

M&G (Lux) Positive Impact Fund

Annual Impact Report 2023: Seeds of change



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Written by Phil Kemp, Sanjana Kapila and the M&G Public Equity Impact Team.

Impact in brief

The M&G (Lux) Positive Impact Fund invests across six differentiated impact areas, three of which are social and three environmental, and we measure specific impacts that our investee companies seek to deliver within each area.

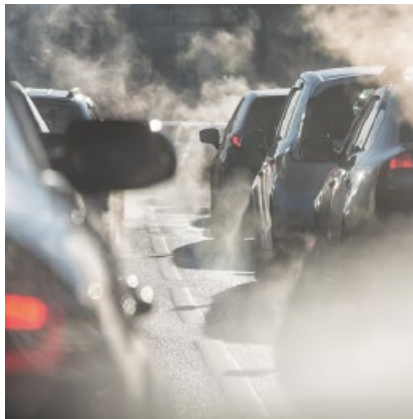
In 2022...

Our Climate Action companies...



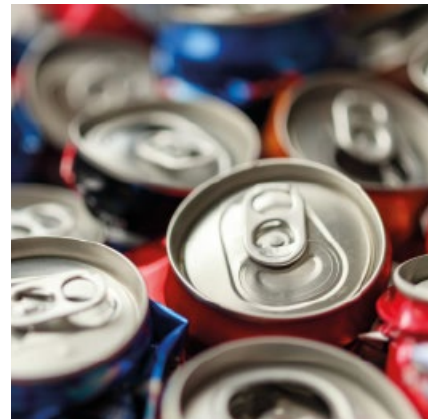
saved or avoided **49.2 million** tonnes of CO₂

Our Environmental Solutions companies...



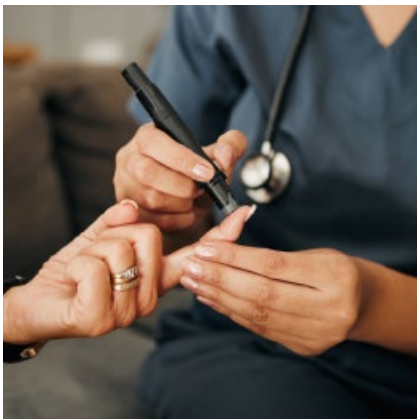
directly saved **105 million** tonnes of CO₂

Our Circular Economy companies...



saved **51.6 million** trees, **4,276** megalitres of water, and handled **95.3 million** metric tonnes of waste material

Our Better Health, Saving Lives companies...



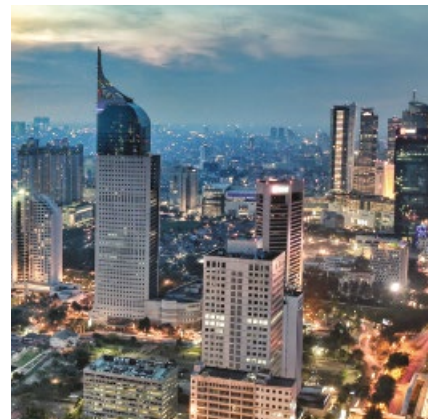
treated or served more than **56.8 million** people

Our Better Work and Education companies...



wrote **8,100** insurance policies protecting workers

Our Social Inclusion companies...



provided services to **227.8 million** people in underserved or lower income markets

Source: M&G, 2024. These figures are based on the key performance indicators (KPIs) against which we measure individual company impacts. These have been aggregated within each impact area, where companies within the area share similar KPIs. However, it is important to note that the data is largely taken from the latest available company literature, and is therefore backward looking. Furthermore, it relies on whichever methodology each company has used to calculate its impact, which may vary from one to another.

Introduction



Ben Constable-Maxwell
Head of Impact Investing,
Fund Impact Lead

It has been five years since we launched the M&G (Lux) Positive Impact Fund, with the aim of opening up impact investing to ordinary investors and institutions alike.

Since then, our core impact philosophy – embodied by our ‘Triple I’ framework – has remained consistent, translating the core principles of impact investing into public markets. It continues to act as a framework for analysing the investment, intentionality and impact credentials of companies, helping us to identify those with quality business models, which should be capable of generating good long-term financial returns, while seeking to provide intentional, measurable solutions for the world’s most pressing social and environmental challenges. In this year’s report, where available we have continued to provide hard data on our investee companies’ contributions to these challenges, and compared these with the previous year’s figures (see page 8).

One area where our thinking has evolved is the concept of ‘additionality’ or contribution. We typically consider additionality with regards to the contributions of our investee companies in tackling the problem in question, but we also recognise the contribution we need to make as investors ourselves, often through our engagements with investee companies. On page 34, we highlight the importance of impact engagements, and outline our current engagement programme, which focuses on improving impact measurability, developing KPIs directly related to the company’s impact, and tying executive remuneration to these KPIs.

Over the past five years, our team has also doubled in size. We now have a team of embedded analysts around us, specialising in either social or environmental impact. Our research capabilities have grown, and that has also helped us to evolve our research process. We are able to discuss a company’s impact or investment thesis as a team, working collaboratively to reach a consensus view.



John William Olsen
Fund Manager

As our team has grown, we have also launched a number of adjacent strategies, focusing on climate solutions, better health and well-being, and diversity and inclusion. With specialists in each of these areas, ideas can feed into our flagship impact fund (and vice versa).

Looking forward, we are confident in the massive investment opportunities surrounding the long-term trends linked to our impact areas. These include the need to decarbonise the global economy, and increased demand for health and well-being solutions, as the global population ages and lifestyle diseases become increasingly prevalent. Of course, there will be bumps in the road as markets and the economic environment shift, but with the combination of structural tailwinds and a focus on quality companies, we remain excited for the opportunity to deliver compounding positive impacts and financial returns for long-term investors.

Furthermore, the challenges that the fund is trying to tackle aren’t going anywhere soon. The deadline for achieving the UN’s Sustainable Development Goals* (SDGs) is 2030, and while there has been progress in some areas, we are currently far behind schedule – the world’s ambition isn’t being met by its actions. According to the UN’s SDG Investment Trends Monitor, today there is an estimated annual SDG financing gap of \$4.3 trillion in developing countries – investors can play an integral role by directing capital towards overcoming these issues. Fortunately, there is no shortage of quality companies providing impactful solutions geared towards the SDGs, and we will continue working tirelessly to identify and support them.

We hope you enjoy reading this fifth edition of our annual impact report.

*While we support the UN SDGs, we are not associated with the UN and our funds are not endorsed by them.

Approach and objectives

The M&G (Lux) Positive Impact Fund is a public equity impact fund. The fund makes long-term investments in companies that aim to generate a positive social and/or environmental impact alongside a financial return. We do this through a concentrated portfolio, usually holding fewer than 40 stocks from anywhere in the world where we can find investable opportunities.

We look for three different types of company, providing diversification across industries, end markets and maturity of business models:



Pioneers

Pioneers tend to be young companies whose innovative products or services have a transformational effect on society or the environment. They tend to spend large amounts of capital as a percentage of revenues on research and development, and are not mature in their development.



Enablers

Enablers provide the tools for other companies to deliver positive social or environmental impacts.



Leaders

Leaders spearhead and normalise sustainability and impact in their industries. They maintain their leadership by continuing to invest in research and development, but this cost represents a smaller percentage of revenues compared with pioneers, as their profitability is more established.

Six impact areas

The fund aims to support positive impacts across six key social and environmental impact areas, each mapped to the UN's Sustainable Development Goals.



Climate action

Limiting the worst effects of climate change requires rapid and deep emission reductions from the energy sector, at a time when global energy demand continues to rise. Companies

in this area contribute towards decarbonising the global energy system in several ways. For example, by generating renewable energy and building related infrastructure, developing technologies to enable low-carbon energy generation, and providing solutions for the reduction of greenhouse gas emissions in industrial processes.



Environmental solutions

Pollution of land, air and water is causing significant damage to natural ecosystems and the services they provide to support human well-being and the global economy. Companies

in this area help to reduce various forms of pollution, improve the efficiency of industrial processes or improve the provision of essential environmental services such as clean water. They may also provide solutions to improve the efficiency and environmental performance of the built environment.



Circular economy

A circular economy focuses on avoiding, recycling or transforming waste, and has an essential role to play in global efforts to reach net-zero emissions, while avoiding the harm to

our natural environment from the extraction, production and consumption of natural resources. Companies in this area aim to tackle inefficiencies and waste in our economic system, and shift towards a more circular model, for example through more sustainable packaging, waste management and logistics.



Better health, saving lives

With ageing populations and the accelerating prevalence of lifestyle diseases, rising global healthcare demands are placing an increasing burden on public health systems.

Innovation, development and scale will all be crucial to address this challenge, as will ensuring access to those most in need. Companies in this area provide solutions to society’s pressing health challenges, and contribute to improved diagnostics and treatment, to enhance healthcare and patient outcomes.



Better work and education

Decent work, safe working conditions and access to education are all critical contributors to equitable societies and thriving economies, which help to improve the quality

of life for populations in both developed and emerging markets. Companies in this area enable better and safer working conditions, support and protect workers operating in hazardous industries, or improve access to educational services, with a particular focus on underserved or under-represented individuals and groups.



Social inclusion

The challenges of poverty and inequality are compounded by a lack of access to fundamental services such as housing, banking, information, housing and social care.

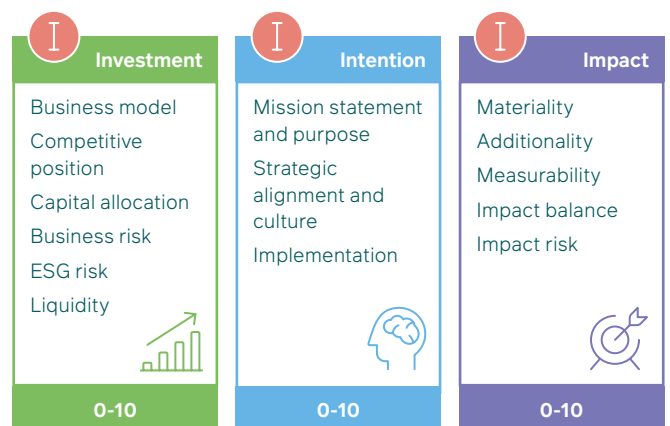
These issues are especially prominent within developing economies and lower income countries. Companies in this area support social or economic inclusion for under-served or under-represented individuals, such as rural communities, women, minorities or individuals on lower incomes.

‘Triple I’ or III framework

The III framework (encompassing Investment, Intention and Impact) is a practical means of scoring candidate companies for the M&G (Lux) Positive Impact Fund, actively embracing established impact frameworks such as those developed by the Global Impact Investing Network (GIIN) and Impact Frontiers, and explicitly incorporating the GIIN’s key impact principles. The framework robustly and consistently applies set criteria and standards for rating the impact and investment case of these companies.

Each ‘I’ score is derived from the assessment and rating of its key drivers, outlined below. The team aims to achieve an optimal balance of quality companies, with a solid, established culture that is consistent with management’s vision and strategy. We require above-average scores in each category, to ensure impact is not achieved at the expense of the investment case, or vice versa, and to gain comfort that the company’s activities are in line with our aims. We also examine how material the impact is to a company’s revenues, helping to ensure that the company will continue to deliver that impact effectively, as it is core to its business.

Crucially, we look at the ‘net impact’ of every potential investment, to avoid the positive impact we have identified being outweighed by potentially negative activity. For example, a wind-turbine producer will have a material initial carbon footprint, as it makes large steel structures. However, we look over the lifetime of that structure to determine if it avoids more carbon emissions – through the generation of clean energy – than were expelled in its construction. Every company produces positive and negative impacts to various degrees, and we need to have certainty that our companies are on the right side of that balance.



Engagement

Investors can effect change by engaging with investee companies on a variety of issues, not least supporting responsible corporate behaviour and setting more testing sustainability objectives. At M&G, we have company-wide engagement priorities, including climate action, and diversity and inclusion.

As impact investors, engagement also gives us the opportunity to provide additionality and encourage greater positive impacts from investee companies. For example, engagement allows for positive reinforcement of the company's long-term aims and impactful ventures. It also allows us to encourage more comprehensive disclosure of impact metrics, so that we might better measure the company's impact.

By proactively engaging with investee companies, we can also reduce the risk of negative impacts being generated, and, where peripheral negative impacts may occur, work with stakeholders to address these issues. On page 19 we have highlighted a selection of our engagements from the past year.

Theory of Change

The 'Theory of Change' framework is used widely by impact investors, to articulate the positive impacts they are aiming to achieve, and how their activities should contribute towards these. It explains the process of change by outlining causal linkages in a company's actions, through its investments, its activities, its shorter-term outputs, and its medium/longer-term outcomes. The Theory of Change to the right sets out how the M&G (Lux) Positive Impact Fund aims to solve for the challenges of impact investing in public equities to, in turn, address society's most pressing issues.

Source: M&G Public Equity Impact Team, 2024. This is a summary of what is a nuanced and complex framework. Please contact us if you would like to explore our Theory of Change and its implications in further detail.



Input

What are the investments and resources applied to tackling the problem?

A dedicated public equity impact team, backed by M&G's broader sustainability and fundamental research capabilities, alongside third party data and external support.

The team has significant resources dedicated to company research, portfolio management, impact measurement and management (IMM), engagement and reporting.



Activity

What work and activities are conducted to achieve the desired goals?

Managing a portfolio of high-quality, impactful companies. This requires deep-dive research focused on impact balance, and ongoing work on portfolio construction and risk management.

Carrying out targeted engagements to support company-specific impacts, alongside thematic engagements on cross-cutting topics, such as decarbonisation.

Contributing towards developing consistency across M&G's impact capabilities, and impact investing industry standards.



Output

What is produced as a result of the inputs and activities?

A carefully constructed, scalable portfolio of impactful public equity investments.

High-quality research on companies' contributions towards tackling societal challenges.

Tangible impact-related improvements at investees, eg via engagement.



Outcome

What is the shorter-term positive change in outcome?

The application of established impact practices within public markets helps to democratise impact investing, encourage growth in the overall impact investment market, and scale up financing to support positive social and environmental impacts.



Impact

What is the longer-term and lasting positive change in outcome for society?

Ultimately contributing towards the development of a more sustainable and impactful financial system, that is providing long-term solutions for the world's most pressing social and environmental challenges.

Impact results

The following pages list all of our investments by impact category, explain the KPIs we have chosen to measure them against, and show how those KPIs have been achieved (or not).

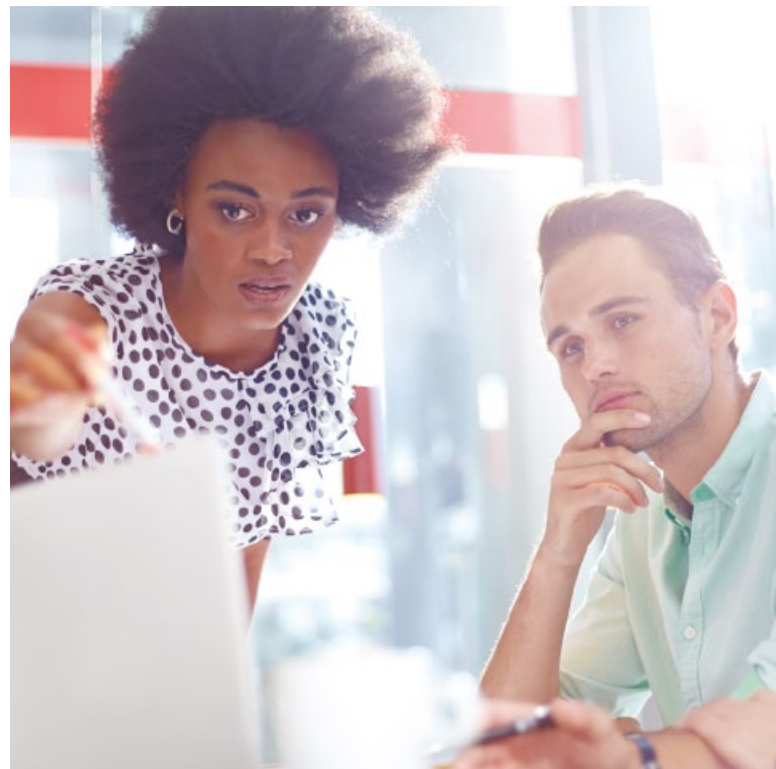
Many of these measurements rely on company reporting, and hence are backward looking. Our 2022 report provided figures for 2021, and likewise this year's report provides figures for 2022, compared against the previous year's numbers.

There are some companies currently within the portfolio whose impact it has proven very challenging to quantify. This is particularly the case for the 'enablers', which by their nature allow others to deliver impact to society. Being one or more steps removed from the end-client can, and has, made measurement of their ultimate impacts difficult. We have been working with our 'enabler' companies to develop more effective means of measuring their impact, and think we are beginning to make progress in this area. In the meantime, where hard metrics have proven elusive, we have provided measurement case studies on page 14 to highlight what we believe to be the impactful nature of these companies.

How do we select KPIs?

For every company in the fund, we assign at least one key performance indicator (KPI). KPIs allow us to measure a company's impact, and track how this progresses from one year to the next.

When selecting KPIs, we first determine the primary United Nations Sustainable Development Goal (SDG) which we believe the company is addressing. We can then select a metric which best assesses the materiality of the company's contribution towards that SDG.



Commentary

Encouragingly, we have seen many investee companies report higher impact KPI figures for 2022, compared to 2021. However, it's important to remember that the delivery of impact is a long-term undertaking, and changes in metrics from one year to the next may not be considered meaningful, especially if a company is already delivering a material impact.

Beginning with the 'Climate action' impact area, our two holdings saved/avoided a combined 49.2 million tonnes of CO₂ emissions, 11.1 million tonnes more than in 2021. Their role in transforming the global energy system remains highly impactful, in spite of a challenging economic backdrop more recently. Within 'Environmental solutions', French company Schneider Electric reported a 5.4 million tonne increase in avoided CO₂ emissions from its range of energy-efficiency solutions, up to 93 million tonnes in 2022. Similarly, building management systems specialist Johnson Controls reported 1.8 million tonnes of avoided CO₂ emissions.

Within the 'Circular economy' impact area, Brambles and DS Smith reported slight decreases in impact delivered, as a result of lower volumes. eBay reported an increase in the emissions and waste avoided via the resale of products on its online marketplace, having expanded the scope of its calculation to include two new product groups (Home & Garden and Business & Industrial) and one new region (Australia). Once again, we have been unable to source absolute figures for the reduced chemical, water and energy use from Unifirst's centralised laundering services, although this remains a topic of ongoing engagement with the company.

Turning to the fund's social impact areas, and within 'Better health, saving lives', Novo Nordisk reported an encouraging increase in impact delivered. The company served 36.3 million patients, 1.7 million more than last year, mainly due to growth in its GLP-1 drugs franchise. We were pleased to see that the company also continued to reach a significant number of patients through its access and affordability initiatives, such as the Access to Insulin Commitment. Novo Nordisk provided insulin below a ceiling price of \$3 per vial for an estimated 4.3 million people in 2022.

The company also reached more than 41,000 vulnerable children through its Changing Diabetes® in Children programme, owing to its expansion into Ethiopia, Sudan, Kenya and Uganda. See page 28 for more information about Novo Nordisk. Healthcare insurance provider UnitedHealth Group also reached an additional 600,000 underserved or low-income customers in 2022, through the US Medicare and Medicaid programmes. Notably, Becton Dickinson reported manufacturing 8 billion fewer devices in 2022 than 2021, owing to a decline in sales post the COVID-19 pandemic.

Our single holding from the 'Better work and education' impact area, workers' compensation insurance provider Amerisafe, reported a slight decrease in the number of policies, down to 8,100, against a backdrop of weak workers' compensation pricing and heightened competition in this area. We review the impact case for Amerisafe in more depth on page 30.

Within 'Social inclusion', Bank of Georgia has increased the number of people it serves from low-income groups or the mass retail market by 200,000. However, it is worth noting that we have reported lower numbers in this year's report than last year. This is because we have sourced the number of active monthly users and excluded any dormant accounts, as we believe this more accurately reflects the company's impact. Similarly, Indian financial services company HDFC Bank also opened an additional 300,000 accounts for previously unbanked individuals through India's PMJDY financial inclusion programme. Another investee company helping to improve financial inclusion in underserved populations is Bank Rakyat Indonesia, which was added to the fund in April 2023 – see page 32 for more information.

African telecommunications-tower business Helios Towers also expanded its impact in the past year. The company reached two million more people and added an additional 4,000 tower sites, helping to improve mobile coverage in some of the world's most under-penetrated areas. By improving connectivity, Helios also allows more people to access essential services such as healthcare, banking and education. Encouragingly, Katitas, a social inclusion company that focuses on affordable housing in Japan, also increased its impact (as measured by the number of houses sold in the year).

Climate action

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Ørsted	Directly contributes towards a world running on green energy.	# CO ₂ emissions saved	18.2m tonnes	15.1m tonnes	+3.1m tonnes
SolarEdge	Directly contributes towards making solar energy more efficient and more affordable.	# CO ₂ emissions avoided	31m tonnes	23m tonnes	+8m tonnes

Environmental solutions

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Ansys	Helps reduce resource use through its simulation technology, which leads to cost and efficiency savings.	Case study			
Autodesk	Helps other companies to reduce resource usage and create efficient designs through its software.	# avoided emissions	165,000 tonnes	n/a	(New holding)
Ceres Power	Enables the reduction of GHG emissions through its solid oxide fuel cell technology.	# tonnes of avoided emissions (GHG and non-GHG) in industrial, technological and/or other processes	16,300 tonnes per year (Based on first full year of results in 2024-2025)	16,300 tonnes per year	No change
Horiba	Enables the reduction of CO ₂ emissions and the improvement of environmental practices through its range of measurement and monitoring tools.	Case study			
IPG Photonics	Enables the reduction of CO ₂ emissions via its innovative laser technology used mainly for cutting, welding, marking and engraving.	# CO ₂ emissions avoided	10m tonnes	2m tonnes	+8m tonnes
Johnson Controls	Directly contributes to the design/ retrofit of smart and efficient buildings. This indirectly helps address climate change with residential and commercial buildings using a significant amount of energy globally.	# CO ₂ emissions avoided	37m tonnes saved since 2000 (1.8m tonnes saved in 2022)	35.2m tonnes saved since 2000 (4.6m tonnes saved in 2021)	+1.8m tonnes (-2.8m tonnes)
onsemi	Enables the reduction of CO ₂ emissions through its extended range of energy-efficient semiconductors, with its positive impact being particularly felt in the transport industry.	Case study			
Schneider Electric	Enables the reduction of CO ₂ emissions through its range of energy efficient solutions designed for buildings and infrastructure.	# CO ₂ emissions avoided	93m tonnes	83.6m tonnes	+5.4m tonnes

Circular economy

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Brambles	Helps preserve natural resources such as water and wood, minimise waste and reduce carbon emissions through its sharing business model.	# water saved # CO ₂ emissions avoided	4,276 megalitres of water and 1.9m tonnes of CO ₂ saved	4,470 megalitres of water and 2.5m tonnes of CO ₂ saved	-194 megalitres -600,000 tonnes
DS Smith	Directly helps reduce the amount of waste generated by packaging.	# of trees saved	51.6m trees	~58m trees	-6.4m trees
eBay	Provides an online platform for the resale of used and refurbished goods.	# CO ₂ emissions avoided # landfill waste avoided	1.6m metric tonnes of CO ₂ emissions and 73,000 metric tonnes of waste avoided	1.5m metric tonnes of CO ₂ emissions and 47,000 metric tonnes of waste avoided	+100,000 tonnes +26,000 tonnes
Republic Services	Provides a solution to growing waste levels from population growth and promotes sustainable waste collection practices.	# materials handled per year	95.3m tonnes, 8m tonnes of recyclables handled	101.6m tonnes, 5m tonnes of recyclables handled	-6.3m tonnes +3m tonnes
Unifirst	Provides centralised laundering services which are much less energy, water and chemical intensive than non-centralised models.	% reduced chemical use % reduced water use % reduced energy use	90% 64% 73%	90% 64% 73%	No change

Better health, saving lives

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Agilent	Helps improve lab economics and accelerate time to results. Helps develop biology-based solutions to some of our planet's largest societal challenges such as healthcare, energy and the environment.	# of installed base	265k+ labs	265k+ labs	No change
ALK-Abelló	Provides long-lasting allergy solutions via immunotherapy. Revolutionised treatment by pioneering immunotherapy in tablet form.	# of patients treated	2.4m patients	2.1m patients	+300,000 patients
Becton Dickinson	Directly contributes towards patient safety, infection prevention and waste minimisation.	# of devices made annually	37 billion devices	45 billion devices	-8 billion devices
Fresenius Medical Care	Directly helps maintain lives via its life saving blood cleansing procedure that substitutes kidney function in case of kidney failure.	# of patients treated	344,687 patients	345,425 patients	-738 patients
Illumina	Helps improve human health by diagnosing different diseases and guiding individual patient care via next-generation genome sequencing.	# of samples sequenced	300 petabases (1,000 trillion base pairs of DNA sequence)	280 petabases (1,000 trillion base pairs of DNA sequence)	+20 petabases

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Novo Nordisk	Helps address the rising prevalence of chronic conditions, such as diabetes and obesity.	# of patients treated	36.3m patients 4.3m with vials less than US\$3.00	34.6m patients 3.9m with vials less than US\$3.00	+1.7m patients +400,000 patients
Oxford Nanopore	Helps researchers diagnose rare disease through portable, affordable real-time gene sequencing machinery.	# of active customers	>8,200 customers	6,339 customers	+1,861 customers
PureTech	Helps to discover, develop and commercialise highly differentiated medicines for underserved diseases.	# trial progress # potential addressable market	27 therapeutic products and candidates, 2 taken from inception to regulatory clearances. >150m people in addressable market	26 therapeutic products and candidates, 18 clinical stage candidates, 2 taken from inception to regulatory clearances. >150m people in addressable market	+1 therapeutic products and candidates No change No change
Quest Diagnostics	Helps detect and prevent non-communicable diseases, covering a wide range of areas including cardiovascular, infectious diseases and immunology.	# of test forms processed	208m test forms	218m test forms	-10m test forms
Thermo Fisher Scientific	Helps customers accelerate life sciences research, solve complex analytical challenges, improve patient diagnostics, deliver medicines to market and increase laboratory productivity.	# of customers reached	~400k customers	~400k customers	No change
UnitedHealth	Helps promote access to healthcare with its market share in Medicare (retirees) and in Medicaid (low-income, long-term care).	# of underserved and low-income people insured	17.8m people	17.2m people	+600,000 people

Better work and education

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Amerisafe	Provides workers' compensation insurance to small-medium-sized high hazardous industries, aiming to improve safety standards and practices.	# of policies	8,100 policies	8,400 policies	-300 policies

Social inclusion

Company	Impact	KPI explanation	KPI measurement	Previous measurement	Year-on-year change
Bank of Georgia	Aids financial inclusion, in a society left with little infrastructure following the end of communism.	# of mass retail active monthly users	1.5m customers	1.3m customers	+200k people
Bank Rakyat Indonesia	Promotes financial inclusion in Indonesia, mainly through the provision of microfinance services to underserved small and medium-sized businesses.	# of customers	34.2m customers	n/a	(New holding)
Bright Horizons	Provides family support services for dependents of all ages, meeting short-term and long-term needs. In particular, Bright Horizons forms a viable option for women to have their children cared for, while still participating in the workplace.	# women labour force participation	~32,000 women impacted at full service centres, serves 10m children in back-up centres (2.63m women benefit)	~32,000 women impacted at full service centres, serves 10m children in back-up centres (2.63m women benefit)	No change No change
HDFC Bank	Directly contributes towards encouraging and expanding access to banking, insurance and financial services for all.	# of accounts opened to economically weakened sections/ low-income groups	2.9m accounts	2.6m accounts	+300,000 accounts
Helios Towers	Enables greater access to mobile and communication services in underdeveloped markets.	# of customers, revenues or assets from underserved or under-represented markets	Covers 141m people across Sub-Saharan Africa	Covers >139m people across Sub-Saharan Africa	+2m people
Katitas	Provision of affordable housing through the purchase and renovation of vacant homes.	# of customers, revenues or assets from underserved or under-represented markets	76,000 homes (includes Reprice homes) and reaches ~8,000-12,000 people per annum, based on the 3,000-5,000 homes the company tends to sell in a year.	74,000 homes (includes Reprice homes) and reaches ~8,000-12,000 people per annum, based on the 3,000-5,000 homes the company tends to sell in a year.	+2,000 homes
Safaricom	Provision of innovative telecom services that allow deep-reach mobile connectivity and financial inclusion for underserved communities.	# of customers	43.8m customers in Kenya (32.1m Mpesa or underserved)	42m customers	+1.8m customers

Measurement case studies

For companies whose positive impact has been difficult to quantify, we have provided case studies highlighting what we believe to be their impactful nature.

Ansys

Ansys specialises in engineering simulation software, which its customers use to develop better and more efficient products across a host of industries. Its broad portfolio of software integrates various branches of physics (thermodynamics, electromagnetism, quantum, optics, atomic), allowing its customers to efficiently perform complex simulations within a real-world environment, and test products without the need for physical prototypes.

Ansys's software creates positive impacts in a number of ways. The ability to develop and test a variety of product designs virtually reduces the use of physical materials, offering environmental and cost benefits. Its software also allows customers to develop more efficient and optimised designs, and to improve both the sustainability and safety characteristics of their products.

For example, the company's software has been used to improve the efficiency of Direct Air Capture systems, which capture CO₂ from the air, and can play a significant role in tackling climate change. It has also been used to improve the efficiency of aero engines, helping to reduce fuel usage, and therefore CO₂ emissions.

The nature of Ansys's business model makes the aggregation of positive impact data difficult. However, we have engaged with the company on this topic, and we believe they are making progress. See page 34 for more information.

Horiba

Horiba specialises in state-of-the-art measuring equipment and analytical devices, used to create positive impacts across a range of medical, environmental and automotive applications. For example, Horiba has designed and manufactured a motor exhaust gas analysis system that measures

pollutants in exhaust fumes, which can help to reduce airborne pollution and the associated negative health effects. This system is used by major automobile manufacturers, as well as testing and research agencies, around the world. The company also manufactures measurement solutions for the capture of carbon in industrial processes, and it created the first analyser to simultaneously measure blood cell counts and C-Reactive Protein, which the body produces in response to internal inflammation, thus facilitating faster and more accurate diagnosis.

Horiba is an 'enabler', and its products are used across a huge variety of industries, which makes the collection of quantitative impact data difficult. However, we have engaged with the company on the topic of measurability. See page 24 for more information about how Horiba makes a positive impact, and our engagements with the company.

onsemi

onsemi manufactures energy-efficient power and sensing components for use in green technologies, enabling its customers to contribute towards reducing emissions and tackling climate change.

For example, its products are used in renewable energy generation, power management and energy conversion systems. These will become increasingly important as clean energy grows its share of the wider energy mix, by allowing solar parks and wind farms to provide base load power. Similarly, the widespread adoption of electric vehicles will require increasing numbers of traction inverters, DC-DC converters and fast vehicle chargers, which require components such as onsemi's MOSFETs (metal-oxide semiconductor field-effect transistors) and IGBTs (insulated-gate bipolar transistor module technologies).



Impact and the SDGs

The fund embraces the UN Sustainable Development Goals (SDG) framework. The United Nations Sustainable Development Goals (SDGs) are a collection of 17 interconnected goals, which collectively form a blueprint for peace and prosperity for people and the planet, now and into the future. The goals cover areas such as ending poverty and improving health, reducing inequality, tackling climate change and preserving our oceans and forests.

We believe the SDGs provide an ambitious framework to guide investors towards major societal challenges, while providing a pragmatic basis for the measurement of how those positive impacts are being achieved. We assign all of our investments a primary SDG that we believe they are addressing, alongside any number of secondary SDGs. We also determine specific, SDG-aligned key performance indicators (KPIs), against which we measure the materiality of the impacts they are achieving. Here, we consider the fund's overall exposure to the SDGs, and look at the primary SDGs for each of the companies we hold.

Fund exposure to the SDGs

More than a third of the fund is invested in companies contributing towards SDG 3: Good health and well-being, as was the case in last year's report. To encourage better health and well-being outcomes, as impact investors it isn't enough to simply invest in healthcare companies. We seek companies creating positive impacts in areas such as improved access to and affordability of healthcare, and technological innovation. On page 28, we explore how one investee company is driving innovation for sufferers of chronic conditions such as diabetes and obesity.

A considerable portion of the fund remains invested to support SDG 9: Industry, innovation and infrastructure. Companies in this area include those helping to make buildings, products and industrial processes more energy efficient, alongside those helping to improve social inclusion by providing financial or telecommunications services to rural and underserved populations. Since last year's report, we have added one company making a positive impact in this area to the portfolio – design software provider Autodesk.

Exposure to SDG 12: Responsible consumption and production remains broadly in line with where it was last year. With circularity continuing to decline on a global scale, impactful companies driving the shift away from a linear economic system are more important than ever. We are exploring a number of companies contributing towards a more circular economy, to expand the fund's watchlist of potential investees in this area.

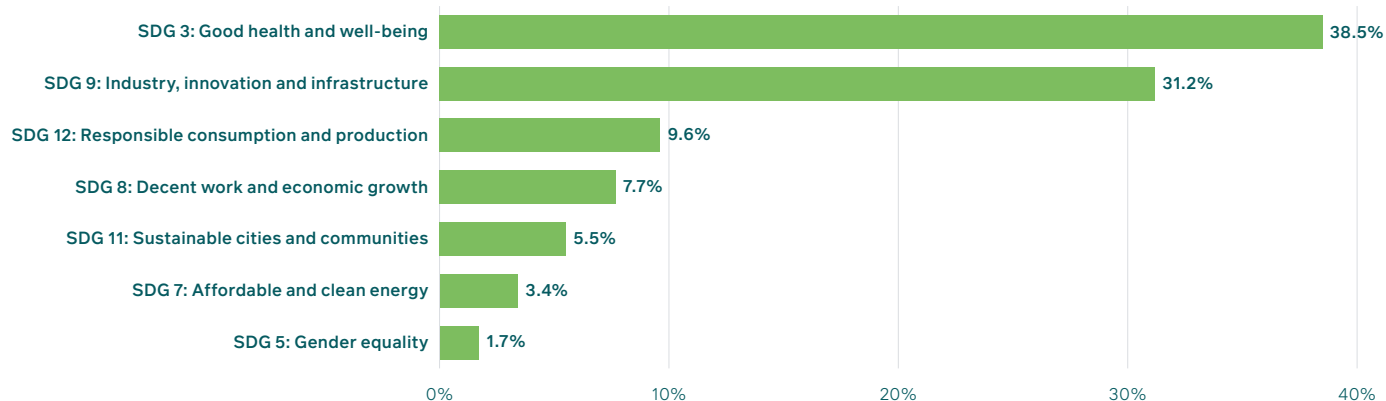
Exposure to SDG 8: Decent work and economic growth has increased slightly since last year's report, with the addition of Indonesian microfinance institution, Bank Rakyat Indonesia (BRI). We explore the impact case for BRI in more detail on page 32.

Conversely, the fund's exposure to SDG 11: Sustainable cities and communities has been reduced in the past year, with the exiting of our position in stonewool producer Rockwool in August 2023, partly due to deteriorating fundamentals and falling confidence in the company's overall net impact. Exposure to SDG 7: Affordable and clean energy has also decreased, after what has been a difficult year for our two holdings in this area, offshore wind leader Ørsted and solar energy specialist SolarEdge.

The fund has a small exposure to SDG 5: Gender equality, with our holding in childcare and educational services provider Bright Horizons. It is worth noting that the fund no longer has exposure to SDG 4: Quality education, after closing our position in Cogna Educação in May 2023. While we have found fewer quality companies making positive contributions towards SDGs 4 and 5 to date, we continue to search for impactful companies making intentional, measurable impacts in these areas.

While we support the UN SDGs, we are not associated with the UN and our funds are not endorsed by the organisation.

Fund SDG breakdown



Source: M&G, as at 31 March 2024.

While we support the UN SDGs, we are not associated with the UN and our funds are not endorsed by the organisation.

SDG 3: Good health and well-being

Investee companies	Revenue to SDG
Agilent	78%
ALK-Abelló	100%
Becton Dickinson	100%
Fresenius Medical Care	100%
Illumina	100%
Novo Nordisk	100%
Oxford Nanopore	100%
PureTech	100%
Quest Diagnostics	100%
Thermo Fisher Scientific	94%
UnitedHealth	100%

SDG 5: Gender equality

Investee companies	Revenue to SDG
Bright Horizons	100%

SDG 7: Affordable and clean energy

Investee companies	Revenue to SDG
Ørsted	90%
SolarEdge	100%

SDG 8: Decent work and economic growth

Investee companies	Revenue to SDG
Amerisafe	100%
Bank Rakyat Indonesia	83%

SDG 9: Industry, innovation and infrastructure

Investee companies	Revenue to SDG
Ansys	100%
Autodesk	78%
Bank of Georgia	80%
Ceres Power	100%
Helios Towers	100%
IPG Photonics	91%
Johnson Controls	61%
onsemi	75%
Safaricom	100%
Schneider Electric	80%

SDG 11: Sustainable cities and communities

Investee companies	Revenue to SDG
Katitas	100%
Republic Services	78%

SDG 12: Responsible consumption and production

Investee companies	Revenue to SDG
Brambles	100%
DS Smith	100%
eBay	30%
Horiba*	61%
UniFirst	89%

*Due to the diverse nature of its solutions, Horiba's activities align to a number of other SDGs, including 3, 6 and 7. This revenue figure reflects Horiba's contributions towards all of these SDGs.

How are we progressing?

The year 2030 was the agreed deadline to achieve the 17 Sustainable Development Goals, and we are now at the midway point of that timeline. However, the world's ambition is not being met by its actions.

Our latest research suggests that progress towards two of the SDGs improved in the past year, while two have moved backwards, and the rest have remained stubbornly unchanged at levels that are already problematically low.

M&G's **SDG Reckoning** report reviews the current progress towards each of the 17 SDGs in more detail. Read it at [mandg.co.uk](https://www.mandg.co.uk)

Engagements

Engagement is a core tenet of impact investing, and an effective tool for public equity impact investors to deliver investor additionality. Engagements can focus on supporting impactful ventures specifically, or on wider sustainability issues, such as board diversity or decarbonisation.

Since publishing our last annual impact report (covering the period between April 2023 and April 2024), we have undertaken 27 engagements with 22 investee companies. Topics have ranged from encouraging the setting of science-based targets for reducing emissions, to impact measurement data and the linking of executive remuneration to impact metrics. Here, we have listed the investee companies that we have engaged with since our last report, and provided writeups of two specific engagements.

Example engagements

Bank of Georgia

Objective: In light of Bank of Georgia's announced planned acquisition of Armenian bank Ameriabank, we met both companies to evaluate the risks and opportunities associated with the deal, and to ensure that Ameriabank's activities would not dilute the materiality of the societal impact that Bank of Georgia was delivering. We also asked for greater transparency on the digital services that are allowing Bank of Georgia to reach the mass market and deliver financial inclusion to the previously underserved or unbanked.

Action: We met with Bank of Georgia's chief executive, and the chair of Ameriabank.

Outcome: Ameriabank is currently focused on the affluent end of Armenian society, but both companies understood our potential concerns around impact dilution, and the intention is to widen out its customer base and increase focus on the mass market, helping to drive financial inclusion. Ameriabank will be launching a sustainability agenda as a priority, and also has a toolkit of digital offerings which will help it attain greater reach (as has been the case for Bank of Georgia). Bank of Georgia has been developing its digital services for some time, and has had real success there, but we didn't think this was being effectively communicated to the market. The bank agreed to improve this, and will develop the messaging, possibly as part of a capital markets day.

Safaricom

Objective: As part of a wider discussion with Kenyan telecommunications company Safaricom, primarily concerning its expansion into Ethiopia, we encouraged the development of enhanced metrics to help us better measure the positive societal impacts the company is delivering; ie quantification of how the use of its products leads to better life outcomes for customers.

Action: We met with the company's chief financial officer and members of its investor relations team.

Outcome: The company was very receptive to the idea of enhanced metrics, and confirmed that there were additional metrics it could consider quantifying that had not yet gone into its own impact reporting (its present impact metrics are currently externally certified by KPMG). It was suggested that we meet with the company's head of sustainability separately to discuss the potential here, which we did two months later. She confirmed that the company has a regular study undertaken to determine its social return on investment, and it would look to include this as a regular feature of its annual reporting. We will follow up in due course.

Engagement programme: driving impact via incentives

Within M&G's public equity impact fund range, we are implementing an impact engagement programme focused on improving impact measurability, developing more robust KPIs to directly measure each company's impact, and linking executive remuneration to these KPIs. See page 34 for more information, or contact us to receive a copy of a separate document detailing this engagement programme.

Engagements in the past year

Company	Topic	Date
ALK-Abelló	Environment	August 2023
Amerisafe	Governance	July 2023
Ansys	Environment	September 2023
Bank of Georgia	Environment, Social, Governance	October 2023, February 2024, April 2024
Bank Rakyat Indonesia	Environment, Social	September 2023
Becton Dickinson	Environment	September 2023
Brambles	Environment, Governance	June 2023
Bright Horizons	Governance	June 2023
DS Smith	Environment	August 2023
eBay	Environment, Governance	August 2023, March 2024
Fresenius Medical Care	Environment, Governance	January 2024
Grifols*	Governance	August 2023
HDFC Bank	Environment	June 2023
Helios Towers	Social	March 2024
Horiba	Environment	December 2023
Johnson Controls	Social	February 2024
Katitas	Environment	November 2023
Novo Nordisk	Environment, Social	November 2023, February 2024
Oxford Nanopore	Social	January 2024
Safaricom	Environment, Social	July 2023, September 2023
UniFirst	Environment	June 2023
UnitedHealth	Environment	December 2023

Source: M&G, April 2024. *Grifols is no longer held in the fund.



Impact investment case studies

Over the following pages, we have highlighted a company from each of the fund's six impact areas. We take a deep dive into how each company is making a positive impact, and summarise the Triple I analysis, Five Dimension of Impact and Impact Results Chain.

SolarEdge



Impact area:

Climate action

Primary SDG:

SDG 7

Affordable and clean energy

KPI:

CO₂

emissions avoided

KPI measurement:

31m

tonnes

SolarEdge has a fundamental role to play in the clean energy transition. Founded in 2006, the company has transformed the solar power terrain.

A clean solution

SolarEdge is a leading supplier of solar inverters globally and serves a broad gamut of market segments, including the residential, commercial, electric vehicle charging and home energy management sectors. Its technology is regarded as cutting edge: one of the company's first innovations was a DC optimised inverter, revolutionising the way in which solar power is harvested and managed in photovoltaic systems.

A growing global population is set to lead to a 50% increase in electricity consumption by 2050 (using 2020 as the base year). Clean energy is required to meet this high level of demand, and solar power could offer a viable solution. Indeed, by 2050, solar power is expected to represent 32% of global installed electricity capacity (from 11% in 2019) and more than 30% of renewable energy. As solar generation systems cannot operate without inverters, SolarEdge has a crucial role to play in the shift towards clean energy. The company's inverters also enable improved energy efficiency, which should further reduce the need for fossil fuels.

SolarEdge's inverters have an additional benefit: they help protect the safety of installers, maintenance workers and firefighters. Unlike typical inverters, the DC voltage turns off when the inverter is disconnected.

Progress so far

By 2022, 2.78 million homes had been equipped with SolarEdge photovoltaic systems, while 31 million tonnes of greenhouse gas emissions are avoided annually through use of its systems. The company has a number of goals in place, some of which have been met ahead of time. For example, the business aimed for 2.5 million homes to be equipped with a SolarEdge photovoltaic system by 2025, but exceeded this target ahead of schedule (in 2022). It also has a 2025 goal to introduce new applications in the home smart energy management and electric mobility spheres. It has already greatly expanded its residential offering.

SolarEdge's broader sustainability strategy has three pillars, 'powering clean energy, powering people and powering business'. These broad goals reflect the company's desire to be sustainable in all facets of its operations. For example, more than 150 women hold management roles at SolarEdge, while 88% of the waste the business generates is either recycled or converted into energy.



Input

Pioneering investment into technology to transform solar power



Activity

Develops and supplies solar inverters for residential and commercial use



Output

Solar inverters supplied for 2.78 million homes, plus commercial properties



Outcome

31m tonnes of CO₂ emissions avoided



Impact

Critical role in building a transformational, clean energy system

III in brief

Investment

- Inverters form an essential part of solar generation systems. SolarEdge is a leader in inverter architecture.
- The company has significant growth potential, via adjacent customer bases, product innovation and expansion into new geographies.

Intention

- SolarEdge's mission is to become the leading provider of inverters across all photovoltaic market segments and to broaden the availability of clean, renewable solar energy.

Impact

- SolarEdge helps to reduce carbon emissions by enabling a viable source of clean energy (solar power).

Five Dimensions of Impact in brief

What

SolarEdge is a leading supplier of solar inverters globally. It serves a broad array of market segments, including the residential, commercial, electric vehicle charging and home energy management sectors.

Who

SolarEdge serves large solar installers, distributors, PV module manufacturers, utility companies and others.

How Much

By 2022, 2.78 million homes had been equipped with SolarEdge photovoltaic systems while 31 million tonnes of greenhouse gas emissions are avoided annually through its use of its systems.

Contribution

SolarEdge developed the DC optimised inverter solution, revolutionising the way in which solar power is harvested and managed in photovoltaic systems. Its product innovations have helped scale up the roll-out of solar power.

Risk

There has been a significant increase in competition in the renewable space. While this is positive in the bigger picture, it could dilute the specific impact that SolarEdge is delivering.

Horiba



Impact area:

Environmental solutions

Primary SDG:

SDG 12

Responsible consumption and production

Horiba is a Japanese manufacturer of state-of-the-art measurement equipment and analytical devices, used across a wide range of medical, environmental and automotive applications.

Specialists in measurement and analysis

Horiba's wide variety of measurement and analytics solutions help its customers to deliver an even broader array of positive social and environmental impacts.

One of the company's largest business segments is automotive, where it is a global leader in exhaust emissions measurement systems, although it also provides a range of mechanical and safety testing solutions. The company expects the accelerated use of electric vehicles and hydrogen energy to increase demand for its solutions. Horiba also manufactures measurement solutions for the capture of carbon in industrial processes, and a host of contaminant and emissions monitors for the semiconductor industry, helping to improve efficiency and yields. This will be increasingly important as growing interest in artificial intelligence technology drives up demand for semiconductors.

Elsewhere, Horiba's medical offering includes blood testing instruments and reagents. The company created the first analyser to simultaneously measure blood cell counts and C-Reactive Protein, which the body produces in response to internal inflammation, thus facilitating faster and more accurate diagnosis. The company's solutions are also used in the development, quality control and manufacturing of pharmaceuticals.

Engaging for better measurability

Horiba is what we classify as an 'enabler' – it provides the tools for others to create positive impacts. While the versatile nature of Horiba's solutions means that they can be used to make an impact across a variety of environmental and social areas, this also makes aggregated measurement difficult.

We engaged with Horiba in December 2023, to ask the company to provide metrics that would better enable us to measure its societal impacts, as we currently rely on case studies to demonstrate these. The company said that it was working towards finding a way to aggregate its impact into a single metric, or at least arrive at some meaningful numbers around this, and understood the increasing importance of being able to quantify impact. The company said it would welcome our help in this process, and we will follow up in due course.



Input

Significant investment in R&D and manufacturing base



Activity

Manufactures and distributes measurement and analysis solutions



Output

Sale of precision instruments to measure and analyse environmental and health impacts



Outcome

Improves efficiency, environmental impact and health outcomes



Impact

Reduces pollution and encourages good health and well-being

III in brief

Investment

- Highly diversified group, with high barriers from brand strength and technological innovation.
- Leading market position in the automotive emissions testing segment.

Intention

- There is significant intent in the vision for Horiba, and the business strategy is aligned with reaching better outcomes from a health, safety and environmental perspective.

Impact

- Horiba's testing and measurement solutions help its customers to operate in environmentally friendly ways.
- Contributes towards better health and well-being outcomes via its diagnostics and health solutions.

Five Dimensions of Impact in brief

□ What

The company provides precision instruments for measurement and analysis.

○ Who

Horiba's products are used by companies and people across a variety of industries, including automotive, industrial, life sciences and medical.

≡ How Much

Horiba generated sales totalling approximately ¥270 billion in 2022.

+ Contribution

Investment into research and development, to develop measurement and analysis solutions, leading to better environmental and health outcomes.

△ Risk

As an enabler, Horiba cannot control how its products are used by customers. Similarly, quantitative measurement of the impact achieved is difficult, as the company's products span such a wide variety of use cases.

Republic Services



Impact area:

Circular economy

Primary SDG:

SDG 11

Sustainable cities
and communities

KPI:

materials
handled
per year

KPI measurement:

95.3m
tonnes

Republic Services collects hazardous, non-hazardous and speciality solid waste, playing a crucial role in supporting the circular economy and in fostering sustainable cities and communities.

Sustainable waste management

Population growth has resulted in burgeoning quantities of waste. Poor waste management poses a serious threat to the environment, resulting in air pollution, contaminated water and soil, and disease and infection. Republic Services provides a tenable solution to this problem, transporting waste from the curb side to transfer stations, landfills and recycling centres, and therefore promoting a circular economy.

The company handles the waste it collects in a variety of ways, including recycling it and transforming it into energy. When organic material decomposes in landfill, biogas is generated; approximately 50% of this is methane – a potent greenhouse gas. Republic Services uses this biogas for clean energy production. For example, landfill gas is used to generate energy for the public utility grid. It can also be transformed into renewable natural gas, facilitating the decarbonisation of vehicles. The company has announced a joint venture with Archaea Energy, to develop an additional 39 renewable gas projects across the US by 2027.

Focus on recycling

Republic Services is also active in the recycling space, operating 74 recycling centres. It sifts materials such as paper, plastics and metals and recycles them for use in sustainable packaging. The business further recycles food and garden waste. This waste can be used as a nutrient-rich compost or turned into renewable energy. Additionally, the business helps recover edible food for distribution among the underprivileged. In 2023, the company opened its first Polymer Center in Las Vegas. This will convert plastics collected from businesses and homes into recycled resin for use in packaging. The business aims to build out a network of such centres, with each facility expected to generate over 100 million pounds of recycled material every year.

In terms of its own business operations, Republic Services is replacing diesel trucks with those powered by natural gas and is aiming for its fleet to become electric. It has implemented a number of 2030 sustainability goals, including increasing recovery and circularity of key materials by 40% and decreasing Scope 1 and 2 greenhouse gas (GHG) emissions by 35%. The latter has been ratified by the Science Based Targets initiative. It also hosts eight solar projects and derives a portion of its energy needs from three solar sites. Furthermore, it targets a 50% increase in beneficial reuse of biogas by 2030.



Input

Investment to build a leading US waste management network



Activity

Collects, recycles and manages waste



Output

Waste material handled, and value extracted from waste streams (including renewable energy)



Outcome

Reduction in pollution, emissions and use of natural resources



Impact

Enables a more sustainable and circular resource management system

III in brief

Investment

- Republic Services is a key player in the field of solid waste management.
- The company's scale, expertise and strong customer relationships create barriers to entry.

Intention

- Republic Services helps ensure safe and responsible waste removal. It also plays an important role in the circular economy through its recycling activities. Furthermore, it increasingly uses energy-efficient vehicles, and has a number of sustainability targets in place for its own operations.

Impact

- The business helps to create sustainable cities and communities through environmentally-friendly waste removal.

Five Dimensions of Impact in brief



What

Republic Services provides waste collection, transfer, disposal and recycling.



Who

The company serves residential, commercial and municipal customers.



How Much

In 2022, the company handled 95.3 million tonnes of waste, including 8 million tonnes of recyclables.



Contribution

The company's services primarily help to lower the possibility of waste being mismanaged, and reduce the reliance on virgin materials for the production of packaging.



Risk

The company's use of landfill sites poses an impact risk. Landfill sites produce GHG emissions, and there is also the risk of waste being mismanaged or disposed of unsafely. However, the company takes steps to minimise the impact from landfill on surrounding areas.

Novo Nordisk



Impact area:

**Better health,
saving lives**

Primary SDG:

SDG 3

Good health and well-being

KPI:

of patients treated

KPI measurement:

**36.3m
patients**

Unhealthy food options and sedentary lifestyles have contributed to an increase in rates of diabetes and obesity. Novo Nordisk's therapeutics are helping to fight and mitigate the impact of these diseases on patients' lives.

Combatting diabetes and other chronic diseases

Novo Nordisk's GLP-1 based therapies have been shown to be highly efficacious for the treatment of type 2 diabetes as well as offering other benefits, such as weight loss. Furthermore, Novo Nordisk's Ozempic requires only a weekly injection, heralding a significant shift in the treatment of diabetes.

As a leading producer of insulin, Novo Nordisk has long been recognised for its expertise in diabetes. It is also a pioneer within obesity treatment and has ambitions to help patients suffering from cardiovascular and rare diseases over the coming decade.

More than three-quarters of diabetes sufferers worldwide reside in low-and middle-income countries and often have no available avenue open to them to reach these life-changing therapies. In response to this, Novo Nordisk has established a number of initiatives to ensure that underprivileged and vulnerable patients can procure its diabetes medications. In 2022, the company reached 4.3 million people globally via its access and affordability programmes.

For example, in South Africa, the company has entered into a production partnership with Aspen Pharmaceuticals to increase the supply of affordable insulin to the African continent. As part of Novo Nordisk's Access to Insulin Commitment initiative, this insulin will be distributed at low cost. Indeed, this programme ensures that the cost of each vial of insulin produced in 77 low-and middle-income countries is capped at \$3.

Targeting other health benefits

We continue to learn about the health benefits of Novo Nordisk's GLP-1 treatments, outside of obesity and diabetes. The company's SELECT trial demonstrated that its GLP-1 molecule semaglutide significantly reduced the risk of major cardiovascular events by 20% in overweight or obese patients without diabetes. Furthermore, its FLOW trial demonstrated that semaglutide led to a 24% reduction in kidney disease progression and cardiovascular and kidney death in patients with type 2 diabetes and chronic kidney disease. Elsewhere, in the cardiovascular space, the company has acquired ocedurenone, a medication for uncontrolled hypertension. The company is also growing its offering in rare blood disorders. We are excited about the additional health benefits that patients may experience from Novo Nordisk's treatments.



Input

A leading developer of diabetes and obesity treatments



Activity

Develops and manufactures medication for chronic diseases



Output

Number of products distributed and patients treated



Outcome

Pioneering and leading role in mitigating the impact of chronic diseases



Impact

Promotes better outcomes for fast-growing health challenges

III in brief

Investment

- Novo Nordisk is a leading provider of diabetes medication. It has almost 50% market share of the global insulin market.
- Its products are in demand due to an ageing and increasingly overweight worldwide population.

Intention

- The Novo Nordisk Foundation's mission statement is to 'contribute significantly to research and development that improves the lives of people and the sustainability of society'.
- The company also believes that 'a healthy economy, environment and society are fundamental to long-term business success'. It takes these factors into account when making business decisions.

Impact

- Novo Nordisk fights chronic diseases, helping the global population to lead healthy lives.
- In 2022, Novo Nordisk's therapeutic products helped over 36 million patients living with chronic diseases.

Five Dimensions of Impact in brief

□ What

Novo Nordisk is a leading provider of diabetes therapeutics globally.

○ Who

The company aims to help people suffering from chronic diseases such as diabetes.

≡ How Much

In 2022, Novo Nordisk's therapeutic products helped more than 36 million patients living with chronic diseases.

+ Contribution

Novo Nordisk has played a key role in developing the insulin market. Its GLP-1 based therapies have been shown to be highly efficacious in the treatment of type 2 diabetes, and its Ozempic medication only requires injection once a week heralding a significant shift in the treatment of diabetes.

△ Risk

Novo Nordisk could face competition from branded and generic drug manufacturers, particularly in the area of human insulin, which would reduce its impact. There is also the risk that its products could be used for unintended purposes, such as weight loss for healthy individuals, which would reduce supply for those with a genuine need for the medication.

Amerisafe



Impact area:

Better work and education

Primary SDG:

SDG 8

Decent work and economic growth

KPI:

of policies

KPI measurement:

8,100 policies

Amerisafe is a US insurance provider. The company specialises in workers' compensation insurance for small and mid-sized employers in hazardous industries, such as construction, agriculture, trucking and manufacturing.

A personal approach

If an employee suffers an injury in the workplace, Amerisafe will cover their medical bills and provide compensation for lost income due to injury or death. The company ensures that workers in hazardous industries get access to adequate financial and medical assistance, while safeguarding their families' basic needs following a work injury.

Amerisafe's mission is to handle all claims with immediate and personable management and care. With this in mind, the company takes a face-to-face approach to cover. Amerisafe's Field Safety Professionals (FSPs) live in proximity to policyholders, so they are able to attend promptly and in-person in the event of an incident. Supported by Nurse Case Managers, FSPs will generally be an injured worker's sole point of contact, and will guide them through the process of medical treatment, rehabilitation and return to work. The company understands that a speedy recovery and return to work is the best outcome for all parties.

Working with small companies to improve safety

Many of Amerisafe's customers are small businesses without their own dedicated safety divisions or well-defined procedures. The company plays a dual role, not only providing insurance for companies that may be too small to be adequately covered by larger insurers, but also helping to educate and improve their safety standards.

It achieves this by having its FSPs, who are experts with first-hand experience in their respective industries, attend prospective customers' workplaces. FSPs will carry out safety inspections and provide recommendations before quoting for an insurance policy. In certain cases, the company will mandate changes before providing cover, to minimise the risk of traumatic and debilitating injuries to workers.

The company also provides comprehensive training on an ongoing basis, both in-person and through its online education and training centre. Training programmes are tailored to fit the industries the company serves, and cover topics ranging from accident investigation and fire prevention to fall protection, welding and personal protective equipment. This prioritisation of safety, which the company refers to as 'Safe above all', helps to drive a lower frequency and severity of claims, which benefits Amerisafe, its customers and their employees.



Climate engagement

In July 2023, we engaged with Amerisafe on a number of topics, including greenhouse gas (GHG) emissions. We asked the company to begin disclosing GHG emissions, with a view to cataloguing indirect emissions and setting emission reduction targets. The company ensured us that it would publish Scope 1 and 2 emissions in the following year's reporting cycle as a starting point. We will continue to monitor, and follow up in due course.



Input

Deep expertise and risk management in the specialised insurance sector



Activity

Provides workers' compensation insurance for hazardous industries



Output

Insurance policies for underserved workers



Outcome

Better protection for hazardous industry workers



Impact

Promotes safe and secure working environments

III in brief

Investment

- Amerisafe has carved out a niche customer segment in hazardous industries.
- Has developed in-depth knowledge in this niche group, with a solid track record of underwriting and pricing discipline.

Intention

- The company seeks to ensure safe, secure environments in order to protect workforces and keep them healthy and safe.
- By encouraging safer environments, insurance payouts are reduced, linking intentionality directly to the business model.

Impact

- The protection of labour rights and promotion of safe and secure working environments.
- More than 8,100 policies in place.

Five Dimensions of Impact in brief

□ What

Provides workers' compensation insurance for companies in hazardous industries.

○ Who

Small to medium-sized operations in the US representing construction, trucking, maritime and others, whose hazardous nature creates the need for specialist service provision.

≡ How Much

In 2022 there were 8,100 policies in place, and 100% of revenue is considered impactful.

+ Contribution

Smaller companies won't necessarily have well-defined safety standards and are often overlooked by larger insurers. Amerisafe engages with these employers to improve safety in these often dangerous industries. This helps drive a lower number and severity of claims.

△ Risk

Evidence risk, as Amerisafe does not currently adequately track or disclose how much safer work environments are once it engages with employers.

Bank Rakyat Indonesia



Impact area:

Social inclusion

Primary SDG:

SDG 8

Decent work and economic growth

KPI:

of customers

KPI measurement:

34.2m

customers

Bank Rakyat Indonesia (BRI) specialises in the provision of financial services to micro, small and medium-sized enterprises (MSMEs).

Promoting financial inclusion in Indonesia

With a history of over 120 years, it is the oldest bank in Indonesia; it is also one of the country's largest commercial banks. BRI has developed considerable expertise in microfinancing, offering loans, insurance and savings facilities to its customers. Its focus on MSMEs enables it to reach typically underserved markets; it is therefore a key proponent of financial inclusion in the country, supporting the nation's drive for economic prosperity.

BRI's largest business segment is microloans. These are small loans disbursed to customers at the lower end of the income spectrum: some of these customers exist at or below the poverty line. In recent years, BRI has expanded its micro business, acquiring both Pegadaian, a pawn shop, and PNM, a microlending company in 2021. As a result, it has broadened its micro offering, entering the 'ultra micro' space. As the name suggests, ultra micro financing targets those businesses too small to be classified as micro. BRI, Pegadaian and PNM have collectively formed Ultra Micro Synergy (UMi). UMi aims to facilitate financial inclusion, as exemplified by its SenyuM app which allows ultra micro customers to access the services of BRI, Pegadaian and PNM anywhere and at any time.

Many of BRI's customers reside in villages and small communities in which locals act as loan officers. This offers a dual benefit. Not only is the bank furthering social inclusion, but customers are also easier to reach: personal relationships mean customers are much more likely to repay their loan.

As well as providing much-needed financing, BRI has taken an innovative approach to improving financial inclusion in remote areas. For example, in 2016 it launched a dedicated satellite to improve digital communications across the country. BRI also launched the world's first floating bank to improve access to its products for people living across Indonesia's islands and coastal areas.

A financial education

Outside of its core offering, BRI has delivered financial literacy programmes to students, helping to improve understanding of financial products. The bank also conducts training sessions for MSMEs so that they recognise the risks involved in taking out loans. Furthermore, the bank aims to reach underprivileged and vulnerable women, seeking to ensure they have both access to and an understanding of key financial services. In 2022, its PNM Mekaar programme helped 13.9 million disadvantaged women, supporting UN SDG 5: Gender equality.



With other Indonesian banks focusing on larger corporate businesses, BRI plays an important role in fostering financial inclusion among small and medium-sized businesses. It remains committed to this work, and is planning to release an impact report in 2024. We have encouraged BRI to report on its progress in this area annually, so that we can better track its positive impact.



Input

A leading position as one of Indonesia's largest commercial banking networks



Activity

Provides financial services to underserved individuals and MSMEs



Output

Number of underserved MSMEs and customers



Outcome

Enhanced access to financial services for MSMEs in Indonesia



Impact

Greater financial inclusion for underserved populations

III in brief

Investment

- BRI is an Indonesian market leader in microfinancing. The bank's satellite technology has enabled it to extend its reach to remote areas of the country, establishing a barrier to entry for competitors.
- Customers in remote regions of the country are more likely to repay debt: tracking capabilities are better in these communities, and customers are reluctant to tarnish their reputation before debt collectors who are frequently members of their community.

Intention

- BRI's mission is 'to conduct the best banking practices with a priority to serve micro, small, and medium enterprises in order to support the economy of the people'. This demonstrates its commitment to improving financial inclusion for the underserved.

Impact

- BRI facilitates inclusion by offering financial products to MSMEs. Customers in the micro area often exist at or below the poverty line.
- The bank delivers financial literacy programmes to students, deepening knowledge of financial services. It also conducts training for MSMEs, educating them on the risks involved in borrowing money.

Five Dimensions of Impact in brief

□ What

BRI is one of Indonesia's largest commercial banks, specialising in the provision of financial services to MSMEs.

○ Who

BRI enables MSMEs, a typically underserved market, to participate in the economy through its loans, insurance products and savings facilities.

≡ How Much

In 2022, the bank served 34.2 million customers through its micro and ultra micro segment.

+ Contribution

BRI facilitates financial inclusion by providing financial services to MSMEs. It is a leader in the field of microfinancing, disbursing small loans to low-income customers. The bank's focus on technology and innovation has expanded its reach to remote areas of the country.

△ Risk

As a partially state-owned entity, BRI is sensitive to policy fluctuations. Any significant shift in government strategy could result in the bank turning its attention to less impactful areas. As many of BRI's customers belong to typically underserved communities, they have little understanding of the financial world. It is important that BRI does not create indebtedness, a risk it attempts to mitigate through the delivery of financial literacy programmes.

Successes, challenges and notable developments

By its nature, impact investing involves a continual drive for improvements and greater impact. This could come in the form of engaging with investee companies, staying abreast of new industry developments, or simply taking stock of what is or isn't working at regular intervals. With this in mind, here we have considered several of the fund's latest successes and challenges, alongside any other notable developments from the past year.

Impact measurement

Measurement is a core tenet of impact investing, but it can be especially challenging for investors in public markets. As investors, we tend to rely on companies reporting the impact achieved through their products or services, but this can be difficult, especially for 'enablers' who provide the tools for others to make an impact.

However, we have seen some encouraging progress in this area over the past year. For example, after engaging with software provider Ansys, we learned that the company has formed a cross-stakeholder group, consisting of engineers, operational employees, sustainability team members and others, to work out how best to report its impact achieved. Given the multitudinous uses of its software and its diverse client base, this is not a straightforward process. However, the company understands the importance of measurement for investors, and is working hard to find a solution. We will follow up in due course.

Engagement programme: driving impact via incentives

Impact engagements form an integral part of our investment approach, and serve as an opportunity to deliver investor additionality – a concept at the heart of impact investing.

In the past year, we have implemented a top-down engagement programme focused on improving impact measurability, developing more robust KPIs to directly measure each company's impact, and linking executive remuneration to these KPIs.

The linking of compensation to impact helps to evidence how intentional or purposeful a company is, as reflected

through its governance structures. This is one of the three pillars of our core 'Triple I' framework for assessing whether a company is eligible for investment in the funds. Linking remuneration to impactful outcomes also gives us confidence that the company will continue to prioritise and expand its positive impact, rather than potentially diverting its activities elsewhere.

Furthermore, if there is a structural alignment between the company's core business and the positive impact it generates, the company can reinvest the returns it generates directly into activities that produce further positive impact. We call this 'double compounding' – the potential for simultaneous growth of both financial returns and impact.

When identifying companies for this type of engagement, we consider how we can 'move the dial' and make a notable difference to the impact being targeted. We consider both the existence of impact-related metrics in the current compensation plan, and how material the impact is to the company's core business – usually measured by the proportion of company revenues generated by impactful activities.

The highest priority companies will have a small or non-existent link between executive compensation and impact delivery, alongside a materiality that is below where it could be. In such cases, engagement can be a powerful tool for increasing the scale of impact, or the likelihood that the core impact objective is achieved. Specifically, by encouraging greater alignment between impact and executive compensation, increasing the 'intentionality' of the impact and reducing the possibility that the business deprioritises the impactful activities to focus on other areas.

As an example, we recently requested that Indonesian financial institution Bank Rakyat Indonesia develops and reports a metric to help us better measure the

company's positive impact on social inclusion, for example, how customers' lives or livelihoods have improved as a result of its micro loans, and for that measurement to form a specific KPI against which remuneration can be linked. The company confirmed that it was currently undertaking research to fully understand the social impacts it was delivering, and planned to publish this in a report in 2024. To support this, the company asked us to share best practice on impact reporting and minimum standards. We subsequently sent through case studies, including examples of best practice in linking impact KPIs to remuneration, which it would take into consideration. We will contact the company on this topic once the initial report is published.

Political challenges for decarbonisation

We have seen a number of investee companies make encouraging progress when it comes to reducing carbon emissions. However, decarbonisation efforts have seen headwinds, not only from higher financing costs, but also the wider political sphere. 'Anti-woke' discourse threatens to derail progress in this area, exacerbated by high energy prices and a wider cost of living crisis. Regardless, we continue to engage with investees across our impact areas, to encourage their decarbonisation efforts where necessary.

Monitoring risks

Our ongoing monitoring of investee companies includes identifying and engaging on sustainability issues. In an increasingly digital world, the issue of cybersecurity is becoming ever-more important. However, it can be difficult for investors to establish how companies are managing this highly fluid risk, other than to ensure they have in place the right governance, expertise, controls, risk management and remediation processes.

In late 2023, investee company Johnson Controls was the victim of a disruptive cyberattack, resulting in some

\$27 million of response and remediation costs during the fourth quarter, with additional costs expected for the first half of 2024. We engaged with the company in February 2024, to ensure that systems, controls and procedures were in place to limit damage in the case of future attacks.

The company stated that, while the attack was identified, isolated and fixed, and demonstrated that its business continuity plans worked, it also provided a fresh look at risk mitigation, which the company subsequently found ways to strengthen. Johnson Controls also had many conversations with customers, which the company believes strengthened relationships, as it was seen to be on the front foot, looking after those customers. It has also hired a new chief information officer and chief technology officer, which will allow it to further strengthen its approach to cyber security.

Upcoming regulation

Aligned with regulatory developments in the broader sustainable investing space, there is a push to clarify what is required by impact investing strategies, to improve transparency to clients and to reduce the risk of impact-washing. In the UK, the Sustainability Disclosure Requirements (SDR) labelling regulations are at the forefront of this, with the creation of the first impact-specific regulatory label. M&G Investments and other UK-based investors have played an active role in responding to the consultation, and have been in constructive dialogue with the regulator, to consider the implications.

The work of the GIIN's listed equities working group, of which M&G Investments is a founding member, has been influential in guiding the regulations. In particular, surrounding the importance of the Theory of Change framework, and the demonstration of investor contribution in supporting investee companies' positive impacts. □





