

CT Global Equity Sustainable Outcomes

2023 Sustainable
outcomes report

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“We fundamentally believe that our sustainable investment themes are not just positive for the environment and society, but also incorporate some of the biggest secular growth investment themes in the market today, including two tectonic, multi-decade transitions in both our technology and global energy systems.

Pauline Grange,
Portfolio Manager

Introduction



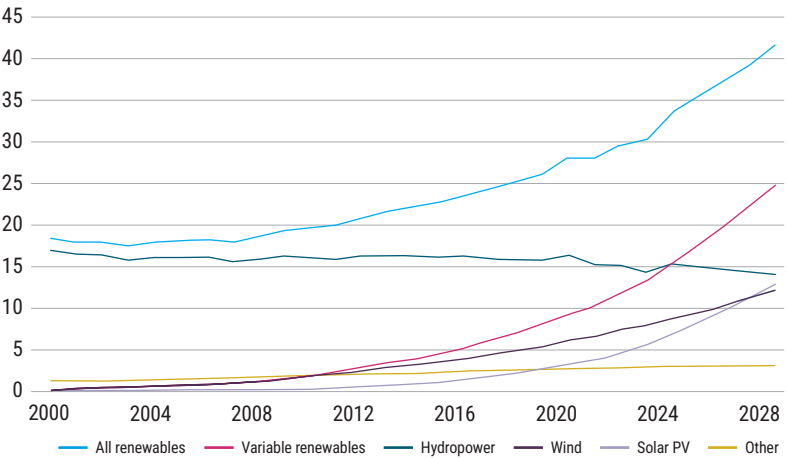
We’re at the beginning of a new industrial revolution.

Jensen Huang, Nvidia CEO, May 2024

2023 has been another tough year for the world. Sustained high rates of inflation, particularly in the prices of key items crucial for survival – food, energy, and shelter costs – have hit those in the lowest income demographics hard by what has been termed a “cost of living” crisis. At the same time, rising global conflict, including a new war in the Middle East by year end, contributed to a sharp rise in the number of people displaced through the year.

The environment didn't fare much better. Global temperatures hit new highs in 2023, leading to record breaking heat waves, drought, and an unusually strong cyclone season around the world. But instead of cutting our fossil fuel consumption, and in turn carbon emissions, both reached new highs driven by the world's insatiable demand for energy.

Figure 1: Solar and Wind forecast to account for 25% of global electricity generation by 2028 vs 13% in 2023



Source: IEA (2024), Share of renewable electricity generation by technology, 2000-2028, IEA, Paris <https://www.iea.org/data-and-statistics/charts/share-of-renewable-electricity-generation-by-technology-2000-2028>, Licence: CC BY 4.0

But there were also reasons to be optimistic. Per a recent IEA report¹, although global emissions rose over the year, led by emerging economies such as China and India, advanced economies hit a tipping point in their energy transition. This has been driven by dual targets of decarbonisation and energy security and supported by government policies such as the Inflation Reduction Act (IRA) in the United States. For the first time, emissions in developed economies decoupled from their economic growth with 2023 GDP (gross domestic product) up 1.7%, whilst carbon emissions dropped 4.5%², the key driver being shifts in power supply with more than 50% of energy production in this region now from renewables and nuclear.

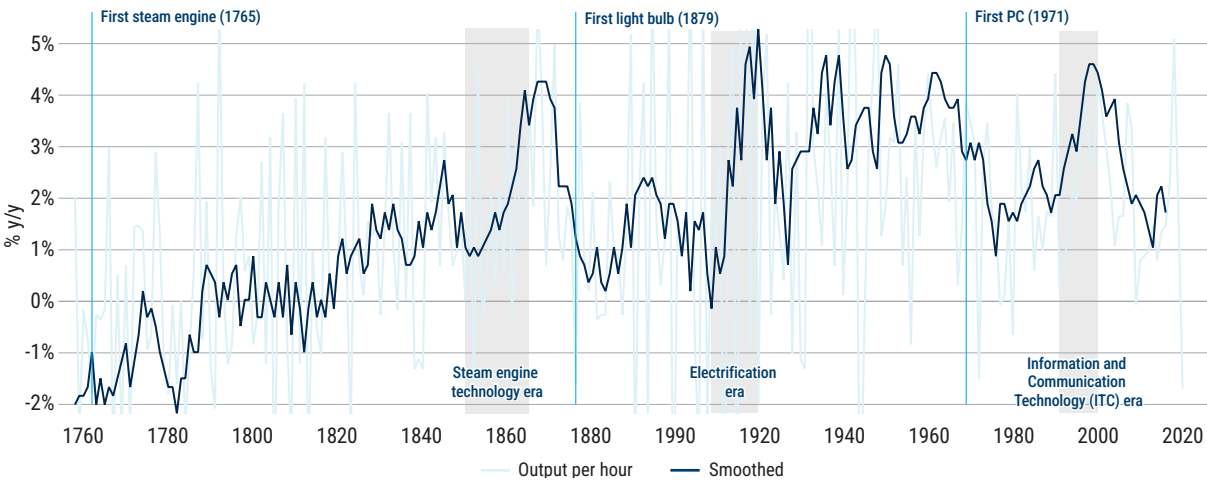
In addition, the 28th United Nations Conference of the Parties (COP) climate summit that was held at the end of the year demonstrated the growing international consensus for a shift to fossil-free energy systems as this was the first COP to agree on transitioning away from fossil fuels in energy systems. We expect the demand for power to grow strongly over the next decade, something we delve into more deeply later in this report. This makes the shift towards clean energy even more imperative if we are to limit our future environmental impact (see figure 1).

Sustainable innovation was also on clear display over the year, including from many of our holdings, supporting a return of secular growth themes driving market performance.

Obesity treatments from two of our holdings, Novo Nordisk and Eli Lilly, to deliver strong and broad health outcomes and financial returns for these companies.

Generative Artificial Intelligence (AI) has proven transformative for the technology sector spurring huge investment into the accelerated compute solutions and infrastructure necessary to support generative AI applications. We are excited about the positive sustainable potential of AI technology. Like the advent of computing or the invention of electricity before it, AI has the potential to dramatically transform the way we work and in turn deliver a much-needed boost to labour productivity (increased economic output per hour worked) at a time when much of the world is facing chronic labour shortages and ageing populations (see figure 2).

Figure 2: The effect of technological advances on labour productivity (output per hour worked)



Source: Barclays and Institute for Business Value, January 2024

AI is also showing promise in supporting greater and more rapid innovation across many sectors particularly healthcare where it's already being used to accelerate drug discovery, helping to drive costs down and deliver better patient outcomes. And although there are concerns around the environmental impact of Generative AI, given how power hungry the technology is, we are already seeing positive environmental innovation enabled by this new technology whether that be the use of AI by farmers to improve crop yields or the optimising of energy generation for solar and wind farms. This supports our view that AI will ultimately be a net positive for the environment.

It is tricky to predict with any certainty the path for global markets in 2024 as the world faces mounting geopolitical risks and a murky economic outlook. With more than 50% of the world's population voting in elections in 2024, there are also risks of shifts in government environmental policies particularly regarding the climate transition. The election in the United States poses the greatest risk to environmental policy as a Republican win under Trump could see a rolling back of Biden's Inflation Reduction Act and a pulling out of the Paris climate accord.

But the economics of renewable energy are increasingly attractive - for 75% of the world now, new wind and solar plants offer cheaper power than existing fossil fuel facilities³. It now makes financial as well as environmental sense to diversify away from fossil fuels in our energy supply, something which politics cannot derail. And with US power demand on the rise, we're seeing an acceleration in renewable investment in traditional “Red” states, such as Texas and Florida.

We fundamentally believe that our sustainable themes are not just positive for the planet, but also incorporate some of the biggest secular growth investment themes in the market today. We are excited for what our investments can deliver for the world in 2024.



Pauline Grange
Lead Portfolio
Manager

¹ <https://www.iea.org/reports/co2-emissions-in-2023/emissions-in-advanced-economies-fell-to-their-level-of-50-years-ago>

² Bloomberg, December 2023

³ <https://www.iea.org/reports/renewables-2023/executive-summary>

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Introduction	Our sustainable investment philosophy	2023 exposure to themes	New purchases over 2023	2023 financial performance review	Delivering positive sustainable outcomes	Theme highlights and case studies	Carbon emissions	Engagement	Engagement highlights

Our sustainable investment philosophy

The world is facing ever increasing challenges from climate change to rising geopolitical turmoil and growing health crises. We believe that investing sustainably is more important than ever to direct investment towards those companies developing and providing solutions to some of the world's biggest social and environmental challenges. We also believe that companies helping to solve for these big challenges are in a strong position to benefit from strong secular growth in demand for their solutions, ultimately delivering the dual benefit of sustainable outcomes but also strong financial returns for our investors over the long term.

We also believe it is key to not just focus on a company's sustainable contribution but also how sustainability supports a company's competitive moat and in turn sustainability of a company's returns and growth. It's important that the companies we invest in are in a strong financial position to support their future ability to invest and innovate for greater positive impact.

The Global Equity Sustainable Outcomes strategy aims to invests in companies that supply products and services that help deliver positive social and environmental outcomes. We want to invest in those businesses that are positively promoting and contributing to eight sustainable themes, that are aligned with the United Nations Sustainable Development Goals. We believe that these themes encapsulate not just the key sustainable challenges that we need to solve for but also some of the biggest secular investment themes in the market today.

We invest in companies that don't just do things right, but do the right things.

Environmental sustainable themes

Primary UN SDG alignment			
What we look for	Solutions supporting a transition to a low carbon, climate resilient economy	Solutions that help create and maintain accessible, resilient and sustainable infrastructure	Solutions that promote sustainable and efficient resource use, consumption and production

Social sustainable themes

Primary UN SDG alignment					
What we look for	Solutions advancing human health, wellbeing, nutrition and food security	Solutions that promote financial and technological inclusion supporting broad economic participation	Solutions that support more productive and inclusive work, economic resilience, and global opportunities	Solutions supporting modern communities - both physical and virtual	Delivery of education and transference of key skills

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2023 exposure to themes

We ended 2023 with our biggest theme exposures being Health, Wellbeing and Food security (22%), Inclusive Work & Economic development (19%) and Energy and Climate Transition (17%) themes.

Noticeable changes to thematic exposure over the year has been an increase in our Inclusive Work & Economic Development theme, largely due to strong performance in underlying technology investments.

By initiating a position in Motorola solutions, we now have exposure to the Community Formation & Support theme which we didn't have in 2022.

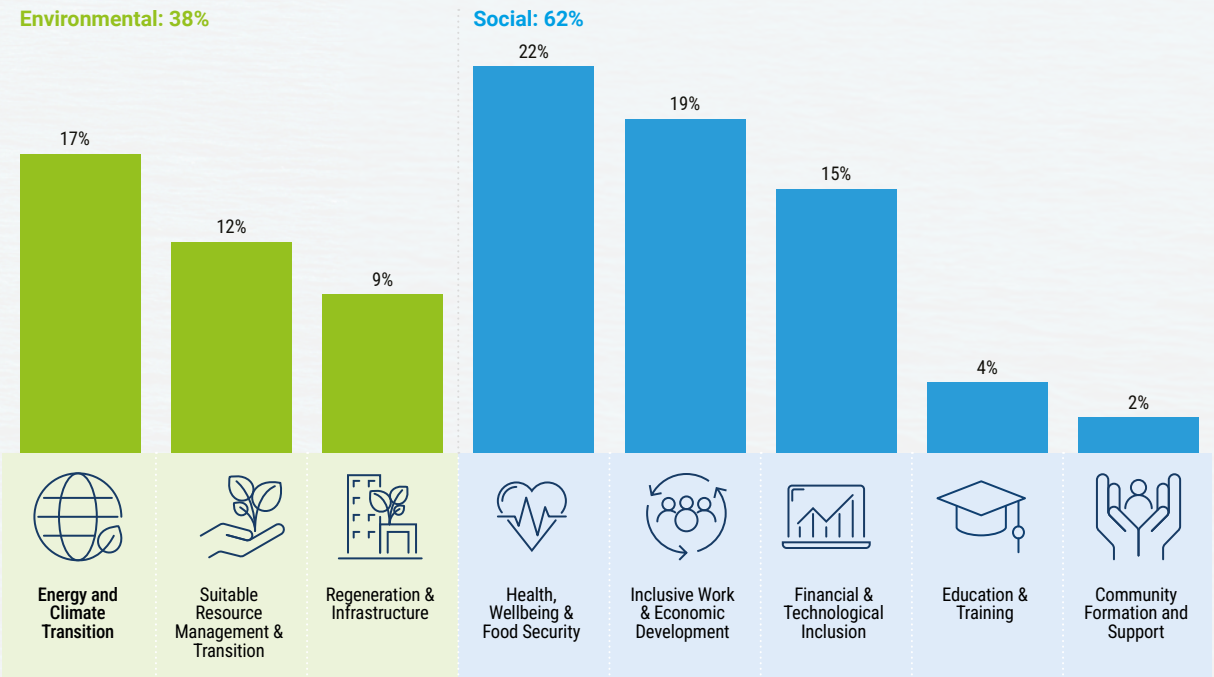
We reduced exposure to our Energy & Climate Transition theme due to sales of both Orsted & Samsung SDI:

- Samsung SDI (a Korean battery manufacturer) has seen competitive pressures intensify from Chinese battery manufacturers which benefit from greater scale. In addition, its customers are predominantly

European EV automakers who are losing market share to Chinese EV competitors like BYD. Given subsequent market share loss, we decided to exit our position despite its strong sustainability credentials.





















- We exited our position in offshore wind developer and operator, Orsted, on concerns around structural pressures facing offshore wind development growth and returns. We retain a more bullish outlook for US solar and onshore wind development and thus retained our position in NextEra Energy.

We also sold our position in Deere & Co, the world's leading manufacturer of John Deere agriculture and construction equipment, due to concerns of a potential downturn in the global agriculture spending cycle. This reduced our exposure to the Sustainable Resource Management theme.



Source: Columbia Threadneedle Investments, as of 31 December 2023. Based on primary sustainable thematic exposure per company. Excludes cash. Provided for illustrative purposes only. The mention of stocks is not a recommendation to deal. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owners. Based on a representative account of the strategy.

New purchases over 2023

Company						
Mission	To discover, develop, and deliver innovative therapies that improve patients' quality of life	Solving for safer	Empowering people to take control of health	Helping people live healthy and happy	Through ingenuity and intelligent technology, we expand the potential of physicians to heal without constraints	Promote people (health and safety and diversity), Product and Planet (minimising environmental footprint)
Date of purchase	February 2023	May 2023	July 2023	September 2023	November 2023	December 2023
Sustainable Category	  Health, Wellbeing & Food Security	   Community Formation and Support	  Health, Wellbeing & Food Security	  Health, Wellbeing & Food Security	  Health, Wellbeing & Food Security	   Energy and Climate Transition
Sustainable Investment Case	Sustainable Leader (MSCI AAA Rated): CSL develops biotherapies and vaccines that help to save and improve lives. It is the global #1 in plasma protein therapies and #2 in influenza vaccines. Its core business is as a provider of human blood plasma-derived products to treat bleeding disorders, rare and serious infections and autoimmune diseases. CSL also produce vaccines, including for flu and cervical cancer, that play a critical role in preventing illness as well as other products that speed up recovery times for patients that have undergone heart surgery, organ transplants and burns. With strong R&D and acquisitions in complementary therapeutic areas, CSL has a robust pipeline of new product launches to further promote positive health. By providing their solutions around the world, CSL addresses a large population in turn delivering strong positive impact.	Sustainable Leader (MSCI A Rated): Although for most Motorola is associated with the handsets of the noughties, Motorola solutions (MSI) divested this segment in 2011. MSI are now fully focused on selling reliable, mission critical LMR (land to mobile) radio solutions, video security and access control systems and command centre technologies. 75% of its sales are generated from communication solutions for public safety agencies e.g. the police force and fire brigade whilst 25% comes from sales to schools, hospitals, and enterprises. Motorola's R&D and capital investment is focused on delivering innovative solutions to support greater social security and stronger public institutions. They have delivered defensive growth benefitting from the megatrend of the digital transformation of public safety institutions whilst enjoying a strong 70% market share in public safety radio.	Sustainable Leader (MSCI A Rated): Healthcare sustainability is core to Dexcom management's ambitions. As a leader in Continuous Glucose Monitoring (CGM) solutions, Dexcom is helping patients suffering from chronic and life-threatening diabetes, particularly type 1, to better manage their disease. They demonstrate clear intentionality by innovating in the field of glucose monitoring introducing a convenient and more accurate alternative for finger pricks. By helping patients better manage their glucose levels than traditional finger prick tests, Dexcom is both improving patient lives and helping lower the cost of treating the disease. The growth outlook for the CGM market is strong driven by continued rates of penetration of devices for both type 1 and 2. Within this market, Dexcom is a share gainer supported by their international growth, market leading product innovation and strong brand.	Sustainable Leader (MSCI A Rated): Humana generates 95% of their sales from their US health insurance operations which support access to medical care for Humana plan members. Their focus on Medicare Advantage, Medicare (for people 65 or older) and Medicaid (for people on limited income) aligns their commercial incentives with positive health outcomes for their members. 4% of sales are from CenterWell, their value-based care operations. Strong product innovation and increased access to healthcare through Medicare and Medicaid demonstrates clear sustainable intentionality. They also enjoy a strong competitive position with 50% share in Medicare lives and share gains in both Medicare and Medicaid.	Sustainable Leader (MSCI A Rated): Intuitive Surgical is the global leader in robotic surgical systems used to help automate surgical procedures. They have a dominant market share of 80% in what a relatively immature industry is. Their robotic systems are also part of a strong ecosystem including software and services which underpins strong recurring sales. The use of their systems results in shorter in-patient stays and lower readmissions with at least equal patient outcomes to traditional surgery helping to reduce the healthcare cost burden for hospitals. They are a highly innovative company with growth supported by the launches of new robotic platforms.	Sustainable Leader (MSCI AA Rated): Aptiv is a leading auto supplier with a portfolio of products that are 100% focused on the electric architecture, including EV (electric vehicle) power management, and advanced vehicle safety solutions. They have proactively divested their legacy combustion engine units to focus investment towards growing their EV and vehicle safety solutions. This aligns the company with both our Energy & Climate Transition and Health, Wellbeing and Food security sustainable themes. It also experienced leading industry growth given their material exposure to positive secular growth areas in the auto industry including Electric and Autonomous Vehicles.
Key outcomes	Invested \$5.1 billion in R&D over the last 5 years, +340 Plasma collection centres	>5 million MSI fixed video cameras deployed across 300,000 sites, 13,000 MSI LMR networks operated worldwide, 3,600 of 6,000 US 911 centres used MSI software to handle emergency calls.	Dexcom's systems help ~2.3 million people globally to better manage their diabetes helping to extend their lives.	4.9 million members in 4-star or higher plans (healthcare plans with high service quality).	2.2 million procedures performed on Da Vinci robotic systems in 2023 (+14.2 million to date), +9100 systems in hospitals globally	100 million tons of CO ₂ emissions were eliminated in 2022 by using Aptiv solutions including 40% weight reduction in vehicle architecture from Aptiv's high voltage electrification solutions

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2023 financial performance review

2023 was another tumultuous year for markets. We began the year with a financial crisis in the US following the collapse of Silicon Valley Bank and ended with fresh conflict in the Middle East with wide fluctuations in inflation and interest rates dominating market direction through the year.

The US economy defied the almost unanimous bearish outlook by economists for global recession at the start of the year with global economic growth proving far more resilient than expected. This when combined with falling inflation, led to a shift in global economic outlook by year end from one of recession to a consensus view of a “soft landing” helping to trigger a market rally into the year end.

2023 also saw a welcome return of structural growth investment themes driving market performance with innovation on clear display through the year.

Generative AI proved to be transformative for technology companies over 2023, with strong market performance largely concentrated in the “Magnificent Seven” technology stocks⁴. Excitement around the growth potential of generative AI captured the market’s attention, particularly after Nvidia (a long-term holding in Global Equity Sustainable Outcomes) dramatically raised their growth outlook for their AI processors sending company earnings forecasts up ~350% and shares up 239% over the year. Increased investment in AI technology supported a broad earnings growth recovery across Information Technology companies which when combined with a rebound in valuations, sent the sector up 55% over 2023 more than reversing 2022’s dismal fall of 34% and delivering its strongest performance in more than 20 years⁵.

This strong investment growth in AI resulted in our “Inclusive work and economic development theme” being our top performing theme over the year. Holdings under this theme include key AI Enablers - semiconductor companies Nvidia (+240%), TSMC (+42%) and ASML (+42%) and cloud software and service company, Microsoft (+58%). Other noticeable contributors to this theme were Cloud cyber security company, CrowdStrike (+142%) and business software company, Intuit (+62%).

Our Health, Wellbeing and Food security theme also delivered another year of strong performance driven once again by our holdings in Novo Nordisk (+49%) and Eli Lilly (+59%), as demand for their obesity treatments continued to beat market expectations.

Another strong performer was MercadoLibre (+86%) which benefited from earnings that doubled over 2023. Our Quality Education theme also contributed positively to overall strategy performance with online education company, RELX (+47%) and childcare provider, Bright Horizons (+49%) both delivering consensus beating earnings through the year.

However, our Energy & Climate transition theme delivered mixed results. Despite the acceleration in renewable investment over 2023, renewable energy stocks had another disappointing year as the capital-intensive sector saw their returns hit by a perfect storm of higher financing costs, materials inflation, and COVID related supply chain disruption. As a result, our two worst performing stocks in the strategy included offshore wind developer Orsted (-38%) and NextEra Energy (-25%). Korean battery manufacturer, Samsung SDI (-24%), was another weak performer as they faced mounting pricing pressure and share losses to Chinese EV and battery manufacturers. However, this theme also included some of our strongest performers including industrial companies Advanced Drainage (+72%), Trane Technologies (+47%) and Schneider Electric (+47%).

Overall, strength from our top sustainable themes contributed to the fund **rising 26.5% over 2023 outperforming our benchmark (MSCI All country world index) by 3%**. The strategy now has a robust five-year track record with only one down year relative to market in 2022.



⁴ Alphabet, Apple, Amazon, Meta, Microsoft, Nvidia and Tesla
⁵ Bloomberg, December 2023

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Delivering positive sustainable outcomes

2023 saw our companies deliver strong outcomes to support a greener, healthier, and more equitable world the highlights of which are below.



Health, Wellbeing & Food Security

\$17bn

invested in R&D for human health through these companies:

- Novo Nordisk – \$5bn
- Eli Lilly – \$9.3bn
- CSL – \$1.2bn
- Thermo Fisher – \$1.3bn

96.4m

people provided with treatments globally through medicines, including diabetes care products through these companies:

- Novo – 40.6m people with diabetes
- Eli Lilly – 55.8m people

177m

people provided with access to vision care in developing communities through Essilorluxottica.



Inclusive Work & Economic Development

\$43bn

invested into cloud infrastructure, supporting advances in global technology through these companies:

- Microsoft – \$39.6bn
- Equinix – \$3.2bn

2x as fast, 4x energy efficient

Nvidia developed new AI chips that are 2x as fast & 4x more energy efficient at training AI models than graphic processing units released in 2022.



Education & Training

1,044

child-care centres and nurseries operated globally with the capacity to care for and educate approximately 120,000 children through Bright Horizons.

11,500

institutions in over 125 low - middle income countries provided with affordable access to peer reviewed resources through RELX.



Financial & Technological Inclusion

507m

people provided with access to financial services in emerging market companies, through companies like:

- MercadoLibre – 218m
- Bank Rakyat – 173m
- HDFC Bank – 93m
- AIA – 18m
- Mastercard – 5m

233k

people provided with financial education programmes in underserved markets through these companies:

- HDFC Bank – 230,000 people
- Mastercard – 3000 people

10m

merchants provided with access to an online marketplace in South America through MercadoLibre.



Energy & Climate Transition

~50GW

of renewable energy provided (sufficient to power ~49m homes) through the installed capacity of Orsted (15.7GW) and Nextera Energy (34GW).

338m

metric tonnes of CO₂ avoided through products in use or sold during 2023, the equivalent of removing ~73m petrol cars from the road through these companies (in metric tonnes):

- Schneider Electric – 113m
- Linde – 91m
- Trane Technologies – 64m
- NextEra Energy – 37m
- UNP – 22.5m
- Orsted – 5.9m
- Ecolab – 3.8m
- Xylem – 1.2m



Regeneration & Infrastructure

837.5bn

gross tonne railway miles transported, which represents a 75% emissions reduction if that freight were to be transported by truck instead through Union Pacific.

255k tonnes

in realised annual GHG emissions reductions from the use of design software solutions and services through Autodesk and Trimble.



Sustainable Resource Management & Transition

270k

metric tonnes of waste avoided or diverted from landfills and incinerators through these companies:

- Ecolab – 6,577mt
- MSFT – 18,537mt
- Advanced Drainage – 244,939mt.

14.3tn

cubic litres of water (or 14.3 billion cubic metres of water) conserved or treated through these companies:

- Xylem – 13bn m₃
- Ecolab – 857m m₃
- Croda – 298m m₃
- Microsoft – 61m m₃
- Sika – 60m m₃

1.9bn

cubic metres of polluted water prevented from flooding communities or entering local waterways through Xylem.

Theme highlights and case studies

THEME HIGHLIGHT: ENERGY & CLIMATE TRANSITION

A new decade of growth for power



Since 2020, capital investment into data centres has surged driven, first by the COVID pandemic accelerating the world's shift to "the cloud" and then by the meteoric rise of AI, accelerated by the advent of generative AI. However, there is one key hurdle to the sustained growth in AI and datacentres – Power.

Data centres require massive amounts of continuous power for their servers and cooling systems. For the last decade or so data centre power demand has been relatively flat despite internet traffic and data centre workloads growing 20x faster than overall electricity demand⁶. This was achieved through energy efficiency gains in servers and storage as well as the shift to the public cloud away from more energy intensive on-premise datacentres. However, these gains have now stalled.

The advent of generative AI has meant an almost overnight surge in electricity demand from datacentres with generative AI requiring more powerful AI servers which are 4x-8x more energy intensive than typical data centre servers⁷. AI systems use so much more electricity simply because they are doing so much more data processing. The result is that data centre electricity demand now outstrips available power supply in many parts of the world, placing a strain on electricity grids and threatening the net zero goals of many countries and Big Tech companies.

The rise of Ireland as a tech hub in Europe has seen its data centre energy consumption rise 4x since 2015 with data centres now accounting for 21% of power consumption in the country due to a combination of existing data centres using more electricity and new centres being added to the grid⁸. With datacentres expected to consume nearly a third of Ireland's electricity by 2026⁹, concerns are rising of rolling blackouts across the country.

The United States is the world's data centre leader and is home to roughly half of the world's data centres (or 5381 to be exact¹⁰). Growth in AI data centres, along with other factors such as the reshoring of industrial production and broader electrification trends, is expected to drive unprecedented growth in US electricity demand over the next two decades. This comes after two decades of stagnant growth in power demand, despite a rising US population, due to broad energy efficiency improvements.

We, alongside central research, recently conducted multi-sector research into artificial intelligence (AI) and its associated data centre demands. We project AI compute demand grows at a staggering 50% compound annual growth rate through 2028, far outpacing consensus estimates. This should in turn drive a surge higher in energy consumption by data centres. In the US, we forecast data centre power demand could represent up to 18% of America's total power consumption by 2028 from 3.9% in 2023.

⁶ Bernstein Analysis, AI data centres vs the electric Grid report, July 2024

⁷ Bernstein Analysis, AI data centres vs the electric Grid report, July 2024

⁸ Ireland Central Statistics Office report, July 2024

⁹ International Energy Agency report, January 2024

¹⁰ Statista March 2024, <https://www.statista.com/statistics/1228433/data-centers-worldwide-by-country/>



NextEra management forecast demand for renewables and energy storage to grow at a 13% compound annual growth rate over 2024- 2030

Virginia, the data centre capital of the US, provides us with a case study for what growth in data centre construction in the rest of the US could do to US power demand. With the number of datacentres rising to 473 in the state¹¹, electricity consumption from datacentres has risen by 30% since 2020 (see figure 3). And although this investment has come with benefit of job creation, it is now placing strain on local water and energy supplies.

Datacentres are increasingly investing in on-site power generation to reduce reliance on local grids. Nuclear energy is seen as a key solution as it can provide a stable, high-capacity energy supply with low carbon emissions. But there has also been a notable rise of co-location of data centres constructed with renewable energy-generating assets, particularly in locations with ample land and clean energy resources such as rural America and Australia (wind and solar) and the Nordics (geothermal and hydroelectric). Following recent improvements in battery technology, energy storage can provide the much-needed power supply stability needed for these datacentres.

NextEra, America’s biggest solar and onshore wind developer, at their renewables day forecast a jump in demand for renewables not just from higher power demand but also from renewables winning share within the US energy mix as they offer fast-to-deploy, low-cost generation. This is also supported by the fact that the world’s biggest cloud service providers, Amazon, Microsoft, and Alphabet (Google), are racing to secure clean power as recent spikes in their emissions threaten their Net Zero targets. Accordingly, NextEra management forecast demand for renewables and energy storage to grow at a 13% compound annual growth rate over 2024-2030 with projected renewable additions of ~375-450GW over this period, dwarfing the ~235GW added over the last 33 years (see figure 4).

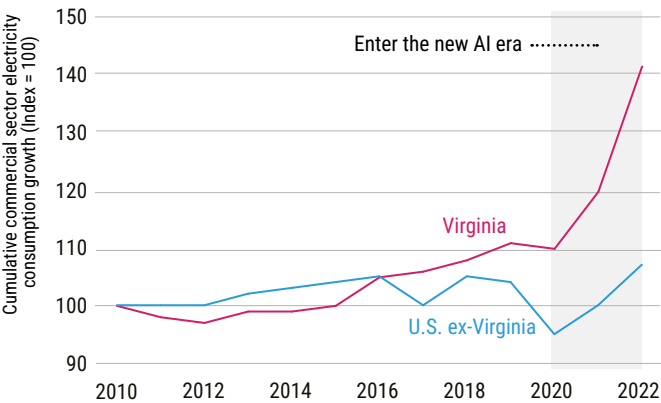
But ramping up renewable energy generation comes with challenges too. Although renewable energy projects (onshore wind and solar farms) are relatively fast to build, sluggish planning rules in many developed countries has led to renewable projects having to wait years to connect to energy grids. In the US, the backlog of new power generation and energy storage seeking connection to the grid grew by 30% to over 2,600GW in 2023, more than twice the total installed capacity of the existing US power plant fleet with 95% of this capacity from renewables projects¹². Thus, investment in renewables and energy storage alone is not sufficient to meet higher green power demands – accelerated permitting and investment in grid transmission and distribution is also needed.

Data centre developers are also looking to technology to improve energy efficiency, such as the use of alternative cooling technology. Semiconductor, software, and hardware companies also prioritise energy efficiency with each new product iteration to help limit power requirements from bottlenecking future AI advancements. Nvidia has been a key enabler of the rise of AI with their latest GPU (general purpose unit) chips being 1000x more powerful than their first AI chips released just 8 years ago. More importantly, Nvidia’s latest GPUs are as much as 20 times more energy efficient than traditional CPU chips in processing certain AI workloads¹³. To date, Nvidia’s customers have used the same amount of electricity to make more powerful AI systems rather than use less electricity to power the same AI system. But this could change in the future helping to solve for some of this power crunch.

After years of underinvestment in the grid, it is feared that AI Data centre growth in the United States will lead to total electricity demand outstripping supply by 2025¹⁴. This threat is already triggering a wave of infrastructure investment to upgrade US electricity grids with those companies offering both energy efficiency and advanced, clean grid solutions, such as our holding in European capital goods company Schneider Electric, standing to benefit the most. On the next page, we highlight another key beneficiary of this investment in the United States, NextEra Energy.

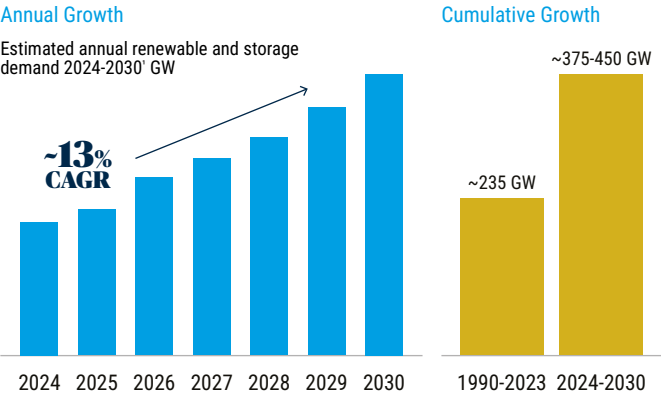


Figure 3: Virginia, the data centre capital of the US, grew electricity demand by 30% since 2020.



Source: EIA, Bernstein analysis

Figure 4: Power demand is driving growth for new renewables and storage



Source: NextEra, March 2024

¹¹ <https://www.datacentermap.com/usa/virginia/>
¹² 2023 Lawrence Berkeley National Laboratory research
¹³ Nvidia 2023 Sustainability report.
¹⁴ Bernstein Analysis, AI data centres vs the electric Grid report, July 2024

CASE STUDY

NextEra Energy



Sustainable
Category:
Sustainable
Contributor



7
AFFORDABLE AND
CLEAN ENERGY

NextEra Energy is made up of two industry leading businesses - Florida Power & Light Company (FPL), the largest electric utility in the US and NextEra Energy Resources (NEER), the world leader in wind, solar and storage development. NextEra is a key beneficiary of the unprecedented growth forecast for US electricity demand and in turn renewable energy generation in the United States with management forecasting a tripling of renewables and storage growth in the next 7 years vs the prior 7 years¹⁵.

Materiality

This company has ~30% net positive revenue alignment to SDG 7 Affordable and Clean energy.

NextEra targets around 70% of sales from FPL and 30% from NEER.

- FPL has an energy generation mix of ~71% natural gas, 20% nuclear, and 7% solar and storage which maps as neutral to SDG 7. By shifting generation from coal to natural gas at FPL over the last decade (Coal accounted for 19% of their generation in 2003 vs 0% today), NextEra lowered its carbon emissions by 37% despite strong population growth in Florida. Now with the economics of renewables increasingly favourable, NextEra aim to repeat this transition but from natural gas to solar + storage.
- NextEra operates 34GW of clean generation and storage capacity in the US which maps as positive to SDG 7. Their investment in wind, solar and storage projects also deliver positive social outcomes as these projects are often located in America's rural communities bringing much needed clean jobs and tax revenues to these states.

Intentionality

NextEra have strong intentions to lead the electrification and decarbonisation of the US economy. In June 2022, NextEra announced its real-zero target (no carbon offsets) to eliminate direct carbon emissions by 2045, with an 80% interim target for 2025 (vs. 2005 baseline).

FPL accounts for most the company's carbon emissions but per their latest 10-year site plan, filed in April 2024, they have a target of 56% green energy (~37% solar, ~19% nuclear) in its energy mix by 2033, with a natural winding down of natural gas generation. FPL plan to install ~25GW of new solar and storage capacity, up from 5GW in 2023, whilst retaining nuclear energy facilities which provides a reliable, clean base load energy source for the grid.

NextEra have a long growth roadmap - over 2023-2027 they have plans to build 36.5GW to 46.5GW of new wind, solar and battery storage projects funded by \$65 to \$70 billion in capital investment.

At the overall group level, NextEra expects to own ~81GW of combined renewables and storage capacity by year end 2027 - to put this in context, 1GW of power is sufficient to power ~750,000 homes for a year.

Integrity - MSCI AAA

NextEra leads in peers both in terms of carbon emission reduction and investment into clean energy. NextEra's carbon emissions are in fact 53% below the national average utility emissions, having reduced their overall CO₂ emissions by 61% since 2005.

A key ESG concern faced by NextEra was regarding a complaint lodged against FPL in late 2022 alleging violations of the Federal Election Campaign Act – however after a thorough investigation, the FEC found no reason to believe that FPL were guilty of these accusations.

Competitive moat

NextEra have market leading 20% installed share in US onshore wind, solar and storage. This dominant position is supported by strong competitive moats, including scale, experience, and technology. Management noted that their use of advanced analytics is their biggest competitive advantage underpinned by decades of data gathered in renewable development. These analytics help to maximise renewable power output and project returns.

21GW

of wind energy
generated with help
from NextEra
in 2023

6GW

of solar energy
generated with help
from NextEra
in 2023

3GW

of battery storage
generated with help
from NextEra
in 2023



Our vision is that clean energy cannot be priced as a luxury good or a nice-to-have. Clean energy must help save customers money on their electric bill.

NextEra 2023 Sustainability report

¹⁵ Source for all above: NextEra 2023 Sustainability Report

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Introduction	Our sustainable investment philosophy	2023 exposure to themes	New purchases over 2023	2023 financial performance review	Delivering positive sustainable outcomes	Theme highlights and case studies	Carbon emissions	Engagement	Engagement highlights

THEME HIGHLIGHT: SUSTAINABLE RESOURCE MANAGEMENT

Could PFAS be the new asbestos?



We like to believe that we can trust that products sold to us are safe to consume, having been tested and regulated. Sadly, this is not always the case. Asbestos was launched in the late 1800s and given its ideal properties quickly became a wonder material used in many products from insulation for buildings and ships to parts for the auto industry. At its peak it was used in over 3000 different products. But early in the 1900s, the dangers of asbestos exposure, particularly for the lungs, were already becoming known. It took another 100 years before asbestos was banned fully in the UK. Still today people are dying from cancers linked to earlier asbestos exposure.

Move to the 1940s and chemical company, DuPont, introduced a coating called Teflon. Teflon quickly became a success as it helped to make cooking so much easier with our food no longer sticking to pots and pans. Teflon in fact included thousands of nonstick, stain-repellent, and waterproof toxic compounds called PFAS (Per-and polyfluoroalkyl substances). Given the amazing properties of these synthetic chemicals, they soon became ubiquitous across many products ranging from water-repellent clothing (like Gore-tex), firefighting foams, cosmetics, stain resistant furniture and carpets (Scotchgard) and nonstick packaging (our takeaway pizza no longer stuck to its box). PFAS have also become fundamental to many manufacturing processes, including semiconductor manufacturing.

PFAS encapsulate a class of thousands of synthetic chemicals which because they don't break down easily, are known as "forever chemicals". In fact, PFAS take 1000s of years to degrade with the result that they accumulate in the environment and in both wildlife and humans over time¹⁶. And with little to no regulation, they have been allowed to be released into the environment during both manufacturing and use and disposal of products containing PFAS.

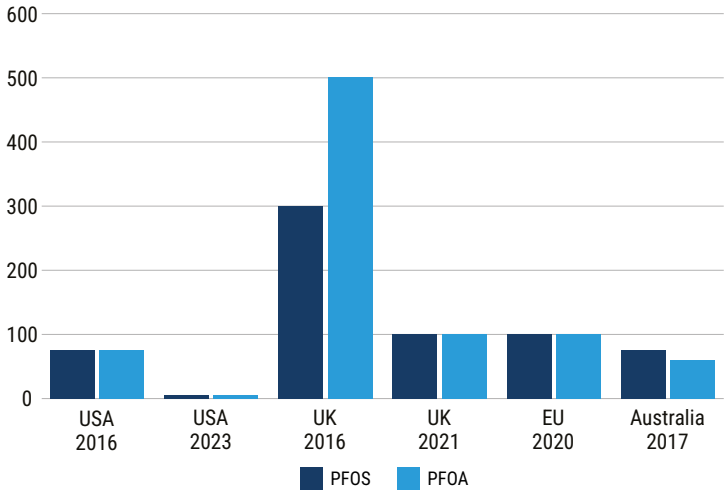
But like asbestos before it, studies by 3M and DuPont as early as the 1960s linked PFAS to health hazards. A growing body of research is now associating some PFAS with health issues including endocrine disruption, liver damage, certain cancers, lower birth weights and reduced immune response. As a result, the most extensively studied PFAS compounds, PFOA (the Teflon chemical) and PFOS (the ingredient in 3M's Scotchgard), have been phased out in many countries after revelations of hidden health hazards. But there are still hundreds of other PFAS chemicals in use still today.

Because PFAS have become so prevalent in the last few decades, it's estimated that 99% of humans around the world, including foetuses, now have measurable levels of PFAS in their bloodstreams. The highest risk to humans comes from direct consumption of PFAS through drinking water and food consumed (PFAS are increasingly being added to pesticides¹⁷). Humans with the highest levels of PFAS in their body face the highest health risks, and high levels of human contamination have been linked to living in areas with PFAS contaminated water supplies through discharge from manufacturing plants, the use of certain firefighting foams at, for example, airports or military bases near water sources, or runoff from landfill sites.

As a result, around the world regulators are looking to manage and mitigate PFAS contamination in the environment with regulatory thresholds for exposure to PFAS via drinking water declining (see figure 5).

In April the US EPA (Environmental Protection Agency) announced final drinking water regulations around PFAS limits in drinking water. As a result, water services now have three years to test and identify water sources needing treatment, and until 2029 to upgrade facilities. By designating PFOA and PFOS as hazardous substances, the EPA have also triggered remediation requirements for sites where PFAS is found.

Figure 5: Stricter regulatory thresholds for PFAS in drinking water¹⁸



The US is not the only country acting – both Japan and Europe have set lower limits for PFAS in drinking water with rates of contamination in drinking water soaring across these regions (see figure 5).

While cleaning up drinking water has been an initial focus, pending regulation is also looking upstream at reducing the use of PFAS in products and manufacturing, and requiring disclosures for PFAS emissions. Companies that have been using PFAS in products and manufacturing will face a patchwork of regulations across jurisdictions and many will need to identify substitutes. Substitution in areas such as food packaging is relatively straightforward, but significant research and development will be needed to identify alternatives in areas such as semiconductor manufacturing where PFAS have played a key role in advances in chip manufacturing.

Cost estimates for cleaning up PFAS in the environment are staggering with Bloomberg Intelligence estimating costs of up to \$300bn by 2040. But failure to do so exposes companies to potentially expensive litigation like the previous wave of Asbestos legal claims.

Those companies offering water filtration, engineering and construction services, environmental remediation, and hazardous waste management solutions to address PFAS pollution all stand to benefit as this clean-up unfolds. In Global Equity Sustainable Outcomes,, we own Xylem which has technologies that filter out PFAS from water whilst also benefitting from upgrades to water infrastructure needed to address rising levels of toxicity in our water. Ecolab is another key holding that have water treatment solutions including those that help remove PFAS from water.

(source: AECOM, 2023)

PFAS by the numbers

15,000

number of PFAS chemicals according to US EPA

4 parts/tn

new US drinking water threshold for PFOA and PFOS chemicals

2029

deadline for affected US water systems to implement PFAS treatment

\$250bn+

estimated size of global PFAS removal market including R&D on substitutes, capital investment and operating costs for new infrastructure, and environmental mitigation

¹⁶ EPA, PFAS explained, 10 April 2023
¹⁷ <https://www.theguardian.com/environment/article/2024/jul/23/pfas-pesticides-epa-research>
¹⁸ US EPA 2023, UK drinking water inspectorate 2021, European commission 2020

CASE STUDY

Xylem

xylem

2023 key metrics

>13bn

cubic metres of water treated and enable
for reuse

>7bn

cubic metres of polluted water prevented
from flooding communities or entering
local waterways

800m

cubic metres of non-revenue water
(water loss) reduced



Sustainable
Category:
Sustainable
Leader



Xylem is a global water technology company producing water equipment and smart, digital solutions to deliver, manage and treat water. Following its 2023 acquisition of Evoqua, which has a focus on water treatment for utilities, Xylem now offers a full range of PFAS filtration solutions as well as mobile ‘rapid response’ PFAS treatment units. We anticipate that increased regulatory and consumer focus on improving the quality of drinking water, as well as the need to invest and upgrade water infrastructure in many countries as water shortages become more acute related to climate change and urbanisation trends, will provide a favourable backdrop for the growth of Xylem’s water solutions over the rest of the decade.

Materiality

This company has 100% net positive revenue alignment to SDG 6 Clean Water and Sanitation and SDG 9 Industry Innovation and Infrastructure.

Xylem generates its sales from the provision of water solutions which are critical for modern water infrastructure and help support the delivery of clean, safe, and affordable drinking water to consumers around the globe, whilst helping to protect the environment. Post their acquisition of Evoqua, Xylem also offer a full range of smart solutions that help their water utility customers digitise their operations and in turn promote greater water efficiency.

Intentionality

Xylem is on a mission to “solve for water”. Xylem has always recognised the economic and social value of critical infrastructure as well as its environmental benefits. At a time when the world is increasingly recognising that resilience and sustainability go hand-in-hand, Xylem benefits from having these imperatives at the heart of their business.

Integrity – MSCI AAA rating

Xylem has adopted strong environmental compliance programs in its manufacturing operations that lead those of most of its industry peers. It undertakes efforts to reduce waste through recycling and reuse and are committed to a Net Zero science-based target. In 2023, 11 of 22 of their major sites reached all three of their 2025 goals (use 100% renewable energy, use 100% process water recycling, achieve zero waste to landfill).

Xylem’s manufacturing operations are labour intensive and thus Xylem prioritises the safety and well-being of all its employees. Xylem also has strong transparency in and engagement with its supply chain.

Competitive moat

Xylem’s dominant scale in global distribution, leading product innovation and strong brand reputation give the company a competitive advantage in winning share of spend as utilities and governments invest to upgrade water infrastructure to address growing water challenges.



When we solve water for our customers,
we’re solving so much more

Xylem 2023 Sustainability Report

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THEME HIGHLIGHT: FINANCIAL AND TECHNOLOGICAL INCLUSION

Helping to break the cycle of poverty in Emerging markets



The old analogy of “the poor getting poorer” rings true when referring to financial inclusion. Without access to affordable financial products and services, people and small merchants lose time moving their cash and lose money storing their cash under the mattress (especially in countries with high inflation), borrowing at expensive/exorbitant rates or not having insurance to protect against unforeseen events such as adverse weather impacting crops. The list goes on and so without inclusive financial services, the cycle of poverty is never broken.

But financial inclusion doesn’t just help to reduce poverty. It can also drive more inclusive economic growth by increasing household and business resilience to income shocks, improving productivity, and increasing workforce participation, particularly for female employment. Financial institutions also stand to benefit from greater inclusion as higher savings rates supports stronger deposit mobilisation and in turn higher earnings growth, helping to broaden their client base and deepen their relationship with existing customers.

The good news is that ownership of any kind of financial account has increased from 51% of adults worldwide in 2011 to 76% in 2021¹⁹, supported by digitisation trends. Emerging markets especially have been able to make a significant jump in basic financial access enabled by cheaper smartphones and data connection plans.

However, there is still more work to do from both an access and education perspective. A mobile wallet/bank account alone is NOT inclusion. For financial inclusion to truly have an impact, it needs to extend beyond just new account openings. Account activity and usage of financial products also needs to be assessed. People also require access to broader financial services, such as credit and insurance to start and expand businesses, invest in education or health, manage risk, and weather financial shocks.

¹⁹ World Bank’s Findex <“The global Findex database 2021.” World Bank Group, 2022.
²⁰ <https://www.worldbank.org/en/topic/financialinclusion/overview>

Approximately 1.4bn people globally remain unbanked or underbanked with rural populations and women in particular lacking access

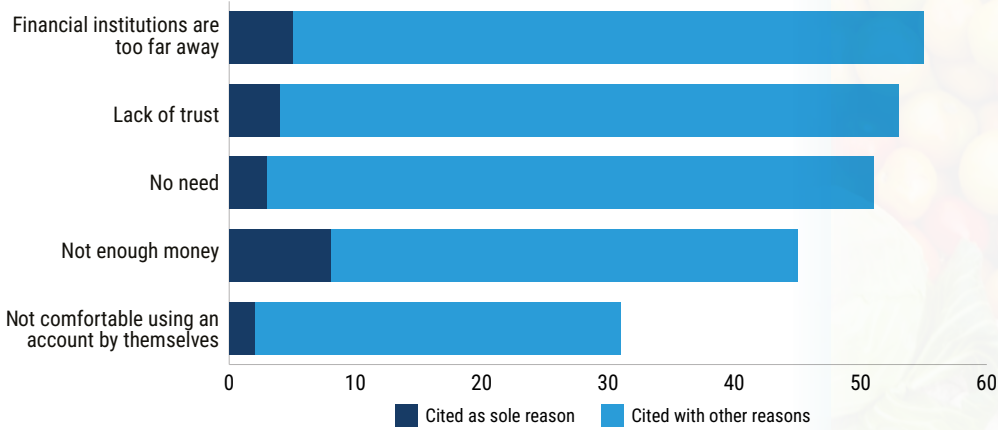
For unbanked and underbanked populations, many of whom are often new-to-credit customers, financial and digital literacy can be the main barrier to ongoing use of these financial services²⁰. Building trust in a country’s financial system is vital if to achieve wider penetration of financial products. Financial education is key to building this trust but so too are responsible lending practices, as lending to micro and small enterprises or vulnerable segments can also lead to negative impacts, such as indebtedness. But trust can take time to build (see figure 6).

Approximately 1.4bn people globally remain unbanked or underbanked with rural populations and women in particular lacking access. This offers a large opportunity for financial institutions and fintech companies to improve access to finance. Financial institutions with established brands built on trust with their customers are best placed to promote financial inclusion. Trust is a key competitive advantage and is developed through responsible lending practices, a strong presence in local communities supported by a well-developed branch and agent networks as well as robust digital strategies. In addition, financial institutions need scale to keep costs low and strong balance sheets to have ongoing access to funding to ensure they can endure economic cycles and achieve strong returns to reinvest in their business. The companies we invest in need to demonstrate responsible lending practices both in terms of pricing as well as how they allocate deposits given the funding for these loans is from hard earned savings.

In Global Equity Sustainable Outcomes,, we own two emerging market banks, HDFC Bank in India and Bank Rakyat in Indonesia. Both have a strong rural presence and a long track record of lending responsibly in these areas, building trust and educating borrowers. Both also operate in countries with supportive policy environments, in the form of well-developed national financial inclusion strategies, as these governments view these banks with their vast branch and agent networks as playing a vital role in supporting government financial inclusion targets.

Financial Technology or Fintech (the use of technology to make banking and financial services easier, faster, and more secure) also has a key role to play in supporting financial inclusion. In fact, in some emerging markets, fintech has been more successful and disruptive especially where incumbent banks have provided poor service or charged exorbitant fees. These fintechs have the benefit of lower operating costs as they’re not burdened by expensive legacy IT systems and branch networks. One such company is MercadoLibre which we highlight below. Mastercard, another holding, is a key enabler in the fintech ecosystem. Given its global presence it has tremendous scale and ability to innovate and deliver access to a large proportion of the population and is trusted to enable secure transactions.

Figure 6: Barriers cited by adults in India for not using their bank accounts (%), 2021



Source: World Bank Paper



CASE STUDY

MercadoLibre



Sustainable
Category:
Sustainable
Leader



Financial inclusion in Latin America lags, even compared to other Emerging Markets, with only 55% of the population having access to a bank account or mobile money account and the majority lacking access to credit relying on informal borrowing, including predatory lenders such as loan sharks, instead²¹. Incumbent banks in the region are often known for poor customer service such as long waits to open an account contributing to limited financial access. This is where MercadoLibre (MELI) steps in. MELI operates the largest ecommerce

platform in Latin America as well as the region's biggest fintech, MercadoPago. With a large population of 650 million people, low ecommerce penetration and a fintech industry still in its infancy, MELI faces a large, growing retail and financial addressable market in LATAM.

Materiality

This company has 100% net positive revenue alignment to SDG 8 Decent work and economic growth.

MELI's e-commerce platform supports small businesses and sole traders across Latin America gain access to the 84 million unique buyers on their platform and generate income. MELI has grown their network of small and medium sellers to over 500,000, many of whom would have been locked out of the traditional financial system or significantly underserved. MercadoPago offers digital accounts and payment methods that make it simple to do basic financial transactions, investments, and gain access to credit. Through scale and their deep data set, MELI has been able to lower the cost of financial services to enable access to services that were previously reserved for the rich.

Intentionality

MELI demonstrate clear intentionality to improve financial access in LATAM with their stated mission to democratize commerce and access to money. MELI continuously re-invests in the platform, providing new digital and financial solutions to small entrepreneurs as they grow and by using their balance sheet to provide credit. They also recognise the importance of education in driving financial inclusion and offer training initiatives on a regional scale, one aimed at female entrepreneurs and another at younger people.

Integrity (MSCI A)

MELI recognise the need to reduce their environmental footprint which has grown along with their platform. They have managed to lower their carbon intensity through increased use of electric vehicles with a target to shift 100% of distribution centre operations to clean energy sources by 2035. Given the growth opportunity ahead, MELI needs to attract and retain talent which they do so through strong employee management.



MercadoLibre was created with the purpose of democratizing commerce and financial services in Latin America. We are driven by the mission to multiply opportunities and reduce geographic and socioeconomic gaps

MercadoLibre 2023 ESG Report

2023 key metrics

\$13.5bn

loans originated to users and sellers

>45m

loans granted to entrepreneurs and SMEs

68.8m

unique fintech users

30.4m

unique investment product users

²¹ World Bank Global Findex Database

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THEME HIGHLIGHT: HEALTH AND WELLBEING

Tackling the obesity crisis



Good Health and Wellbeing is a key sustainable theme in our strategy. We believe that companies that offer products and services promoting positive health outcomes are good not just for society, but also for global economies as a healthy population is also a more productive one. Unfortunately, obesity is one of the biggest, and growing, health risks facing the world today. It is a modern illness

that is making the world very sick. Globally, over a billion people or 38% of the world's population are obese or overweight, with obesity in adults doubling since 1990 and obesity in children and adolescents quadrupling. Sadly, without drastic change, the global overweight and obesity prevalence is forecast to reach 54% by 2035. These growing rates of obesity, combined with rising longevity, threaten to destabilise global healthcare systems with obesity contributing to over half of the prevalence of diabetes as well as being associated with more than 200 chronic diseases, including cancer and heart failure²² (see figure 7).

And this is where weight loss drugs, GLP-1 (Glucagon-like peptide 1), step in. GLP1's were originally developed to treat diabetes, but their side effect was to control appetite and so help patients lose weight. The overlap between obesity and other diseases is high with obesity being linked to chronic illnesses such as type 2 diabetes, heart disease, kidney disease, certain types of cancer and possibly even Alzheimer's.

Trial data proves that they are highly effective in reducing weight with Novo Nordisk GLP-1 (Semaglutide also known as Wegovy) showing greater than 16% weight loss whilst the results published by Lilly for their GLP1 (Mounjaro) were even more impressive with 21% weight loss at a higher dose.



Globally, over a billion people or 38% of the world's population are obese or overweight.

But should the general population fund weight loss for the at risk, obese segment of the population when the healthier, cheaper option of diet and exercise exists? The answer is probably no.

But what if being obese is killing people and losing weight could reduce chronic illness and prolong lives? What if by funding these drugs, society could be saved the significant medical cost of looking after obese patients and their poor health especially in the US where 42% of the adult population are now obese?²³ And what if the traditional methods of diet and exercise just aren't working for the clinically obese and at-risk populations given the complexity of obesity?

Perhaps this is a drug worth paying for after all. Preventing and treating obesity may require financial investment, but the cost of failing to prevent and treat obesity will be far higher, with high BMI estimated to reduce the global economy by over US\$4 trillion in 2035, nearly 3% of global gross domestic product²⁴.

The expanded health benefits of GLP-1s became clear over 2023 after the release of trial data from Novo Nordisk, a core holding. Their data proves that GLP-1s are no longer merely a weight loss drug, but also help lower inflammation and improve glycemic control. This in turn leads to broader health benefits with the trial demonstrating that by taking Wegovy (GLP-1s), obese non-diabetics showed a more than 70% delay in the onset of diabetes. But what surprised markets was that these treatments also slash the risk of fatal heart attack and stroke by 20% and reduce the risk of non-fatal heart attack by 28% whilst also helping to slow the progression

of chronic kidney disease and osteoarthritis. And further trials will hopefully prove efficacy in other chronic diseases, for example the use of GLP-1s to help delay the onset of Alzheimer's and Dementia.

The broader the health outcomes of these drugs, the greater the potential addressable market with expansion outside the already very large pools of diabetics and obese patients. This increases the long-term sales outlook for GLP-1s with the potential for them to become by far the largest drug class worldwide. And it's this that sent shares in both Novo and Eli Lilly up strongly over the year adding significant value to our portfolio.

But more importantly, GLP1s have the potential to drive broader health outcomes for society in turn reducing the ultimate long term health costs for governments – truly adding sustainable value for the world.

Figure 7: Adults living with obesity (2022)



²² Morgan Stanley Bluepaper on Obesity medication, 14th April 2024
²³ Centers for Disease Control <https://www.cdc.gov/obesity/data/adult.html>
²⁴ World Obesity Atlas 2024 https://s3-eu-west-1.amazonaws.com/wof-files/WOF_Obesity_Atlas_2024.pdf

2023 key metrics

55.8m

people around the world reached with
Lilly medicines

\$4.3bn

provided in free medicines

\$9.3bn

invested in research and development,
up 29.5% y/y

CASE STUDY

Eli Lilly



Sustainable
Category:
Sustainable
Leader



3 GOOD HEALTH
AND WELL-BEING

Eli Lilly is a leading pharmaceutical company positioned well to grow over the next several years driven by its diabetes, obesity and oncology drug franchises.

Materiality

This company has 100% net positive revenue alignment to SDG 3 Good Health and Wellbeing.

Lilly is focused on developing best-in class and novel therapeutics in areas of significant unmet need in turn improving the health of millions and saving lives. They have released successful phase 3 Donanemab data to treat Alzheimer's which is a huge win for Alzheimer patients globally and offers better efficacy and less dosing when compared to competitive trials (Eisai).

Intentionality

Lilly are significant innovators with drug development spending \$9.3bn on R&D (27% of sales) in 2023 - their focus of drug development is in areas of high unmet need and where they can have a large societal impact e.g. the +480 million people living with type 2 diabetes or a very desperate global population of more than 55 million Alzheimer sufferers. Key growth franchises include Mounjaro, their GLP-1 treatment for obesity and Donanemab for Alzheimers.

Although Lilly don't rank highly in access to medicine, their sustainable access profile is improving with the company providing data for the 2024 Access to medicines index for the first time. In addition, in 2023 they provided \$4.3 billion in medicines to charitable organizations that offer medicines at no cost to qualifying patients around the world. In addition, they reached an estimated 18 million people as part of their 30x30 goal of improving quality health care for 30 million people living in resource-limited settings annually by 2030. They also made a much-needed step in the United States of making insulin more affordable by reducing the list price of their most prescribed insulins by 70% and capping out-of-pocket costs at \$35 per month²⁵.

Integrity (A MSCI rating)

2030 climate goal of being carbon neutral in own operations and purchasing all electricity from renewable sources. In 2023, purchased 28% of electricity from renewable sources and reduced greenhouse gas emissions by 26% since 2020 despite business growing strongly.

Competitive moat

Eli Lilly has a premier research & development engine driving industry leading drug innovation and in turn competitive position. The fact that the company has been around for nearly 150 years demonstrates the strong competitive moats of the company!



Lilly unites caring and discovery to create medicines that make life better for people around the world.

Eli Lilly 2023 Sustainability Report

²⁵ <https://www.novonordisk.com/disease-areas/type-2-diabetes.html>

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Carbon emissions

The Global Equity Sustainable Outcomes strategy aims to drive change and reduce carbon emissions, to meet portfolio level Net Zero targets.

We adopt the Net Zero Investment Framework (NZIF), developed by the Paris Aligned Investment Initiative. This framework incorporates 8 categories to rate companies and are based on the alignment criteria set out in the NZIF. Whilst we believe our methodology combines the best quality data sources we can identify, we believe that – as in other areas of ESG – data is only the starting point for deeper analysis. No data source is perfect or can fully reflect the complexities of climate change policies at an individual company. However, data models do enable portfolio analysis to be undertaken on a systematic basis and provide a 'heat map' of where the biggest risks are likely to be – allowing us to prioritise our investment analysis and engagement resources.

Data sources used for company net zero alignment assessment include Climate Action 100+ Benchmark (CA100+), Transition Pathway Initiative (TPI), Science Based Targets Initiative (SBTi), Carbon Disclosure Project (CDP) and MSCI ESG.

Based on the data across these 8 categories, the model gives companies an overall alignment rating:

- **Aligned:** Company meets expectations highly in all relevant categories
- **Aligning:** Company meets core expectations around disclosure, setting targets and strategy
- **Committed:** Company has not yet met these expectations, but has committed to set a science-based target
- **Not aligned:** Company does not meet expectations, and has not committed to set a science-based target

We focus on real-world emissions reductions. We know that we can cut a portfolio's carbon intensity dramatically by selling companies in highly energy intensive sectors like electric utilities and industrials and replacing these with companies in lower-emissions industries. But such portfolio changes alone make little difference in the real world. Our ambition is to use the power of our engagement to influence companies to take action – and as their emissions fall, so too will the carbon content of our portfolio.

Overall strategy carbon emissions snapshot

	Total Carbon Emissions (Scope 1 + 2)	Total Carbon Emissions (Scope 3)	Weighted Average Carbon Intensity (Scope 1 + 2)	EVIC
Strategy	2720.8	40107.6	123.5	19.28
Benchmark	7612.3	52383.3	128.7	54.13

94% of our portfolio's Weighted average carbon intensity is derived from 5 stocks all of which are "aligning" per our NZIF.

Top 5 contributors to portfolio carbon intensity

Security	Sector	Portfolio Weight	% of Weighted average carbon intensity	Net Zero Alignment	Targets aligned
NextEra	Utilities	2%	48%	Aligning & engaged	1.5°
Linde	Materials	2.5%	27%	Aligning & engaged	>2°
Union Pacific	Industrials	2%	7%	Aligning	>2°
UPM Kymmene	Materials	1.5%	6%	Aligning	1.5°
Equinix	Real Estate	1.7%	6%	Aligning & engaged	1.5°

Science based targets initiative (SBTi) is a partnership whose objective is to ensure that best practices are used to set emission reduction targets and are in-line with climate science i.e. what the latest climate science deems necessary to meet the goals of the Paris Climate agreement (limiting global warming well below 2°C).

By the end of the year, out of our 45 holdings, 15 companies had targets set in line with SBTi Net Zero targets, with another 9 of our companies committed to a SBTi Net Zero target. It is preferable that our investments have decarbonisation targets that are developed with and approved by the SBTi, especially when operating in segments that contribute materially to carbon emissions.

Engagement

Active engagement is an important part of our investment approach and responsible investment analysis. Engaging with companies it allows us to drive change on environmental and social characteristics where appropriate, and to better understand how they contribute positively to the United Nations Sustainable Development goals.

We engage our investee companies to better understand and encourage improvements in how they are managing ESG issues. We believe that engaging in this way can help drive financial returns for our clients and contribute to a more resilient and sustainable global economy.

Over the year, we had 47 responsible investment engagements with 28 companies in the portfolio across 14 different countries. We did however meet with all our companies over the year for updates on financial performance and business strategy

47

responsible investment
engagements with...

28

companies in the
portfolio across...

14

different countries



We undertake active, targeted engagement with companies, focusing on our sustainable outcome themes, derived from the UN SDGs

ENGAGEMENT HIGHLIGHTS

Ecolab site visit



We spent a day with Ecolab, a global leader in hygiene, infection prevention and water management solutions (via Nalco Water), touring two of their key customer facilities in London. Ecolab partner with their customers across most industries to help them meet both their business and sustainability goals through solutions that combine chemistry, digital innovation, and expertise.

We spent the first half of the day with members of their Nalco water team at the Barclays office building in Canary wharf. Here we toured the water-cooling tower where Ecolab manage the water systems for the building.

Ecolab's water solutions help keep Barclay's onsite computing equipment and data centres cool, in turn avoiding damage to valuable equipment assets. By ensuring consistent water quality, Ecolab also help the client to optimise the recycling of water used to cool these systems. In addition, their chemicals mitigate the risks of water borne pathogens in water systems and in turn reduce health risks for the building's occupants.



The use of digital was also clearly on display with Ecolab's 3D TRASAR cooling water system providing advanced monitoring, analytics and reporting in real time. 3D TRASAR is digitally connected to Ecolab's global intelligence centres so that water systems are monitored 24/7. This Water Quality Intelligence ensures that performance is optimised and helps address any problem assets for the client. It also helps to quantify the savings from reduced water and energy consumption which Ecolab then use to calculate an eROI (exponential return on investment) metric. This metric quantifies the value Ecolab's solutions create for their customers, supporting price negotiations in contract renewal.

The 2nd half of the tour was spent at the Marriott County Hall Hotel where Ecolab offer a broad solution portfolio covering pest control, hygiene, and water management solutions all on site. Marriott are one of Ecolab's biggest customers with Ecolab partnering across all 8000 of their hotels.

What was clear from the tour of the hotel kitchen was just how vital Ecolab's solutions are for hotel operations. Their water solutions ensure that the dishwasher, a critical piece of equipment for the kitchen, is optimally run avoiding any downtime. Their intelligent rodent monitoring systems monitor for rodent infestations in real time, 24/7, using the data to then deliver effective solutions to eliminate infestations at source. Their hygiene solutions ensure 100% hygiene compliance by kitchen staff, particularly important in a post COVID world.

What was evident from both tours is that Ecolab is so much more than just a chemical supplier. They are really a partner for their clients with the strong relationship between Ecolab's on-site technicians and customer managers on display. It's this deep service element, along with the clear financial and sustainable value proposition Ecolab offers, that is instrumental to the stickiness of their client relationships.

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ENGAGEMENT HIGHLIGHTS

Motorola Solutions Innovation Centre



Motorola Solutions delivers devices, networks and video technology that performs reliably and securely even in the harshest conditions and in turn plays a vital role in keeping emergency responders, like the police force, connected and communities safe. By introducing software and services to enhance their Land Mobile Radio (LMR) communication solutions²⁶ they've been able to expand into adjacent markets including video security systems powered by AI analytics

and command centre software to which they stream their voice, video, and data feeds.

Motorola showcased these key technologies to us at their London innovation centre. They demonstrated how by combining their handsets with video and command centre software they were able to deliver more effective user and community protection. For example, they showed that by using their AI integrated video solutions a command centre operator was better guided to what they should be viewing rather than trying to choose what to view themselves. This means that operators could make faster, more focused, and more accurate decisions. And unlike human operators, AI software does not get bored or tired.

They also demonstrated the body worn cameras used by first responders such as police officers. These cameras are linked to a Motorola Bluetooth connected handset which streams video back to one of Motorola's 6000 911 command centres across the US in turn helping to keep the wearer connected and safe in emergencies whilst gathering any vital evidence through the video streams.

The Motorola team also noted how all three of their technologies – LMR, Video and command centre solutions – are helping to protect schools in the US increasingly under threat from shooters. They are supplying voice communications to schools and the officers that support the schools as well as the video hardware and analytics used to help in both preventative and reactive scenarios.



Through investment in research and development and acquisitions, Motorola is shifting more of their business towards sales from video security and command centre software and services. Management believe it is these technologies that will help drive strong, defensive company sales growth going forward. They noted that Motorola now has at least one software module in ~3,500 of ~6,000 total 911 call centres in America but with only ~600 having multiple solutions there is still a large market opportunity.

They also dismissed concerns around competitor video devices displacing their core LMR solutions by showcasing their next generation of LMR devices, APX Next Smart Radio. They noted that it's through new product innovation that they can sustain their market lead.

Overall, it was clear from the demonstration that through innovation Motorola are better able to protect the users of their technology as well as the broader community in which they serve.



²⁶ LMR systems are wireless push-to-talk communications systems commonly used by emergency responders, public works and military to support secure and instant daily voice communication.
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