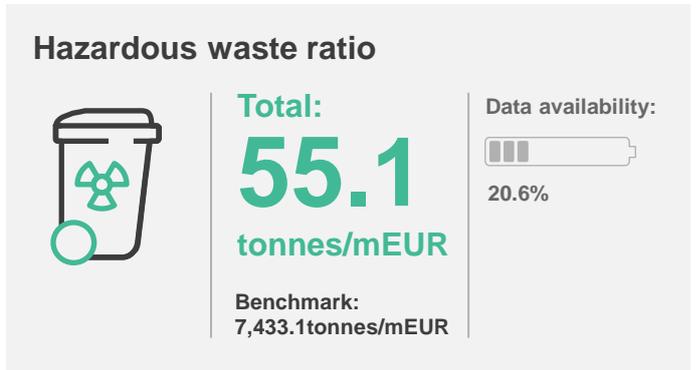
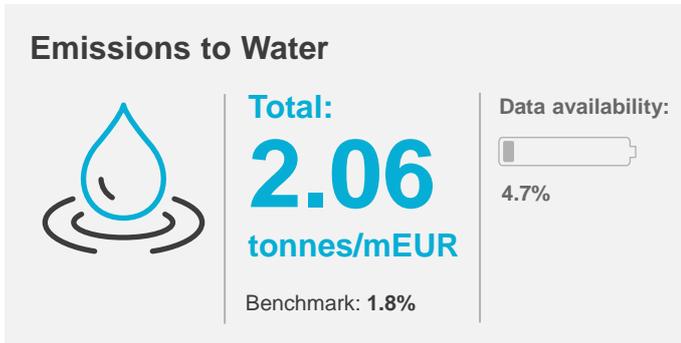
Portfolio-level metrics: Operational Impact Indicators

Any business has both positive and negative impacts. We have used the Operational Impact Indicators as a measure of the operational sustainability of the portfolio relating to environmental, social and governance matters. This is not an exhaustive list of indicators but provides a snapshot of the portfolio as at year end. As we engage with our portfolio companies for improved disclosure, we expect to see more greater data availability.



Source: ISS. Note: The Operational Impact Metric data is representative of Regnan Global Equity Impact Solutions Fund (U.K.) onshore OEIC. Fund AUM: £99m. Strategy AUM: GBP349m which includes all Fund share classes and segregated mandates and is provided on a quarterly basis.. Data as at 31 December 2021.

Portfolio-level metrics: Adverse Impacts





Engagement

Regnan was originally established to investigate and address environmental, social and corporate governance (ESG) related sources of risk and value for long-term shareholders.

Regnan's Insight and Advisory Centre continues to engage and advocate with listed companies on a range of mostly ESG issues.

Our impact investment team benefits greatly from drawing on Regnan's two decades of experience in engagement.

Our overarching aim when engaging with portfolio companies is to improve their net impact. Engagement activities aim to reduce negative impacts while also amplifying positive impacts of portfolio companies. The investment team's engagement program is an integral part of the investment process and directly linked to the output generated by other stages of the process.

Our team seeks to determine willingness to engage prior to investment. We divest if a company is no longer willing to engage.

Engagement is long-term and outcomes-focused. It is guided by engagement objectives formulated on a company-by-company basis. A company's materially negative impacts, as identified in previous stages, are assessed via our team's "engageability" assessment. This assessment recognises that not all negative impacts are engageable, and engagement on some objectives is likely to generate more positive impact than engaging on others.

After an engagement objective has been set, progress is tracked via three checkpoints – and where possible, quantitative metrics. Engagement intensity differs among portfolio companies, reflecting differing materiality. The completion of engagement objectives is expected to take multiple years since it takes time to create change.

Any engagement work is led by our investment team and supported and enhanced by the research capabilities of the Regnan Insight and Advisory Centre, which provides long-standing and in-depth experience in analysing sustainability factors. The Regnan Insight and Advisory Centre team focuses on driving positive change throughout the solution value chain.

Our long-term, constructive approach to engagement is welcomed by most portfolio companies. Engagement often acts as a positive feedback loop between the investment team and portfolio companies. Companies that provide positive impact solutions are generally interested in improving the net impact of their business on stakeholders.



How we engage

We engage for protection and enhancement of portfolio and stakeholder value using the following engagement process:

Identification and materiality assessment of negative impacts



Identification and in-depth analysis of negative impacts of each stock, prior to investment

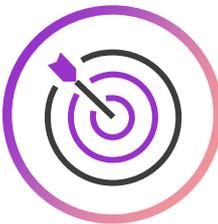
Engageability assessment



Material negative impacts are assessed for engagement potential

Four stages:
Opportunity cost,
Know-how, Feasibility
and Additionality

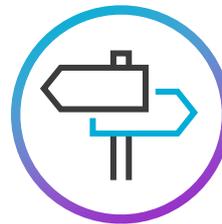
SMART engagement objectives



Objectives set at the stock level

Objectives are SMART (specific, measurable, attainable, realistic and, time-bound)

Constructive engagement



Targeted, outcomes-focused and recognition of unique value drivers for that business supports constructive engagement

Progress tracking



Progress is always tracked through via engagement 'checkpoints'

Wherever possible, progress is also assessed via quantifiable, periodically-reported negative impact metrics

By the numbers: 2021 portfolio engagements

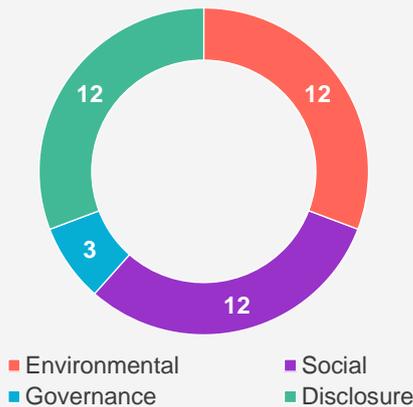


Interactions
with companies

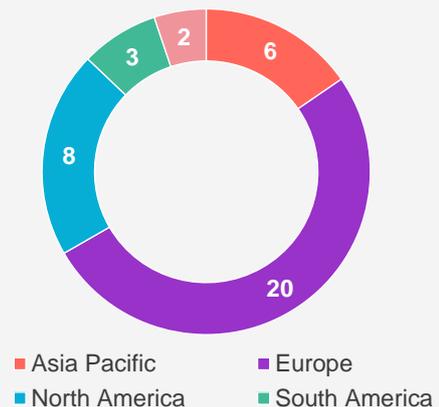


Engagements linked explicitly to
environmental, social, governance or
disclosure objectives

Engagements by Issue and objectives (E,S,G,D)



Engagements on issues and objectives by geography



Portfolio engagements

Disclosure remains a core engagement focus owing to our high exposure to small and mid-cap companies where disclosure levels typically lag their large-cap counterparts. We have seen some great disclosure successes such as Abcam’s inaugural publication of its Impact Report in 2020.

Diversity, equity and inclusion featured particularly strongly in “social” engagements, as the team leveraged the insights generated by the Regnan Insight and Advisory Centre’s thematic research report *Beyond Diversity*.

Decarbonisation remained a core focus in “environmental” engagements. Momentum in decarbonisation has been positive over the last year, with several portfolio companies announcing net zero commitments. Portfolio companies with net zero commitments include Orsted, Hannon Armstrong, Valeo and Ecolab.

The team continues to challenge the ambition of these commitments and support companies in achieving them.

Source: Regnan as at 31 December 2021.




CASE STUDY

SIEMENS Gamesa

RENEWABLE ENERGY

Siemens Gamesa Renewable Energy is global business specialising in offshore and onshore wind turbines and associated services.

Issue



Comprehensive studies of the full life-cycle impact of wind turbines show their overwhelmingly positive contribution to environmental sustainability compared to other sources of energy.

End-of-life disposal of turbine blades remains a critical issue still to be addressed. About 85% of wind turbine components can be easily recycled, but high-performance composite materials used in blades remain a challenge. As a leading manufacturer of wind turbines, Siemens Gamesa can play a decisive role in providing a solution.

Objective of Engagement



Building on our wider work on recycling technologies, and pursuing a thorough understanding of the issue, we talked to experts from Composites UK and attended a workshop organised by researchers from the University of Leeds.

The team met with Siemens Gamesa's head of sustainability, who raised the issue and argued for a more active approach including the adoption of specific targets for recycling wind blades. Our team also raised the issue with other companies in the sector, notably Vestas and TPI Composites.

Outcome



Siemens Gamesa has since announced its participation in DecomBlades, a cross-sector consortium to establish a recycling industry for composite materials. We feel this is an important step forward.

Action



Wind power has enormous potential to generate cleaner electricity. It is increasingly being absorbed into mainstream national energy strategies. Though so far unresolved, end-of-life recycling of blades is increasingly acknowledged and understood. We are encouraged by progress to date and confident that solutions will evolve sooner rather than later.



CASE STUDY



CSL is an Australian biotechnology firm that specialises in plasma-based therapies. We sought further detail on donor safety.

Issue



CSL's business model rests on paying donors for blood plasma. This practice can benefit donors but may also have adverse health effects according to some studies.

Objective of Engagement



We met with CSL's Director, Sustainability and Ethics (DSE) in March and April 2021. We broached several key concerns:

- Management of donor relationships: We sought consideration and measures on health and wellbeing, and donation frequency by donor type. We noted CSL was in the process of developing a sustainability strategy. We suggested it would be useful to include a section on donor health.
- Stress testing on the financial dependency of donors and the potential impacts of changes in broader economic conditions, including policy or regulatory developments, such as an increase in the minimum wage. An over-reliance on donor payments is generally undesirable.
- Governance arrangements around public policy participation, and in particular the approach described for academic studies, including the scope for CSL to provide data to independent academic researchers (as opposed to only those published by the Plasma Protein Therapeutics Association, CSL's own industry body).
- Disclosure of leading measures of workplace safety performance, coupled with assurances of work underway to improve performance. We also sought further detail on donor safety, including safeguards in place from CSL and the broader industry to ensure maximum frequency thresholds are not exceeded.

Outcome



It was clear the DSE understood our position. Our meetings covered CSL's sustainability goals including thoughts on integrating sustainability reporting with customary reporting on strategy and financials. We spoke about accounting for impact alongside activity and outputs. While we were encouraged by the DSE's awareness of broader sustainability issues, we sensed a lack of movement on our core agenda of donor wellbeing.

Action



We were comfortable the DSE understood our position and the reasons for our concern. But we were not convinced the same was true across CSL's management spectrum. Sensing little practical progress from the engagement we exited the position. However we continue to engage to monitor potential future progress.

Voting activity



Total number of Meetings



Total number of Proposals

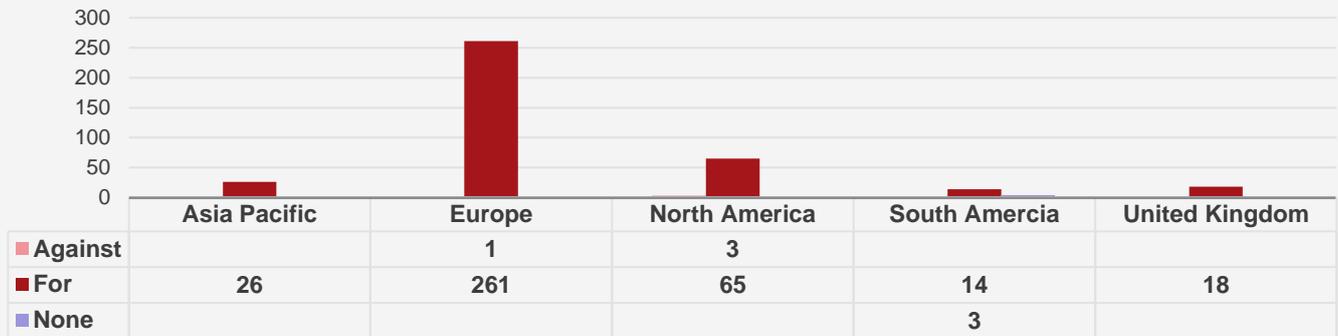


Total number of Significant Votes

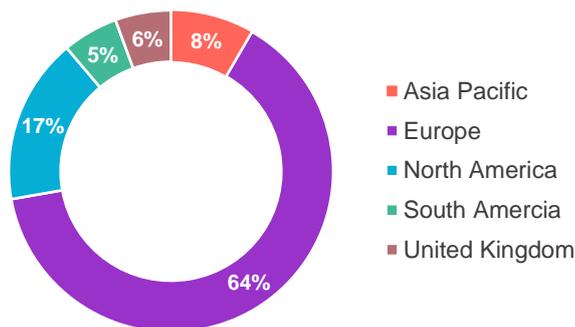


Percentage of Significant Votes

Total number of votes that were For, Against, Withheld or Abstained



Significant votes by region

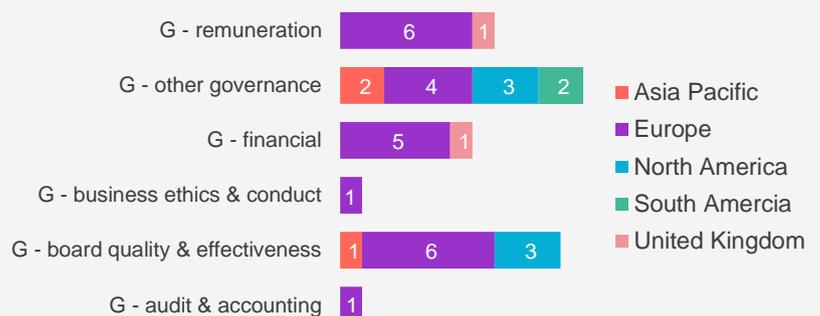
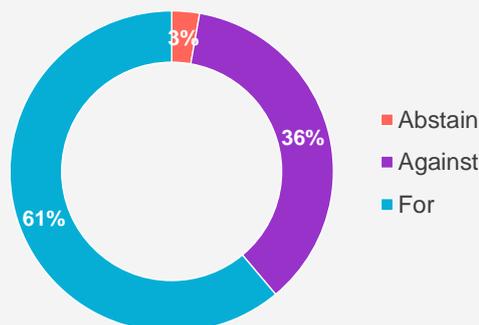


In reporting our voting activity to our clients, we believe the focus should be on "significant votes" as required by the Shareholders Rights Directive under UK law. While the directive does not define "significant" we define this as votes where:

1. ISS has recommended voting AGAINST management, OR
2. The investment team has voted AGAINST management, AND
3. ALL shareholder resolutions, AND
4. ALL withheld votes AND
5. ALL Abstained votes.

Investment teams may also add any votes they deem significant.

Significant votes that were for, against, withheld or abstained



'Systems thinking' in thought leadership

Thematic topics

Catalysing Sustainable Agriculture and Food Production

Transitioning global agricultural and food systems to feed the planet's growing population presents a sustainability challenge. We explore some of the system changes required as well as innovative solutions available to address the challenge.



Short link: pend.al/catalysing

Beyond Diversity

Diversity programs can fail to deliver unless companies place equal importance on equity and inclusion.



Short link: pend.al/DEI-report

H₂ beyond CO₂

Filling the gaps in the environmental case for hydrogen.



Short link: pend.al/hydrogen

Waste not, warm not

Opportunities for decarbonisation in waste management.



Short link: pend.al/waste

Radar topics

Methane: cows, hydrogen and the future of the Arctic

Learn more about the challenges posed by methane emissions and how they can be addressed.



Short link: pend.al/methane

The green innovation cycle: growth through planetary problem-solving

Green innovation, focuses on optimising resource efficiency or reducing pollution, has the potential to be a major source of economic growth and provide opportunities for discerning investors.



Short link: pend.al/innovation-cycle

Liquid Biopsy: Flesh or blood?

A promising alternative to traditional tissue-based biopsies. We explore some of liquid biopsy's potential applications, the market opportunity as well as challenges.



Short link: pend.al/biopsy

Engagement briefs

Diversity, Equity and Inclusion (DEI)

This document has been developed to help investors identify and engage with issuers who stand to benefit from an enhanced approach to diversity, equity and inclusion (DEI). It sets out potential objectives for engagement and suggested questions.



Modern Slavery

This document has been developed to help investors identify and engage with issuers who may be exposed to modern slavery.



Physical Risks of Climate Change

This document has been developed to help investors identify and engage with issuers exposed to the physical risks of climate change.



Sustainability of the agricultural value chain

This document has been developed to help investors identify and engage with issuers exposed to the risks (and opportunities) from the need for transformation within the agriculture and food value chains.



PRI co-authored documents

Active Ownership 2.0: The evolution stewardship urgently needs

Active Ownership 2.0 sets out the case for change and a high-level framework for what improved stewardship could involve.



Making voting count

How principle-based voting on shareholder resolutions can contribute to clear, effective and accountable stewardship.



Systems thinking thought leadership

Quarterly Impact Reports

Q1 2021

A thematic focus on Energy Transition and hydrogen's role in the SDG agenda. Stock case studies include Afya, Brazil's largest medical education group and disruptive cement business Hoffmann Green Cement.



Q2 2021

An in-depth look at portfolio holdings Lenzing and PTC, as well as Regnan's latest thematic research which focuses on Diversity, Equity and Inclusion.



Q3 2021

We case study Home REIT – tackling homelessness in the UK and solid state battery manufacturer, Ilika. Our thematic summary explores green innovation and its use in tackling environmental issues.



Q4 2021

The team's stock case studies takes a look at diagnostics, mechanical and plant engineering businesses.



Fund web page

A summary of Regnan's Global Equity Impact Solutions Strategy.



Short link: pend.al/rgeis

SDG Taxonomy

A taxonomy based on the 17 UN Sustainable Development Goals (SDGs) and the 169 targets that underlie them. The Regnan SDG Taxonomy takes the most pressing global environmental and social problems and links them to the solutions sold by companies today.



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The Regnan business consists of two distinct business lines. The investment management business is based in the United Kingdom and sits within J O Hambro Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority and is registered as an investment adviser with the SEC. "Regnan" is a registered as a trading name of J O Hambro Capital Management Limited. The investment team manages the Regnan Global Equity Impact Solutions (RGEIS) strategy which aims to generate market-beating long-term returns by investing in solutions to the world's environmental and societal problems. The RGEIS strategy is distributed in Australia by Pandal Fund Services Limited.

Alongside the investment team is the Regnan Insight and Advisory Centre of Pandal Institutional Limited in Australia, which has a long history of providing engagement and advisory services on environmental, social and governance issues. While the investment management team will often draw on services from and collaborate with the Regnan Insight and Advisory Centre, they remain independent of the Regnan Insight and Advisory Centre and are solely responsible for the investment management of the RGEIS strategy.

Sources for all data: JOHCM/Bloomberg/Lipper/MSCI Group (unless otherwise stated).

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The Regnan Global Equity Impact Solutions Fund strategy commenced in December 2020. The performance information shows the results of the strategy as implemented for a particular client portfolio. Another portfolio based on this strategy may produce different results due to the investment requirements of individual clients, the exercise of discretion on the part of the portfolio manager and trading costs such as brokerage.

Any projections contained in this report are predictive and should not be relied upon when making an investment decision or recommendation. Whilst we have used every effort to ensure that the assumptions on which the projections are based are reasonable, the projections may be based on incorrect assumptions or may not take into account known or unknown risks and uncertainties. The actual results may differ materially from these projections.

For more information



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