



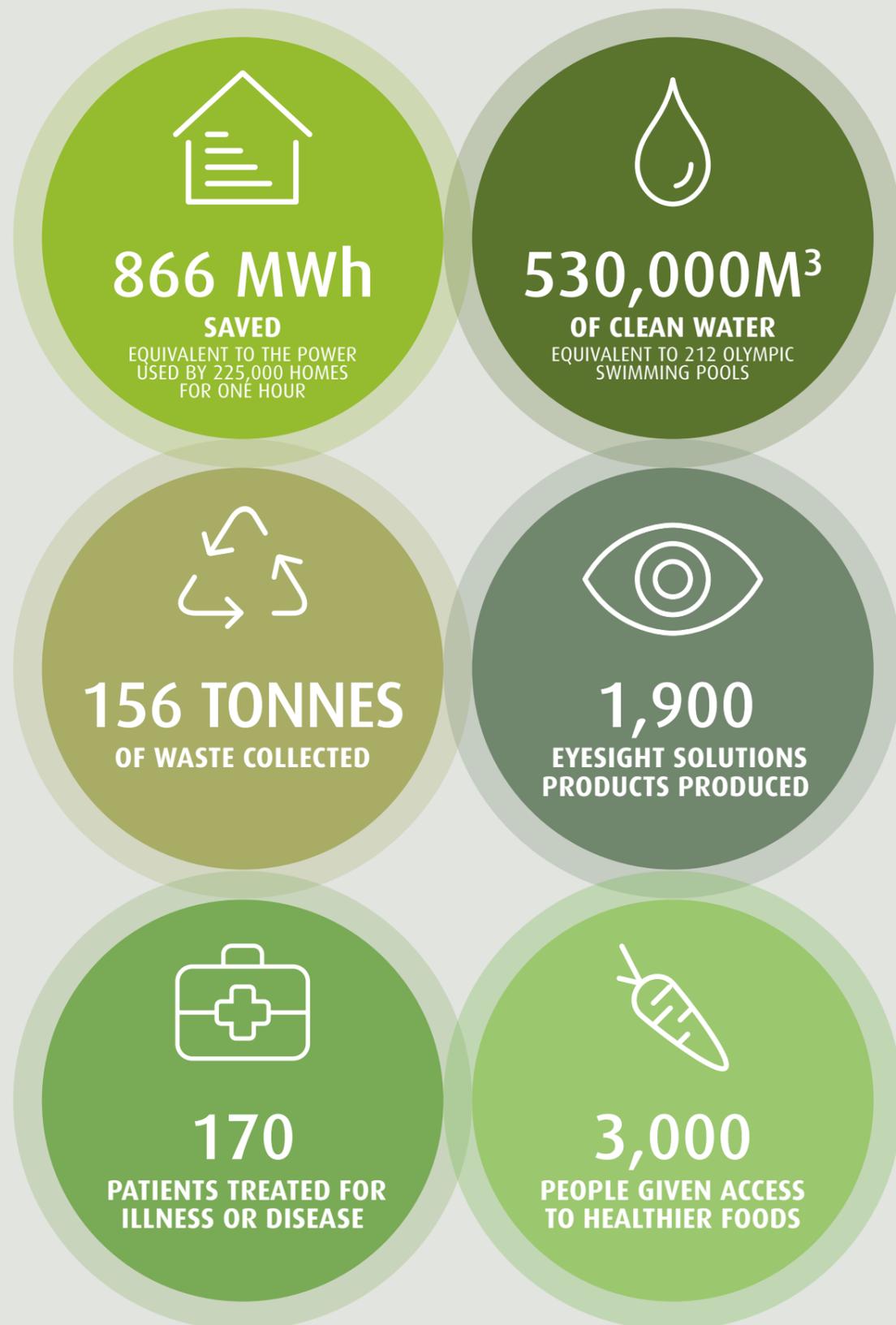
BETTERWORLD

FUND

IMPACT REPORT 2018

MONTANARO

THE IMPACT OF A £1 MILLION INVESTMENT:



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Introduction

Welcome to the very first Impact Report on the Better World Fund. As the name suggests, our goal is not only to deliver attractive returns but also to make a difference.

Why now? You only have to look around to see the problems facing the world or watch a documentary by David Attenborough to see the harm that we are doing to our planet. The world is facing major challenges (the United Nations count seventeen) and the only way to solve these is by mobilising private capital, which is where the City can help. Although we at Montanaro try to do our bit - with our own charity, Tribal Survival, and other office initiatives such as our voluntary charity days - we now want to take it to the next level.

Why us? We have always specialised in investing in the highest quality quoted smaller companies that are growing, where most of the opportunities lie. Positive impact investing is not just about crunching numbers sitting behind a computer. You need to get under the skin of the companies and support them on their journey towards greater sustainability. That means having a large team of Analysts able to engage with management to encourage positive change. Only truly long-term investors like us (a rarity these days) have the luxury of being able to do so effectively - change takes time. And we will never sacrifice Quality; we are not “concept” investors. Having a good idea alone is not enough; our investors expect attractive and superior returns but also to know that they are investing in companies that will make a difference to the world.

We are very excited. The buzz in the office is palpable as our Analysts head across the world to meet new companies. Some of these companies have never seen a European institutional investor before. The best laid plans do not always work out as some Analysts arrived in Boston to face an almighty snow blizzard.

It is a family affair and we are all involved, ranging from the members of our ESG Committee who have debated at length the impact merits of potential investments; to our Analysts getting to know and meet many new companies; and our back office setting up our systems to trade in new markets. The name of the Fund came from my wife!

We are now ready. It has been an exciting adventure so far and it has only just begun. We are particularly pleased that our Fund has been awarded a 5 star rating by 3D Investing at the start of this journey. We look forward to sharing what we learn with you over the coming years. Join us if you can.



Charles Montanaro



An Overview

Our goal is to deliver attractive risk-adjusted returns to our clients by investing in companies that make a positive impact on the world.

How do we identify “Better World” companies? As Charles notes in his introduction, we will remain true to our heritage by only investing in quality companies. In our view, Impact and Quality go hand-in-hand: a business cannot make a long-term positive impact if it does not have a sound financial footing.

In terms of assessing impact, The United Nations Sustainable Development Goals (SDGs) are an obvious starting point. We have condensed the SDGs - and their corresponding 169 targets and 232 indicators - into six core, investable themes (see below).

These six themes help us to identify companies whose products or services can help to solve some of the major problems facing the world. They prompt

us to ask lots of questions. For example, do the company’s products help the transition to a lower carbon economy? Or do their services help to address problems related to demographic change? This is a qualitative step, requiring us to know our companies inside out. We then assess the financials of the company, ensuring that at least 50% of revenue can be attributed to one or more of our themes.

Assessing a company’s impact is the first step in our investment process and all potential investments must be approved for impact.



Our Top 10 Holdings

The Better World Fund is constructed on a bottom-up basis. To be eligible for inclusion, a company must pass both our “Impact” and “Quality” criteria. Position size is then determined by the Fund Manager based on Impact, Quality, Valuation, Risk and Liquidity*.

Chr Hansen produces cultures and dairy enzymes, probiotics and natural colours for the food, health and animal feed industries. These are being used to promote sustainable farming, reduce food waste, and encourage healthy eating.

Croda produces specialty chemicals such as the active ingredient used in sun cream and lubricants that help improve the efficiency of wind turbines. New products are assessed against the globally recognised “12 Principles of Green Chemistry” framework.

Halma’s products focus on safety, health and environmental markets. These include fire and smoke detectors, eye surgery equipment, and testing systems used to assess water quality and measure environmental data.

Idexx Laboratories provides point-of-care veterinary diagnostic products, helping vets to identify and treat illnesses in pets, as well as livestock and poultry.

IPG Photonics develops and manufactures high-performance fibre lasers that help to bring products to market with greater speed and accuracy across a range of industries. IPG lasers are 15 to 30 times more energy efficient than some traditional lasers.

Melexis is a global supplier of sensors to the automotive industry, helping to make cars safer, cleaner and ‘smarter’. The company estimates that

there are 10 Melexis chips in every new car. These chips are the brains behind automatic braking systems and fuel efficient technologies.

Qualys provides a cloud-based cybersecurity platform that enables organisations to identify security risks in their IT infrastructures. Given the cost of cybercrime to the global economy has been estimated at \$600 billion, such services are vital to the future of the digital economy.

Sartorius Stedim provides equipment used to develop biologic drugs. Biologics are revolutionising the treatment of many chronic diseases such as arthritis, multiple sclerosis and certain cancers, but they are complex and expensive to make. Sartorius’ products help lower the cost of biologic development by between 15% and 40%.

Tecan is a provider of automated laboratory instruments and solutions. The Life Sciences division supports the automation of drug development, while the Diagnostics business makes equipment for blood tests, aiding diagnosis and preventative treatment.

Waters Corporation provides testing technologies to a range of industries including the pharmaceutical, nutritional, and environmental markets. These help to ensure the safety of new drugs, the consistency of food, and the health of natural environments that have been exposed to industry.

OUR PORTFOLIO COMPANIES PROVIDED OVER

15
BILLION M³
OF CLEAN WATER
EQUAL TO OVER 6 MILLION OLYMPIC POOLS



Environmental Protection



Humanity is leaving an indelible footprint on the planet. The Environmental Protection theme allows us to identify companies that help the environment, either by improving the way we manage resources or by providing products or services that are less environmentally damaging than alternatives.

POLLUTION CONTROL

Air pollution is the fourth leading cause of premature deaths worldwide. Aside from the considerable human suffering, the World Bank estimates that these deaths cost the world economy over \$200 billion in lost productivity each year. Investment is needed in companies which can mitigate all forms of pollution.

WATER TREATMENT

Just 3% of Earth's water is fresh, most of which is frozen in the glaciers of Antarctica and the Arctic. The United Nations note that water scarcity, poor water quality, and inadequate sanitation negatively impacts food security, livelihood choices and educational opportunities for people across the world.

WASTE RECYCLING & MANAGEMENT

Should the global population reach 9.6 billion by 2050, the equivalent of almost three planets would be required to provide the natural resources needed to sustain current lifestyles. Waste recycling and management is therefore of the utmost importance.

TESTING, INSPECTION & CERTIFICATION

Pressure on natural resources is leading to new production techniques. For example, scientists have increased the speed of photosynthesis, leading to increased crop yields. Testing and inspection of new methods will be needed to ensure the consistency and quality of products.



COMPANIES IN ACTION

Polypipe is the UK's largest manufacturer of plastic piping systems and energy efficient ventilation systems. Their products have a number of benefits: plastic pipes typically weigh 94% less than concrete equivalents, requiring less construction time, less labour and less heavy plant equipment. This relative lightness means that just 3 deliveries are needed to deliver 1km of 450mm Polypipe drain pipes, compared with 12 deliveries for concrete equivalents. Where possible, the company's pipes and fittings are made using recycled material (over 75% currently) and all products are 100% recyclable at the end of their useful life.

US Ecology is a leading provider of environmental services to commercial and government entities operating in North America. They address complex waste management needs via treatment, disposal and recycling of hazardous and radioactive waste. US Ecology has 5 hazardous waste landfills and one commercial radioactive waste landfill, along with over 20 treatment, disposal, storage and service centres throughout the US and Canada. As hazardous waste cannot be recycled or incinerated, the only option is to safely stabilise and dispose of it in specially designed landfills. Proper management of this "containment process" is vital to ensure that these hazards do not find their way back into our ecosystem, protecting human health and the environment for future generations.

Low Carbon Economy



“Next time you meet a climate-change denier”, said the late Steven Hawking, “tell them to take a trip to Venus”. Our neighbour was a lot like Earth for 2 billion years of its early life, but temperatures there now exceed 465°C and the air is 96% carbon dioxide. For Earth to avoid a similar fate, a transition to a less carbon-dependent economy is needed.

RENEWABLE ENERGY

The World Energy Council notes that “the rate of improvements towards cleaner energy is far slower than required to meet emissions targets”. Oil remains the world’s leading source of energy, while coal still provides around 40% of the world’s electricity. Solar and Wind account for just 8% of energy produced.

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SMART INFRASTRUCTURE

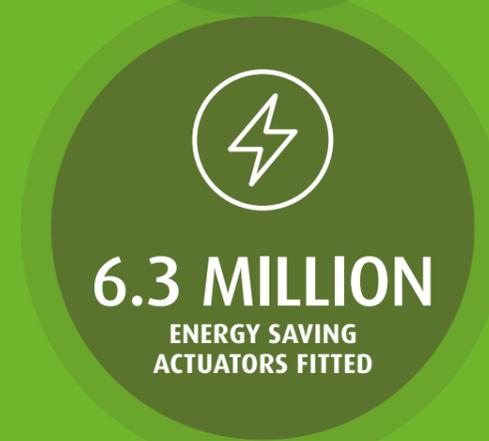
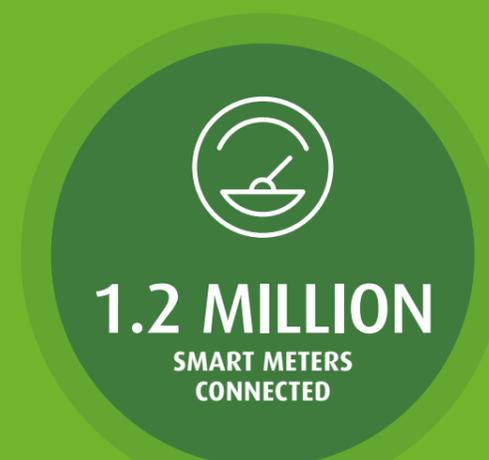
The global population is gravitating towards the world’s cities. The World Bank estimates that rural to urban migration will lead to an urban population increase of 46% by 2040. This will require \$97 trillion of infrastructure investment. Private capital will clearly have a role to play.

EFFICIENT TRANSPORTATION

Safe, equitable, and energy-efficient transport “can help achieve multiple health and sustainability goals”, according to the World Health Organisation. Most forms of transport can become more efficient, from cleaner vehicles to more fuel efficient aeroplane engines.

CLIMATE CHANGE ADAPTATION

In 2016, global temperatures hit a new record high of 1.1°C above pre-industrial levels. The previous record was 2015. Alongside mitigation techniques which can help to halt or hopefully reverse climate change, adaptation methods are needed. This is because climate change will continue for time even if greenhouse gases stabilise.



COMPANIES IN ACTION

Kingspan is the global leader in high performance insulation and building envelopes. Its products enable the construction of energy efficient buildings, reducing running costs and meeting environmental regulations and greenhouse emissions targets. Around 30% of global greenhouse gas emissions are attributable to buildings. Already Kingspan has had a large impact. The total energy saved by its insulation systems sold between 1993 and 2017 is equivalent to over 100 million barrels of oil; 4.3 times the annual electricity consumption of Greater London; and the annual output of sixty-one power stations. For the third year running, Kingspan retained its position on the 2017 CDP ‘A List’, one of only 120 companies globally to achieve this.

Smart Metering Systems connects, owns, operates and maintains metering systems. Smart meters have the potential to drive greater energy efficiencies and support the transition to a low carbon economy. They do this by providing greater transparency to home owners on how, when and with which applications they are consuming energy. Smart meters are the gateway to a range of products and services that will transform energy systems over the long-term, by encouraging energy users to spread energy consumption across both peak and off-peak times. This will alleviate strain on the national grid, reducing the need for expensive capacity expansion.

As populations grow and demographics age, providing cost effective healthcare is increasingly difficult. In the US alone, the healthcare burden increased by \$900 billion between 1996 and 2013 according to *The Journal of the American Medical Association*.

TREATMENT OF ILLNESSES & DISEASE

Heart disease and strokes are the world's biggest killers, accounting for a combined 15 million deaths in 2015. These diseases have remained the leading causes of death globally over the last 15 years. The UN aims to cut premature mortality from non-communicable diseases (cardiovascular, cancers, chronic respiratory diseases & diabetes) by one third by 2030.

AFFORDABLE HEALTHCARE

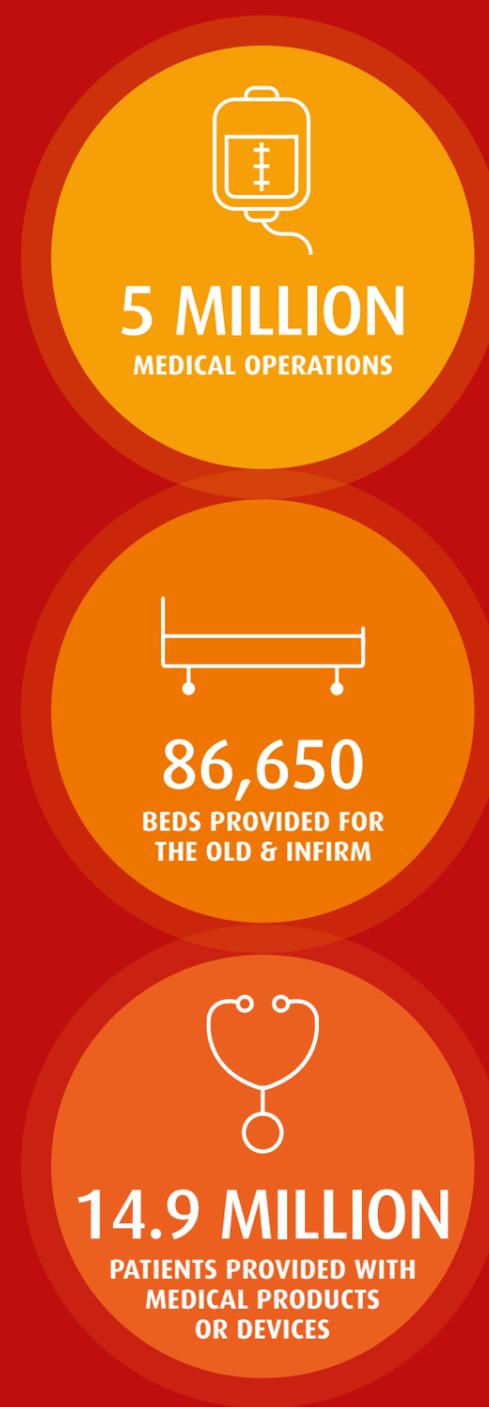
The UN notes the need to "increase the proportion of the population with access to affordable medicines and vaccines on a sustainable basis". Certain companies can help to make healthcare more affordable, for example via the production of generic drugs, new prevention technologies, or efficiencies in manufacturing processes that reduce the cost of bringing new treatments to market.

CHANGING DEMOGRAPHICS

By 2030, there will be 34 "Super-Aged" nations, where more than 20% of the population are over 65. Demographic change will increase spending pressures in the coming years, with healthcare posing as big a fiscal challenge as pensions.

PREVENTION

Prevention is the best form of healthcare. Early diagnosis increases the chances of recovery, reducing the need for costly forms of treatment. New forms of testing and improved diagnostic treatment can improve public health while at the same time saving cost.



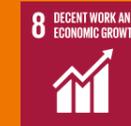
COMPANIES IN ACTION

Carl Zeiss Meditec is a global leader in ophthalmology, the branch of medicine dealing with the eye. The company provides treatment for cataracts, whereby an aged, opaque eye lens is removed and replaced with an artificial one. This procedure has a success rate of over 90%, yet too few people have access to such treatment. The World Health Organisation estimates that 51% of world blindness is due to cataracts. As people in the world live longer, the number of people with cataracts is anticipated to grow. With operations in the US, Europe, the Middle East and Asia, Carl Zeiss is well placed to help.

Orpea operates nursing homes, post-acute and rehabilitation hospitals, psychiatric hospitals, senior assisted living residences and provides homecare assistance. These services are essential given the exponential growth of elderly people needing long-term care. The number of over 80s worldwide is forecast to rise by 230% by 2050. Public hospitals simply do not have the capacity to deal with this. In Western Europe, there are 15 to 20 beds per 100 for people aged over 80. In Latin America, Asia and Eastern Europe the situation is even more acute: there are 0 to 5 beds available for every person over 80.



Innovative Technologies



Technological innovation is leading to shifts in lifestyles, businesses and economies. The impact of such innovation is both positive and potentially disruptive. For investors, the challenge is to identify which technologies are sustainable and which “next big thing” is but a flash in the pan.

MANUFACTURING EFFICIENCIES

The UN notes that “*manufacturing is a principal driver of economic development, employment and social stability*”. Greater efficiencies in manufacturing processes can deliver a positive impact by bringing new products and services to market faster, cheaper, with greater accuracy, wider availability and lower environmental footprints.

AUTOMATION

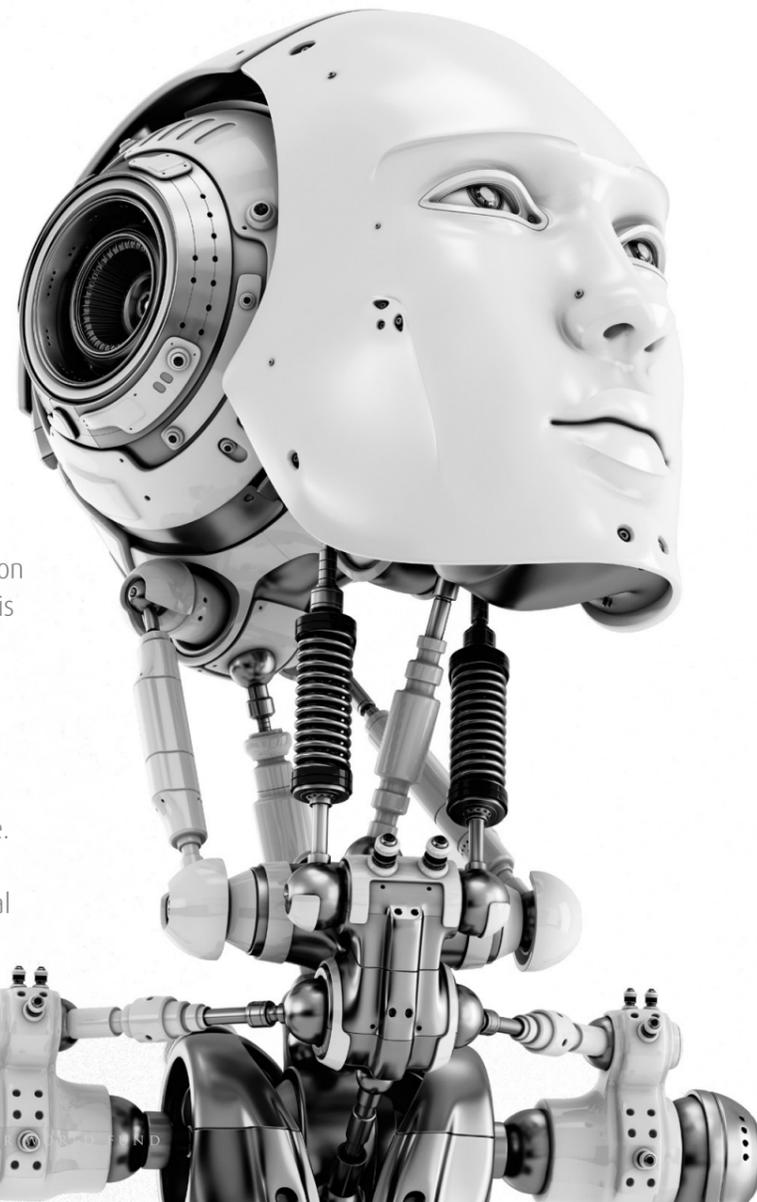
A 2017 report by the consultancy McKinsey, notes that “*the world’s economy will actually need every erg of human labour working, in addition to the robots, to overcome demographic aging trends in both developed and developing economies*”. Automation can help to drive economic growth.

CONNECTED WORLD

There were 3.8 billion internet users in 2017. By 2030, there could be 7.5 billion people surfing the web, equal to 90% of the projected world population as the internet of things explodes. The digital shift is allowing people living in previously unconnected areas to join the global information society.

CYBERSECURITY

Just as street crime grew in line with urbanisation, cybercrime is increasing as more of us “live” online. Estimates indicate that cybercrime cost the world economy \$600 billion in 2017, some 0.8% of global GDP. Cybercrime impacts many people: the Yahoo hack affected 3 billion accounts, while the Equifax breach hit 145 million customers.



COMPANIES IN ACTION



10,300
BUSINESSES PROTECTED
BY CYBERSECURITY



2.3 MILLION
DIGITAL USERS
SUPPORTED



1.6 MILLION
CHARITIES PROVIDED
WITH CLOUD-BASED
SOLUTIONS

Qualys provides a cloud-based platform delivering security and compliance solutions that enable organisations to identify security risks in their IT infrastructures. Their clients include many of the Forbes Global 100. Each year, Qualys helps protect over 1 trillion online interactions. Cyber attacks in 2017 impacted every area of life: ships were prevented from leaving port; production lines were halted; and workers were locked out of computers. Qualys’ services are vital to our modern way of life.

Ansys develops and markets engineering simulation software and services. These help to make manufacturing processes more efficient, bringing new products to market faster. Estimates suggest simulation can reduce development time by a factor of 9 times. The potential for impact is large. As the company states, “*if you’ve ever seen a rocket launch, flown on an airplane, driven a car, used a computer, touched a mobile device, crossed a bridge, or put on wearable technology, chances are you’ve used a product where Ansys software played a critical role in its creation*”.

The second UN Sustainable Development Goal aims to end hunger and all forms of malnutrition by 2030. It also commits to universal access to safe, nutritious and sufficient food at all times of the year. The achievement of this will require the development of agricultural techniques, fairer food distribution, improved diets and enhanced food security.

EFFICIENT FOOD PRODUCTION

The Grantham Centre for Sustainable Futures has calculated that 33% of the world's arable land has been lost to pollution or erosion in the past 40 years. This is a problem given that by 2050 food production will have to increase by 70% in order to feed the global population.

SUSTAINABLE DISTRIBUTION

Improved food distribution may help to reduce the 1.3 billion tonnes of food waste generated every year. Another benefit may be a lower environmental footprint: the food sector accounts for around 30% of the world's total energy consumption and 22% of total greenhouse gas emissions.

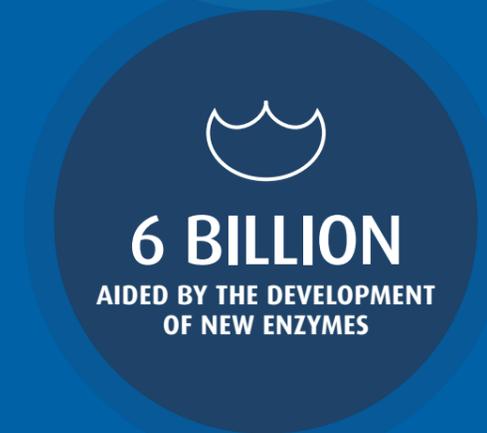
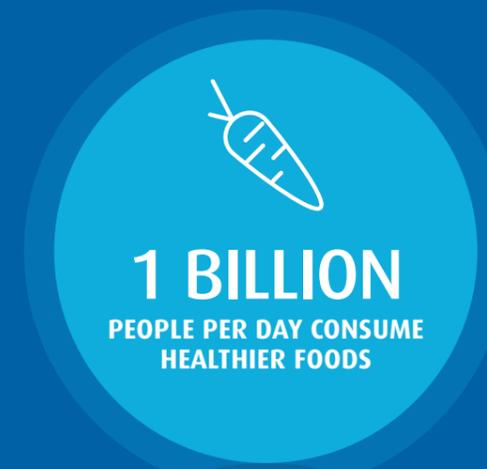
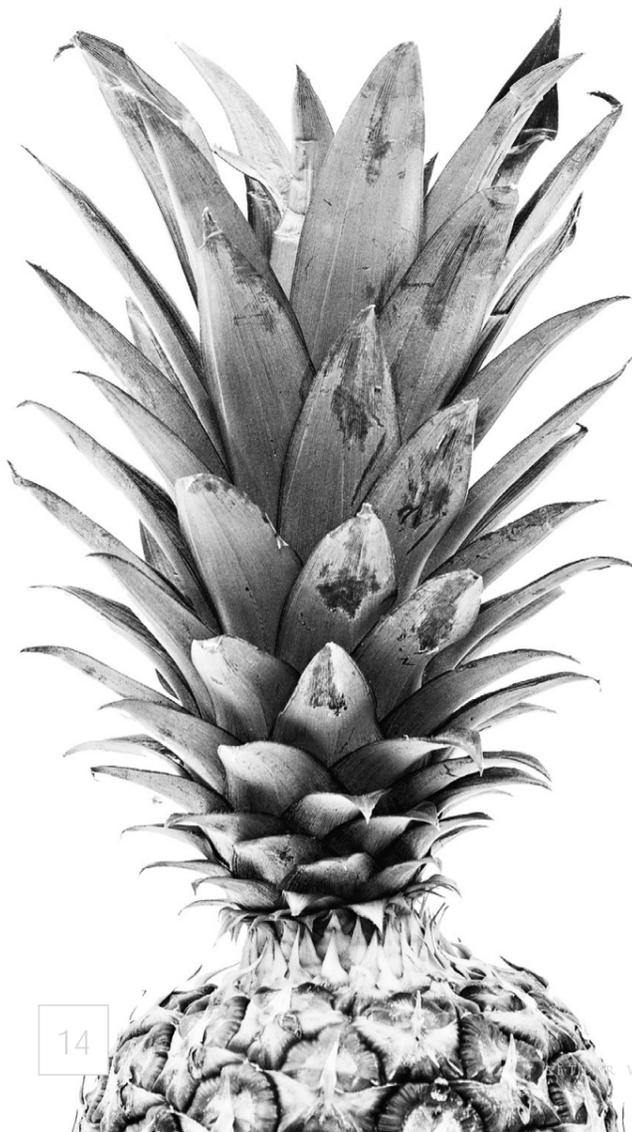
HEALTHY EATING

Nothing demonstrates inequality better than food. There are more than 2 billion obese or overweight adults in the world. Meanwhile, there are currently 1.5 billion undernourished or hungry people on Earth. Encouraging healthy eating may help us to use limited resources more efficiently.

FOOD SECURITY

The future of some foods is so insecure that a Global Seed Vault has been constructed in the Arctic, an impregnable deep freeze storing Earth's most precious seeds.

The food security spectrum is wide: an expanding global middle class is increasing competition for protein-rich foods, while in 2016 the number of people going hungry in the world increased for the first time this century.



COMPANIES IN ACTION

Chr Hansen makes cultures, dairy enzymes, probiotics and natural colours for the food, health and animal feed industries. Their product innovation is based on more than 30,000 microbial strains - which they refer to as 'good bacteria'. Certain solutions enable food manufacturers to produce more with less - while also reducing the use of chemicals and other synthetic additives. These natural solutions are being applied to farmland, helping to enhance crop yield. The target is to treat 25 million hectares of farmland by 2025, equivalent to double the farmland of Italy.

Novozymes is the leading producer of enzymes to a range of industries. In the food industry enzymes are being used to improve the nutritional profile of food, for example increasing protein content, lowering salt content, and removing lactose from dairy. Certain solutions also help improve animal digestion, resulting in higher farm productivity. Other solutions help with wastewater treatment and sludge reduction. For example, Novozymes have created a microorganism which helps to degrade harmful hydrocarbons often found in waste water at oil and gas sites.

Well-being



Well-being, according to the Oxford Dictionary, is *“the state of being comfortable, healthy, or happy”*. The National Health Service in the UK suggests that well-being can be enhanced by staying social, remaining active, continuing to learn, giving to others, and being mindful.

SAFETY

New technologies and practices can make people safer: at work, at home and in their lives in between. As an example, more than 1.25 million people die each year as a result of road traffic accidents, according to the World Health Organisation. Without action, these accidents are predicted to become the seventh leading cause of death by 2030.

WELLNESS

“If exercise were a pill, it would be one of the most cost-effective drugs ever invented”, according to health advice in the UK. Human wellness lies at the heart of a better world, from companies promoting more active lifestyles to those seeking to reduce inequalities, for example by providing products and services to help new parents manage the changes in their lives.

ANIMAL WELFARE

Pets are well worth looking after. In the US, the largest pet market in the world, 95% of pet owners consider their pets to be part of the family, according to the information provider Nielsen. Owning a pet has a number of benefits: better fitness; increased sociability; improved responsibility; companionship; and enhanced mental health.

EDUCATION

“Education”, said Nelson Mandela, *“is the most powerful weapon which you can use to change the world”*. Despite progress, the world failed to meet the Millennium Development Goal of achieving universal primary education by 2015. There is still work to be done.



COMPANIES IN ACTION

Autoliv is the global leader in automotive safety. Their products save over 30,000 lives a year and prevent ten times as many severe injuries. Every year, Autoliv makes over 150 million seatbelts and more than 150 million airbags. The seatbelt is the top life-saving device, reducing fatalities in passenger cars for all types of crashes by 45%. In frontal crashes, driver airbags plus seatbelts reduce fatalities by 61%. The company is developing Active Safety systems to prevent accidents through radar and night vision sensors, active seatbelts and active-braking systems. Industry experts have informed us that these braking systems have the potential to be as revolutionary to driver and passenger safety as the introduction of the seatbelt.

Halma’s stated aim is *“to grow a safer, cleaner, healthier future for everyone, every day”*. They do this by providing products to customers that have a core focus on the safety, environmental, and health markets. Their fire protection sensors protect people across the world in public buildings and offices, including landmarks such as Buckingham Palace and the White House. Their water monitoring sensors protect global water networks and ensure clean water for millions of people; their medical sensors help spot preventable diseases and restore lost eyesight; and their environmental sensors help measure air quality in cities and monitor the planet’s health from space.



Site Visit: A.O. Smith

It was the Greek philosopher Empedocles who first proposed the classical theory of the elements: earth, water, air and fire. Centuries later, a US company called A.O. Smith is applying modern technology to the elements, developing products to heat efficiently, treat water and purify air in order to improve life on Earth. Two of our Analysts, Gaspar and Stefan, travelled to the company's World Headquarters in Milwaukee, Wisconsin to learn more about their business.

HEATERS & BOILERS

A.O. Smith began life in 1874 making steel tubing from sheet metal for baby carriages and bicycles. Today, the company is a world leader in three markets: water heaters (which heat water for use in cooking, cleaning and bathing), water boilers (used to prepare water for closed loop products such as radiators) and water treatment products (which purify water for drinking).

Success in the heater and boiler markets has been achieved largely due to one thing: A.O. Smith products have the highest energy efficiency ratios in the industry.

In other words, very little energy is lost in the heating and boiling processes. This makes them cheaper to run and more environmentally friendly than some alternative products. Their products are popular, not just in the US, but also in other markets such as China, where A.O. Smith has developed a strong brand.

WATER WORLD

Having remained constant for several millennia, the volume of available drinking water on Earth is now dwindling. Since 1900, the world has lost around 50% of its wetlands, while an estimated 20% of the world's aquifers are being affected by land subsidence and saltwater intrusion. A 2016 study in *Environmental Health Perspectives* found that arsenic was prevalent in US water, while heavy metals are common in the water supplies of China and India. Water treatment is therefore of paramount importance, as a BBC article titled "Why we all need to start drinking toilet water" wryly observed.

This problem was seen as an opportunity by A.O. Smith, who acquired a small Chinese water treatment business in 2010. Technicians at the Milwaukee Corporate Technology Centre then swung into action. We visited the centre to learn more about the company's approach to innovation. It comprises some 50,000 square feet of high-tech laboratories and water testing areas, capable of replicating water conditions anywhere on Earth. We learnt that it was here that a highly effective technique called "Reverse Osmosis" was developed. This uses high pressure to force water through a semi-permeable membrane, filtering out toxins, microbes, debris, and minerals to produce water with a purity of 95% to 99%.

THE BIRD'S NEST

A.O. Smith are now applying their filtration expertise to air. The reason for this will be familiar to anyone who has visited The Bird's Nest Stadium in Beijing. On clear days the steel frames glint in the sun, evoking memories of China's first ever Olympic Games. Too often, however, the stadium provides an eerie backdrop to the Chaoyang District. A blanket of smog coats the city, a visible sign of Beijing's dirty air. Poor air and water quality are a growing concern worldwide as urbanisation rates increase. In China, over 50% of the population now live in large cities. Asia is not alone in facing this problem. The air in London has been branded "shocking and illegal" by the city's Mayor. Air purification systems in homes and offices are increasingly needed.



QUALITY IMPACT

In a world of wasted energy, sparse water and polluted air, A.O. Smith's products can clearly help to make for a better world. A.O. Smith is also a high quality business underpinned by strong fundamentals: target organic revenue growth of 8% p.a., EPS growth which has compounded at an annualised rate of 20% since 2010 and a clean balance sheet with net cash. We were especially pleased to hear the Chairman and CEO, Ajita Rajendra, tell us during our visit that "many investors who we meet say they integrate ESG criteria in the investment process but only spend 3 minutes talking about it before moving on to the business. However you have shown us that you are very serious about it and that is very good". To us, this was time well spent.

Site Visit: Restore

“The unsustainable use of resources”, according to the United Nations, “has triggered critical scarcities and caused climate change and widespread environmental degradation”. Part of the solution involves a transition to a more circular economy, in which the same resources are used again and again. Restore, a UK listed company providing document storage, shredding, scanning, IT recycling, and relocation services, can help. We have conducted a number of site visits over the years and recently met with the CEO, Charles Skinner, to discuss how each of the business divisions can make for a better world.



RECORDS MANAGEMENT

Certain documents - such as legal records - must be stored for long periods of time before they can be disposed of. Restore stores over 15 million boxes for clients, including many of the FTSE 100, large law firms and local authorities. Once the documents are no longer required, the contents are recycled along with the boxes which are made from material that is 70% recycled. The benefits are two-fold: space is saved in offices and public facilities which frees up room in city centres. Meanwhile, the subsequent recycling helps Restore’s customers to meet their own environmental targets. Restore’s market share has grown to over 20% from just 6% in 2014 following a number of astute acquisitions. The latest of these is storage business TNT Data Storage, which brings public sector clients such as the Land Registry and Ministry of Defence into the fold.

DATASHRED

As well as recycling the contents of old storage boxes, Datashred collects and shreds confidential waste from clients. This ensures waste paper is disposed of in an eco-friendly way.

All shredded waste is processed with a 100% recycle rate. In 2017, Restore’s customers recycled 80,000 tonnes of paper, while 505,000 paper briquettes were turned into paper goods.

The positive impact of a tonne of recycled paper has been calculated by the University of Southern Indiana: one tonne can save 17 trees, 380 gallons of oil, three cubic yards of landfill space, 4,000 kilowatts of energy, and 7,000 gallons of water.

DIGITAL

Restore can scan over 600 million images each year, which illustrates the size of their scanning capacity. Again, this saves office space and reduces waste. By way of example, The National Health Service (NHS) in the UK is a client of Restore Digital. NHS documents are stored in the cloud with state of the art cybersecurity technology. Patient records can then be sent virtually between hospitals, reducing the printing of duplicates and minimising the risk of sending hard copies of confidential records.

IT LIFECYCLE

There are over 50 million computers in the UK; 18 million of these are upgraded each year. The Lifecycle division processed 450,000 items - from PCs to mobile phones - in 2017. These items were either refurbished for resale or stripped down to component level so that elements such as precious metals could be recycled. This helps customers adhere to *The Waste Electrical and Electronic Equipment Directive (WEEE)*, while also reducing chemicals, metals and plastic substances entering landfill. Restore also processes printer cartridges. In 2017, 1.2 million printer cartridges were sent for remanufacture, while another 1.3 million printer cartridges were recycled.

RELOCATION, RELOCATION

The relocation business disposes of customers’ unwanted furniture using a range of environmentally friendly solutions, from recycling to refurbishment through to resale or charitable donation.

Last year Restore provided over 700 tonnes of “No Longer Needed” assets to charities, schools, community and voluntary groups and start-up businesses.

THEMATIC TAILWINDS

The potential for Restore appears substantial, underpinned by the company’s sound financials. The core business is growing impressively at a 7% organic rate, cash flows are strong and margins are high. Management is also of top quality. In our view, these quality attributes are supported by thematic tailwinds, as evidenced by the company’s alignment with the UN “Climate Action” and “Life on Land” SDGs. It is difficult to think of any business or public sector provider that does not require at least one of their services. Resource efficiency is only going to become more important in the future.



A woman with brown hair is lying in a hospital bed, looking upwards. She is wearing a white hospital gown. Above her is a large circular graphic with a gold and grey border. Inside the circle, the text reads: "OUR PORTFOLIO COMPANIES HELPED TREAT 24 MILLION PATIENTS IN 2017".

OUR PORTFOLIO COMPANIES HELPED TREAT

24

MILLION PATIENTS
IN 2017

Methodology

We divide the calculation of impact into three sub-categories: the impact of products and services; carbon emissions; and ESG data. Different methodologies were used to determine the data for each of these sub-categories, which are outlined in further detail below. Impact calculations are derived from the latest publically available company data.

PRODUCT AND SERVICE IMPACT ANALYSIS

For each holding, a number of key performance indicators were developed to best reflect the impact of the company. Where the company disclosed that data itself, company data was used. Where the data was not disclosed, user-defined peer group data and market share data was used to calculate the metrics. Where the data could not be accurately estimated, the company was excluded from that part of the analysis.

CARBON DATA ANALYSIS

Scope 1, 2 and 3 emissions data was obtained from company filings and CDP collected data. Where emissions data was not reported, the emissions data was computed based on user-defined peer group data using average emissions intensity ratios.

ESG DATA ANALYSIS

ESG data was obtained using the Bloomberg ESG Tool and from company disclosure. Where data was not available the company was excluded from analysis.

ENGAGEMENT

Engaging with our companies is a key part of the Montanaro investment approach. As long-term investors with a large Analyst team, we engage constructively with companies to effect sustainable and positive change. We will be reporting on our engagement activities in next year's annual report.

Quantifying the impact of a company's products and services and the impact of their operations is a complicated and multifaceted task and the approach to measurement is still a nascent industry. As such, we would welcome any questions, suggestions, or feedback.

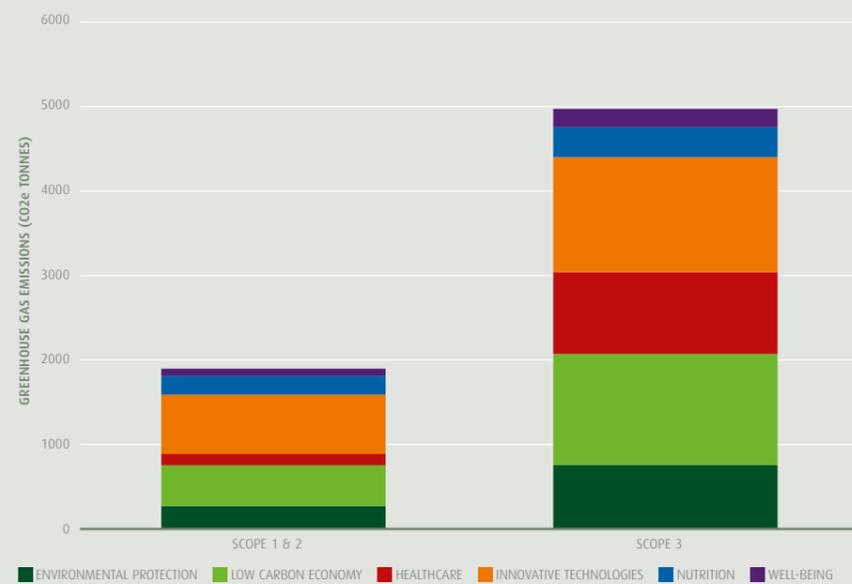
Measuring Impact

CARBON IMPACT

The total Scope 1 and 2 emissions attributable to the Fund based on the respective ownership in the underlying companies (termed “financed emissions”) was 1,881 tCO₂e (Tonnes of carbon dioxide equivalents), corresponding to an emissions investment intensity of 27 tCO₂e per £1m invested. The Scope 3 financed emissions for the Fund were 4,983 tCO₂e corresponding to financed emissions of 70 tCO₂e per £1m invested. When combined with Scope 1 and 2 emissions, the total financed emissions which can be attributed to the Fund were 97 tCO₂e per £1m invested.

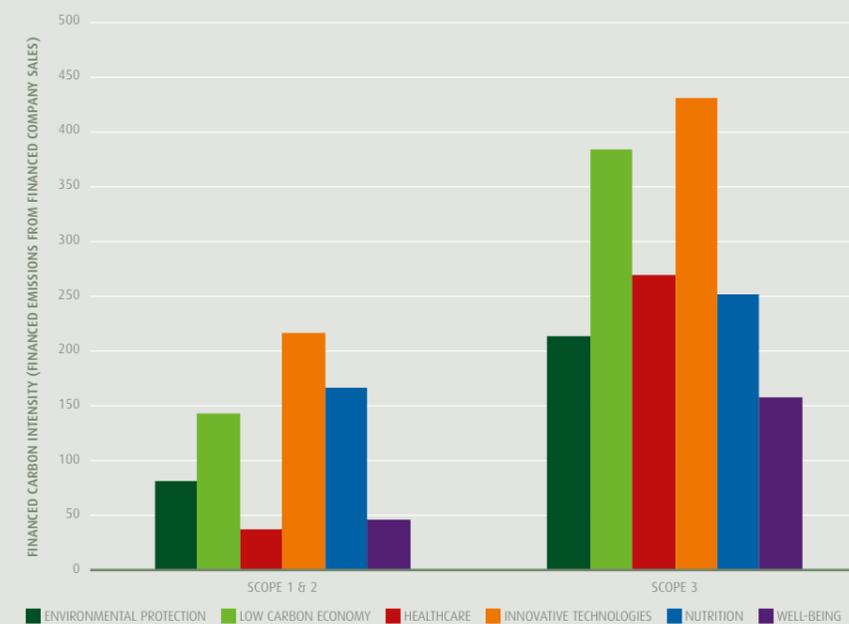
COMPANIES WITHIN THE FUND HAD AN EMISSIONS INVESTMENT INTENSITY OF 27 tCO₂e PER £1 MILLION INVESTED

FINANCED EMISSIONS PER £1 INVESTMENT



Innovative Technologies represented 22% of the Fund by investment allocation and 31% of Scope 1, 2 and 3 financed emissions reflecting the higher intensity of companies within this theme (and therefore the higher financed emissions attributable to the Fund).

FINANCED CARBON INTENSITY



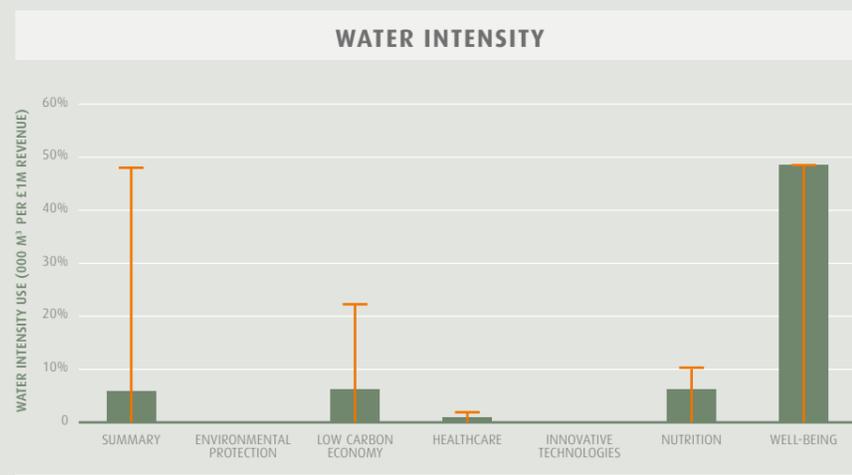
Financed emissions intensity is a metric used to assess the financed emissions that a portfolio emits when generating £1m in financed revenue (i.e. revenue attributable to the Fund based on the ownership in the underlying companies). The metric shows the efficiency of the companies within each sector and is a useful measure of a Fund’s exposure to carbon-intensive sectors. The Innovative Technologies theme was responsible for Scope 1 and 2 financed emissions of 603 tCO₂e and had financed revenue of £3m. This implies a financed emissions intensity of 190 tCO₂e per £1m of financed revenue. The lowest financed emissions intensity was from the Healthcare and Well-being themes which both emitted 19 tCO₂e per £1m of financed revenue.

WASTE AND WATER IMPACT

The average water intensity of the Fund was 6 m³ per £1m revenue generated (with a median of 0.4 m³ per £1m revenue).

The average waste intensity of the Fund was 13 tonnes per £1m revenue generated (with a median of 1 tonne per £1m revenue).

The highest waste intensities were attributable to Victrex, Croda and Novozymes which had waste intensity ratios at 183, 43 and 8 tonnes per £1m revenue respectively.

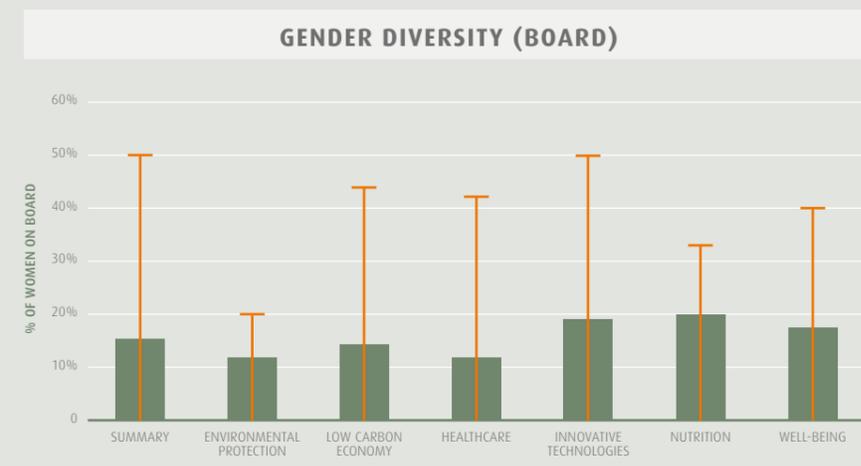


THE AVERAGE WASTE INTENSITY OF THE FUND WAS **13 TONNES** PER £1 MILLION REVENUE GENERATED

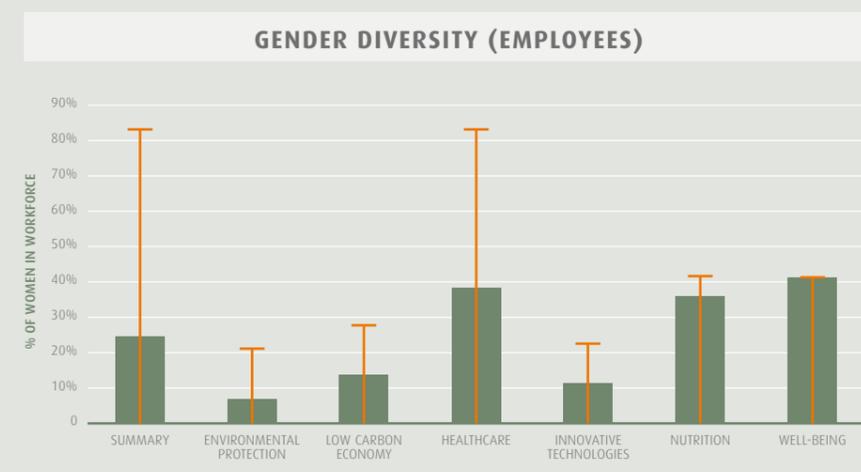
GENDER PROFILE

The average gender diversity ratio of the Fund's holdings at the Board level was 15% (with a median of 17%). The company with the highest female representation at the Board level was Melexis where half the board members are female.

The average number of women employed at the portfolio companies was 24% (with a median of 23%). On average, women accounted for 41%, 39% and 37% of the Well-being, Health Care and Nutrition theme employees and only 7% and 12% within the Environmental Protection and Innovative Technology themes. Orpea had the highest proportion of women within the workplace at 83%.



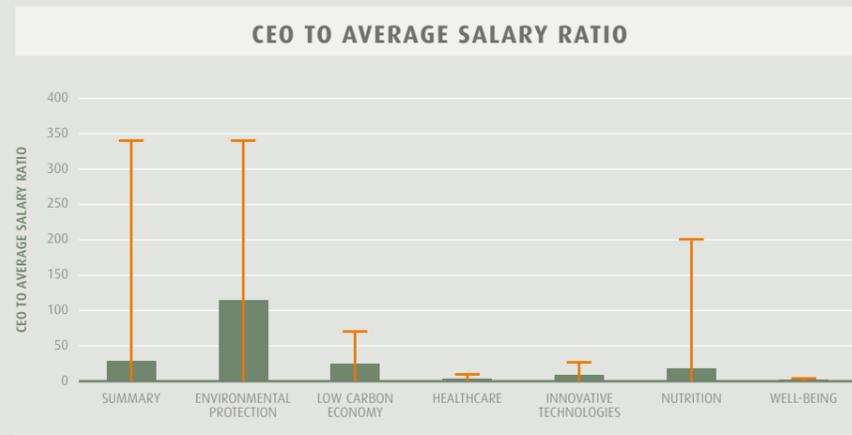
15% FEMALE DIRECTORS



24% FEMALE EMPLOYEES

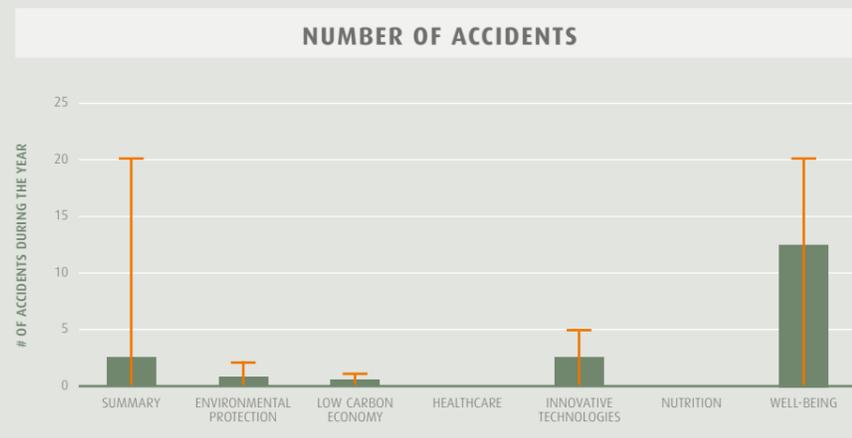
PAY RATIO

The average pay ratio, calculated as the ratio between the CEO's salary and the average employee salary, for the Fund was 28x.



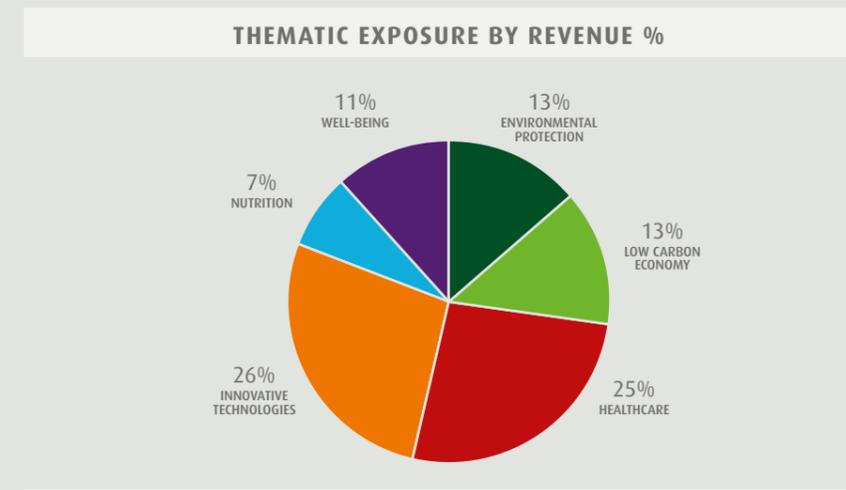
ACCIDENT FREQUENCY

The average number of accidents reported in the year was 2 and the average injury frequency was 0.2 injuries per 100,000 labour hours. Thule had the highest number of reported accidents at 20 and Croda had the highest injury frequency of 0.8 injuries per 100,000 labour hours.



THEMATIC EXPOSURE

The Better World Fund provides broad exposure to our 6 themes. Companies in the Fund must have at least 50% of revenue attributable to our themes. Please note that some company revenue streams are not attributable to our themes and therefore the chart does not add up to 100%.



DATA: WHAT IS MISSING?

Disclosure levels for output, outcome and impact metrics are outlined below:

- For the impact of products and services, 55% of data was disclosed or inferred from company disclosure, 11% was estimated through peer analysis, 20% was estimated through market share data, and 14% was excluded from analysis.
- For carbon emissions disclosure, 43% of Scope 1, 40% of Scope 2 and 35% of Scope 3 emissions data was disclosed with the remaining data estimated.
- For the ESG data, the disclosure rates were as follows: Water Intensity: 43%; Waste Intensity: 53%; Board Gender Diversity: 93%; Employee Gender Diversity: 53%; Pay Ratio: 55%; No. of Accidents: 38%; Injury Rate: 35%.

IMPACT ANALYSIS AND METHODOLOGY WAS PROVIDED AND EXTERNALLY VERIFIED BY IMPACT LEAP.

ImpactLeap

The Team



Charles Montanaro
FUND MANAGER

Charles founded Montanaro to specialise in analysing and investing in quoted Small and Midcap companies on behalf of leading institutions. An anthropologist by training, Charles is well placed to evaluate the Better World objectives of executives and management teams.

OUR ESG COMMITTEE:



Christian Albuissou
CHAIRMAN

A former SRI Fund Manager, Christian chairs our ESG Committee.



Ed Heaven
RESPONSIBLE INVESTMENT SPECIALIST

Ed directs the impact analysis of companies within the Better World Fund. He also writes our Impact Report and ESG Handbook.



Cedric Durant des Aulnois
CHIEF EXECUTIVE OFFICER

Cedric sits on both the ESG and Investment Committees, helping to ensure that everyone at Montanaro “buys in” to our ESG and Positive Impact investment approach.



Nere Asumendi
SENIOR ANALYST

Nere has been an Analyst at Montanaro since 2010. During this time she has focused on the Consumer Sector. In 2017, she authored a deep dive report on Nutrition and Healthy Eating.



Mark Rogers
HEAD OF RESEARCH

Mark brings an investment hat to the ESG Committee and has helped develop our bespoke ESG Checklists that fully integrate ESG considerations into Montanaro’s fundamental company analysis.



Sarah Bridges
COMPLIANCE EXECUTIVE

With an MSc in Biodiversity and Conservation, Sarah has a natural interest in environmental issues. She helps to coordinate Montanaro’s approach to voting.

The Advisory Committee



Michael Sheren
CHAIRMAN

Michael is a Senior Advisor within the Bank of England’s Prudential Regulation Authority and Co-Chairman of the G20 Sustainable Finance Study Group. He is also Co-Chairman of the Academic Committee at the International Institute of Green Finance at China’s Central University of Finance and Economics. Michael has close to 30 years of experience in capital markets across a number of senior positions in London and New York.



Mark Chaloner

Mark has over 35 years of experience in investments. Mark spent most of his career at the Church Commissioners for England, where as Chief Investment Officer he helped to formulate the Pension Fund’s Responsible and Ethical Investing approach. Mark was also a Director of the UN Principles for Responsible Investment, a member of the Ethical Investment Advisory Group (EIAG) and more recently Head of Investments at West Midlands Pension Fund.



Fran van Dijk

Fran is a founding member of One Stone Advisors, a “B Corporation” helping businesses become more effective sustainability leaders. She is also a Board Member of the Scottish Environment Protection Agency and the Chair of the Macaulay Development Trust, a charity which provides financial support for research into the sustainable use of land and natural resources. Fran co-authored “*Creating a Culture of Integrity: Business Ethics for the 21st Century*” in 2015.



Tina Rönnholm

Tina is a Portfolio Manager with AP1, the Swedish Government Pension Fund. She is responsible for externally managed long-only assets at AP1 and is spearheading the Pension Fund’s ESG agenda for external mandates. Tina has over 20 years’ experience in capital markets.

Sustainability at Montanaro

ENCOURAGING SUSTAINABLE BEHAVIOUR

We encourage staff to take practical sustainability into their own hands during their time at Montanaro - and in their lives beyond. We communicate the benefits of our approach to new joiners at their Welcome Induction.

53 THREADNEEDLE STREET, LONDON

We are based in a beautiful building a few doors down from the "Old Lady of Threadneedle Street", the Bank of England. The bank has been here since 1744, and our building is not much younger. We keep the office as eco-friendly as possible by turning our lights off at night and powering down computers when we leave in the evening.

RECYCLING

We have a number of recycling centres across the office. Staff are asked to recycle paper, confidential waste, cardboard, plastic, batteries and printer cartridges. Signs by our printers remind staff to consider their volume of printing. In addition, we organise a periodic collection of electrical items so that staff can recycle unwanted products in an environmentally friendly way.

CARBON OFFSETTING

Montanaro are committed to offsetting our Carbon Footprint on a quarterly basis and we work towards a reduction of our annual Carbon Footprint over time. We recognise that some intensive use of carbon - such as air travel - is unavoidable in a business such as ours. This is why we offset our Carbon Emissions each quarter via ClimateCare, an environmental and social impact company which helps to fund projects such as the development of clean energy sources. We are a signatory to the Carbon Disclosure Project. Where possible, we use the train instead of the plane and if we use cars or taxis, we attempt to use those powered by hybrid or electrical power. Video and teleconferences are offered to companies or clients if appropriate.

MINDFULNESS

We aim to provide our employees with an environment that is safe, stimulating and supportive. We sit in the same open plan office where we have fostered a true sense of team spirit. Away from this, we have a dedicated quiet room which offers employees space for quality thinking time. We support Healthy Eating and provide two baskets per week of fruit from the company Fruitful Office. This helps to fund sustainable farming for local communities in Malawi as for every fruit basket we order, a fruit tree is planted in Africa. Finally, we host a weekly Yoga class which employees can attend on a voluntary basis. This helps staff to de-stress and practice relaxation techniques.

OUR CHARITY

Montanaro supports Tribal Survival, a UK registered charity, which aims to promote the well-being of indigenous people across the world by providing access to medicines otherwise not available to them. Most years, Charles Montanaro accompanies a group of doctors to deliver medicines to Tribes such as the Korowai of West Papua. Montanaro also organises a voluntary Charity Day each year, which allows staff to work for a range of charities such as soup kitchens, old people's centres and other social work. Alongside this, Montanaro runs a Charity Matching Scheme, where donations raised by employees for charitable causes are matched by the Company. Staff are also supported in their extra-curricular roles, such as serving as a School Governor.

DIVERSITY

Diversity is core to Montanaro. We believe that it helps to drive collaboration and teamwork. We have a multinational team and promote tolerance and equality throughout our organisation.

OUR PORTFOLIO COMPANIES AVOIDED

143
MILLION TONNES
OF CO₂e
EQUAL TO TAKING 30 MILLION CARS
OFF THE ROAD FOR A YEAR





Printed on 100% recycled paper



The Mark of Responsible Forestry

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