Global Impact Equity Fund

Annual Impact Report 2023

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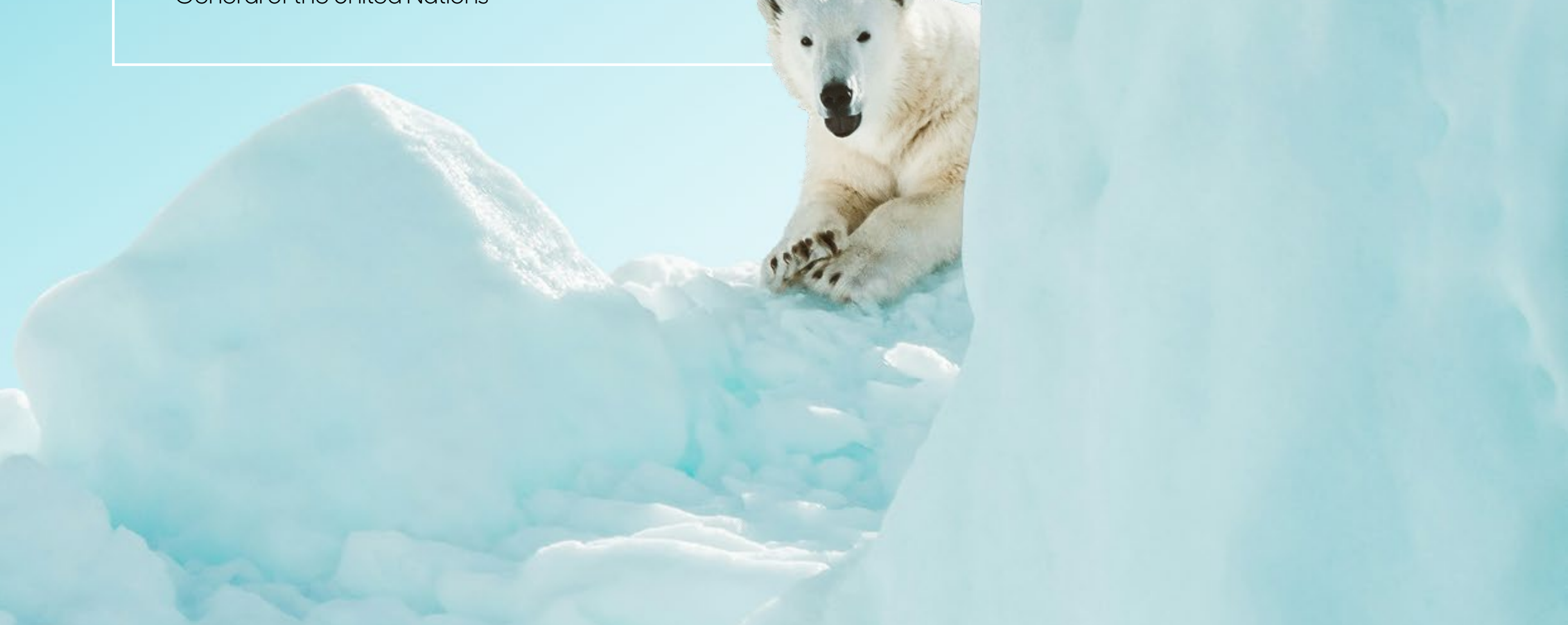
Contents

> Progress on more than 50% of targets of the SDGs is weak and insufficient; on 30%, it has stalled or gone into reverse. These include key targets on poverty, hunger and climate. Unless we act now, the 2030 Agenda could become an epitaph for a world that might have been.
>
> **António Guterres Secretary**
> General of the United Nations



Impact investing requires regular impact reporting by a fund manager, and in this report we summarise the impact companies in the Fund delivered in 2023

Introduction

The United Nations' (UN) 2023 Sustainable Development Report aptly states: "We are at war with ourselves and nature".[1] When I reflect on the 2023's geopolitical backdrop, I couldn't agree more. The war in Ukraine has reached a stalemate; the conflict in the Middle East and the risk of contagion has dominated both the market and government focus; and the civil war in Sudan is teetering on the brink of genocide and yet all but been forgotten. In the face of unimaginable human tragedy and loss of life year after year, I think there is general crisis fatigue and governments cannot continue to fight on multiple fronts. Something has to give.

Unfortunately, environmental crises are deprioritised as governments grapple with social issues at home and the second-order impacts from the spreading global conflicts. This is clearly seen in the World Economic Forum's (WEF) 2024 Global Risk Report.[2] Pulling together the insights from over 1500 global risk experts, environmental issues have until recently been seen as the most likely and severe risks the world faces.

Environmental risks still dominate the WEF's longer-term outlook, but in the short term, climate and the environment are replaced by 'Societal Polarisation' and 'Misinformation and Disinformation' in the top three risks. The latter is a particular concern, with 60% of the world's population voting in 2024.[3]

Notably, the European parliamentary elections occur in June. In a bid for a second term, Ursula von der Leyen's pledge to voters has shifted from an environmental focus to one of defence and economic growth. She wants to increase defence spending and offer regulatory concessions to businesses affected by tough climate policies.

And the EU is not the only bloc that could see a shift in policy. In November, the US will hold presidential elections. A change in leadership could usher in major swings in foreign, trade and environmental policy, with areas of the Inflation Reduction Act and therefore funding for climate solutions at risk.

Against a backdrop of conflict, inflation, and weaker economic growth, the social and environmental issues highlighted by the UN's Sustainable Development Goals (SDGs) are crowded out. I recently read that Venezuela is the first country in modern times to have lost all its glaciers. The country was home to six glaciers 5,000 meters above sea level. Its last glacier has shrunk to an area of less than two hectares and has been downgraded to an 'ice field'.

This should be a call to action but is lost in between calls for 'security' and 'defence'.

There are seven years left to achieve the SDGs. When reflecting on 2023, the outlook feels bleak. Persistently high food and fuel prices, elevated interest rates, and continued pressure on the cost of living were headwinds to 2022 and 2023 performance across sustainable and impact assets. Using the MSCI ACWI Sustainable Impact Index as a proxy, the total return of the index was roughly 5% for 2023, underperforming the broader MSCI ACWI Index by over 15%.

The question is: will 2024 be different? Or is this the first period since the launch of our Global Impact Equity Fund where policy becomes a headwind? I acknowledge that global commitments are increasingly concerning. Looking no further than COP28, the results were disappointing, offering little in terms of new policy developments.

However, my conversations with management teams over the last 12 months reinforced my belief that unmet environmental and social needs are untapped sources of demand – and there's potential for meaningful returns, regardless of regulation. Microfinance lenders are expanding their loans and offerings to those excluded from traditional finance systems because they see attractive returns potential; environmental consultants are increasing their book of business to reduce water wastage, saving their clients' money and reducing pressures on natural resources; and building materials companies are expanding manufacturing capacity in energy-efficient roofing and materials.

I still have hope. Even as regulators are overwhelmed by the macroeconomic implications of geopolitical conflict, companies are setting and meeting increasingly ambitious impact goals because, fundamentally, it is good business.

Sarah Norris

Global Impact Equity Fund Manager
Head of ESG-Equities

Portfolio headline outputs

Aggregated outputs across the Impact Pillars, delivered by companies in the Fund

Over US$69 billion invested to develop products or services targeting positive outcomes across the Impact Pillars

1.7 billion people reached with services, including access to essential medical treatments, education and training programmes, agricultural tools, basic financial services and clean water

Avoided nearly 1.5 billion metric tonnes of CO_2 emissions through clean energy solutions, more efficient buildings, and environmental consultancy projects

More than 96 gigawatts (GW) of renewable energy capacity delivered from wind, solar and hydro projects

Over 100 million GW-hours (GWh) of clean energy generated with solar and wind technology

Impact framework

Circular Economy

- Resource efficiency
- Material recovery and reuse

Sustainable Energy

- Access to energy
- Clean energy generation
- Energy efficiency

Food & Agriculture

- Access to nutrition
- Food quality
- Sustainable agriculture practices

Water & Sanitation

- Affordable housing
- Clean water
- Water efficiency

Health & Social Care

- Access to healthcare & social care
- Enhanced healthcare outcomes and systems
- Treating priority healthcare concerns

Financial Inclusion

- Access to basic insurance services
- Access to basic banking services

Sustainable Real Estate & Infrastructure

- Affordable housing
- Eco-construction and components
- Clean mobility

Education & Employment

- Access to education and skills development
- Quality employment and job creation

Impact Enablers

- Companies integral to supply chains and enable our other pillars

Impact framework

How do we define impact?

We use the UN's 2030 Sustainable Development Agenda and its 17 SDGs to help us define positive impacts and target the most pressing global issues. Ultimately, we're looking for companies providing local solutions to three major global problems: climate change, unsustainable consumption and production, and social inequality.

What are our impact objectives?

abrdn has identified identified eight 'pillars of impact' that address these broad challenges: Circular Economy, Education & Employment, Financial Inclusion, Food & Agriculture, Health & Social Care, Sustainable Energy, Real Estate & Infrastructure, and Water & Sanitation. These eight themes also align with the UN's overarching goal of creating a more peaceful and prosperous society and environment. We aim to invest in companies with products or services addressing unmet needs in each of the pillars, and measure how these solutions help countries achieve the UN's Agenda.

How do we identify opportunities and assess our investments?

We use a 'theory of change' approach to help us identify impact investments. We examine a company's inputs, activities, outputs, outcomes, and impacts in three 'impact maturity' stages: intentionality, implementation, and impact.

Impact maturity following a 'theory of change'

Input	Activity	Output	Outcome	Impact
Intentionality	**Implementation**	**Impact**	**Impact reporting**	
Over $69 billion invested by companies in the Fund to develop products or services targeting positive outcomes. While this looks like a big number, in the context of the $5 trillion annual investment the UN estimates is required to meet the SDGs, it falls significantly short	Over $1trillion of revenue generated by companies in the Fund from products or services aligned to one of our pillars	Company reporting on our targeted KPIs	Case studies Aggregated pillar data Impact footprints	
Impact Enablers Companies whose products and services enable our other pillars as part of a wider value/supply chain				

These figures include the investment and development of new technologies and sales of products that aim to increase the energy efficiency of data centres; support renewable energy storage and distribution; expand education and development opportunities while tackling high costs; improve access to priority health concerns; conserve natural resources; and improve our agricultural practices.

Impact framework

How do we monitor company progress in achieving impact?

Company self-disclosure is a crucial part of our impact investing approach. We believe if a company intends to deliver a product to address a specific environmental or social need, it must report the impact. To gauge results, we rely heavily on company engagement and conversations with supervisory boards, executive management teams, and divisional heads.

The following pages summarise the impact companies in the Fund have delivered this year. Our approach to impact reporting is based on the Global Impact Investing Network's stance that "context is critical to interpreting impact results in a robust and reliable way."[4] In addition to case studies and pillar-level data, we analyse the outcomes companies supported using a country and/or regional lens. We examine the context-specific outcomes against international sources, most frequently the World Bank databank, to understand how the impact delivered compares to the underlying country-specific issues and needs. Above all, our primary objective is to assess the local impacts of our investee companies in the context of the global issues our portfolio targets.

Pillar headline outputs

Outputs delivered by companies in the Fund aggregated by pillar

Circular Economy:

Over 13 million metric tonnes of material recycled

Education & Employment:

118 million registered learners

Food & Agriculture:

92 thousand smallholder farmers reached

Financial Inclusion:

Over 87 million underserved individuals provided with basic financial services

Health & Social Care:

Over 367 million patients reached with access and affordability programmes

Sustainable Energy:

Over one billion metric tonnes carbon dioxide equivalent (CO2e) emissions avoided

Sustainable Real Estate & Infrastructure:

1,600 GWh of annual energy savings achieved

Water & Sanitation:

Nearly 600 billion gallons of water saved

Circular Economy

Doing more and better with less

Every year, humans dump over 2.23 billion tonnes of waste on the planet. At the time of writing, nearly 600 million tonnes had already made its way to landfills. If all this waste were put in trucks and lined up, the queue would stretch **25 times around the world**.[5] What's even more shocking is that 99% of the things people buy are thrown away within six months.[6]

The UN forecasts annual global waste will increase to 3.8 billion tonnes by 2050. Not only does waste weigh on the planet's finite resources, but there are also hidden costs from pollution, health and climate change, which will cost an estimated US$640 billion by 2050.[7]

The concept of a Circular Economy is to move from a 'make, use, dispose' model to one that enhances and extends the lifespan of products and materials, diverting waste away from landfills. abrdn's Circular Economy pillar targets companies that offer 'closed-loop solutions', which keep resources in use for as long as possible. These products are designed to reduce pressure on natural resources and expand recycling services.

Circular Economy

Positive outputs from companies held

12m	717.6	1500+
Over 12 million metric tonnes of waste diverted from landfill – the equivalent weight of two million elephants	717.6 million gallons of renewable diesel[1] produced, enough to fill the Lincoln Memorial Reflecting Pool 100 times	Over 1,500 tonnes of waste composted, equivalent to the weight of twelve Sierra Redwood trees (a.k.a. Giant Sequoias)

[1] Renewable diesel is a fuel rendered from leftover fats and oils and is processed to be chemically the same as petroleum diesel.

Case study

Advanced Drainage Systems (WMS)

Unmet need: Of the seven billion tonnes of plastic waste generated globally so far, less than 10% has been recycled. This waste goes to landfills or is uncollected, polluting the soil; it also ends up in rivers, lakes and oceans, choking or entangling wildlife. Because plastics are nearly impossible for nature to completely break down, tiny bits of plastic (microplastics) are consumed by animals, end up in water systems and can ultimately enter the human body.[8]

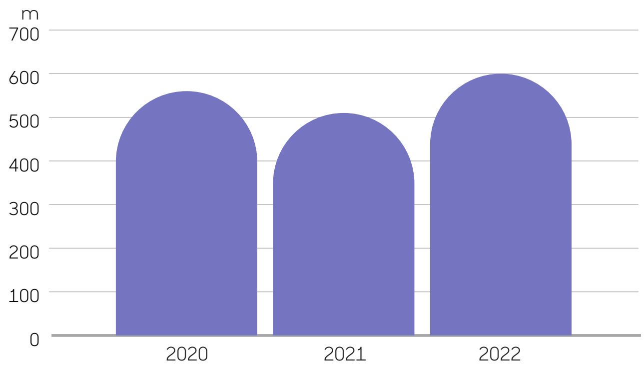
Intentionality: WMS is a leading water management company in the stormwater and onsite septic wastewater industries. Through investment and innovation focused on circularity, WMS has developed technologies that incorporate recycled plastic into construction projects. As a result, the company is one of the largest plastic recyclers in North America.

Implementation: WMS's high-performance thermoplastic corrugated pipe and related water management products keep waterways safe from pollution and prevent excessive stormwater runoff. About 60% of the company's revenue comes from remanufactured products (i.e., recycled plastic).

Impact: Every year, WMS repurposes over half a billion tonnes of plastic from household waste, including shampoo and laundry detergent bottles. The amount of recycled plastics in its products is steadily increasing: in 2020, WMS purchased 560 million pounds of recycled plastic, 510 million pounds in 2021 and 600 million pounds in 2022. The company has a 2032 target to use one billion pounds of recycled material annually.

Engagement focus: Workforce management and attracting and retaining talent are crucial to WMS's success. We engaged with the company on labour management efforts, hiring practices and expansion plans. Furthermore, due to the use of plastic in WMS's products, chemical safety management was a key topic, focusing on chemicals used, risks from changing regulations, and reformulation.

Pounds of recycled material used in products



Key environmental, social and government (ESG) risks

Closed-loop solutions often rely on natural capital, e.g., the shift away from plastic towards paper. Our key considerations are the impact on biodiversity and the planet. This means focusing on understanding how raw materials are sourced and managed along with end-of-life use. For example, exploring how forestry assets are managed and certified is crucial to understanding whether paper is a better alternative. Meanwhile, recycling efforts come with their own emissions and environmental impact. We therefore evaluate the efficiency of recycling operations and what happens to waste that cannot be recycled

Circular Economy

Contributions to positive outcomes

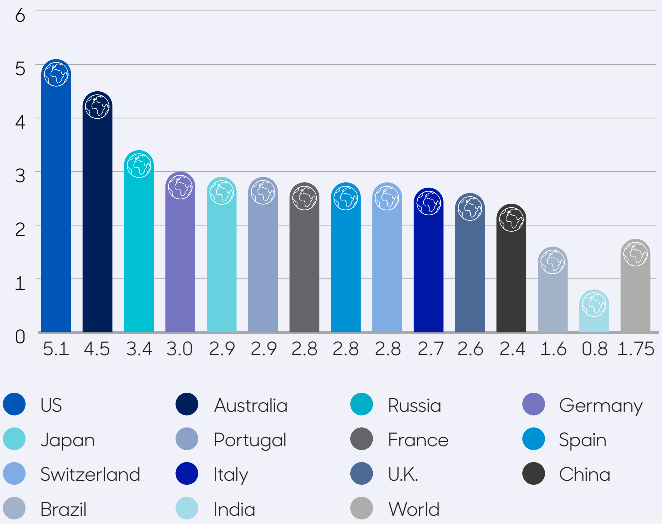
Earth Overshoot Day is the point in the year when our use of ecological resources exceeds what the earth can regenerate in that year. Since tracking started in 1971, Earth Overshoot Day has come earlier each year, now falling in August. Last year, it was estimated we consumed resources equivalent to 1.7 earths by the end of the year.[9]

Wealthier countries continue to consume more and therefore produce more waste. According to the UN's SDG report, the material footprint per capita in high-income countries is 10 times the level of low-income countries.[10] Based on current GDP and population growth forecasts, global waste generation will increase 56% by 2050.[11] Unless something changes, it's likely Earth Overshoot Day will continue to fall earlier and earlier, with wider-ranging repercussions on the environment, public health and climate change.

The best way to reduce waste is to prevent it in the first place. More mindful consumption followed by the reuse of materials are the most effective ways to combat waste. Recycling then follows, reducing demand for raw materials.[12]

Last year, holdings in the Fund diverted over 13 million metric tonnes of waste from landfills through repurposing, recycling, composting and waste-to-energy solutions. While encouraging, this pales in comparison to projected waste generation in 2030 and 2050 (see table below). Focusing on North America, companies in the Fund diverted over seven million tonnes of waste in the region. This is just 2% of the total waste North America is expected to generate by 2030.

How many earths would we need if everyone lived like US residents?



The Asia Pacific region is projected to see the highest increase in waste generation due to growing populations and an expanding middle class. Companies in the Fund diverted waste equivalent to just 0.05% of the total waste this growing population will generate in 2030.

Diverting waste and recycling cannot be seen as the answer. Technologies that allow us to do more with less are just one part of the overall solution. What is ultimately required is a step change in how we consume. We need to see more considered purchasing patterns and mindful use of natural resources to reduce total waste generated, with recycling technologies a last resort.

Projected waste generation per region

Region	Total waste diverted by companies in the Fund (metric tonnes)	As a proportion of 2030	As a proportion of expected 2050 waste generation
Europe, Middle East & Africa (EMEA)	111,857	0.018%	0.015%
Asia Pacific	527,654	0.05%	0.038%
North America	7,637,520	2.233%	1.929%
Central & South America	785,717	0.271%	0.213%

Data from: Kaza, Silpa; Yao, Lisa C.; Bhada-Tata, Perinaz; Van Woerden, Frank. 2018. What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050. Urban Development,. Washington, DC: World Bank.

Education & Employment

Creating opportunities for marginalised or vulnerable people

One in four young people are not in education, employment or training. Young women are more than **twice** as likely as young men to be in this situation.[13] Moreover, low- and lower-middle-income countries face a nearly **US$100 billion annual financing gap** to reach their education targets.[14]

This has devastating personal consequences, with a reduction in education linked to employment, earnings, health, and poverty. According to the World Bank, there's a 9% increase in hourly earnings for every extra year of schooling. Furthermore, access to training and full employment have wider societal impacts, including economic growth.

The World Bank suggests that education is a powerful catalyst for climate action, encouraging widespread behavioural change and teaching the skills needed for green transitions.[15]

In education services, we seek companies that directly expand access to affordable, quality education. We also look for those recognising the importance of prioritising diversity and reaching all socioeconomic groups. In defining 'fair' employment opportunities, we place a premium on wage growth and education opportunities, as well as employee safety and equality. Additionally, we seek to include companies that protect against discrimination and give a voice to the marginalised.

Education & Employment

Positive outputs from companies held

118m	600k+	9k	375k
118 million students and professionals reached with education services – enough people holding hands to go almost five times around the equator	Over 600 thousand scientific and medical journal articles and e-books published	Nearly 9 thousand people with disabilities employed	375 thousand micro, small and medium-sized (MSMEs) businesses supported

Case study

LITALICO

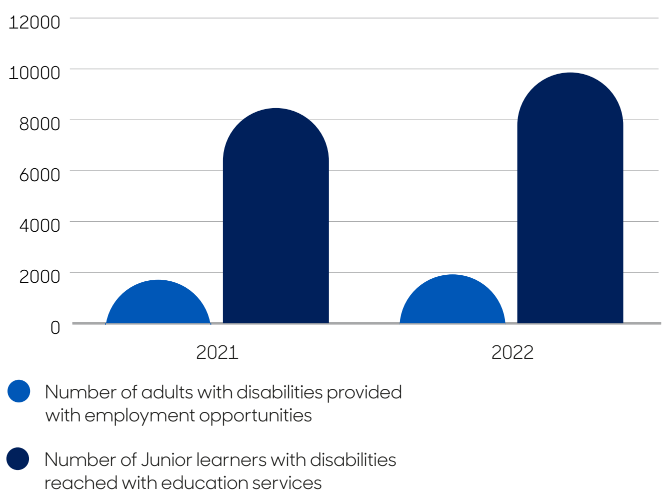
Unmet need: According to the UN, persons with disabilities are less likely to attend school and are more likely to be illiterate. They also face disproportionate levels of poverty, lacking access to health services and employment.[16] About 8% of the Japanese population is estimated to have a disability.

Intentionality: LITALICO is a Japanese education company with solutions tailored for persons with disabilities. The company is expanding product development capabilities and increasing its centre openings to provide employment support, business skills, social skills, and classroom learning for adults and adolescents. Last year it spent JPY385 million to strengthen product development and an additional JPY90 million on investments in physical locations.

Implementation: About 70% of the business is focused on labour transition support, which promotes the improvement of business skills among people with disabilities who wish to find employment. Its Junior business represents just under 30% of the company, which operates social skills and learning classes mainly for children with developmental disabilities.

Impact: Last year, LITALICO opened 14 new adult learning centres, bringing the total to 120 sites. It added 15 new sites to its Junior business, for a total of 128 sites. The company placed 1,921 people in employment in 2022, an increase from the 1,712 in 2021; and reached 9,861 Junior users, an increase from the 8,462 reached in 2021.

Education and employment opportunities in Japan



Engagement focus: Cost structure and quality of education are our two priority engagement topics with LITALICO. The company is clear that there's a fixed fee per user, with government support for the bulk of the fee. However, we still want to monitor how this progresses to ensure the services are affordable. Moreover, we also monitor the length of placements and retention rates to assess the quality of the service LITALICO provides. Nearly 90% of job placements are still employed after six months.

Key ESG risks

When we evaluate the positive impact of education and education solutions, we look at quality indicators like graduation rates, affordability, wage growth, and training programmes. Key risks to these outcomes include data privacy due to the amount of online training; regulatory adherence and compliance with education standards; treatment of the workforce; and other adverse indicators. We actively engage with companies to better understand how they manage some of these ESG risks.

Financial Inclusion

Tackle poverty in all its dimensions

Financial Inclusion is not the sole focus of one of the SDGs, but rather it underpins and enables multiple goals and is seen as a primary way to reduce poverty and boost economic growth. Financial services influence how we afford our homes, how we eat, our healthcare, and how we learn. But there are still some 1.7 billion adults – **more than a third of the global adult population** – that don't have access to financial products or services.[17]

Underserved groups are often marginalised or excluded from financial systems, which negatively affects many other areas of their lives. If current trends continue, by 2030 approximately **575 million people** will still be living in poverty, and only one-third of countries will have halved their national poverty levels since the SDGs were published.[18]

abrdn's pillar identifies companies operating in countries and regions where there is low penetration of basic financial services for individuals, as well as for micro-firms and MSMEs.

Financial Inclusion

Positive outputs from companies held

650k

Close to 650 thousand microfinance customer support agents operating in underserved areas

90m

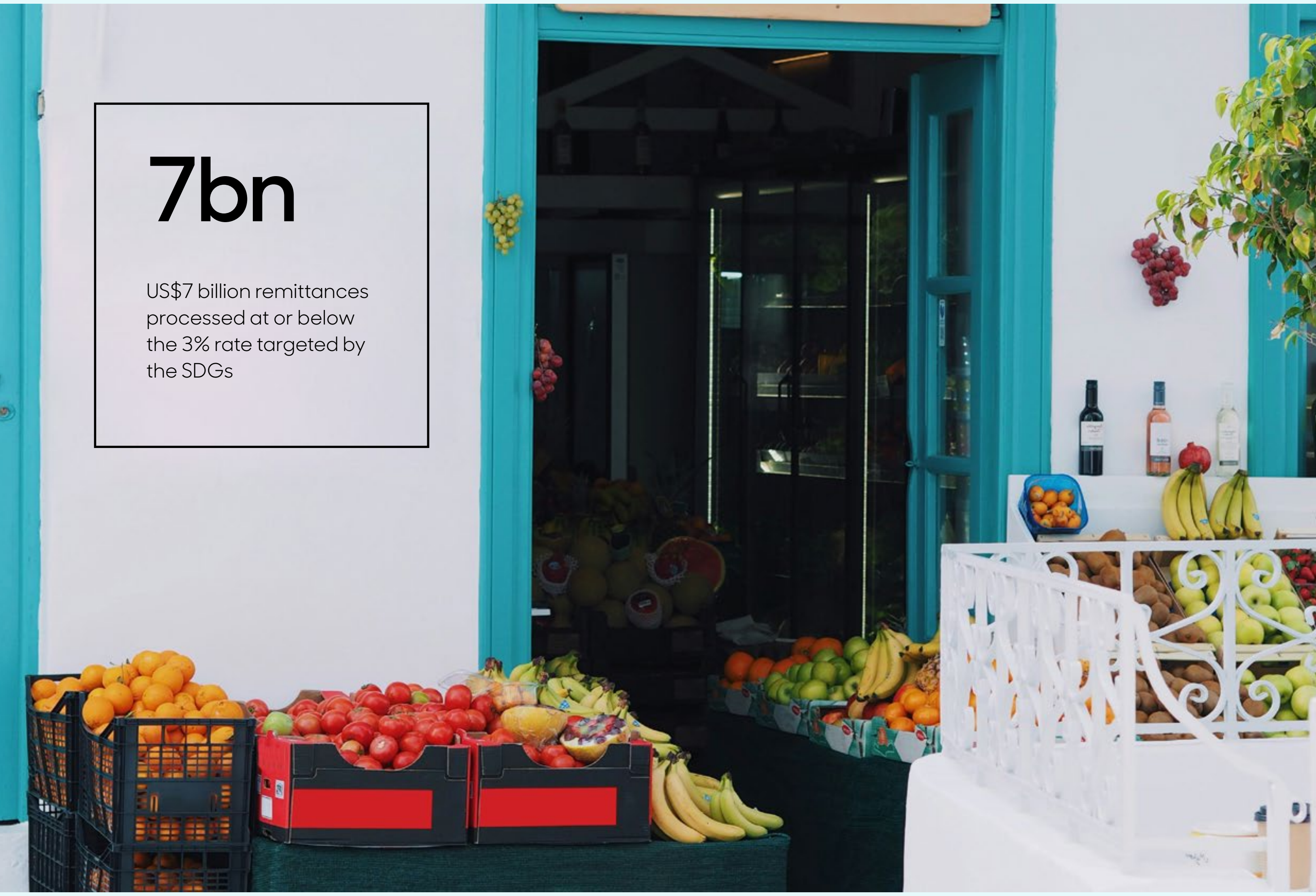
Almost 90 million underserved customers and micro businesses provided with access to basic financial services

735bn

More than US$735 billion loaned to underserved customers in India, Brazil, Indonesia, Mexico, Peru and China

36m

36 million SMSEs supported in Kenya, India and Brazil



7bn

US$7 billion remittances processed at or below the 3% rate targeted by the SDGs

Case study

Gentera

Last year, we highlighted Gentera, a Mexican microfinance lender operating across Mexico and Peru. Only about 40% of adults across Mexico and Peru have a basic financial account with a bank or mobile money app. This compares to an average of 55% across Latin America and 95% in member countries of the Organisation for Economic Co-operation and Development (OECD).

Within the Financial Inclusion Pillar, one of the key risks is predatory lending and the charges that customers face when accessing basic financial services. We monitor and regularly engage on churn rates, default rates, non-performing loan levels and interest rate charges.

With the inherent risks in the financial sector, Gentera is an important engagement for us every year. To inform our conversations, our Sustainability Group supported us with focused research on what constitutes a 'fair' interest rate in a microfinancing context. The Group identified two questions: whether an interest rate is explainable (i.e., are there higher operational costs that justify the rate?), and whether it's fair (i.e., is there an unacceptable level of profit being made from lending (is the lender transparent on pricing and loan terms?).

Is the rate explainable? There are objectively high operational costs involved in Gentera's business model, which is dominated by group lending in rural areas to borrowers who lack formal credit scores. We spoke with Chief Financial Officer (CFO) Mario Langarcia to discuss what Gentera can do to bring down costs. The company is optimising its workforce, including improving efficiencies and productivity. It's also redesigning internal systems and apps to let loan officers work offline and manage Mexico's poor network coverage. Officers are also tailoring meetings based on needs rather than following rigid schedules, which allows for more efficient operations.

Is the rate fair? Gentera charges different interest rates to different customers – newer customers start on higher rates and then unlock lower rates through good, creditworthy behaviour. Gentera makes a point of charging better rates to known and trustworthy customers through multiple credit cycles. Gentera also operates 'Regreso a Casa' ('come back home'), a program targeted at customers who default for reasons beyond their control (e.g., forced business closures during Covid-19) to retain their lower interest rates.

The CFO highlighted that Gentera is using more data analysis and technology to optimise its group lending model. The company is supplementing community information with historical data and personal information to fine-tune individual and group risk profiles. This allows Gentera to better assess what it can lend to an individual, as well as adjust the level of oversight required for a specific group.

The CFO said the company covers five million people versus a total addressable market of 63 million people across Mexico and Peru. To expand its offering, it's working on pricing and costs to reach more people.

Returns at Gentera have been improving, in large part thanks to an expanding customer base and efficiency efforts. The CFO highlighted the management team has already started conversations with the board about how to share the benefit with customers. Depending on the customer, this could come in the form of lower interest rates or rebates.

Financial Inclusion

Contributions to positive outcomes

Recent data shows 76% of the global population holds an account at a financial institution or with a mobile money service provider. This is higher for OECD members, where penetration is over 97%. The Fund continued to invest in companies with technology platforms that support mobile wallets for individuals outside the traditional banking ecosystem. We also invest in businesses that provide mortgages for first-time home buyers. We even hold a company that uses a riverboat to sail the Amazon to reach underserved communities.

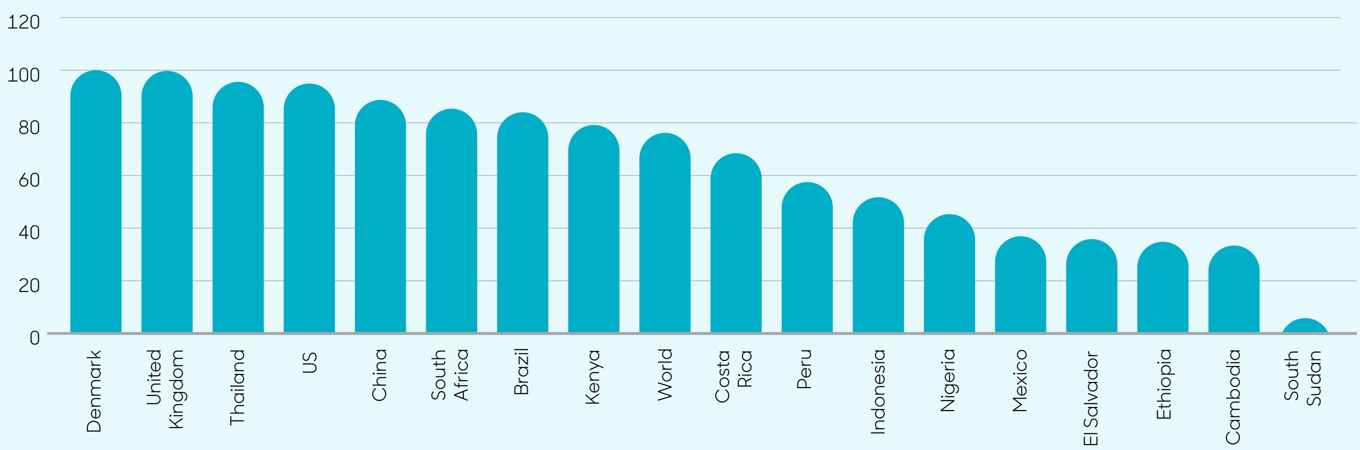
The contribution of companies to tangible solutions is pronounced in countries like **Indonesia**, where **50% of the population doesn't have access to a basic financial account**. Companies in the Fund provided nearly **34 million** underserved and unbanked individuals and ultra-micro businesses with basic accounts and loans. That equates to **about 32%** of total financial accounts in Indonesia, which is no surprise given the government partnerships with holdings in the Fund to drive microlending.

Account penetration in underserved areas

	Account ownership at a financial institution or with a mobile money-service provider, secondary education or more (% of population ages 15+)	New accounts/products opened by underserved demographics with companies held in the Fund	New accounts/products for underserved demographics provided by companies in the Fund as a percentage of the population without access
India	77%	780,000	0.095%
Indonesia	51.76	34,200,000	32%
Mexico	49%	2,666,052	5.65%
Peru	57.5%	726,272	5%

Source: Global Findex Database, World Bank (https://www.worldbank.org/en/publication/globalfindex) Last updated 28 March 2024.

Account ownership at a financial institution or with a mobile-money-service provider (% of population ages 15+) in 2021



Financial Inclusion

Key ESG risks

With a significant unmet need around basic financial services, we are mindful of predatory lending or products that can do more harm than good by pushing people back into extreme poverty. We therefore focus on lending practices, financial literacy programmes, and interest-rate charges to determine the fair pricing of products. This also helps us understand how financial institutions work to tailor transactional, payment, savings, credit or insurance offerings to specific customer needs. Furthermore, we monitor default rates, non-performing loan ratios, and churn rates (among other things) to ensure that financial inclusion goes hand in hand with financial awareness.

Health & Social Care

Ensuring access to quality, affordable, essential care and enhancing care outcomes

According to the UN, notable strides have been made towards improving global health outcomes[19]:

- 146 out of 200 countries **have already met or are on track to meet** the under-five mortality target
- Effective HIV treatment **has cut** global AIDS-related deaths by 52% since 2010
- At least one neglected tropical disease **has been eliminated** in 47 countries

However, care standards vary dramatically, and we've seen out-of-pocket spending on healthcare push 381 million people into extreme poverty. This represents about 5% of the global population. Furthermore, malaria cases around the world continue to surge, and a woman dies every two minutes from preventable causes related to pregnancy and childbirth.[20]

All healthcare services are essential to those receiving them. abrdn uses the UN's objectives and the World Health Organisation's top-10 causes of death to define our healthcare priorities. We look for companies focusing on drug discovery for priority diseases and preventative medicine; improving accessibility and affordability of treatment; availability of doctors and nurses; and system funding.

Health & Social Care

Positive outputs from companies held

360m

Over 360 million patients reached through access programmes

1trn

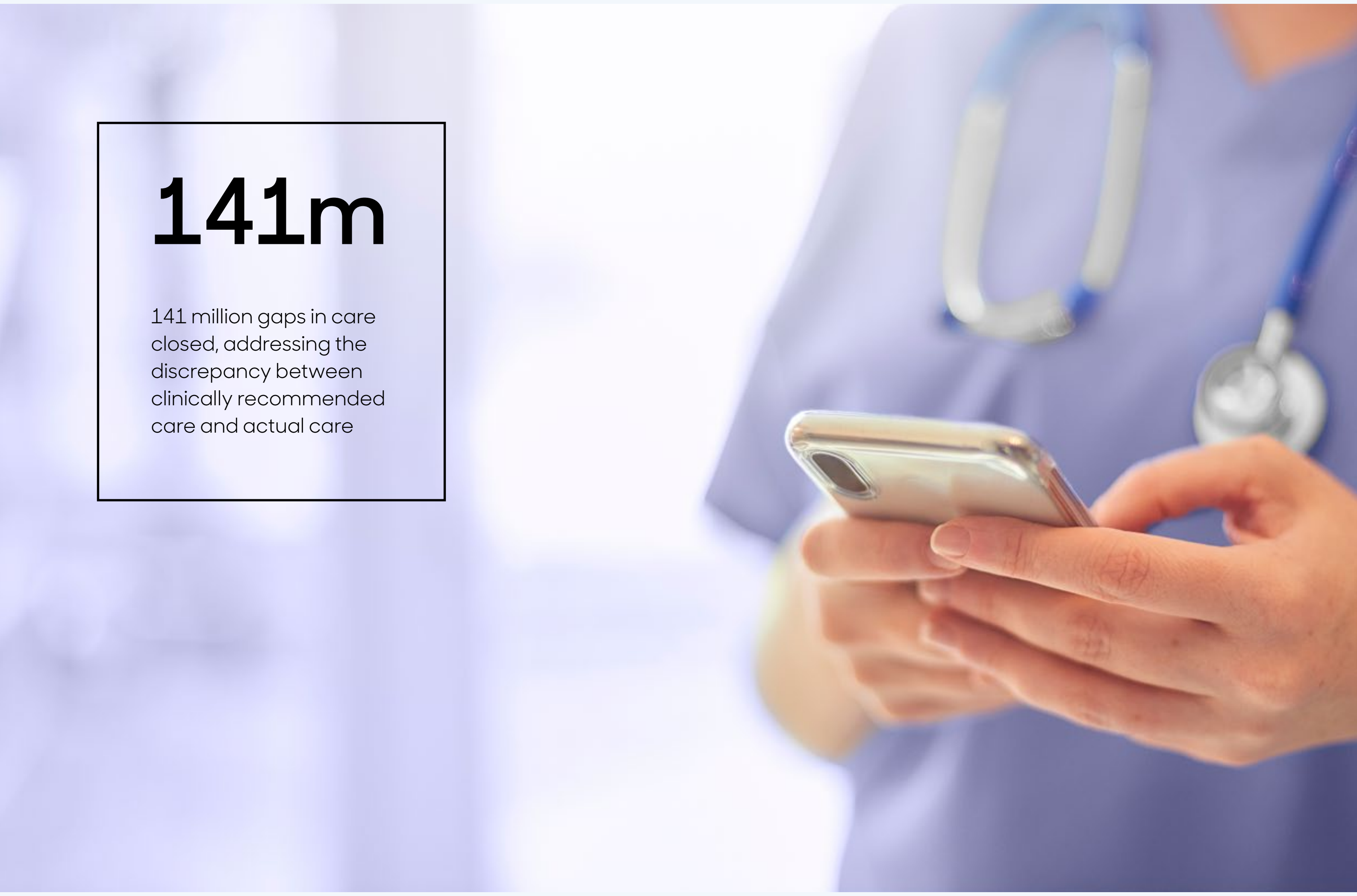
Over one trillion doses of medicine provided under-tiered pricing/affordability schemes treating HIV, pneumococcal virus, rotavirus, and polio

3trn+

Over three trillion Covid-19 vaccine doses delivered

2m

Close to two million doctors and nurses trained and supported in underserved areas



141m

141 million gaps in care closed, addressing the discrepancy between clinically recommended care and actual care

Case study

Medikaloka Hermina (HEAL)

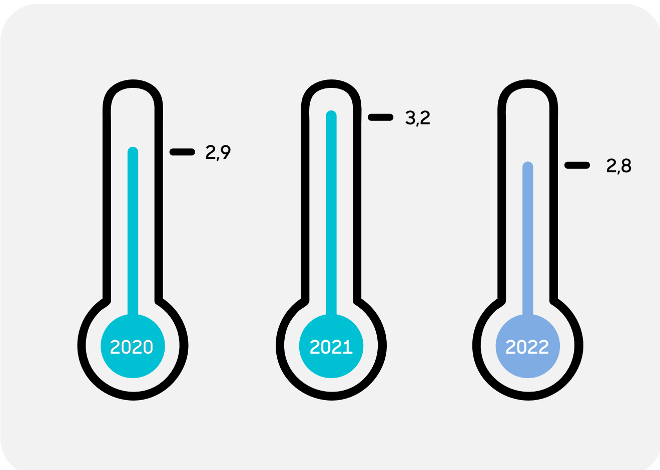
Unmet need: Indonesia's healthcare system has made strides in terms of coverage, but access to doctors remains below global and regional averages. Studies suggest the quality of care also lags. Indonesia ranks 153 out of 204 countries on a universal health coverage effectiveness index.[21]

Intentionality: HEAL is Indonesia's largest private hospital provider, with 44 hospitals and 6,063 beds. It plays a key role not only in the Indonesian government's push to increase universal health coverage amongst Indonesians but also in improving the quality of service. HEAL is actively investing in new equipment and has a specific focus on building partnerships with doctors and nurses.

Implementation: Government universal healthcare (JKN) patients represent about half of HEAL's revenues, and all hospitals participate in the JKN programme.

Impact: Total patient volume reached 7,120,000 compared to 5,314,000 patients the previous year. Meanwhile, the number of healthcare professionals reached over 8,000 across 45 hospitals in 34 major cities. Furthermore, the average length of stay in hospital continued to trend down to 2.8 days (from 3.2 days in 2021 and 2.9 in 2020).

Averege Length of Stay (days) [22]



Engagement focus: When it comes to operational ESG risks, HEAL has strong practices around diversity and inclusion, supply chain management, labour engagement and environmental impact. We focus on impact reporting when engaging with HEAL. We'd like to see more granular information on its overall patient numbers to understand the split between government and out-of-pocket patients. We'd also like to better understand how HEAL tracks the quality of care beyond length of hospital stay, as well as the training it provides to doctors and nurses.

Key ESG risks

Drug development without affordability programmes and equitable pricing structures limits a product's ultimate impact. Other key considerations in our risk analysis include animal husbandry policies and approaches; product safety; appropriate marketing practices; and bribery and corruption policies.

Health & Social Care

Contributions to positive outcomes

Reach of access programmes

Covid-19: Since the start of the pandemic, there have been over 775 million confirmed cases of Covid-19, including seven million deaths. But global vaccine efforts helped distribute 13.6 billion vaccine doses.[23] Companies in the Fund provided 580 million Covid-19 vaccines to Gavi-eligible (also known as the Vaccine Alliance) countries.[2]

Diabetes: According to the most recent World Health Organisation (WHO) data, 422 million people have diabetes.[24] Companies in the Fund provided 36.3 million patients with diabetes treatments, including five million people under access or affordability programmes.

HIV: An estimated 39 million people around the world are living with HIV. In 2022, 630,000 people died from HIV-related causes. Companies in the Fund had licensing agreements with 17 generic manufacturers to give 22 million patients access to treatments across 122 low- and middle-income countries. This is at least 80% of people living with HIV on antiretrovirals in low- and middle-income countries.[25]

Malaria: Malaria is typically found in tropical countries. While it is preventable and curable, it can be life-threatening, especially to children under five and pregnant women. The WHO African region carries a disproportionately high share of the global malaria burden, home to over 95% of cases and deaths.[26] More than one million children in Africa received at least one dose of a malaria vaccine. Over 2,500 health workers received training through tuberculosis (TB) and malaria programmes. In Kenya, there's been an 81% uptake of preventative services in the communities where healthcare workers were able to effectively diagnose and manage TB and malaria.

Pneumococcal vaccine: Respiratory diseases are a key cause of death globally. Companies in the Fund provided pneumococcal vaccines to eight Gavi-eligible countries, supplying 40 million doses and reaching over 12 million children.

Polio: The SDGs don't specifically mention Polio; however, it's a highly infectious viral disease that predominantly affects children under the age of five. It invades the nervous system and can cause paralysis. Efforts to end preventable deaths of newborns and children under the age of five include a focus on containing polio. Companies in the Fund supplied 95 million doses of oral polio vaccines to UNICEF.[27]

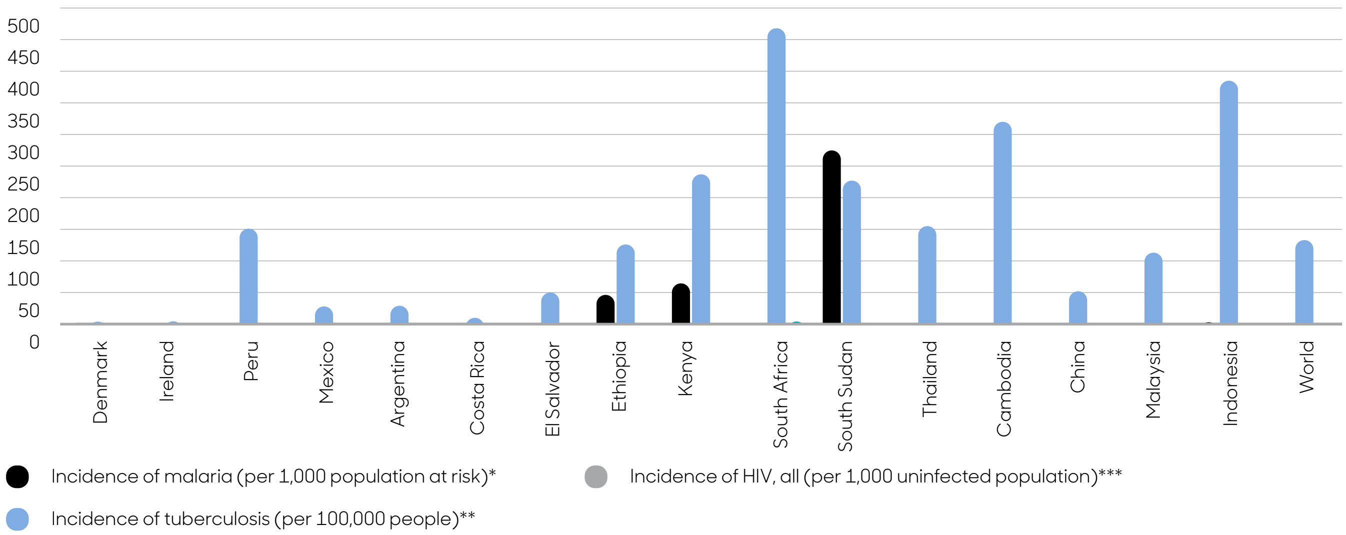
Rotavirus: Globally, rotaviruses are the leading cause of severe, dehydrating diarrhoea in children aged less than five years old. Each year, it's estimated that more than 25 million outpatient visits and over two million hospitalisations are attributable to rotavirus infections. Companies in the Fund reached over 20 million children across 28 Gavi-eligible countries and four former Gavi countries with vaccines.

Additionally, companies in the Fund closed 114 million 'gaps in care', addressing the discrepancy between clinically recommended care and actual care, and reduced the time spent in hospital by 2.5 days.

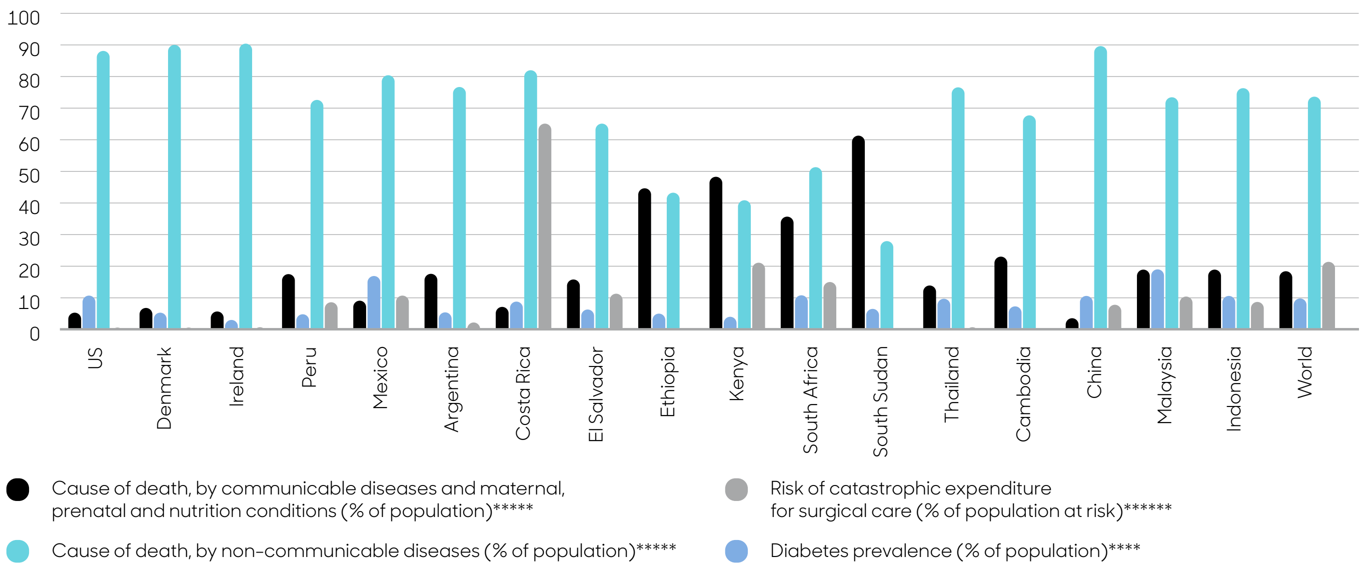
[2] GAVI is an international organisation created in 2000 to improve access to new and underused vaccines for children living in the world's poorest countries (www.garvi.org)

Health & Social Care

Global health issues: incidence of Malaria, Tuberculosis, HIV based on World Bank data 2021-2022



Global health issues: percent of population based on World Bank data 2019-2021



Communicable diseases and maternal, prenatal and nutrition conditions include infectious and parasitic diseases, respiratory infections, and nutritional deficiencies such as underweight and stunting.

Non-communicable diseases include cancer, diabetes mellitus, cardiovascular diseases, digestive diseases, skin diseases, musculoskeletal diseases, and congenital anomalies.

Catastrophic expenditure is defined as direct out of pocket payments for surgical and anaesthesia care exceeding 10% of total income.

*Source: World Health Organization, Global Health Observatory Data Repository (http://apps.who.int/ghodata/).

**Source: World Health Organization, Global Tuberculosis Report.

***Source: UNAIDS estimates.

****International Diabetes Federation, Diabetes Atlas.

*****Source: Derived based on the data from Global Health Estimates 2020: Deaths by Cause, Age, Sex, by Country and by Region, 2000-2019. Geneva, World Health Organization; 2020.

******Source: The Program in Global Surgery and Social Change (PGSSC) at Harvard Medical School

Sustainable Energy

Increasing renewables, decreasing emissions and improving access

Energy is central to almost every environmental and social issue the world faces. It touches most aspects of daily life – fuels for cooking, heating, mobility, communication, and education.

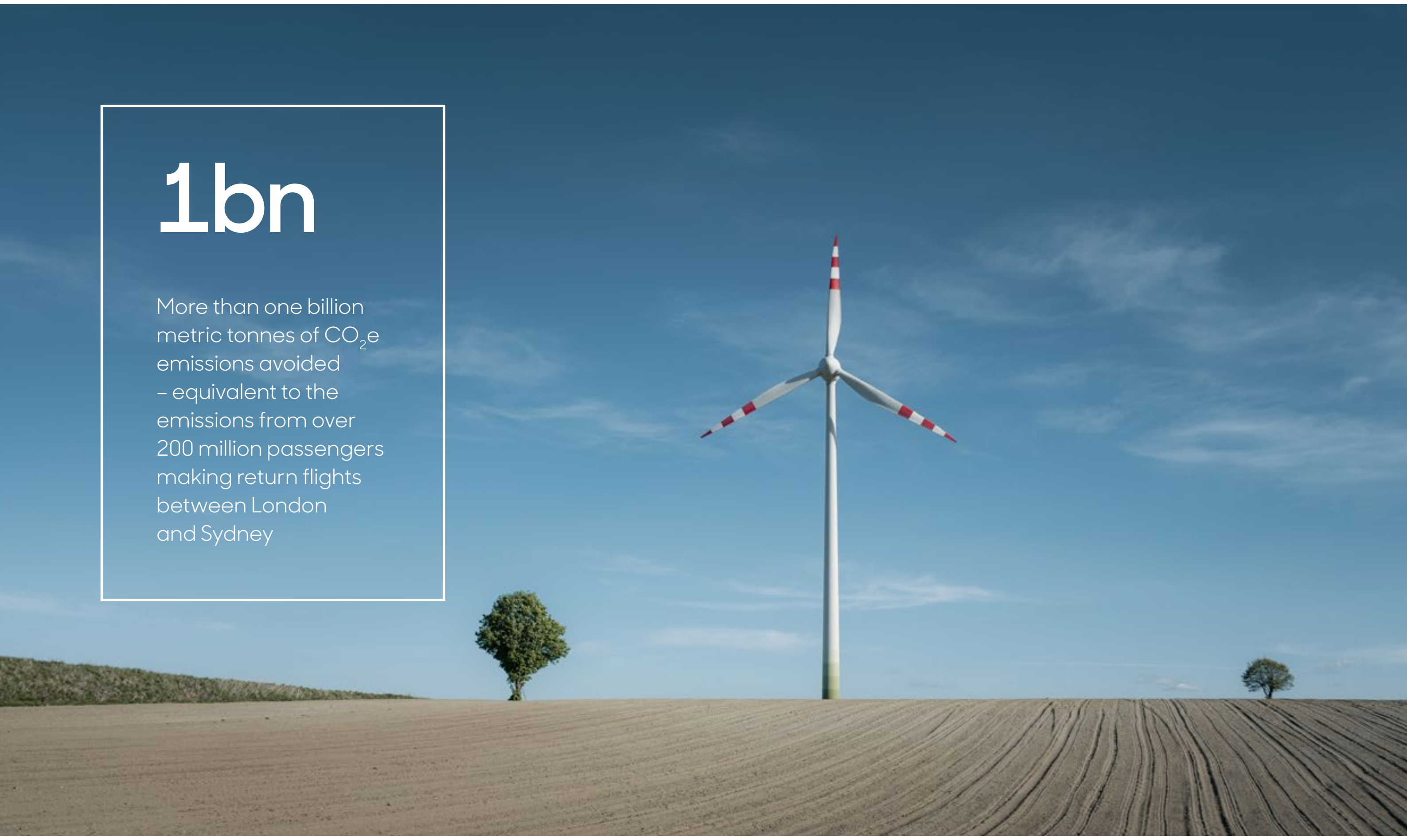
- However, **675 million** people live in the dark and, if current trends continue, one in four people will use dangerous and inefficient cooking systems in 2030. [28]
- And while we've seen laudable global commitments to tackle climate change drive renewable penetration to nearly **30%** of electricity consumption, penetration remains low in heating and transport. [29]

Our Sustainable Energy pillar considers three areas of energy: clean energy solutions, initiatives that promote energy efficiency, and services to expand access to energy.

Sustainable Energy

Positive outputs from companies held

360k	4.5k	90k	100m
Over 360 thousand inverters sold to support solar power generation	Over 4.5 thousand wind turbines sold to support wind generation	More than 90 thousand megawatts (MW) of renewable energy capacity installed, about double the total renewable energy capacity in Australia or 2.45% of the world's installed renewable capacity[30]	Over 100 million GWh of clean energy generated, enough energy to power five billion homes for one year



1bn

More than one billion metric tonnes of CO_2e emissions avoided – equivalent to the emissions from over 200 million passengers making return flights between London and Sydney

Sustainable Energy

Contributions to positive outcomes

We've seen strong commitments globally to tackle climate change by increasing renewable energy capacity and improving access to affordable clean energy. However, fossil fuels still dominate installed capacity and therefore global energy consumption. Nonetheless, companies held in the Fund made significant contributions to renewable global capacity expansion via regional investments, as seen in our table.

Installed renewable energy capacity

	Total renewable capacity (MW)	Installed/operated renewable capacity by companies in the Fund (MW)	Installed/operated renewable capacity as a percent of total renewable capacity
Colombia	14258	142	1.00%
Denmark	13024	4495	34.51%
Dominican Republic	2200	29	1.32%
Faroe Islands	64	14	21.88%
Finland	14093	1185	8.41%
France	69301	1002	1.45%
Germany	166939	2496	1.50%
India	175929	7732	4.39%
Ireland	5889	178	3.02%
Netherlands	35627	1712	4.81%
Puerto Rico	1158	6	0.52%
South Africa	10623	4	0.04%
Taiwan	17600	756	4.24%
United Kingdom	55561	11479	20.66%
US	387549	54290	14.01%
Vietnam	46012	179	0.39%

Source: IRENA (2024), Renewable capacity statistics 2023 International Renewable Energy Agency. Available at https://www.irena.org/Publications/2024/Mar/Renewable-capacity-statistics-2024

Sustainable Energy

Furthermore, companies in the Fund sold products (including the renewable energy generation above) that avoided an estimated 1.2 billion tonnes of CO_2e. While that looks like a big number, it's just 2.36% of the estimated 51 billion tonnes of CO_2e emitted annually.

Avoided emissions

	Estimated annual emissions (megatonnes (mt))	Estimated avoided emissions from products sold by companies in the Fund (mt)	Contribution from companies in the Fund as a % of total annual emissions
China	11400000000	56027315	0.49%
Denmark	29060000	5296200	18.23%
France	297530000	25520000	8.58%
Germany	665600000	2020200	0.30%
India	2830000000	14100000	0.50%
Netherlands	125360000	1365000	1.09%
Taiwan	277900000	1601029	0.58%
United Kingdom	406200000	8135400	2.00%
US	6343000000	1053369600	16.61%

Source: Global Carbon Budget (2023) – OurWorldInData.org/co2-and-greenhouse-gas-emissions

Key ESG risks

A key consideration is the emission intensity of production and whether this offsets the emission reduction offered by products in use. We also examine safety and injury rates; bribery and corruption; supply chain oversight; impact on climate change and biodiversity; and any legacy exposure to fossil fuels. Many energy generation companies are undergoing a green transformation, shifting their business models toward renewable power sources. It's therefore vital that we understand the balance between exposures to fossil fuels and commitments to exit them on one hand, and the need for security of supply on the other.

Sustainable Real Estate & Infrastructure

Providing affordable and eco-friendly buildings and improving connectivity

Demographic and urbanisation trends are adding pressure on existing infrastructure, with alarming consequences. Air pollution is no longer an urban issue, with more rural towns and cities experiencing poorer air quality. The UN has sounded the alarm that slums are on the rise. The current 1.1 billion urban residents living in slums is expected to double in the next 30 years.

The UN Energy Program estimates the buildings and construction sector accounts for nearly 40% global emissions.[30] The built environment has a key role to play in supporting social and environmental goals.

Our Sustainable Real Estate & Infrastructure pillar focuses on a variety of issues facing industry, infrastructure and sustainable cities and communities. This includes the provision of affordable housing; efficient building practices; environmentally friendly construction materials and solutions; and increased internet and telecom connectivity. These are all global priorities, and we use the World Bank Database to understand the different types of unmet real estate and infrastructure needs in different regions and countries.

Sustainable Real Estate & Infrastructure

Positive outputs from companies held

7m+	175m	1,600	48m
Over seven million MWh of renewable energy used to power data centres, the equivalent to charging over 190 trillion smartphones	Over 175 million metric tonnes of CO_2e avoided, the equivalent of carbon sequestered by over 200 million acres of US forests in one year	1,600 GWh reduction in building energy consumption – resulting in emissions savings equivalent to the CO_2 emissions from three natural gas-fired power plants in one year	48 million litres of water conserved or harvested, enough to fill 300 thousand bathtubs

Case study

Wabtec

Unmet need: Transport accounts for about a fifth of total emissions, and within this road transport is responsible for three quarters. According to the International Energy Agency, global CO_2 emissions from the transport sector grew by **more than 250 Mt CO_2 to nearly eight gigatonnes CO_2, from 2022 to 2021**. Rail transport is a lower energy and less CO_2-intensive alternative to road transport, but emissions still need to decline to meet 2030 decarbonisation targets.[31]

Intentionality: Wabtec manufactures energy-efficient components serving the global rail industry, including equipment, systems and services. The company aims to spend 6-7% of sales on technology investments, a significant portion of which is focused on improving the energy management of its customer products.

Implementation: Wabtec has a vast product portfolio, with 84% of products linked to freight and transit railcars. Within this, it has specific eco-efficiency products that not only support rail transport but also focus on improving efficiency and reducing emissions.

Impact: Adoption of Wabtec's next-generation technologies – such as biofuel and battery locomotives, digital solutions, and future hydrogen-powered locomotives – will drive reductions in customers' Scope 1 and 2 emissions. One example is the company's FLXdrive 1.0. This saved 6,000 gallons of fuel over 13 thousand miles, resulting in an 11% reduction in emissions. Digital solutions can deliver as much as 30% in train-level fuel savings, removing around 30 tonnes of NOx (nitrogen oxide) emissions per year or 3,000 tonnes of CO_2e.

Engagement Focus: Wabtec reports on several metrics in its sustainability report. We've seen a step change in the data it provides, with a move to more portfolio-level data to complement product-specific disclosures. However, we're keen to explore the methodology of the calculations and understand what other data it collects and what can be disclosed. We're also focused on operational disclosures related to manufacturing, as well as oversight and governance given the industry exposure.

ESG risks

We are cognisant of key ESG concerns within these areas. These include issues related to connectivity solutions, such as privacy rights, online abuse, the digital divide, land rights & community relations; network shutdowns; and bribery and corruption. We also examine risks from construction and building safety; supply chain oversight; life-cycle analysis and circular designs; biodiversity; and climate change.

Water & Sanitation

Establishing access to safe, clean and sustainable facilities

Water supports all life and is a precious and finite resource. However, access to this basic right is still out of reach for billions.

- **2.2 billion people** lack access to safely managed drinking water
- **3.5 billion people** lack access to safely managed sanitation
- **2.2 billion people** lack access to basic handwashing facilities

According to the most recent data, the number of people living in water-stressed countries has increased from 733 million people to 2.4 billion people. Moreover, degradation of the world's water-related ecosystems has contributed to a decline in 81% of species dependent on inland wetlands.[32]

With a growing global population and the increasing prevalence of extreme weather events, more efficient use and management of water are critical to meeting increased demand and managing risks from droughts and flooding. Water & Sanitation pillar looks for companies whose products and services improve access to clean water and sanitation, as well as those that enhance efficiencies in existing infrastructure.

Water & Sanitation

Positive outputs from companies held

600bn	1trn	67m	280m
Close to 600 billion gallons of water saved, about four times as big as Syndey Harbour	One trillion gallons of water treated and recycled, enough to fill 1.5 million Olympic swimming pools	67 million hectares of land and water ecosystems protected, managed or restored	Over 280 million people provided with safe drinking water

Engagement update

Tetra Tech

Last year, we flagged resource management consultant Tetra Tech as a priority engagement target.

Environmental consultants can have a hugely positive impact, helping clients manage climate, water and other environmental risks. Nonetheless, problems flare up if the company isn't thorough enough or if it fails to identify issues that later arise.

As a consultant specialising in water services, Tetra Tech was subject to a lawsuit alleging mismanagement of the clean-up at a decommissioned nuclear training site on Treasure Island, San Francisco. Tetra Tech was a consultant at the time and, while the suit focused on the developers, Tetra Tech was flagged for allegedly not providing proper advice to the parties involved.

We met with Chief Executive Officer (CEO) Dan Batrack and CFO Jim Wu to discuss the work. The CEO provided some background, stating the issue was from 2012 but had recently gained attention due to coverage by external ESG rating agencies. He also detailed the company's response.

Reacting to the initial allegation, the management team undertook extensive root cause analysis. It also commissioned independent quality control audits to review the project, as well as wider processes and controls.

The findings highlighted that the issue on Treasure Island was an isolated incident confined to the specific team.

The rigour and focus on quality standards have only increased since the Treasure Island incident. The company will continue these practices as it buys and onboards additional consultants.

Furthermore, Tetra Tech initiated policy improvements and oversight programmes across the company to reduce the risk of a similar incident arising elsewhere. The CEO was confident these measures have addressed any potential deficiencies highlighted from the Treasure Island incident. The company hasn't experienced any further issues.

We also discussed corporate governance with the CEO, pointing to the changes he's put in place since taking over the role. These include reshaping the board in terms of diversity, independence and length of tenure.

Overall, we were reassured in Tetra Tech's quality of oversight and level of rigour in its processes. We took comfort in the board's responsiveness and appreciated the management's time. The absence of issues since the Treasure Island incident is also a positive. We're keen to continue the dialogue with Tetra Tech on corporate governance and operational oversight in the coming year.

ESG risks

We focus on pricing for services to ensure access is fair and affordable, the resilience of infrastructure to climate change, as well as water quality and the materials used in water infrastructure. We also consider social issues around migration and wider government policies when assessing how a company's products and services tackle water and sanitation needs.

Conclusion

Last year, we concluded this report with a success story. Kenyan-based Safaricom has been instrumental in driving access to basic financial services across Kenya. Its mobile wallet, M-PESA, bypasses traditional brick-and-mortar banks. Thanks in large part to this service, over 80% of the Kenyan population have an account at a financial institution or with a mobile money service provider. The world average is 76%.

Despite much progress and success stories like this, there remains a clear shortfall in financing and the products available to address the most pressing global issues. The UN has repeatedly warned that the world is off track to meet the SDGs. Covid-19, the war in Ukraine, turmoil in the Middle East and conflict in Sudan, have created significant financing gaps that are compounding the issues around climate change, biodiversity loss, and social inclusion.

In its 2023 'Rescue Plan for People and Planet', UN Secretary-General Guterres 'sounded the alarm' and urged the international community to increase funding for the SDGs. He stated that "economic and financial decisions should prioritise the wellbeing of people and the planet. Governments and the private sector should reorient their economies towards low carbon, resilient patterns of growth".[33]

We believe a future where the SDGs are met is possible – but we're not blind to the challenges. Policy support has deteriorated, but there are bright spots across the EU, US, UK and China. Instead of anticipating a tidal wave of policy changes, we expect to see businesses driving change as the benefit from using unmet needs as a lens to identify unmet demand become clear. This should have a positive impact on returns and operational performance as well as people and the planet.

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A word of thanks

We've had significant contributions from our regional equity teams over the year. They regularly join our discussions and contribute ideas for the Fund. We're grateful for their support and look forward to continuing to work together.

Housekeeping notes

In the previous pages, we aggregated company data by impact pillar to illustrate the positive social and environmental contributions. Where possible, we also analysed the data collected from companies to datasets from international organisations, including the Access to Medicine Index, the International Energy Agency, the World Bank and the World Health Organisation.

We take a conservative view in our reporting, with companies only appearing in one pillar. This approach focuses the portfolio on purposeful impacts and avoids double-counting. Additionally, when mapping the portfolio's outcomes, we only include companies that have reported the data, with revenue breakdown sometimes used as a proxy for regions.

Where we are converting traditional metrics into plane trips or elephants, we have used The Measure of Things[34] calculator as well as the EPA's energy calculator[35] and the flight emissions calculator from FlightFree.[36]

The impact data collected is prorated to match the holding period in the Fund model to the nearest month.
We run several Funds off the Fund model, and due to flows, holding periods may vary slightly. The holding periods used to pro-rata the data are therefore based off the Fund model to ensure consistency.

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Important Information

Investment involves risk. The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.

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