Regnan Global Equity Impact Solutions Fund

Regnan SDG Taxonomy

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Regnan

Executive Summary: a research-driven taxonomy with continuous improvement at its core

We have developed a taxonomy based on the 17 UN Sustainable Development Goals (SDGs) and the 169 targets that underlie them. The Regnan SDG Taxonomy takes the most pressing global environmental and social problems and links them to the solutions sold by companies today. We believe that, by analysing these solutions, our taxonomy allows us to identify companies with a strong chance of producing market-beating returns. We use a rigorous approach to testing the potential of each of the solutions to deliver a large-scale impact. We do this by formulating a Theory of Change and looking at the expected total addressable market for each of them.

Turning the world around – how investors can make a difference

People are increasingly worried about the way the world is heading. They are concerned about pollution, habitat loss and decreasing biodiversity, and the threat of environmental catastrophe because of global warming. They are anxious about rising inequality. Since 2020, the developed world has come once more to hold a new fear long harboured by the developing world: the dread of premature death from infectious disease.

We believe that the United Nations' 17 Sustainable Development Goals (SDGs) provide the best framework for investors to address these problems. Set out in 2015, the SDGs are a set of global ambitions designed to create prosperity for all, in a way that protects the planet and its natural resources. The aim is to meet them by 2030.

Companies whose activities significantly contribute to achieving the SDGs, without creating major offsetting negative externalities in the process, are generally doing good. A negative externality is a by-product of a company's business model that does harm to someone or something else. The most commonly cited example is the greenhouse gases generated in the production and consumption of fossil fuels. Another instance is the pollution generated by industry and traffic.

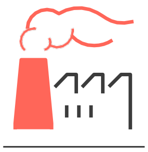
There are many potential solutions that exist to achieve the SDGs. However, some are more viable, scalable and ultimately more impactful than others. We believe that companies contributing to the SDGs – selling a product or service that is driving a positive environmental or social outcome – are likely to outperform the market as the need for these solutions grows. However, we believe that companies are only able to materially benefit if the following two tests are met:

- Their solution is delivering an innovative approach that delivers greater impact than what rivals offer
- There is significant scope for this particular company to deliver this solution at scale, to meet underserved needs of the environment and society

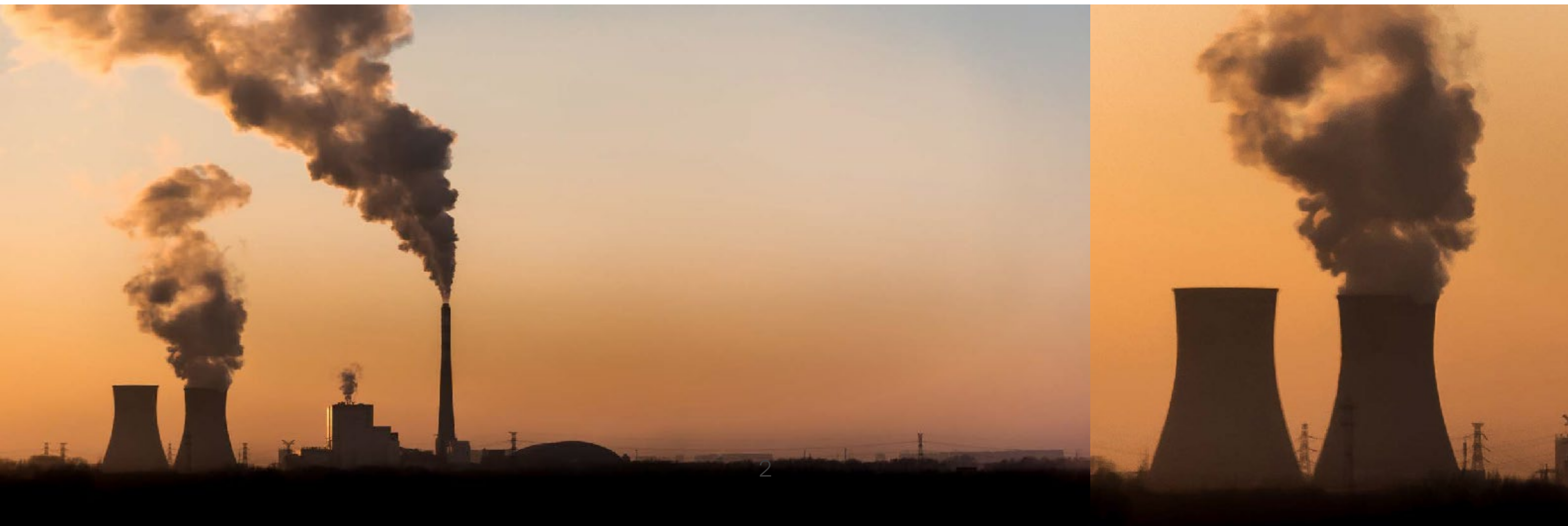
Air pollution kills an estimated

7.0m

people worldwide every year[1]



[1] World Health Organization.



Innovative solutions to genuine needs

Organisations able to supply innovative solutions that meet genuine needs will find that these products and services are often met with a growing market. Increasingly, these companies will discover that they benefit from a stronger tailwind, as the problems they address are rapidly growing after decades of neglect and procrastination by policymakers and corporations. We believe that the tide is now turning – consumers are more vocal in their demands for solutions, and policymakers are starting to wake up to the fact that these problems need addressing.

Some early movers in the corporate world are only too happy to rise to this challenge and are driving the necessary change. Some companies are, for example, developing imaginative solutions to create affordable housing, such as prefabricated modular homes. Others are improving the technology of creating power from offshore wind – an alternative to fossil fuels that is scalable and more stable than most sources of renewable energy.

Using the SDGs: a challenging business

The SDGs were devised as aspirational, yet urgent, goals for the planet and the people that inhabit it. However, because they were not designed specifically with investors in mind, it can take a great deal of effort to work out how investors can help meet them. Indeed, some goals will always be beyond the scope of what the corporate world can and should do.

How we use the SDGs is different

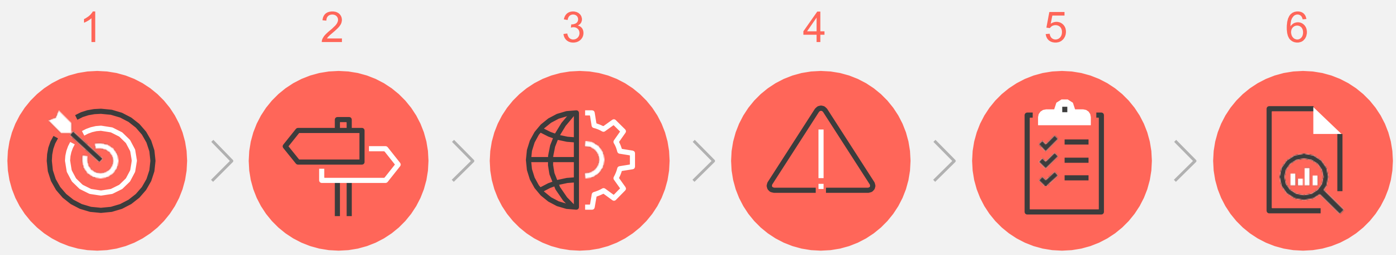
We therefore decided to develop our own SDG taxonomy, to translate these goals into a framework that guides our investment decision-making. What makes our framework stand out is how we use the SDGs as the foundation of our investing. At Regnan, our investment process starts with the SDGs, and a deep understanding of the underlying challenges these 17 goals and their underlying 169 targets represent. These serve as the basis of our investment universe, as we search for ingenious products and services that exist to meet these challenges and the companies that exist to provide them. This SDG taxonomy has been the cornerstone of our investment approach since we built the first version of this investment strategy in 2016.

The Regnan SDG Taxonomy has found that

50/169 = 30%

targets are investable through public equities | **of SDG targets**

Our taxonomy helps us continuously develop our knowledge and understanding of the challenges inherent in the goals, and the various solutions that exist to meet these challenges, while expanding our investment universe. The entire Regnan team is contributing to the search for new solutions, which span an increasing proportion of the 169 targets l inked to the goals.



The research process behind the taxonomy

1. **We go beyond the 17 high-level SDGs to consider the 169 targets that underlie them.** These are much more specific and granular in breaking down the concrete challenges to address: they allow us to consider the exact issues that need to be solved to achieve each of the goals. For example, SDG 3, Good Health and Well-Being, is very broadbrush. However, Target 3.2 is highly specific: to reduce neonatal mortality to at least as low as 12 in 1,000 live births, and under-5 mortality to at least as low as 25 in 1,000 births, in each country.

2. **We articulate a Theory of Change for each solution.** This is the formulation, based on available evidence such as academic research and industry reports, of how a particular solution is expected to deliver a certain impact or outcome. It means first looking at the outcomes or impacts that are defined by the SDG targets. We then work back from there to consider the outputs necessary to achieve the targets.

3. **We look at the scope for delivering this positive outcome on a large scale.** We consider the size of the addressable market for a particular solution today, and its scope to grow with time. We also consider the stage of the lifecycle this product or service is at, and the other stages in the value chain that are necessary to deliver this solution. This allows us to judge the extent to which companies at each particular stage of this process are the main drivers or enablers of the resulting positive impact.

4. **We assess the impact risks associated with a particular solution.** Impact risk is the danger that the expected impact is not delivered. There are many different types of risk. We use the classification system created by the Impact Management Project, a coalition of organisations seeking to build consensus on how to measure and manage impact. This system consists of nine impact risks, ranging from stakeholder participation risk to endurance risk. For example, waste to energy is a solution for dealing with municipal waste and avoiding landfills. However, it is liable to efficiency risk – the possibility that another entity could achieve the same impact with fewer resources or at less cost. Its greenhouse emissions, per unit of energy produced, are sometimes equivalent to those of coal-fired power stations.

5. **We consider what solutions – namely, products and services – can help achieve this target.** This is either by directly contributing towards it (“impact drivers”), or indirectly by enabling other companies to do so (“impact enablers”).

6. **We research which publicly listed companies market these solutions.** One solution might be water treatment; another might be low-carbon cement; another might be affordable hospitals in developing countries. Smaller, private companies that are found in the process are also noted, in case they should ever seek public market funding.

50
of the 169 SDG targets addressed

150+
unique solutions

2,200
companies in the investable universe

Example of how the taxonomy works

SDG – one of the UN's 17 sustainable development goals.

Product or service solution – goods and services that could help achieve this particular SDG target.

SDG target – an example of the 169 specific SDG targets as outlined by the UN.

14 LIFE BELOW WATER

SDG	SDG target
14. Conserve and sustainably u se the oceans, seas and marine resources for sustainable development	**14.1** By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

Directly investable	Solution area	Market potential			Life cycle stage
		TAM* size $bn (2019)	TAM* size $bn (2030)	TAM* growth	
Yes	Reverse vending machines	$310m	$1,026m	11.5%	Growth

Theory of change

Issue

The world's waste pile is set to increase by 70% on current levels (World Bank, 2018). Plastic makes up 12% of all solid waste in 2016 (World Bank, 2018), but only 14% is currently collected for recycling (Ellen MacArthur Foundation). The Ellen MacArthur Foundation estimates there will be more plastic in the sea than fish by 2050.

Solution

Reverse vending machines substantially increase recycling rates of beverage containers. Return deposit schemes in which reverse vending machines are deployed have been effective in driving recycling rates in excess of 90% in countries where they have been adopted, up from c. 34% in Lithuania for example (Tomra CMD Presentation 2018).

Impact risks

External risk:
Impact potential dependent on adoption of return deposit schemes in new geographies.

Efficiency risks:
Some recycling processes have a high environmental impact, especially when factoring in energy needs, which may be less attractive than using virgin materials in some cases.

Execution risks:
Disposal of non-recyclable materials needs to be handled carefully in order to not generate pollution.

Theory of change – this section describes in further detail the relevant issues, as well as the potential for related investments to contribute positively.

Impact risks – here we outline the unintended or unexpected actual or potential negative consequences of investment in the target area.

*Total Addressable Market (TAM) is an estimate of the revenue opportunity available for a product or service, derived from estimates from market research providers. TAM estimates obtained from market research providers and the team's estimate of TAM may differ.

Insights from the SDG taxonomy

After using the Regnan SDG Taxonomy to identify the solutions, we grouped solutions with a similar objective together to produce eight broad themes. All solutions fit within one or more of these themes, which are illustrated in Figure 1, below. If we discover new investable solutions that do not fit into any of the existing eight groups, we'll add a new theme. And if we unearth a company that sells either a new solution, or one which had previously been overlooked by the taxonomy, we'll drill down to understand whether its particular product or service can drive a positive impact by contributing to a specific SDG target. If so, it merits a place in our investment universe – and potentially our clients' portfolios. The team also considers whether the market it is selling into has scope for substantial growth, as described in step three on page 4. If this is the case, we may decide to prioritise our research into whether to invest in this particular company.

Figure 2 on page 7 illustrates how the investment universe that sells solutions identified by the taxonomy is currently distributed across the SDGs. We expect this to evolve over time, as we discover new solutions and companies, and as new technologies to solve specific environmental and social challenges are commercialised. However, it is perhaps no surprise that the investment universe tends to concentrate around those SDGs where innovation and large R&D or capital budgets are most likely to lead to the solution required, given that public equity markets are well-suited to large capital raising needs from a broad and global investor base.

Figure 1. The eight impact themes of the Regnan SDG Taxonomy

Figure 2. SDGs by companies in the investment universe[1]

[1] Circle sizes represent the number of investable opportunities by SDG.

Present and future uses for the SDG taxonomy

The Regnan SDG Taxonomy is a living document. That means we will continuously add to and adjust the data that informs it. Our investment universe will expand in line with the taxonomy. We have so far identified more than 150 solutions and more than 2,200 investable companies providing these solutions.

We have also found companies that are not yet investable, but may one day seek to list on a public stock exchange.

The Regnan SDG Taxonomy's value will be enhanced not just by the Regnan Equity Impact Solutions team, but also by the wider Regnan family. The Regnan EAR (Engagement, Advisory and Research) team contributes towards an understanding of the SDG targets. It also helps identify and assess new solutions and the markets that provide these solutions.

The taxonomy is also used to inform Regnan's engagement strategy and priorities for individual stocks, as it helps us identify where the impact risks are starkest. The most serious impact risks present the biggest danger of derailing the impact, and therefore of undermining the investment case.

We believe it is important to be transparent in our work, and to learn from the insight of others. Our taxonomy is always evolving, because we seek to drive constant improvement. Consequently, we welcome feedback on our taxonomy, and would greatly value your help as we seek to expand its depth and scope.

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169

targets linked to the goals

Regnan

Jeremy Dean
Head of Regnan and Responsible Investment Distribution

Jeremy.Dean@pendalgroup.com
+61 419 460 551

regnan.com

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