eQ investors

Positive Impact Portfolios

2012–2017 REVIEW

Celebrating five years of positive impact

CELEBRATING FIVE YEARS OF POSITIVE IMPACT

CONTENTS

IMPRESSIVE GROWTH

Value of assets under management has climbed to over £40 million since launch.

£40m

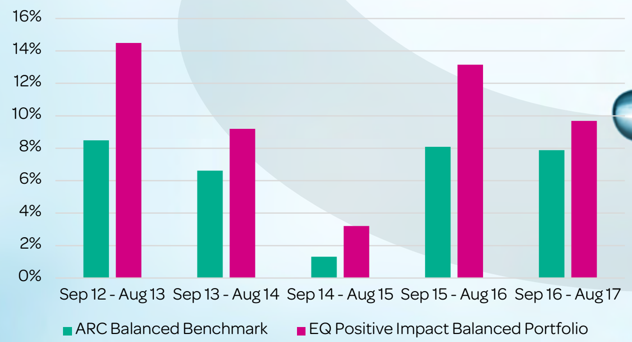
FIVE-STAR RATING

Awarded 5 stars – their highest rating – by Defaqto, the independent ratings agency.

STRONG RETURNS

Balanced risk profile up 60.3% since inception – an annualised gain of 9.9% per year – demonstrating that impact investing can deliver significant financial returns.

Annual discrete performance (as of August 2017)



BEST FOR THE WORLD

The Positive Impact Portfolios have earned us a ‘Best for the World’ award – scoring in the top 10% of companies worldwide on the Customers section of our B Impact Assessment.

Certified B Corporation

BEST for THE WORLD 2017 CUSTOMERS

Past performance is not a guide to future performance. The value of investments and the income derived from them may go down as well as up, so you could get back less than you originally invested.

Balanced portfolio data as of 31/08/2017 since inception on 31/08/2012. The Positive Impact Portfolios are available in seven different risk profiles. Performance and inception dates vary: please see factsheets for full details.

EXECUTIVE SUMMARY

It has been five years since EQ Investors launched its Positive Impact Portfolios and they have been a terrific success, both in terms of popularity and performance. The portfolios have attracted more than £40 million in assets under management (AUM) since launch. This growth has come from significant performance gains as well as capital inflows. Clearly, the prospect of being able to tackle social and environmental challenges while making a profit is an attractive one.

Impact investing is an evolving field, and we are constantly seeking to improve our own methodology for screening and selecting impact funds. The latest development in our own approach has been to adopt the UN Sustainable Development Goals as a framework for identifying and reporting on impact. The Goals shine a spotlight on some of the world's biggest challenges and provide focus and clarity on what is required to meet them. They represent a huge opportunity for forward-looking and innovative companies – just the type we want to capture within the portfolios.

In this report we show how the products and services of companies within our portfolios align with the 17 Goals, and provide a range of examples to show how progress is being made. We were also keen to look at reported data across all of our holdings, and while finds here are preliminary we have encouraging data to share in relation to three themes: growth, climate change and innovation.

For the first time we can present clear evidence to support our hypothesis that investing in companies making a positive impact should be good for returns. Whether you look at revenues or profits, companies held by the EQ Positive Impact Portfolios are growing significantly faster than the FTSE 100 companies. Over the last five years companies in our Balanced portfolio have on average grown their revenues by 48% (annualised at 10.3% per year). Meanwhile revenues for companies in the FTSE 100 Index have on average fallen by 2%.

The data around growth in numbers of employee also points to healthy levels of job creation. Companies in our Balanced portfolio have grown in terms of number of employees by 39.4% since 2012 (annualised at 8.7% per year). This reinforces our view that these companies are making a positive contribution to society.

On carbon emissions our Balanced portfolio emitted 62 tonnes of CO_2 less than the FTSE 100 Index per £1 million invested (based on available data). Our companies also sourced on average a significantly higher proportion of their energy from renewables. In future we look forward to filling out this picture by including emissions *avoided* by our companies through their products and services.

Innovation is central to achieving many of the Goals and a congruent picture emerges when looking at company spending on research and development. Companies within the Positive Impact Portfolios have invested heavily in this area, increasing their average spend by 37.4% since 2012. This compares to virtually no change (–0.1%) in average spend for the FTSE 100 companies. Our portfolio companies are also spending consistently more as a proportion of revenues than companies in the FTSE 100 (4.3% versus 2.8% on average).

Going forward, engagement with our fund managers will continue to play a crucial role in helping us to improve the quality of impact data. This engagement has a dual benefit in giving us a voice to influence voting at annual general meetings. We have seen positive results from this engagement, e.g. in encouraging utilities to invest more money in renewables.

In conclusion, while we have only just scraped the surface with this review, we feel it is an important step on our impact investing journey. I hope you enjoy reading it.

Damien Lardoux
Portfolio Manager

SUSTAINABLE DEVELOPMENT GOALS

A FRAMEWORK FOR IMPACT

This is our first impact report for the Positive Impact Portfolios. We have chosen the Sustainable Development Goals as a useful framework for thinking about impact. While we do not yet have data to report across all of the goals, this is our first step on a journey and the initial findings are encouraging.

Launched following the 2015 UN Summit in Paris, the 17 Sustainable Development Goals address the issues the UN sees as most challenging to our world; environmental, social and economic between now and 2030. Within the broad scope of the 17 Goals, 169 targets are defined as needing to be met in order for the Goals to be truly achieved. Though partially directed at governments and international non-governmental organisations (NGOs) the UN acknowledges the importance of the role of business in helping to fulfil these goals.

INVESTING FOR THE GOALS

Funds in the portfolios are screened using our proprietary *GreenCard* scoring system, which focuses on companies providing solutions to a range of social and environmental problems while screening out companies responsible for creating these problems.

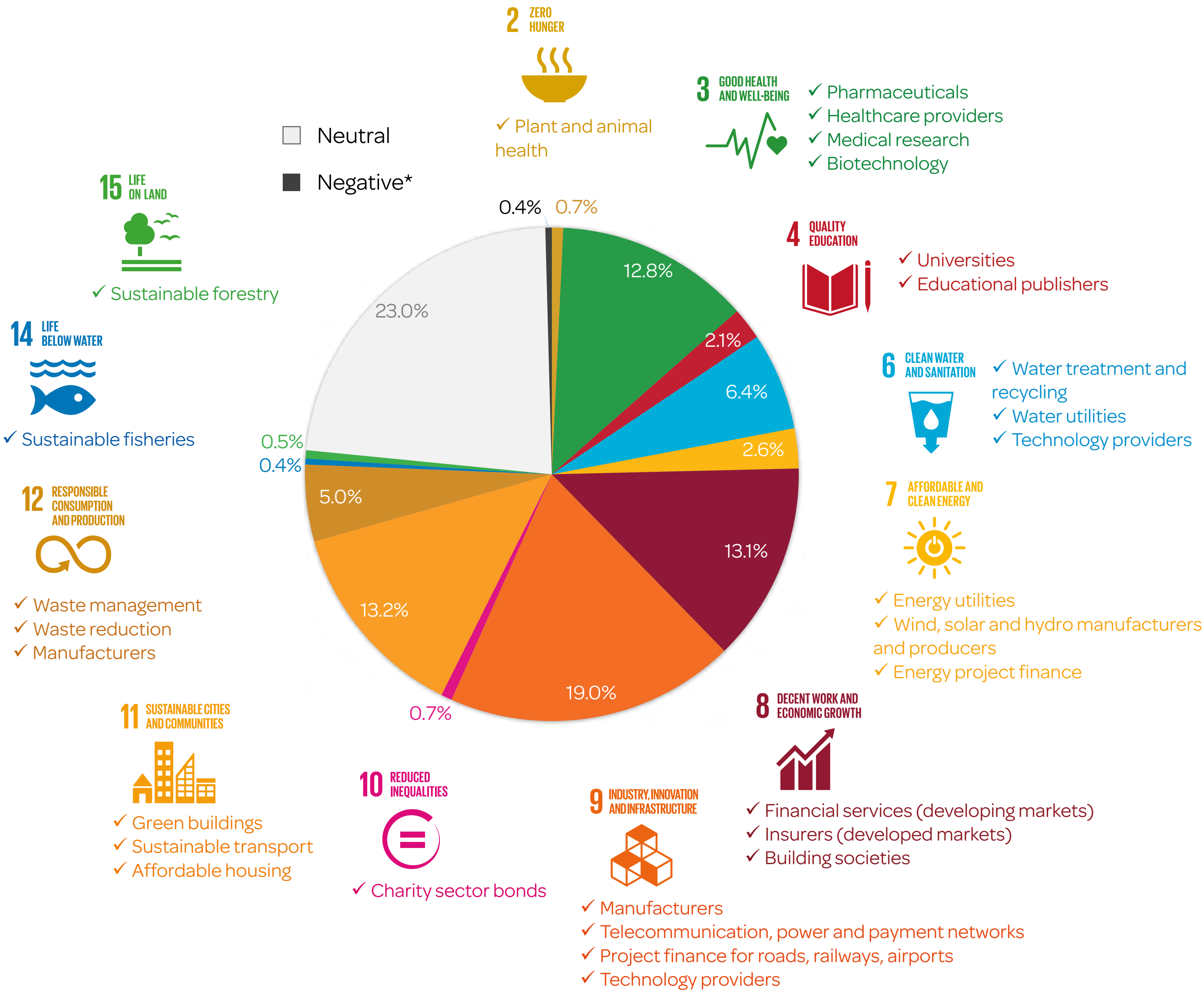
As a result of this screening process, some of the Sustainable Development Goals align with significant investment opportunities for the Positive Impact Portfolios while others do not represent realistic investment opportunities at all. This is outlined in more detail on the page opposite.

Goal	Relevant *GreenCard* positive screens	Relevant *GreenCard* negative screens	Investment opportunity	Comment
1 NO POVERTY	-	-	-	No investable companies whose primary purpose is to reduce poverty
2 ZERO HUNGER	Sustainable agriculture	-	Low	Few companies engaged in sustainable food production
3 GOOD HEALTH AND WELL-BEING	Healthcare, Medical research, Promoting healthy lifestyles, Natural food production	Alcohol, Tobacco, Genetic engineering	High	Lots of pharmaceutical, biotechnology companies as well as healthcare services and medical manufacturers
4 QUALITY EDUCATION	Education	-	Low	Limited to educational publishers and a small number of universities raising capital through bond issues
5 GENDER EQUALITY	Empowerment	-	-	No investable companies whose primary purpose is to reduce gender inequality
6 CLEAN WATER AND SANITATION	Water resources	-	Medium	A number of companies providing sourcing, infrastructure, deliverance and treatment of water
7 AFFORDABLE AND CLEAN ENERGY	Clean fuels, Renewable energy, Energy conservation	Coal, Oil, Nuclear energy	Medium	Increasing number of companies focusing on renewable energy generation
8 DECENT WORK AND ECONOMIC GROWTH	Job creation, Financial inclusion, Health and safety, Ethical employment	Gambling, Pornography, Poor labour standards	High	Many financial institutions driving growth in emerging economies and insurance firms in developed countries
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Natural resource conservation	-	High	Lots of companies channelling innovation, providing sustainable or more efficient materials for industry and building infrastructure
10 REDUCED INEQUALITIES	Social change	-	Low	Companies whose core businesses involve reducing inequality are restricted to a few charitable institutions - bonds/debt
11 SUSTAINABLE CITIES AND COMMUNITIES	Public transport, Social housing, Pollution control, Community engagement	-	High	Significant number of companies which enable the development of communities and sustainable transport
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Recycling	Mining	Medium	A number of companies provide waste management and recycling services
13 CLIMATE ACTION	-	Ozone depleting chemicals	-	Portfolio holdings overlap with Goal 7
14 LIFE BELOW WATER	Sustainable fisheries	-	Low	A couple of companies focused on sustainable fisheries
15 LIFE ON LAND	Sustainable forestry	Fur trade, Animal testing	Low	A few companies devoted to sustainable forestry practices
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	-	Armaments, Political corruption, Human rights abuses, Poor corporate governance	-	No investable companies whose primary purpose is to promote peace, justice and strong institutions.
17 PARTNERSHIPS FOR THE GOALS	-	-	-	Arguably many Corporate Social Responsibility (CSR) initiatives form partnerships for the goals but are not their company's main line of business

MAPPING PRODUCTS AND SERVICES TO THE GOALS

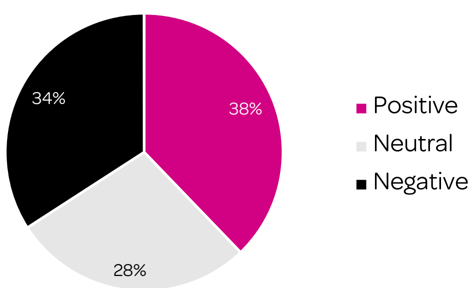
The EQ Positive Impact Portfolios invest in over 1,500 individual holdings through a range of listed funds. These holdings relate to products or services that naturally align to one or more of the Goals. We have classified all holdings (including equities and bonds) in our Balanced portfolio in this fashion below:

The picture is encouraging. Around 75% of portfolio holdings align well with one of the Goals directly through their products and services. The remaining 25% are investments in companies which are otherwise implementing best practice on Environment, Social and Governance issues, but whose product is unrelated to the Goals ('neutral').



* Four portfolio holdings that sell alcoholic beverages.

FTSE 100 companies and the UN Goals



Comparing our portfolios to the FTSE 100 Index

We have applied the same mapping methodology to the FTSE 100 Index, which presents a significantly different picture. Roughly one third of the companies in the Index are contributing to the Goals through their products and services ('positive') either not contributing to or detracting from any of the Goals ('neutral') or represent an industry that we would rather screen out entirely ('negative' companies whose main product or service is alcohol, armaments, fossil fuels, gambling, mining or tobacco).

CASE STUDIES: UK

6 CLEAN WATER AND SANITATION

Dŵr Cymru (Welsh Water)

WALES

Climate change is predicted to change UK weather patterns, including an increase in annual winter rainfall and the risk of flooding. Since the 1960s, Wales has experienced a 13% increase in the volume of annual rainfall which, naturally, has lead to increased incidences of flooding.

Dŵr Cymru has been trialling 'RainScape' – a project that aims to reduce the amount of excess surface water entering drains and overwhelming the system. This is done through a series of technological solutions including swales and porous paving. **Dŵr Cymru has issued a bond held by RLUM Sustainable Managed Income to help finance RainScape projects.** This is paying off: for example in Llanelli the application of the RainScape technology is anticipated to remove 4.4 billion litres of water from the sewer network each year.

7 AFFORDABLE AND CLEAN ENERGY

Northern Ireland Electricity Networks

NORTHERN IRELAND

Northern Ireland is aiming to generate 40% of its electricity from renewable sources by 2020 – over the year to March 2017 the figure was 27.1%.

Northern Ireland Electricity Networks owns the electricity transmission and distribution infrastructure in Northern Ireland. As of March 2017 they had connected 1.2GW of renewable generation capacity to the grid. This represents 25% of the total electricity consumed from renewables including wind, solar and hydro.

Northern Ireland Electricity Networks has issued a bond held by Threadneedle UK Social Bond.

8 DECENT WORK AND ECONOMIC GROWTH

Glasgow Together

SCOTLAND

The re-offending rate in the UK for a prison sentence of 1-4 years is 36%; for a sentence of less than 12 months it is 59%.

Glasgow Together is a Community Interest Company that aims to give ex-prisoners full-time, living-wage jobs in the construction industry. Current offenders can also benefit from work experience in building techniques. Over the next 5 years the company expects to help 100 offenders and ex-offenders through this scheme. As far as we are aware, no participant in the programme has re-offended to date.

Glasgow Together has raised money through Rathbone Ethical Bond.

10 REDUCED INEQUALITIES

Motability Operations

UK

There are 13.3 million disabled people in the UK. On average, monthly expenditure is £550 more for a disabled person than for a non-disabled person.

Motability Operations is the company responsible for the performance of the Motability Scheme – a government initiative which aims to provide all disabled people in need with an appropriate form of transport. The cost of this transport – scooters, motorised wheelchairs and adapted cars – is subsidised according to personal circumstances. So far 650,000 people have benefited from the Motability Scheme.

Motability has received funding from Liontrust Sustainable Future Corporate Bond.

11 SUSTAINABLE CITIES AND COMMUNITIES

Hightown Housing Association

ENGLAND

House prices in the UK have risen by an average of 7% p.a. since 1980, far outstripping real wage growth. Hightown is a charitable housing association which helps both those who cannot afford to buy or rent houses at market value and those who need extra support within their homes. They manage over 5,300 units, aiming to expand their portfolio by 300-400 new units every year. Some of these units are assigned to shared ownership schemes where buyers can purchase a 50% share in a property and pay a subsidised rent rate on the rest. With over 4,000 people sleeping rough in England last year, Hightown also provides a number of options for the homeless, including a hostel in St Albans and women's refuges in Stevenage and Dacorum.

Hightown has raised money via a bond held by Rathbone Ethical Bond.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

DS Smith

ENGLAND

DS Smith is a global sustainable packaging company with a facilities In Plymouth and Launceston that manufacture packaging out of recycled paper waste. Until recently this process generated some paper dust waste which could only be disposed of in landfill. Now through a partnership with the Eden Project they mix an annual total of 13 tonnes of paper dust with 32 tonnes of food waste to create a nutrient-rich compost. This collaboration has been so successful that an additional DS Smith plant in Blunham is also contributing its paper dust – using transport that is already travelling the route every day.

DS Smith is an equity holding in Henderson Global Care Growth.

CASE STUDIES: GLOBAL

Fresenius Medical Care

GERMANY

By 2040 it is estimated that 1 in 10 adults will have diabetes. The most common type of diabetes is type 2, which has a variety of causes including obesity, lack of exercise, bad diet and general ageing. Diabetes is one of the leading causes of chronic kidney disease.

Fresenius Medical Care provides products and services for people with chronic kidney failure. About 3 million patients with this disease worldwide regularly undergo dialysis treatment. Dialysis is a vital blood cleansing procedure that substitutes the function of the kidneys in case of kidney failure. Fresenius operates a network of over 3,500 dialysis clinics in North America, Europe, Latin America, Asia-Pacific and Africa. They also provide dialysis products such as hemodialysis machines, dialysers and related disposable products.

Fresenius is a holding in FP WHEB Sustainability.

Xylem

USA

Freshwater is a scarce resource – 97.5% of the world's water is saltwater and less than 1% is both fresh and accessible. Xylem is a technology firm focused on providing solutions to the challenges of water management, including collection, transportation and waste water treatment.

As an example, Xylem supplies technology which allows wastewater to be recycled in food and beverage production plants, reducing their reliance on freshwater sources which are increasingly under pressure. The National Raisin Company – based in California – uses this technology to help clean and reuse the 60-80,000 gallons of wastewater it generates every day.

Xylem is a holding in Pictet Water.

Energy Development Corporation

THE PHILIPPINES

Energy Development Corporation is leading the development of renewable energy in the Philippines. They operate 12 geothermal power plants with 1,169MW of capacity. They also have wind, solar and hydro power interests which bring their total renewable energy generating capacity up to 1,458MW.

Energy Development Corporation is a holding in Impax Asian Environmental Markets.

Guaranty Trust Bank

NIGERIA

Guaranty Trust Bank was Africa's Best Bank for Small and Medium Sized Enterprises at the 2017 Euromoney Awards for Excellence. Through the provision of loans, accounts, information on domestic and international trading and general good business sense, Guaranty Bank targets those businesses whose small turnovers mean they are often unable to access financial services designed for much larger firms.

1k Empire Stores is one such clothing business which has benefited from these services – the free online store provided with the creation of a business account has allowed the company to reach many more customers, facilitating the opening of a secondary shop.

Guaranty Bank is a holding in BMO F&C Responsible Global Emerging Markets.

Toray

JAPAN

Toray manufactures composite materials from carbon fibre which is both lightweight and strong. For example, carbon fibre is used in the manufacture of aeroplanes. The switch from heavier alternatives like aluminium reduced the weight of Boeing's 787 plane by as much as 20%. This in turn reduces fuel consumption and carbon emissions.

Toray is a holding in BMO F&C Responsible Global Equity.

Marine Harvest

NORWAY

Overfishing is a global problem – 75% of global fisheries are either fully exploited, overexploited, depleted or recovering from depletion.

Marine Harvest provides an alternative in the form of farmed salmon, reared in cages submerged in the sea. In 2016, Marine Harvest produced 381,000 tonnes of salmon, taking significant pressure off wild salmon stocks. They have also pioneered sustainable farming techniques such as breeding ballan wrasse (another type of fish) to feed on sea lice – a common pest found in salmon farms – successfully reducing the need for pesticides and increasing yields.

Marine Harvest is a holding in Impax Environmental Leaders.

MEASURING IMPACT

In preparing this report we reviewed over 25 potential indicators relating to a range of Goals. In the end we have focused on three broad themes which we intend to build on in future reports. These are **growth** (relating to Goal 8), **climate change** (relating to Goal 13) and **innovation** (relating to Goal 9).

This analysis is a work in progress and covers the equity portion of the Balanced portfolio only. The logic here is straightforward: shareholders are accountable for the performance of the companies they own. We do not currently have sufficient data or a robust methodology to include our portfolio bond holdings in this kind of analysis.

To provide a point of comparison for our own data we have chosen the FTSE 100 Index as a benchmark – our rationale being that UK equities are the highest regional exposure within the Balanced portfolio.

We have also outlined the methodology used to calculate the data below (see p.15). These findings are preliminary, and we are open to feedback from others looking to aggregate impact data for portfolio holdings.

GROWTH

The growth story for companies within the Positive Impact Portfolios is compelling. Achieving sustainable economic growth is key to the sustainable development agenda, as expressed in Goal 8.

8 DECENT WORK AND ECONOMIC GROWTH

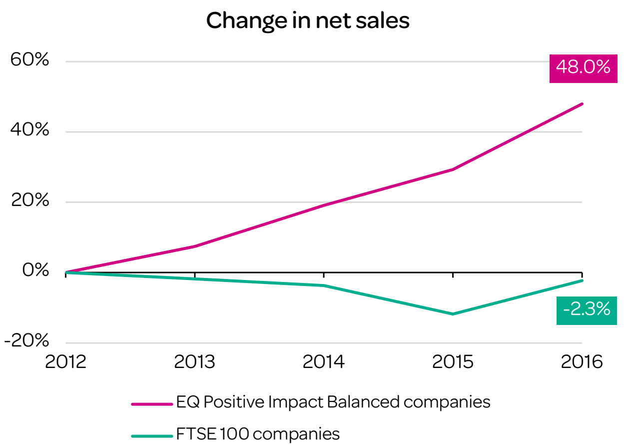
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

In our analysis we have compared revenue growth, profit growth, and employee growth between companies in our Balanced portfolio and companies in the FTSE 100.

REVENUE GROWTH

We see opposite trajectories for the companies comprising the FTSE 100 and the portfolio. Over the last 5 years companies in the Balanced portfolio have on average grown their revenues by 48% (annualised at 10.3% per year). In the meantime, revenues for companies in the FTSE 100 have on average fallen by –2.3%.

This is not surprising based on our thesis that companies with marketable solutions to real, pressing problems are well positioned for growth due to a high level of demand. Conversely, within the FTSE 100 there have been sharp falls in revenues at energy and mining companies (due to falling commodity prices) and banks (due to persistently low interest rates).



What does this chart show?

The graph compares the weighted average change in net sales (i.e. revenue) for the companies in our Balanced portfolio and the companies in the FTSE 100. Calculations are based on revenue figures in local currency.*

How good is the data?

Data availability is excellent, close to 100% for both our portfolio holdings and the FTSE 100 companies.

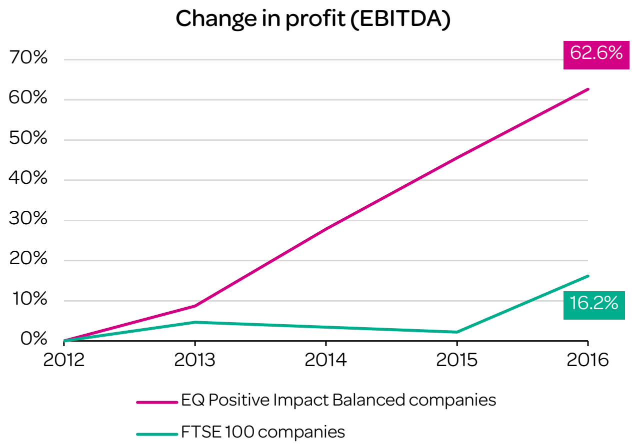
Past performance is not a guide to future performance. The value of investments and the income derived from them may go down as well as up, so you could get back less than you originally invested.

* We have used local currency to avoid distortions between data points due to the changing value of sterling.

PROFIT GROWTH

Profits mirror the pattern we see with revenues.* Over the last 5 years companies in the Balanced portfolio increased their operating profits by 62.6% on average (annualised at 12.9% per year). Meanwhile, profits for FTSE 100 companies grew on average by 16.2%.

The strong profit growth for our portfolio holdings is not surprising, as we would expect companies to generate more profits as their revenues rise.



What does this chart show?

The graph calculates the weighted average change in operating profit (EBITDA*) for the companies in our Balanced portfolio compared to companies in the FTSE 100. Calculations are based on revenue figures in local currency.

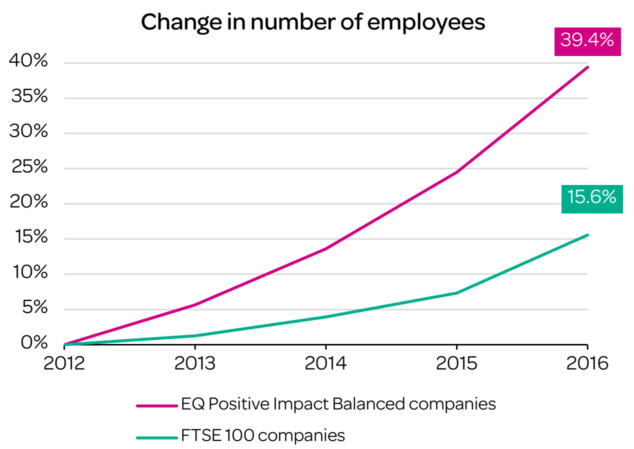
How good is the data?

Data is available for 89% of our portfolio holdings and 81% of FTSE 100 companies.

EMPLOYEE GROWTH

Companies in our Balanced portfolio have grown in terms of number of employees by 39.4% on average since 2012 (annualised at 8.7% per year). Meanwhile the number of employees at FTSE 100 companies has increased by 15.6% on average over the same period. The largest increases in employees within our portfolio were in the healthcare and environmental sectors, and in emerging markets.

In the future we would like to be able to differentiate between part time and full time jobs. However, at the moment too few companies disclose this information, choosing to report overall employee numbers rather than FTE (full-time equivalent) positions.



What does this chart show?

The weighted average change in number of employees reported by companies in the Balanced Portfolio and FTSE 100 Index.

We see the change in number of employees as a good proxy for job creation. While it can be distorted on the way up by mergers, it can likewise be distorted on the way down by divestments. As we are aggregating data for many companies across a number of sectors, these distortions should be minimised.

How good is the data?

Data is available for 91% of our portfolio holdings and close to 100% of FTSE 100 companies.

* We have used Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as a measure of profit as it is less prone to accounting manipulations than net income. Financial services companies do not report EBITDA, so they have been excluded from this calculation.

CLIMATE CHANGE

Companies in the Positive Impact Portfolios are using more renewable energy, emitting less greenhouse gas and have virtually no fossil fuel reserves. All of this is encouraging in view of tackling climate change (Goal 13):

13 CLIMATE ACTION

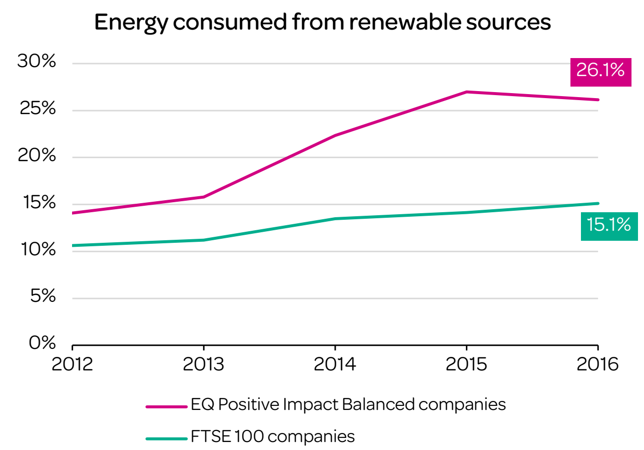
Take urgent action to combat climate change and its impacts.

RENEWABLE ENERGY USE

One of the ways to reduce an organisation's carbon footprint is to focus on Scope 2 emissions* and purchase energy from renewable sources. It is encouraging to see that renewable energy usage is higher across the portfolio than for FTSE 100 companies.

Due to the relatively low availability of data we looked to see whether companies were selectively reporting – i.e. only when they had a good story to tell. Fortunately the data suggests otherwise, with companies quoting a wide range of figures.

Part of the higher usage of renewable energy for the portfolio can be explained by the exposure to companies in the renewables sector. For example, the Danish company Vestas, one of the biggest manufacturers of wind turbines, uses renewable energy for over half of its total energy needs.



What does this chart show?

The proportion of energy from renewable sources used by companies in our Balanced portfolio compared to companies in the FTSE 100, calculated on a weighted average basis.

How good is the data?

The availability of data is relatively limited. On average, 17% of our portfolio holdings reported renewable and total energy use over the past 5 years, compared to 33% of FTSE 100 companies.

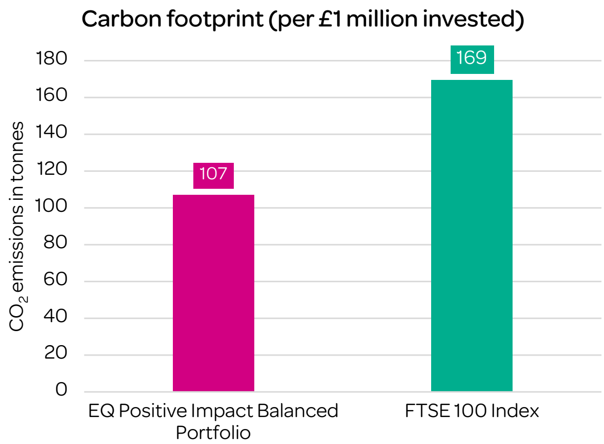
Past performance is not a guide to future performance. The value of investments and the income derived from them may go down as well as up, so you could get back less than you originally invested.

* Scope 1 refers to direct emissions from controlled or owned sources. Scope 2 refers to indirect emissions from the generation of purchased energy. For more information visit www.ghgprotocol.org

CARBON FOOTPRINT

In 2016 the underlying companies in the Balanced portfolio emitted 62 tonnes of CO_2 less than the FTSE 100 Index per £1 million invested, based on available data. This figure is only approximate as over half of our portfolio holdings did not report.

This is an area which we will explore further in the future by looking in more depth into individual company holdings. This calculation does not account for emissions avoided through our portfolio companies' products and services. For example renewable energy producers and manufacturers of insulation panels or electric vehicles all help to reduce emissions through their value chain.



What does this chart show?

Emissions for companies in our Balanced portfolio against the FTSE 100 Index per £1 million invested in 2016. Our footprint calculation combines Scope 1 & 2 emissions as defined by the Greenhouse Gas Protocol.*

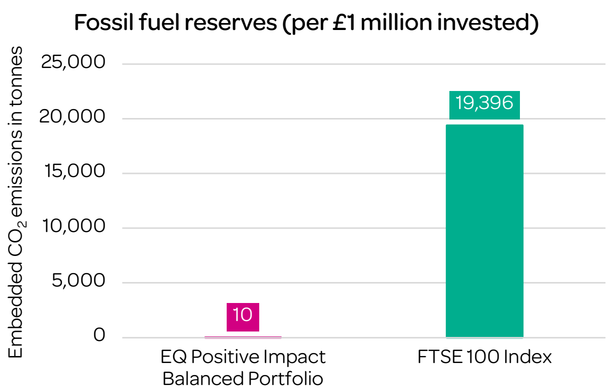
How good is the data?

46% of the portfolio's underlying companies reported their emissions either through company filings or the Carbon Disclosure Project,* compared to 99% of the FTSE 100 Index. We have not attempted to estimate data for companies that did not directly disclose their emissions.

FOSSIL FUEL RESERVES

The 2016 Paris Agreement aims to prevent global temperatures from rising more than 2°C above pre-industrial levels to mitigate the risk of runaway climate change. To achieve this it is estimated that a third of oil reserves, a half of gas reserves and over 80% of global coal reserves should remain unused between now and 2050.†

Companies in the FTSE 100 Index have over 19,000 tonnes of CO_2 embedded in their fossil fuel reserves per £1 million invested, while the Balanced Positive Impact Portfolio has just 10. Our process naturally leads to the exclusion of fossil fuel producers. We have no exposure to the oil majors or any mining companies. The 10 tonnes reported are mainly due to a couple of positions in gas suppliers which have some gas reserves on their balance sheets, but are both also investing heavily in renewables.



What does this chart show?

The graph calculates the future CO_2 emissions from fossil fuel reserves held by companies in our Balanced portfolio and the FTSE 100 Index, per £1 million invested.

How good is the data?

The calculation uses proven reserves for oil and gas and both proven and probable reserves for coal (only companies that have fossil fuel reserves report on them).

* For details please visit: www.cdp.net

† *The geographical distribution of fossil fuels unused when limiting global warming to 2°C*, Christophe McGlade & Paul Ekins, *Nature* 517, 187–190 (08 January 2015), www.nature.com/nature/journal/v517/n7533/full/nature14016.html

INNOVATION

When we look at company spending on research and development (R&D) across the portfolios we see an encouraging picture. These companies are investing heavily in the development of new products and services.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

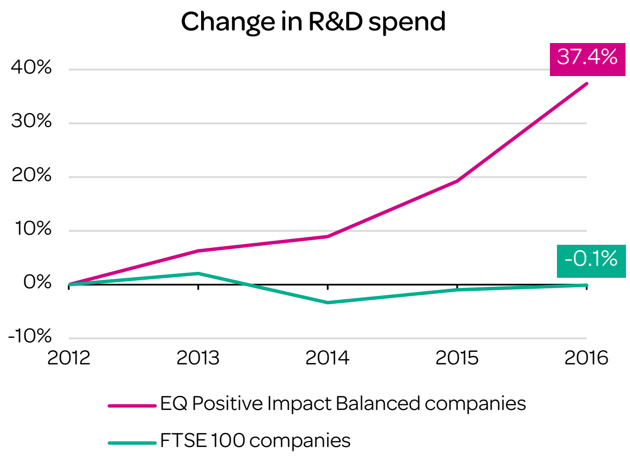
Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

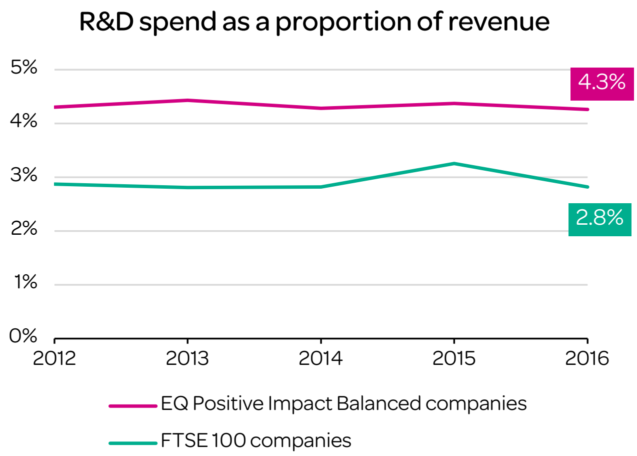
This innovation is central to achieving many of the goals, and especially Goal 9.

RESEARCH AND DEVELOPMENT EXPENDITURE

Companies within the Positive Impact Portfolios have invested heavily in R&D, increasing their spend by 37.4% on average over the five year period. This compares to virtually no change for the FTSE 100 companies on average. Companies in the portfolios are spending consistently more as a proportion of revenue than companies in the FTSE 100 (4.3% versus 2.8% on average).

It is worth pointing out that R&D spend was not distributed evenly across the portfolios. The biggest increases, as well as the biggest contributions to portfolio R&D spend were seen in the healthcare and technology sectors globally, and in Europe as a region.





What do these charts show?

On the left, the weighted average increase in the amount spent on R&D by companies in the Balanced portfolio and FTSE 100. On the right the proportion of revenue that companies in the portfolio and Index spend are compared (again on a weighted average basis). Calculations are based on expenditure figures in local currency.

How good is the data?

The availability of data is good with 75% of FTSE 100 companies and 74% of Balanced portfolio holdings reporting their R&D spend.

ENGAGEMENT

The EQ Positive Impact Portfolios invest exclusively through funds, rather than directly in the underlying companies. We are active investors, and an ongoing dialogue with our fund managers is core to our investment process. By doing so we can influence their voting practises at annual general meetings while pushing them to report more on their impact.

Reporting on impact

Over the last 12 months we have discussed impact reporting with all the fund managers that make up the Positive Impact Portfolios. Our goal was to improve the quality of data we get from them as well as our overall understanding of the positive impact our portfolios are making on society and the environment.

Some of our fund managers already produce their own Impact Reports and we are actively encouraging others to follow suit. You can find links to three such reports below (Impax and WHEB focus strongly on environmental impact while Threadneedle focuses on social impact). On the back of our engagement a number of fund managers have been willing to start to map their portfolios to the UN Sustainable Development Goals, and have also started to share aggregated data from the underlying companies they invest in.

Going forward this will hugely improve the quality of our own impact reports. This is a rapidly evolving field, and better quality data and insight will also help us to continuously improve the overall social and environmental impact of the EQ Positive Impact Portfolios as a whole.

Renewable energy – leaving coal behind

Coal is a highly polluting source of energy and one of the biggest contributors to global warming. In the UK the percentage of electricity produced from coal is decreasing – down from 22% to 9% in 2016. However despite this positive overall trend, several big companies including Scottish Power and Southern Electric still generate more than 20% of their electricity from coal.

The Positive Impact Portfolios have no exposure to coal miners. However, a small number of the energy utility companies within the funds do use coal as a source of energy. Consequently we engaged with the managers of the funds to find out more about these companies and how they manage these investments.

In response, three out of the four managers replied that their funds had policies not to invest in companies with a high exposure to coal, and where their holdings did have some coal exposure they also contained a large amount of renewable energy plants. All the fund managers were in contact with the companies in question, which were actively reducing their coal exposure and investing most of their capital expenditure in zero carbon energy solutions.

The fourth fund invests in environmental companies which are benefiting from a transition towards cleaner energies. They had invested in a Hong Kong listed stock called Huadian Fuxin which is a large electricity provider in China. Interestingly, whilst coal powered plants used to represent over 50% of their revenues (up to 2014) they have massively invested in renewable energy, which in 2016 represented over 70% of the company's revenue.

EXAMPLES OF FUND MANAGERS' IMPACT REPORTS:

www.whebgroup.com

www.impaxam.com

www.columbiathreadneedle.co.uk

LOOKING AHEAD

With this report we have established a framework for impact reporting at a portfolio level, working with public data from listed companies. We have also learned that measuring impact is an iterative process.

We intend to build on both the quantity and quality of this data in future years by focusing on product and service impact. Our mapping of products and services to the UN Goals is a first step, but points to further work that needs to be done to gather data to assess impact in more areas. We would like to broaden the scope of our next report by collecting data on important topics such as water footprint, waste management and renewable energy generation.

The Impact Reporting and Investment Standards (IRIS)* define a broad set of indicators for investors to analyse the impact of their investments. There are IRIS indicators for a wide range of social and environmental issues. These have been widely adopted by private equity investors – where a high level of visibility into individual companies' day-to-day operations is the norm.

Work is currently being done to align the UN Goals with indicators within the IRIS framework.† The development of a commonly accepted set of indicators for the Goals will be hugely helpful in encouraging companies to report meaningful data. We intend to play our part in this process by working closely with our fund managers to agree on common standards for reporting and aggregating data.

In our dealings with fund managers we can also play a role in encouraging greater transparency and disclosure. As a wealth management company we are part of a wider ecosystem of companies, fund managers, ratings agencies and consultants, all trying to improve the quality of impact reporting to the end investor.

While this is an ambitious plan and dependent on the willingness of companies to report more impact data, we strongly believe that companies will embrace this path as the investors' focus quickly move towards companies providing solutions to tackle today and tomorrow's increasing challenges.

Notes on methodology

To compare the performance of our Balanced portfolio with the FTSE 100 Index we have used a weighted average approach. We believe that it is the most appropriate method for our portfolios. Each data point is weighted according to how much an investor holds of each company as a percentage of the portfolio. This avoids large companies which might only represent a small proportion of the portfolio from skewing the data. Another method could have been used for the FTSE 100 Index (simply summing all the data points). However, we have used the same method for both portfolio and index to make the data comparable.

To produce the impact data in this report we looked at all the funds held within the Balanced EQ Positive Impact Portfolio with weightings as of 30/08/2017. As different funds release their holdings data retrospectively, we took a snapshot of individual holdings as of 31/12/2016. The equity portion of our portfolios represent a total of 800 holdings for which we have aggregated data. We looked back 5 years for all the KPIs with the exception of the CO2 footprint and the fossil fuel reserves which focus only on 2016. Depending on the KPI measured, availability varied widely so we focused on the KPIs for which we had the highest level of data.

We have only included publicly disclosed company data in our calculations. We have not used estimated data. For the charts showing change in revenue, EBITDA, number of employees and R&D spend, we have only included companies reporting both in 2012 and 2016 in our calculations, to avoid distortions from new companies reporting. Data sources: Morningstar (fund holdings) & Bloomberg (company data).

Past performance is not a guide to future performance. The value of investments and the income derived from them may go down as well as up, so you could get back less than you originally invested.

* iris.thegiin.org/metrics
† https://www.dnb.nl/en/binaries/SDG%20Impact%20Measurement%20FINAL%20DRAFT_tcm47-363128.PDF