



BETTERWORLD

FUND

IMPACT REPORT 2019

MONTANARO

A £1 MILLION INVESTMENT SUPPORTS THE IMPACT OF:



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Introduction

A year ago, we invited you to join us as we launched the Better World Fund. Welcome to our second Impact Report where we tell you how we have got on.

We recognise that it is not enough simply to find and invest in companies that make the world a better place. We want to help set the standard for impact investing and spread the word. In this regard, it was a busy year.

In May, our CEO, Cedric Durant des Aulnois, was invited by Chr. Hansen to give the keynote address at the UN Global Compact Danish Network. He spoke to multi-national corporations on the benefits of aligning reporting with the United Nation's Sustainable Development Goals.

In October, we took part in Worthstone's Impact Investment Academy, an investment forum in the UK, where Ed Heaven discussed how impact investing can be achieved in public equity markets.

Another highlight came at the COP 23 Climate Change Conference in Katowice, Poland. Mark Rogers, our Head of Research and Co-Fund Manager of the Better World Fund, joined a roundtable discussion hosted by the OECD to discuss the EU's proposed "environmentally sustainable" taxonomy.

So if we can "talk the talk" can we "walk the walk"? The only way to be confident that our approach is as far removed from "green washing" as conceivable, was to put it to the test. Having met with the United Nations Association in the UK to discuss how investors can use the SDGs responsibly, we underwent an exhaustive audit over several days as we sought to

achieve the "Label ISR", a sustainable investment certification backed by the French Finance Ministry. It was a fascinating process and we were delighted to pass with flying colours. This prestigious endorsement builds on our 5-star rating from 3D Investing, of which we are also proud.

Engagement sits at the heart of our approach to impact investing. With such a large research team, this is one of our core strengths. Last year we conducted 40 site visits and held over 150 company meetings across the globe. The engagement section of this report explains this work in more detail.

The year has flown by. We are hugely grateful to our Advisory Committee for their insight and support in guiding us in the right direction.

Finally, many thanks to all of you who have chosen to join us on our journey and who have invested in the Better World Fund. The next few pages will show you some of our successes as well as some of our mistakes and lessons learned. I hope that you enjoy it.



Charles Montanaro



An Overview

Our goal is to deliver attractive returns for our clients by investing in companies that make a positive impact on the world. Every company must be approved for impact by our ESG Committee before we can invest.

To select "Better World" companies, we remain true to our heritage by only investing in quality businesses. In our view, a company cannot make a long-term positive impact if it does not have a strong financial base and good management.

Companies within the Fund are aligned to six themes that support the overarching framework of the United Nations Sustainable Development Goals (SDGs).

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

We only invest in businesses with at least 50% of revenue attributable to our themes.

We also analyse the wider operational footprint of companies across four areas: Environment; Employees; Community; and Governance. This allows us to understand a company's "net" impact.

Companies that meet our criteria are well-positioned to deliver impact, which we believe can be achieved in the public equity space by:

1. Investing in companies with products/services that address the world's major challenges;
2. Engaging with stakeholders to encourage sustainable long-term change;
3. Measuring the impact of our companies;
4. Reporting on our successes & failures.



Market Review 2018

The launch of the Better World Fund on 10 April 2018 coincided with improving investor sentiment as markets rose. This is never ideal as we faced rising stock markets whilst holding cash. Nevertheless, the Fund enjoyed strong capital growth throughout the summer, at one point sitting on a gain of 16%.

This seemed too good to be true. Indeed it was! We then came to the final quarter of the year. Worries that the Federal Reserve might raise interest rates faster than anticipated collided with fears about global growth.

Adding to investor uncertainty was an increasingly fractured political landscape. With the world facing many structural challenges - not least that of climate change, evidenced in the number of extreme weather events seen throughout the year - the absence of strong and respected political leadership was keenly felt.

The MSCI World SMidCap index declined by almost 15% in the fourth quarter alone. In just a few weeks, returns for 2018 were completely wiped out. Markets did not have time to recover before the year-end.

PERFORMANCE

The NAV of the Better World Fund declined by 4% (sterling class) between the launch and year-end, marginally ahead of the MSCI World SMidCap Index. So we feel it has been a "respectable" start.

PERFORMANCE SINCE LAUNCH (10 APRIL – 31 DECEMBER 2018)



PORTFOLIO CONSTRUCTION

Every Fund Manager faces the harsh reality that mistakes come with the territory. We are no exception. The Better World Fund posed new challenges for us as we invested globally for the very first time. However, we have the experience to manage global portfolios. Charles began his career in the 1980s investing on Wall Street and Mark Rogers was investing in Asian equities in the early 1990s. Of our ten Analysts, the average age is over 40 with more than 15 years' experience.

Our ability to find attractive investments is exactly the same but the universe is now much, much larger. Yet many of the new geographies we visited felt familiar: research coverage was low; management teams were welcoming; and reporting standards were good.

However, some countries provided new challenges. In parts of Asia, we faced interesting but different business cultures. Critically, we found that if you do not speak and read the local language you are at a huge disadvantage. Thank goodness for Andrea, one of our many multi-lingual Analysts.

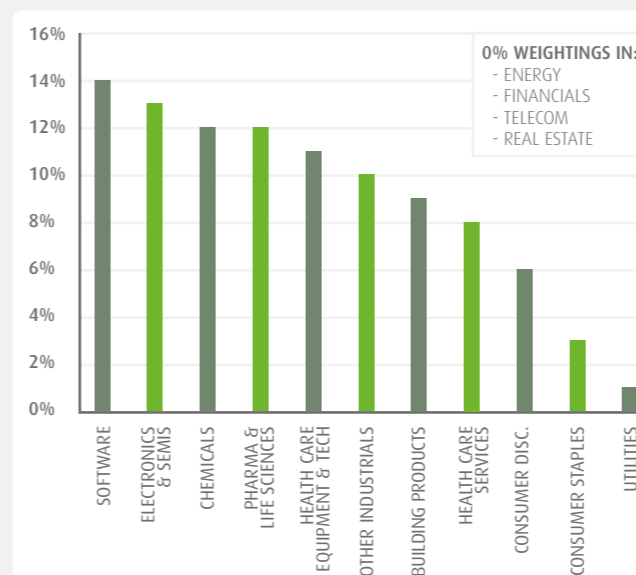
That is not to say that we did not make mistakes in our maiden year. For example, despite a site visit, we sold LeMaitre Vascular (vascular equipment) due to a lack of conviction in management after a profits warning. Toto (Japanese loos) and MTU Aero Engines (fuel efficient aircraft engines) also exited the Portfolio as their impact cases proved to be less compelling than originally thought.

Pleasingly, new markets contributed positively to performance. Indeed, our top performing company (Middlesex Water) is US listed.

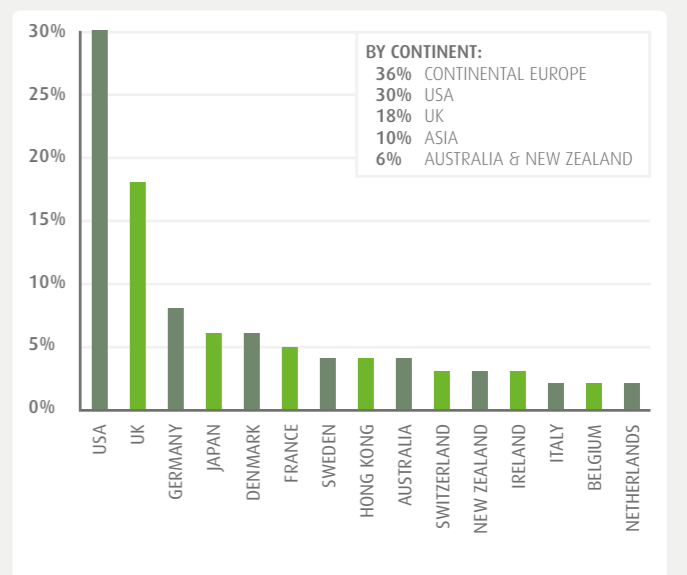
Over the year, we completed detailed work on 78 companies. Of these, our ESG Committee rejected 20% specifically on impact grounds. More ideas were rejected before we even began our detailed impact analysis.

Our first year has confirmed what we felt at the start - a global impact fund is very labour intensive, but can be highly rewarding.

SECTOR POSITIONING



COUNTRY WEIGHTINGS



Our Top 20 Holdings

Environmental Protection

CHINA EVERBRIGHT INTERNATIONAL

Waste management company treating industrial & municipal waste water; converting municipal waste to energy; and processing biomass & industrial hazardous waste. China Everbright helps to manage waste responsibly, an important task given China accounts for 25% of global waste.

POLYPIPE

Supplier of recyclable plastic piping systems that are replacing carbon intensive cement alternatives. Their pipes are manufactured from plastic material, including household waste. Each year, they recycle over 44,000 tonnes of plastic into piping systems that are used in drains, water storage units and flood defences.

WATERS CORP

Manufacturer of testing products for the pharmaceutical, industrial, food safety and environmental industries. Their tests help to ensure that medicines are safe to use, food is produced to internationally accepted standards and we can accurately measure humanity's impact on Earth's air and soil.

Low Carbon Economy

CRODA

A speciality chemicals company helping to lead the transition towards more natural and sustainable chemical ingredients. The global chemicals industry derives approximately 90% of its products from fossil sources. Croda is a leader in the development of sustainable bio-based alternatives.

KINGSPAN

Manufacturer of high performance insulation that leads to lower energy usage, reducing the carbon footprint of buildings. Last year, Kingspan's insulated systems saved 35 million tonnes of CO₂. By 2020, all of Kingspan's own energy needs will be met by renewable energy.

SPIRAX-SARCO ENGINEERING

Manufacturer of energy-efficient steam systems that reduce the CO₂ emissions of buildings, factories and plants through the use of steam. Their products are used by many of the world's largest companies, helping them to meet stringent regulations.

Healthcare

AMPLIFON

A hearing aid retailer with over 10,000 points of sale and a growing developing market presence, bringing hearing aids to more people across the world. The World Health Organisation estimates that over 360 million people live with disabling hearing loss. In developing countries, less than 3% of people who need a hearing aid are thought to have one.

BIOTAGE

A leading chemical purification company, aiding the development of new medicines and the analysis of patient samples. Their solutions make life easier for chemists, enabling them to precisely control each step of the chemical process, producing efficiency savings, reducing waste and lowering the environmental impact of drug production.

ORPEA

Operator of nursing homes, post-acute rehab hospitals, psychiatric hospitals, assisted living residences and homecare, helping to manage ageing populations in Europe. Orpea provides over 96,000 beds. Since the number of people aged over 85 is forecast to reach 40 million in Europe by 2050, there is plenty of need for their services.

RYMAN HEALTHCARE

Builder and operator of retirement villages and care homes in New Zealand that have to be "good enough for Mum". New Zealand faces a rapidly ageing population. Ryman are the only national company to offer a full range of care services at all of their sites. This provides residents with the peace of mind that they will not be moved: "Mum will not be separated from Dad even if her health deteriorates".

SARTORIUS STEDIM

Developer of equipment used to bring biologic drugs to market faster, cheaper and with a reduced environmental impact. Their single-use products reduce cleaning requirements (alternatives use large amounts of chemicals), increase batch turn-around time, lessen the risk of product contamination and reduce plant footprint size. This ultimately lowers the cost of bringing new drugs to market.

Innovative Technologies

ANSYS

Provider of engineering simulation software helping to bring products to market cheaper, faster and with higher safety standards. Simulation enables engineers to test new products virtually rather than physically. This enables customers to lower cycle times (faster), reduce costs (cheaper), increase quality (better) and evaluate different designs across different conditions.

COGNEX

A leading provider of machine vision systems (cameras) that enable machines to "see", thereby increasing the speed and quality of manufacturing processes. Machine vision products are used to automate the manufacture and tracking of discrete items – such as mobile phones, aspirin packages, and auto parts – by locating, identifying, inspecting and measuring them during the manufacturing or distribution process.

MELEXIS

Supplier of sensors to the automotive industry, increasing road safety, helping to reduce fuel emissions and facilitating the transition to autonomous driving. On average, every new car produced carries 11 Melexis sensors. These smart devices help keep road users safe by identifying obstacles, while also improving the fuel efficiency of vehicles. These sensors are playing a major role in the development of autonomous driving.

NEMETSCHKE

Provides an innovative range of software that can help architects and engineers to save time and money on large scale building projects. Big projects have a habit of overrunning from both a budget and time perspective: London's "The Shard" was 200% over budget. Nemetschek's software allows architects and engineers to model large scale projects more accurately, thereby saving both time and money.

QUALYS

Offers a cybersecurity platform that allows users to identify security risks in their IT infrastructures. Estimates have suggested that cybercrime costs the global economy some \$600 billion a year. Qualys helps users to respond to cyber breaches before they become major events.

Nutrition

CHR HANSEN

Recently recognised as "the most sustainable company in the world" by Corporate Knights, Chr. Hansen is a supplier of bioscience products that help to reduce food waste, increase farming efficiencies and promote healthy foods ingredients. An audited assessment of their 3,000 products showed that 82% of the company's revenue is positively aligned with the UN SDGs.

NOVOZYMES

A leading producer of enzymes and natural ingredients that help to make a range of everyday products more environmentally friendly. Examples include household detergents that work effectively at lower temperatures and so save energy. In the textile industry, enzymes are helping to save water in production processes. Total greenhouse gas emissions from textiles production are more than those from all international flights and maritime shipping combined. Other solutions help to convert plant materials and waste to bio-energy.

Well-being

HALMA

Develops and manufactures safety sensors for a range of end markets. These include sensors for fire and smoke detection; sensors used in water treatment; ophthalmic instruments for diagnosing eye conditions; safety systems for controlling hazardous industrial processes; and gas detection instruments for personnel and plant safety.

THULE

A manufacturer of outdoor lifestyle products that promote active and healthy living. These help people to live active lives outside in the fresh air under the "Bring Your Life" motto. Some items, such as baby strollers, are particularly beneficial to new parents as they encourage them to exercise with their babies and young children. Thule's products are designed to promote health and well-being at a time when the world is facing an obesity crisis.

All clients receive a full list of Portfolio holdings.

Environmental Protection

Every activity on Earth has an environmental impact, good or bad. We identify companies that help to protect 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

The World Health Organisation estimates that over 4 million people die every year as a result of exposure to outdoor air pollution. Shockingly, 91% of the world's population lives in places where air quality exceeds WHO guideline limits. Investment is needed in companies working to mitigate all forms of pollution.

WATER TREATMENT

The global demand for water is increasing at a rate of 1% per year, according to the United Nations. At the same time, climate change is resulting in drier places becoming more arid, while wetter regions are experiencing more rainfall. The uneven dispersion of natural resources increases the need to treat and re-use this precious commodity.

WASTE RECYCLING & MANAGEMENT

Plastic production took off in the 1950s. Since then, 7 billion tonnes of plastic have been created. Of this, a staggering 6 billion tonnes have never made it to recycling centres.

Scientific estimates for how long it will take for plastic to fully decompose vary between 500 years and never.

TESTING, INSPECTION & CERTIFICATION

New testing techniques are advancing a range of industries. Improved testing can help to ensure the purity of water, air, and the wider environment, for example by verifying that crops are being grown in soil that is environmentally safe.

COMPANIES IN ACTION



Middlesex Water is a US water utility operating in New Jersey, Delaware and Pennsylvania. The company collects, treats and distributes water for domestic, commercial and municipal use as well as for fire protection. In the US, drinking water is delivered via one million miles of piping. Many of these pipes were laid in the early to mid 20th century with a lifespan of 75 to 100 years. Due to this old infrastructure, each year there are an estimated 240,000 water main leaks. These waste over two trillion gallons of treated drinking water. According to the American Water Works Association, an estimated \$1 trillion is needed to maintain and expand the water network to meet growing demand over the next 25 years.



Spirax-Sarco Engineering is a leading manufacturer of energy-efficient steam systems and pumps. These help to reduce CO₂ emissions across a variety of industries. Steam systems are used in industrial processes – from food production to power generation – to transfer energy around large factories and plants. If these steam systems aren't efficient then energy is lost, leading to negative environmental impacts. Spirax-Sarco helps their customers to meet sustainability targets by providing products that improve plant efficiency and reduce energy, water and chemical consumption.



14 BILLION
GALLONS OF CLEAN
WATER PROVIDED



6 MILLION
TONNES OF CO₂
EMISSIONS²
SAVED

Low Carbon Economy

Even the most optimistic case for climate change is dire. The world is currently on track to exceed the 1.5°C warming target, compared to pre-industrial temperatures. A “*thunderous call to action*” is needed to shift the world towards a less carbon intensive economy, according to the IPCC’s Global Warming 2018 report.

RENEWABLE ENERGY

Global carbon emissions reached an all-time high in 2018. This beat the previous record set in 2017. After emissions plateaued between 2014 and 2016, this trend is bad news. Investors must allocate capital to businesses that can help to sustainably increase the share of renewables in the energy mix.

SMART INFRASTRUCTURE

The expansion of cities is astonishing. In 1960, Lagos in Nigeria had a population of under 200,000 people. Today, this stands at some 21 million, sprawling across almost 1,000 sq km². Increasing rates of population growth and urbanisation are placing pressure on housing, transportation, energy systems and other infrastructure. Smart solutions are needed.

EFFICIENT TRANSPORTATION

Travel tends to be carbon intensive, whether it is along the ground or in the air. The release of toxins such as particulate matters from vehicles have the potential to harm us all.

Cleaner forms of transportation are a fundamental building block of a lower carbon economy.

CLIMATE CHANGE ADAPTATION

Even if the world were to meet the 1.5°C target, climate change will affect millions of people, many of whom live in low-income countries. Adaptation technologies are needed to aid those already suffering from global warming.

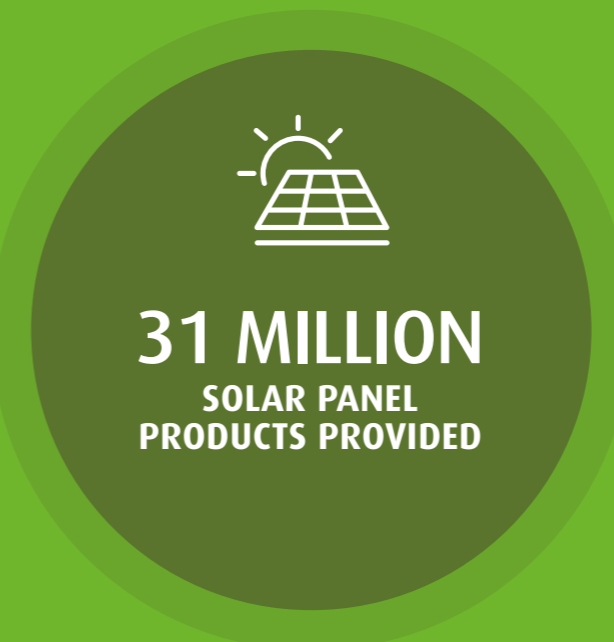
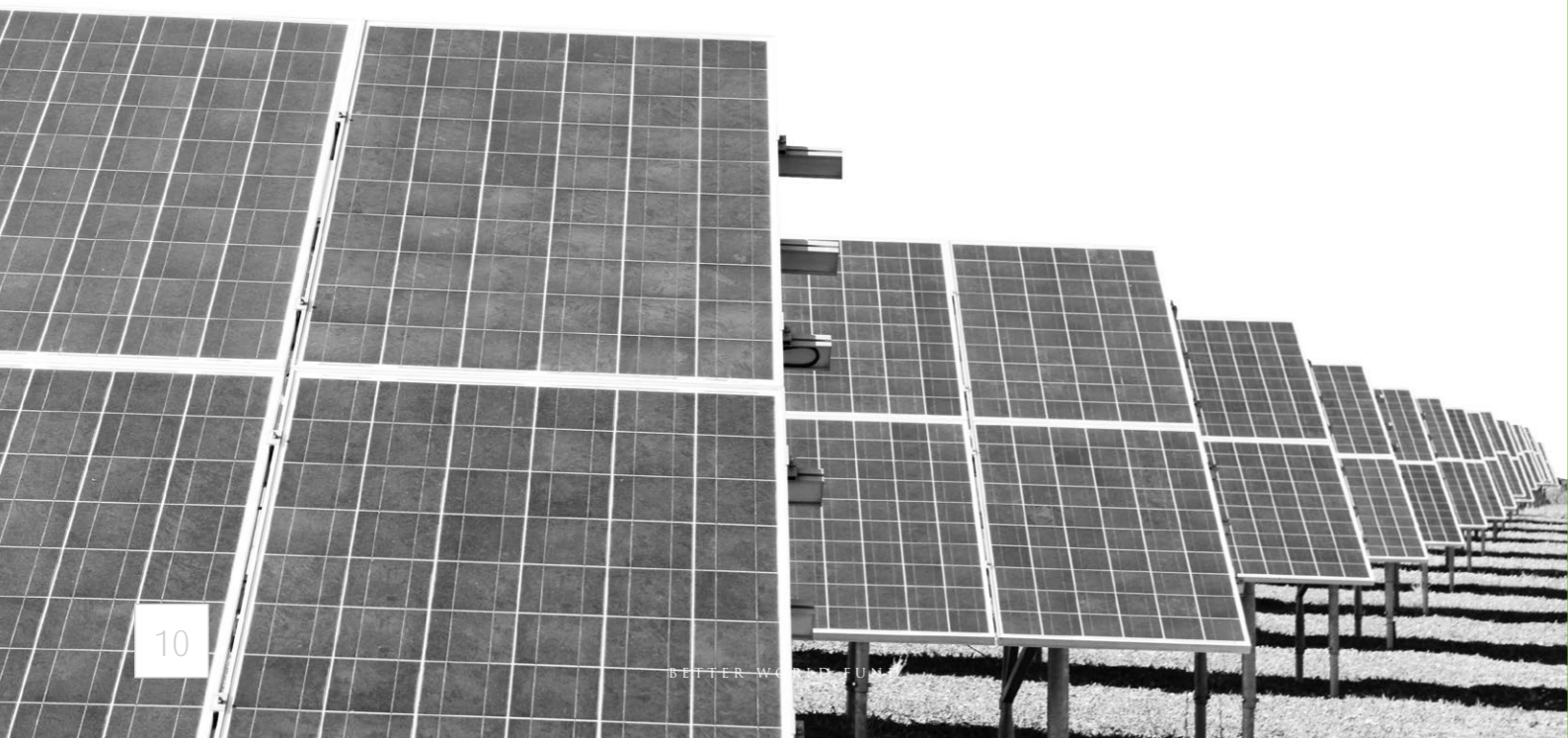
COMPANIES IN ACTION



SolarEdge manufactures power optimisers, solar inverters and monitoring solutions for solar panels. These increase the energy and cost efficiency of solar panels by allowing individual panels to operate at maximum power, rather than at a system-wide average. This means solar panel systems can generate greater amounts of energy, even when some panels are in the shade. The world needs to transition towards a cleaner energy mix. Although renewables represented just 12% of electricity produced worldwide in 2017, this prevented the emission of almost 2 gigatonnes of carbon dioxide. New technologies can have a big impact.



Belimo is a market leader in the drive towards more energy efficient buildings. Their actuators measure and control air and water flows in heating, ventilation and air conditioning systems. With buildings accounting for 30% of global greenhouse gas emissions, Belimo can help their customers to meet environmental targets by cutting energy consumption, avoiding energy losses, and reduce operating costs. Legislators around the world are revising standards that govern the quality of air and the efficiency of heating, ventilation and air conditioning in buildings. Estimates suggest that energy consumption in buildings could be cut by between 30% and 50% by 2020 through the installation of new technologies.



Illness and disease affect everyone, irrespective of age, wealth, or geography. This places enormous burdens on societies. Allocating capital to companies offering affordable and innovative healthcare is one way in which this strain can be alleviated.



TREATMENT OF ILLNESSES & DISEASE

An estimated 40 million deaths occur each year due to non-communicable diseases, such as cardiovascular, cancer, respiratory and diabetes related illnesses. These are the leading cause of death worldwide, representing over 70% of all annual deaths. New forms of treatment are needed to significantly reduce this figure.

AFFORDABLE HEALTHCARE

Disease comes with a financial burden. The global cost of cancer has been estimated at well over 1 trillion US dollars. Despite this vast outlay, healthcare remains out of reach for too many. For instance, only 14% of people who need palliative care currently receive it worldwide.

CHANGING DEMOGRAPHICS

The global population is expected to increase by 1 billion people by 2025, while the number of people aged 60 or over is expected to more than double by 2050. Additional healthcare resources and greater levels of innovation will be needed in response to these demographic shifts.

PREVENTION

New testing techniques can lead to more accurate diagnosis, saving lives and the need for expensive forms of treatment. Other solutions can help to prevent diseases before symptoms emerge, such as new technologies that promote healthy living.

COMPANIES IN ACTION

3 GOOD HEALTH AND WELL-BEING



Ryman Healthcare

designs, builds and operates retirement villages and aged care facilities in New Zealand and Australia. Villages

include independent houses, apartments, serviced apartments and care centres. As well as providing a home, round-the-clock healthcare is guaranteed should residents need it. Like most of the developed world, New Zealand has an ageing population. Ryman is providing an important service to a society that is rapidly ageing, helping to meet an increasing demand that the public sector cannot satisfy. Ryman are well-known for the quality of their offering: every home has to be "good enough for Mum".

3 GOOD HEALTH AND WELL-BEING



Carl Zeiss Meditec

is a global leader in ophthalmology, the branch of medicine dealing with the eye. The World Health Organisation estimates

that 1.3 billion people live with some form of vision impairment, a number that is rising as diabetes and obesity become more common. Carl Zeiss treats patients across the world, with the majority of their sales coming from Asia. They have two core divisions: Ophthalmic Devices, which provide treatment for cataracts with a 90% success rate; and the Microsurgery division, which provides surgical microscopes and visualisation products to surgeons used in a staggering 10 million eye operations each year.



100,000
BEDS PROVIDED FOR
THE OLD & INFIRM



10 MILLION
EYE SURGERIES PERFORMED
ACROSS THE WORLD
EACH YEAR



Innovative Technologies

Technological innovation lies at the heart of solving many of the world's greatest challenges. Yet every new innovation brings with it disruption. Investors should allocate capital to companies that innovate in a responsible way.

MANUFACTURING EFFICIENCIES

Improved manufacturing efficiencies have the potential to bring products to market faster, cheaper, and with higher quality standards. Yet such products need to be sustainably produced, with lower resource and energy intensities than alternatives.

AUTOMATION

The Luddites of the 19th century had the same worries about automation as workers today: namely loss of jobs and income. However, automation can aid workers and economic growth, for example by completing tasks which are beyond human capabilities, or by working alongside humans to keep them safe in dangerous situations.

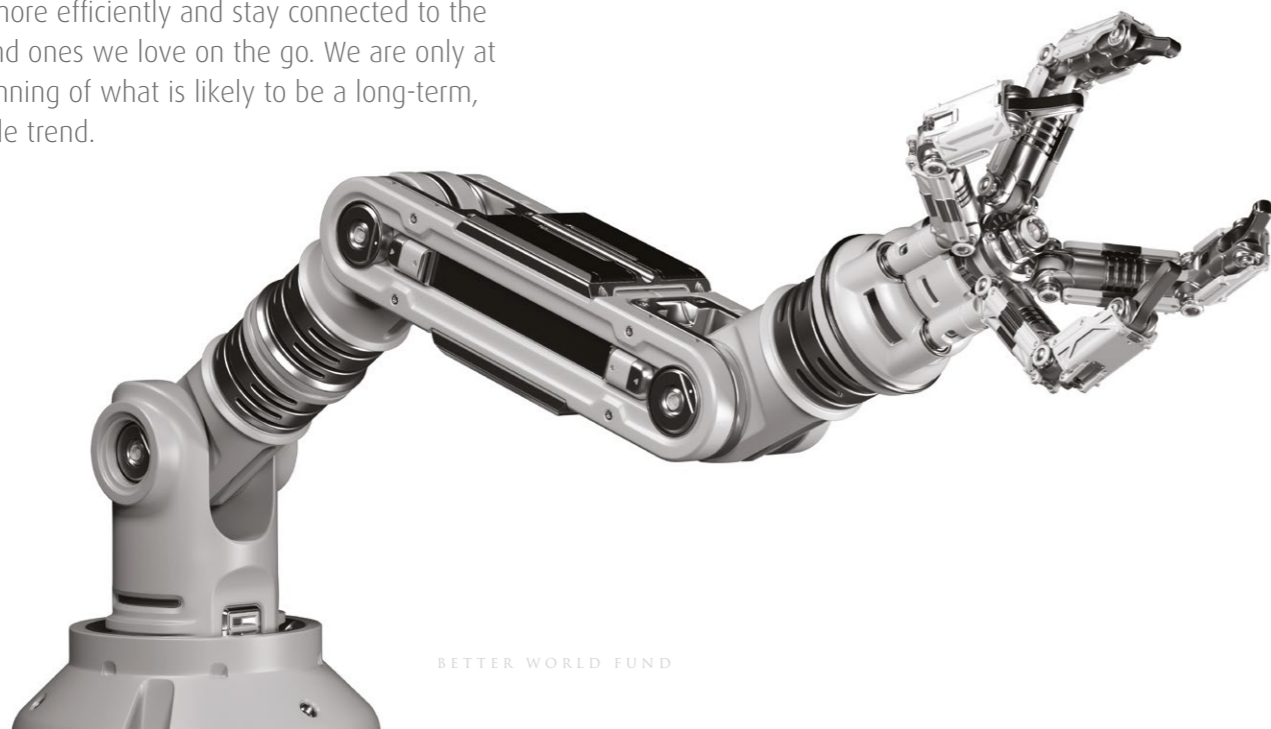
CONNECTED WORLD

The "internet of things" is growing exponentially. Connected devices have the ability to monitor our homes while we are away, help us consume energy more efficiently and stay connected to the things and ones we love on the go. We are only at the beginning of what is likely to be a long-term, inexorable trend.

CYBERSECURITY

The downside to our connected world is the growing threat of cybercrime. The misuse – or theft – of online data has the potential to harm governments, companies and individuals.

Just as policing of the physical world is necessary, cybersecurity solutions are needed to keep people safe as more of the world moves online.



COMPANIES IN ACTION

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



Qualys provides a cloud-based security and compliance platform that allows organisations to identify cybersecurity risks in their IT infrastructure.

Their clients include many of the world's largest companies, safeguarding billions of people online. Each year, Qualys helps protect over 1 trillion online interactions. Cyberattacks have the potential to disrupt every element of modern life: power grids have been hacked; governments breached; financial information defrauded; and personal data stolen.

8 DECENT WORK AND ECONOMIC GROWTH



Melexis is a global supplier of sensors to the automotive industry. The company estimates that every new vehicle produced worldwide

carries 11 Melexis sensors. These are helping cars to become increasingly "smart". Sensors keep road users safer by helping to identify obstructions including pedestrians. In the next three years, new cars sold in Europe will be fitted with sensors that ensure drivers automatically abide by the speed limit. As well as helping to keep us safer, sensors also allow vehicles to run with greater fuel efficiency by measuring engine speed, fuel temperature, and emissions. Such sensors are critical in autonomous vehicles.



10,000
BUSINESSES PROTECTED
BY CYBER SECURITY



790 MILLION
SENSORS INSTALLED IN NEW
CARS TO INCREASE SAFETY
& LOWER EMISSIONS

Soil degradation, over fishing, freshwater constraints, ocean pollution and deforestation are placing pressures on traditional methods of food production. There is urgent need for action. Over 800 million people go hungry every day. Population growth means that there will be ever more mouths to feed tomorrow.

EFFICIENT FOOD PRODUCTION

Estimates indicate that we are losing 1% of global soil a year due to climate change as heavy rainfall washes away farmland. A result is that since the 1900s, 75% of crop diversity has been lost from farmers' fields.

FOOD SECURITY

The agricultural sector remains the single largest employer in the world, providing work for 40% of the global population, according to the UN. Sustainable farming techniques not only help to feed hungry bodies but can lead to greater prosperity too.

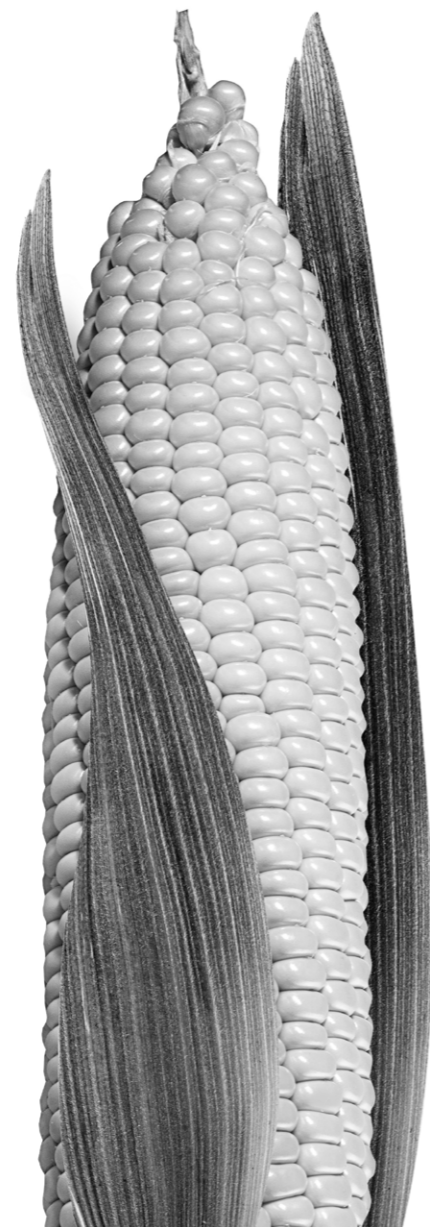
The need for new farming techniques that can enhance crop yield is pressing.

SUSTAINABLE DISTRIBUTION

Our world has finite resources, a fact that can be missed given the vast amounts of waste that humans generate. Estimates suggest that every year, a third of all food produced globally is lost or goes to waste. More effective distribution can help to lower this figure, while at the same time reducing the environmental footprint of the food sector.

HEALTHY EATING

There is a clear link between eating the right foods, maintaining a healthy weight and reducing the risk of chronic disease. Between 30% and 50% of cancers can be prevented by healthy lifestyle choices. On the other hand, poor eating habits are linked to rising cases of obesity, diabetes, and other forms of illness.



COMPANIES IN ACTION



Chr. Hansen is a producer of cultures, dairy enzymes, probiotics and natural colours for the food, health and animal feed industries.

Their standard of reporting is exceptional: they are one of the few quoted companies to have gained external verification for their use of the UN SDGs in their strategic objectives. Some 82% of revenue is aligned to the UN SDGs, including: microbes used to increase crop yields; ingredients aimed at lowering the carbon intensity of the dairy industry; and bio-protective cultures which reduce food waste. We were delighted to see the company recognised as *"the most sustainable company in the world"* in the 2019 Corporate Knights Global Index of Sustainable Companies, an accolade we fully endorse.



Vitasoy is a Chinese producer of soy based products helping to promote non-dairy food alternatives and assist those suffering from certain food allergies. In particular, soy offers a solution to lactose intolerant people. Whilst estimates vary, some research suggests that 10% of people in Northern Europe and up to 95% of people in parts of Asia and Africa suffer from some form of lactose intolerance. In addition, dairy is one of the most common allergens among infants and children. As a plant based food, soy supports the diversification of human food sources away from animals. Soy milk has the highest protein content of all milk alternative options.



25 MILLION
HECTARES OF FARMLAND
PROTECTED BY NATURAL
PLANT SOLUTIONS
BY 2025



1 BILLION
PEOPLE PER DAY
PROVIDED WITH HEALTHY
FOOD PRODUCTS

Well-being

The United Nations has stated that there is a clear link between happiness, well-being and prosperity. Such thinking is gaining traction: the UK has launched a statistical measurement of national well-being, while the European Commission has launched a “GDP and Beyond” indicator that includes environmental and social aspects of progress.

SAFETY & SECURITY

Safety and security form a fundamental part of the UN SDGs, from protecting people from poverty and hunger, to securing their futures via education. The development of new services can help to manage the risks that we confront in our lives, at home, at work and in between.

ACTIVE LIFESTYLE

An active lifestyle is one of the pillars of healthy living. Alongside a good diet, regular exercise is proven to lower the risk of many chronic diseases, both physical and mental.

Products and services that keep us moving, whatever stage of life we are at, are vital to long-term well-being.

ANIMAL WELFARE

Humans have legal and ethical responsibilities to animals. Animals should be well nourished, spend time outdoors and have antibiotics only when it is essential. Free range livestock are better for the environment given they require less feed and water than intensively farmed animals. Meanwhile, studies show that pets can encourage more active lifestyles and enhance mental well-being.

EDUCATION

Education is key to solving the world’s problems. Higher standards of education lead to a number of positive outcomes: better job prospects; reduced inequality; improved health; and more cohesive societies. As the UN has stated, sustainable development begins with education.



COMPANIES IN ACTION



IDP is a leading education services company offering student placement, English language testing and teaching. IDP places international students into education institutions in English speaking countries. Students typically come from developing nations where the provision of university level education is poor. Students are supported in the application process and attend counselling sessions to prepare for their time abroad. In addition, IDP is co-owner of the International English Language Testing System (IELTS), a globally recognised English language test. Over 660,000 students took an IELTS test with IDP in 2018. They also delivered 46,000 English language courses across Asia, India and Africa.



Alarm.com provides a range of smart devices for homes and businesses that help to keep properties secure and occupants safe. Products include: doorbell cameras; smart locks; video cameras; and image sensors. They also provide products that improve the energy efficiency of homes: smart thermostats allow heating to be controlled remotely and automatically switch to energy saving mode if they detect that no one is home. In the event of an emergency, the system is there to help. If smoke or carbon monoxide is detected, devices proactively contact the emergency services and shut down heating systems to stop the circulation of dangerous fumes.



Site Visit: China Everbright Intl.

China Everbright International (CEI) is a waste management company that treats industrial and municipal waste water, converts municipal waste to energy, and processes biomass and industrial hazardous waste.

Mark and Andrea covered 1,300 kilometres to see four sites across China. Thankfully a high-speed train transported them at over 300km per hour. Most of their time was spent in Jiangsu province, home to some 80 million people. China's vast population produces a lot of rubbish, with the country accounting for 25% of global waste. CEI helps with the clean-up. This is our report.

WASTE WATER TREATMENT PLANT, PUKOU INDUSTRIAL ZONE, NANJING

From Shanghai airport we headed to Pukou, a new industrial development economic zone. We met lots of employees, just one of whom spoke English. Thankfully Andrea speaks Mandarin (as well as Japanese). CEI provides industrial waste water treatment services to companies in this area, such as TSMC, one of the world's largest semiconductor companies.

Industrial water treatment is a high growth area as environmental regulations toughen. There are lots of regulatory hurdles and it is pretty ruthless: *"If you don't deliver, you can forget about future projects!"*

Dirty water takes two days to go through the plant's cleaning system. Each day, 40,000 m³ of clean water is reintroduced into two tributaries, which eventually joins the Yangtze River.

ENVIRONMENTAL ENERGY WASTE TO ENERGY (WTE) PLANT, NANJING

Down the road, the Nanjing WTE plant processes 4,250 tonnes of waste per day and runs for 365 days a year. In the latest Five Year plan, the Communist Party stipulated that WTE would form a core part of the country's renewable energy programme.

WTE has some obvious negatives, however. The first is energy efficiency. Whilst the energy efficiency rate of coal is typically 45%, WTE currently only achieves 30%. One solution is improved recycling and rubbish sorting. Only waste that needs to be burned should end up in the furnace.

The other issue is the emission of greenhouse gases. We were told that CEI abides by EU emissions standards, which are the most stringent in the world. We were shown the control room that monitors emissions. It looked like something out of a James Bond film!



INTEGRATED BIOMASS AND WASTE-TO-ENERGY PROJECTS IN XIAOXIAN, ANHUI PROVINCE

The high-speed train then took us north into Anhui province. It was a real thrill to cross the Yangtze and see the magnificence of Asia's longest river – complete with traditional Chinese barges steaming around.

We spent the night in a city called Xuzhou where welcome notes at our hotel asked us to *"excuse the noise at night – it's because we are building the city!"*

We arrived at the plant the next morning. It processes biomass (waste from plants and animals) as well as municipal waste. The huge piles of crop waste marking the site were striking – both on the eyes and nostrils.

Previously, farmers burned crop stubble which produced huge amounts of air pollution. This has changed. Farmers are fined now if they continue with the old practices and are incentivised to dispose of waste responsibly.

We enjoyed a full blown Chinese lunch with staff. The General Manager commented to Andrea on how well Mark used his chopsticks (a result, perhaps, of too many takeaways).

Due to the remoteness of this facility, staff live on site. We saw the dormitory and asked the General Manager if corridor creeping was a problem – he assured us it wasn't! Staff are kept happy with lots of social activities. There is a table tennis room, gym, and there was much excitement about the forthcoming CEI Biomass Basketball Tournament.

HAZARDOUS INDUSTRIAL SOLID WASTE, CHANGZHOU:

The final facility we visited was located in the Binjiang Economic Development Zone, in Changzhou's northern district. It is operated in a joint venture with Suez. This is definitely not a holiday destination. All we saw were row upon row of very industrial chemical plants.



However, it was an important stop on the tour. A "Not In My Backyard" movement has placed pressure on the authorities to deal with hazardous waste safely. There are now 50 different categories of "hazardous" waste. A few years ago there were just a handful. This facility has the capacity to treat 30,000 tonnes of waste per annum.

This marked the end of our time with CEI. These site visits are hard work, but great fun. They offer an essential way to get to know our companies and also to discuss sustainability and impact targets.

Site Visit: Pigeon

Pigeon is a Japanese manufacturer of baby care goods best known for baby bottles and teats. While part of the business focuses on maternity and elderly care products, some 45% of sales relate to breastfeeding. Many products are tied directly to supporting women with breastfeeding after they return to work.

In Japan, statutory maternity leave is just 8 weeks. Only 32% of full-time employees return to work within a year of giving birth. This may explain why just 8% of Board Members are female across the Topix 100 (compared to 29% for the FTSE 100).

The demographic picture for Japan is serious: until working women are better supported, many will choose not to start families. Meanwhile, Japan's population continues to shrink and age.

During a tour of Pigeon's headquarters in Tokyo with General Manager Masaki Sasada, Andrea and Mark found out how Pigeon are trying to help.

Mr. Sasada believes that trying to solve this national problem is one reason Pigeon has such a strong culture. "Love" is mentioned in almost all company literature. They came up with the name "Pigeon" as "its cousin is the dove, which is a symbol of peace". We will let you work that one out...

The employees to whom we spoke seemed to exhibit a genuine "feel good" factor: everybody is happy to see a healthy family with a thriving baby.

INNOVATION

Mr. Sasada explained that Pigeon spends 4% of sales on research and development for the baby-mother segment each year. Generally speaking, this supports "baby step improvements" to the extensive product range.

Pigeon are known for high quality products encompassing design, price point and functionality. Customer collaboration is key. For example, they developed bottles for babies with cleft lips and teats for low weight infants that had issues latching following customer input. They have won many awards, including the internationally prestigious Good Design Award.



CHILD CARE

Aside from baby products, Pigeon's expanding Child Care Service provides in-company child-minding facilities. You can take your child to work and drop them off at a child-minding facility in your own office block. This helps working parents.

Pigeon practice what they preach. In 2015, they set up a breastfeeding room called "Lactation Lounge" in their head office. This is where Andrea and Mark originally waited to meet Mr. Sasada at the beginning of their visit. The attention to detail is impressive, with doors specially designed to make sure that little fingers don't get caught.



INTERNATIONAL GROWTH

International expansion forms part of the company's growth strategy. China is particularly important as 14 million babies are born there each year, compared to just 900,000 in Japan.

We asked if the end of the one-child policy would drive greater volumes in China. Somewhat surprisingly, many Chinese are happy with a single child given the associated costs of raising children, according to Pigeon's internal studies.

Other growth markets include Southeast Asian countries such as Singapore, Taiwan, Vietnam, Malaysia, India and Australia where their brand is trusted. Meanwhile, India offers a longer-term opportunity given that 23 million babies are born there each year.

PLASTIC

During the visit, we were struck by the volume of plastic used in many Pigeon products. Whilst they encourage customers to re-use and recycle plastic bottles, we asked if there was anything the company is doing to reduce the use of plastic.

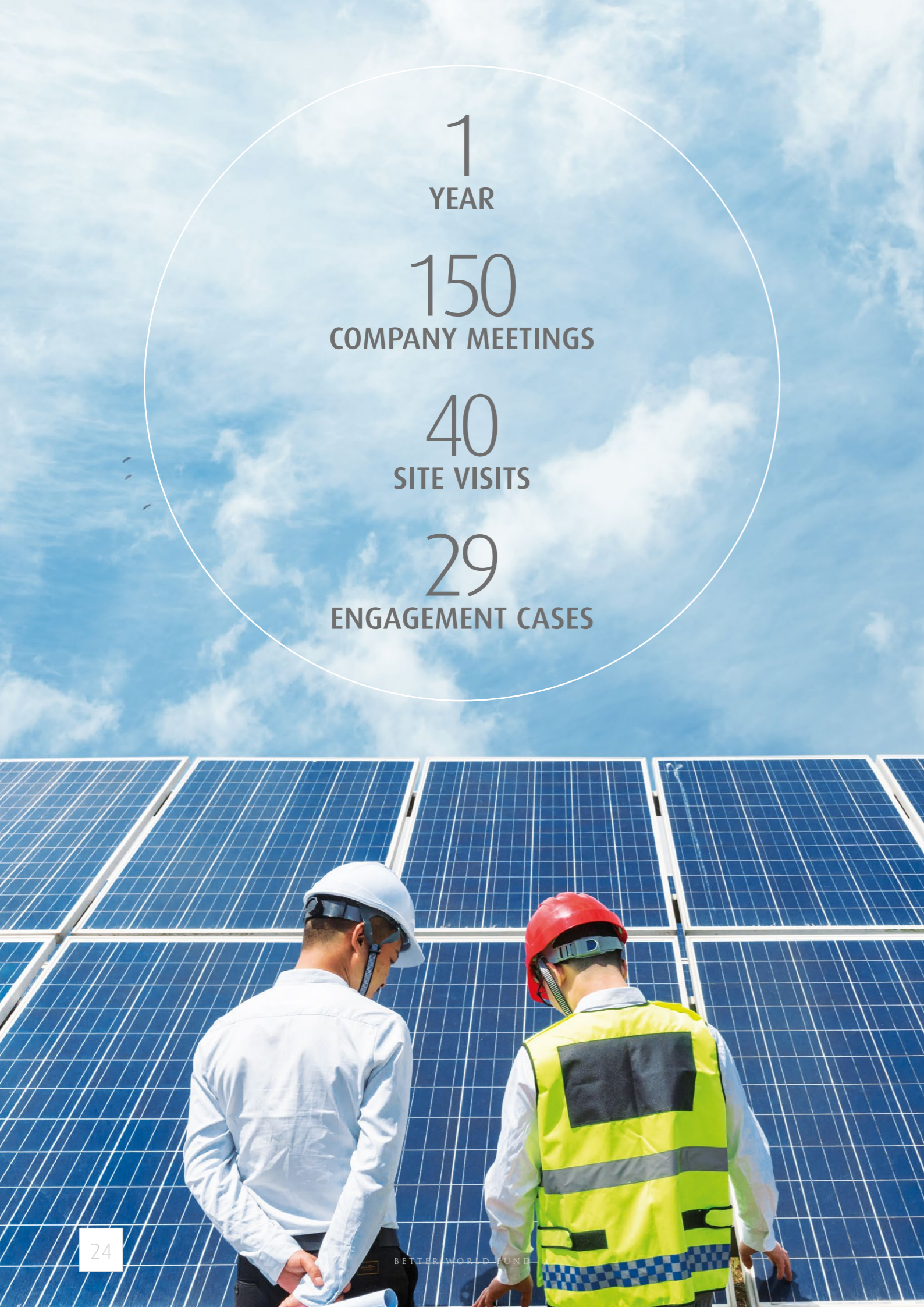
They responded that they do produce glass bottles, but these are heavier and more expensive. Although they are in practice "unbreakable", the perception that glass can shatter is difficult to change. No-one wants shards of glass near babies. We plan to further engage with Pigeon regarding plastic in 2019.

THE NATIONAL FOREST

Pigeon takes a responsible approach to the environment. At Chinese production facilities they have installed solar panels and wind turbines; stipulated the use of photocatalytic paints (that do not release atmospheric pollutants); and installed LED lighting to save electricity.

An environmental side-project has been a contribution to the national forest. Over the past 32 years, they have planted 140,000 trees alongside their customers to celebrate births. This plays an important environmental role in tackling climate change, preserving biodiversity and preventing flooding and erosion.

This was another valuable site visit. It resulted in a much deeper understanding of the business than we could have achieved from simply staring at the annual report in London. Understanding cultural nuances is so important in Japan, especially when it comes to engagement. We are looking forward to engaging with the company in 2019.



1
YEAR

150
COMPANY MEETINGS

40
SITE VISITS

29
ENGAGEMENT CASES

Impact Methodology

IMPACT METHODOLOGY

Measuring impact is challenging in Small & MidCap markets. Sustainability disclosure can be limited, while data providers focus most of their resources on the world's largest companies. This challenge, however, offers an opportunity for active investors who have the resources to do their own thorough research and engagement.

We measure the impact of every holding and apply a series of scores to calculate a company level "Impact Score".

PRODUCTS & SERVICES IMPACT

We align company revenue against the Fund's six themes. We only invest in companies where at least 50% of revenue can be thematically aligned.

For each investment, we identify a key performance indicator (KPI), allowing us to measure the delivery of the company's products and services over time.

We apply a score relating to the *intentionality* of a company to make a positive impact. This process involves a meeting with executive management and often a site visit. Analysts also score the *additionality* of a company's offering: is the company providing something that is new, or materially impactful, compared to competitor products?

CARBON, WATER, WASTE

We measure and score the resource intensity of all of our companies.

For carbon, we measure the absolute level of carbon emissions generated by the Portfolio. This is recorded as Total Financed Emissions (tCO₂e) which is calculated as the emissions attributable to the fund based on ownership. We also calculate the emissions generated by the Portfolio on the basis of £1 million invested. This is recorded as Financed Emissions Intensity (i.e. the revenue attributable to the Fund

based on the respective ownership of the underlying companies). We also measure the water and waste intensity of companies within the Fund.

ESG SCORE

Ethical and ESG considerations are fully integrated into Montanaro's investment process. We have built ESG Checklists and a related ESG scoring system that we apply to individual companies. These scores are aggregated to determine Fund level ESG scores.

Our ESG Checklists allow us to assess the impact of a company's operations and to understand whether the "net" impact of a company is positive.

A detailed explanation of our ESG Checklists is contained within Montanaro's ESG Handbook which is available on our website.

ENGAGEMENT

Engaging with companies and other stakeholders forms a key part of how the Better World Fund delivers impact. It is a key differentiator for Montanaro as we have the internal resources to genuinely engage, as we have done for many years. This analysis helps us to identify relevant points of engagement. Simply meeting a company for an investment update is not deemed "engagement". If concerns are identified, we engage constructively with management to effect sustainable change.

MIND THE "DATA" GAP

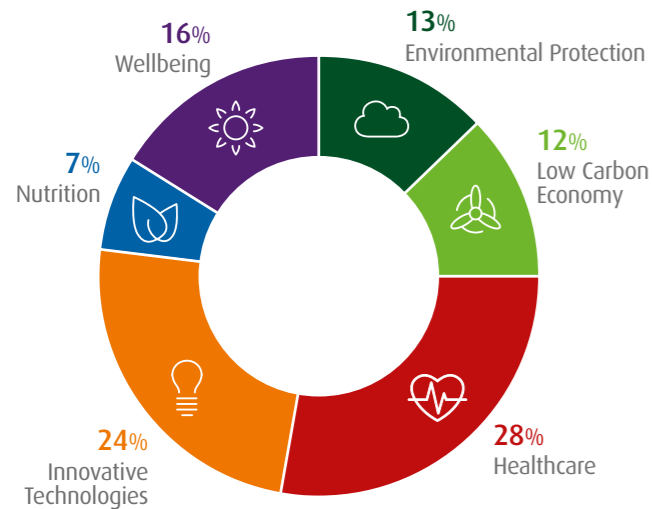
We work with our companies to improve the availability and quality of their reporting. We feel a responsibility to help companies to improve the way they behave and also disclose.

Data sources for information include annual reports, Bloomberg, CDP reported and MSCI data. Where resource intensity data was not available, calculations were made using relevant peer group averages.

Measuring Impact (AS AT 31 DECEMBER 2018)

THEMATIC BREAKDOWN

The thematic exposure of the Fund by revenue was as follows:



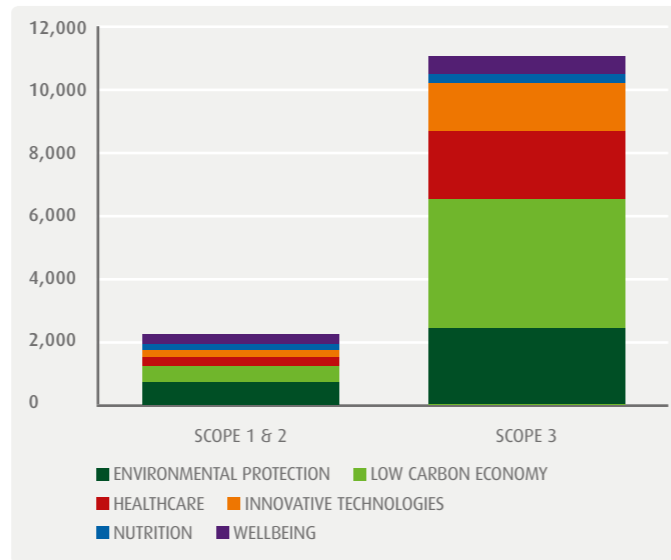
CARBON

The total Scope 1 & 2 Financed Emissions attributable to the Fund were 2,332 tonnes of carbon dioxide equivalent (tCO₂e). This corresponds to an Emissions Investment Intensity of 19 tCO₂e per £1 million invested.

The Scope 3 Financed Emissions attributable to the Fund were 11,501 tCO₂e, corresponding to Financed Emissions of 96 tCO₂e per £1 million invested.

The three investments with the highest carbon intensity were Middlesex Water, US Ecology and Novozymes.

TOTAL FINANCED EMISSIONS (tCO₂e)



SCOPE 1 & 2: TOTAL FINANCED EMISSIONS



While total Financed Emissions increased across the Portfolio over the year, the Emissions Investment Intensity per £1 million invested declined as our companies became more efficient with the energy they consumed.

SCOPE 1 & 2: EMISSION INVESTMENT INTENSITY PER £1M INVESTED



ESG

The weighted average ESG score for the Better World Fund was 6.39, as derived from Montanaro's ESG Checklists.

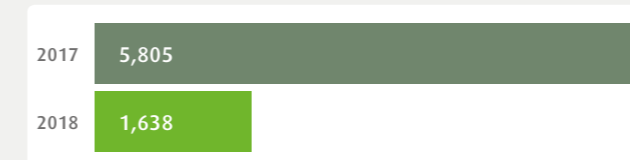
The three highest ESG scores were achieved by Spirax-Sarco Engineering, Chr. Hansen and Melexis.

We actively engage with companies with low ESG scores to communicate our concerns so that they can improve identified areas of weakness. We strongly believe that there is a correlation between the impact a company makes and its ESG score.

WATER

The water intensity of the Portfolio was 1,638 m³ per £1 million revenue generated. The highest three water intensities were attributable to China Everbright International, Idexx Laboratories and Croda.

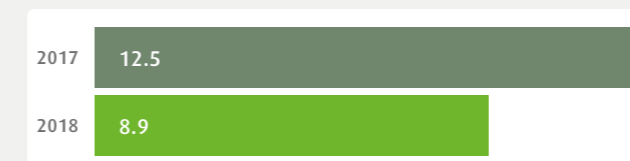
WATER INTENSITY: CUBIC METRES PER £1 MILLION REVENUE GENERATED



WASTE

The waste intensity of the portfolio was 8.9 tonnes per £1 million revenue generated. The highest three waste intensities were attributable to Victrex, Croda and Halma.

WASTE INTENSITY: TONNES PER £1 MILLION REVENUE GENERATED

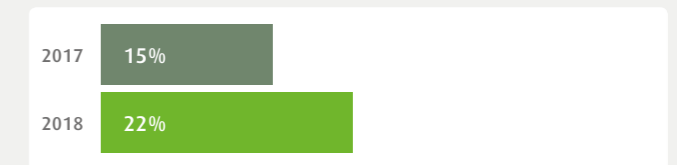


GENDER

The average percentage of women on our companies' Boards was 22% (with a median of 20%). The company with the highest representation of women on the Board was Melexis (60%), followed by Orpea (55%) and Sartorius Stedim (43%).

A number of companies continue to have low female representation on their Boards. It is interesting to note that many of these companies are listed in Germany and Switzerland. We continue to engage with all our companies on this important issue.

GENDER DIVERSITY: PERCENTAGE OF WOMEN ON OUR COMPANIES' BOARDS



MIND THE "DATA" GAP

- 100% of companies reported Board gender diversity data, versus 93% in 2017;
- 44% of companies reported Scope 1 & 2 emissions data, versus 42% in 2017;
- 25% of companies reported Scope 3 emissions data, versus 35% in 2017;
- 44% of companies reported water intensity, versus 43% in 2017;
- 40% of companies reported waste intensity, versus 53% in 2017.

We have active dialogues with our companies to encourage better and more detailed disclosure to improve the above data.

Engagement

Engagement is one of the ways in which public equity investors can deliver impact. As long-term investors in smaller companies, we have a voice that management teams will listen to.

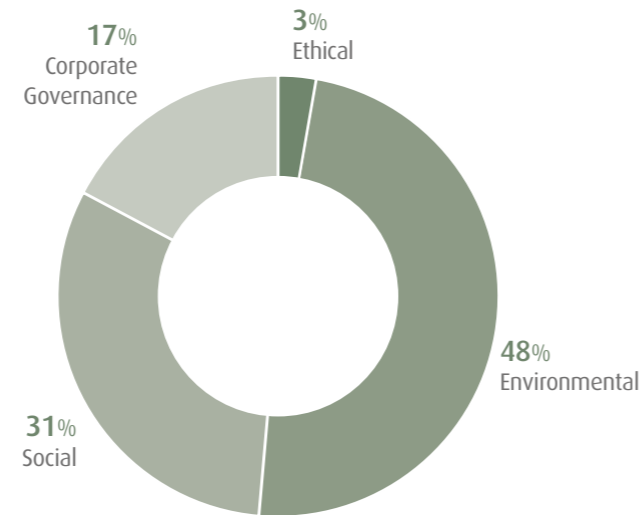
Engagement cases are escalated by our ESG Committee according to the seriousness and urgency of the issue. We speak to a range of stakeholders when we engage and record the following:

- Category (Ethics, Environmental, Social, Corporate Governance);
- UN SDG Alignment;
- Engagement objective;
- Format: who we spoke to and where (e.g. site visit);
- Result: did we meet our objective?;
- The next step: is further work needed?;
- Impact on investment case.

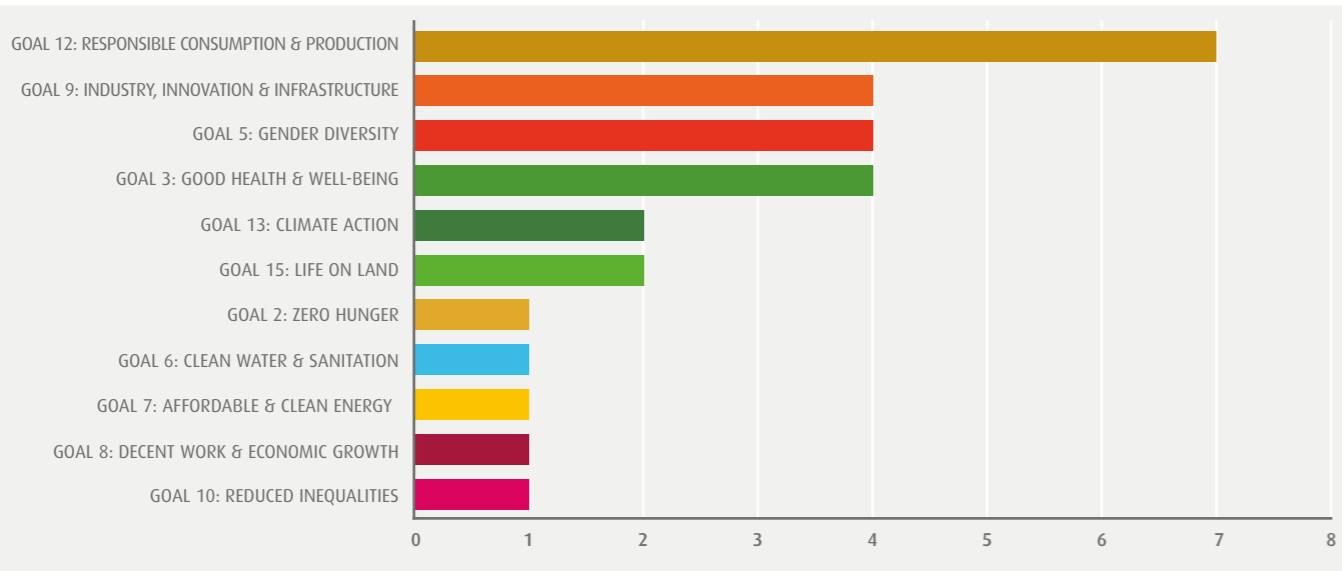
We share our engagement records with our clients upon request.

In 2018 we actively engaged with 29 companies held within the Better World Fund:

ENGAGEMENT BY CATEGORY



NUMBER OF ENGAGEMENT CASES BY UN SDG



SPOTLIGHT: SPIRAX-SARCO ENGINEERING

CATEGORY: Environmental

UN SDG: Goal 12: Responsible Consumption & Production

OBJECTIVE: To better understand the environmental impact of their products

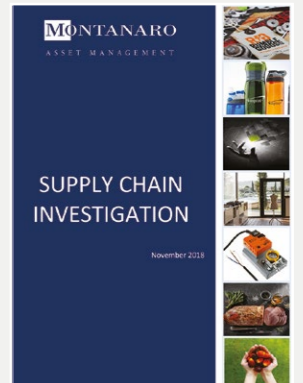
FORMAT: Site visit: factory tour, meetings with senior & middle management

RESULT: Better understanding of the impact of their products & reporting against the UN SDGs

Spirax-Sarco is a leading manufacturer of steam systems and pumps. On a site visit to the company's factory in Cheltenham, we learned how Spirax-Sarco's products are helping their customers to reduce the carbon footprints of their businesses. We were shown a case study concerning a large multinational company that asked Spirax-Sarco to help it save energy at a facility in Chile. Spirax-Sarco were able to identify where steam and water were being lost and install a more energy efficient system. This has materially reduced the CO₂ footprint of their customer, enabling them to get on track to meet a 2020 emissions target. A tour of the factory allowed us to ask questions about Spirax-Sarco's production processes and see the development of their own renewable energy facilities. We also spoke to management about reporting on the UN SDGs and are looking forward to seeing the outcome of this in their next annual report.

DEEP DIVE: SUPPLY CHAIN INVESTIGATION

In November 2018, we published a report investigating the supply chains of a number of companies in our Funds. We engaged with a variety of stakeholders, including investigative journalists from *The New York Times*.



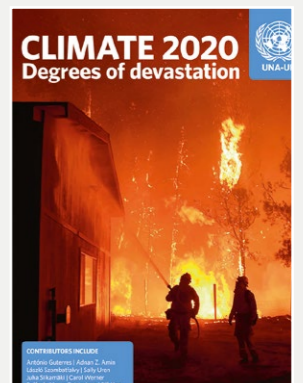
REPORTING

The UN SDGs have gained a lot of attention. We spoke to a number of our companies about how their businesses are aligned to the aims of the SDGs. One such company was Novozymes, who asked us to discuss the role of the SDGs in impact investing in their 2018 Annual Report.



OTHER STAKEHOLDERS

We contributed to the United Nations Association-UK's publication, *Climate 2020*, to highlight how investors can help in the battle against climate change.



Our Team



Charles Montanaro
CO-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, he is well-placed to evaluate the Better World objectives of executives and management teams.



Mark Rogers
CO-FUND MANAGER

Mark has over 30 years of investment experience and managed our European MidCap Fund. As well as being Co-Fund Manger of the Better World Fund, he is also a member of our ESG Committee.

OUR ESG COMMITTEE:



Christian Albuison
CHAIRMAN

Christian chairs our ESG Committee which is responsible for leading Montanaro's Responsible Investment approach.



Ed Heaven
SUSTAINABLE & IMPACT INVESTING

Ed directs the impact analysis of our companies. He manages our engagement efforts and is responsible for our Impact Report and ESG Handbook.



Cedric Durant des Aulnois
CHIEF EXECUTIVE OFFICER

Cedric sits on both the ESG and Investment Committees, ensuring that everyone at Montanaro "buys in" to our Responsible 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. He ensures that ESG considerations are fully integrated into Montanaro's fundamental company analysis.



Sarah Bridges
COMPLIANCE EXECUTIVE

With a Masters in Biodiversity and Conservation, Sarah has a natural interest in environmental issues. She helps to manage Montanaro's approach to voting.

Our 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 worked on the formulation and implementation of ethical and responsible investment for the Pension Fund. 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 Rönholm

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

We aim to practise what we preach. We encourage our colleagues to live as sustainably as possible, both during their time at Montanaro and in the world beyond.



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. So we:

- turn off lights and computers when they are not needed;
- source stationary from Wild Hearts supporting the impact work of the Wild Hearts Foundation;
- reduced plastic use: no plastic cups and no plastic covers on presentations;
- support a bee-hive on our roof.



CHARITY

In 2018, Montanaro’s charity work included:

- Ongoing support to Tribal Survival, a UK registered charity which aims to promote the well-being of indigenous people across the world.
- Staff volunteered over 100 hours of their time to work for local London charities.



HEALTHY EATING

We provide two baskets of fruit each week in the office from the company Fruitful Office. This helps to fund sustainable farming in Africa:

- We planted 101 fruit trees in 2018 for local communities in Malawi.



RECYCLING

In 2018 our recycling programme achieved:

- 1,930 kg of waste recycled;
- 2,710 kg of CO₂ saved;
- equivalent to 23 trees saved.



MINDFULNESS

A healthy body and a healthy mind go hand-in-hand. This is one reason why we host a weekly Yoga class, run by our multi-talented Head of Research, Mark Rogers.

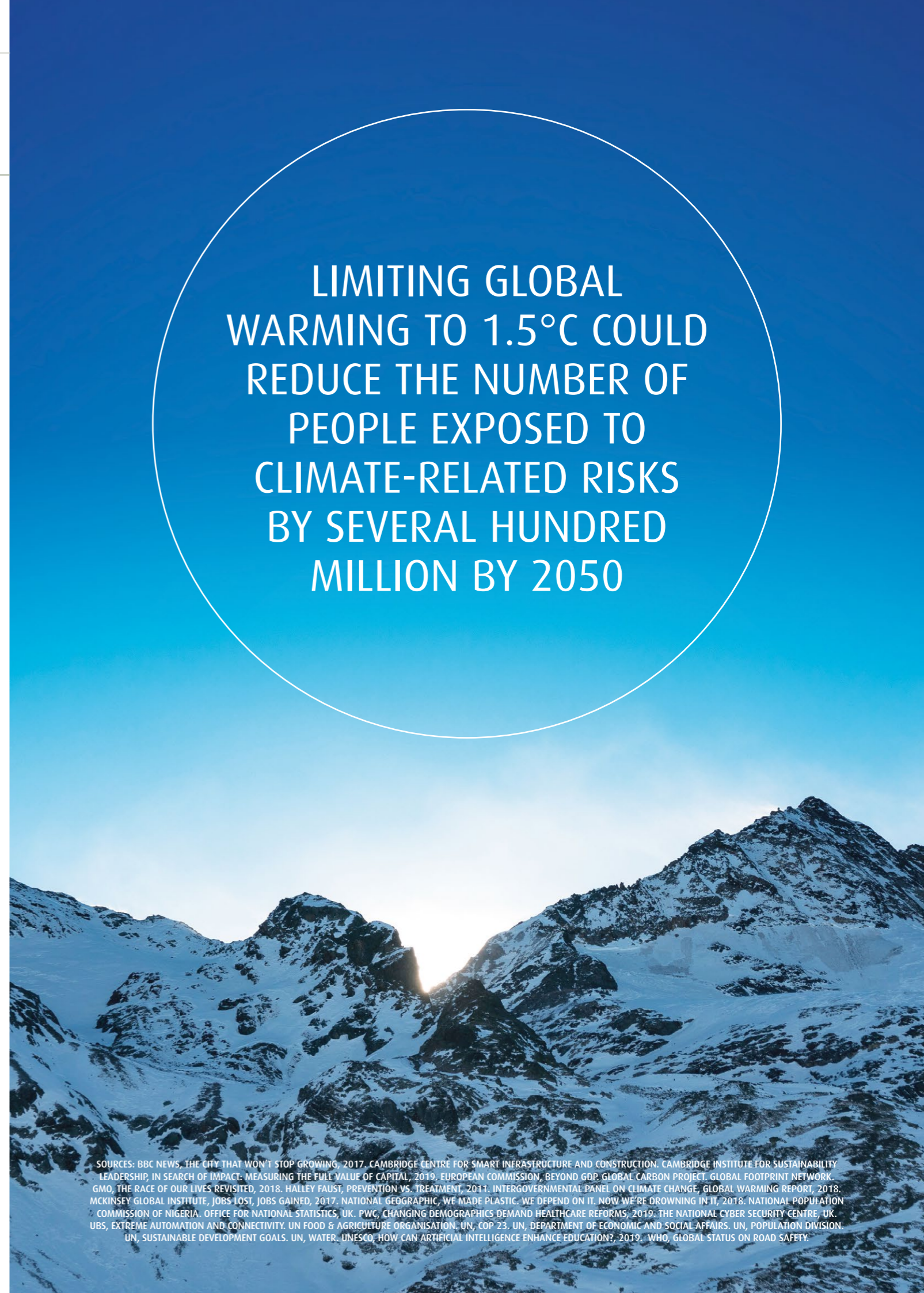


CARBON OFFSETTING

We offset over 28 tonnes of CO₂ in 2018 via ClimateCare, which helped to finance a range of impact projects including:

- the provision of safe water to 4 million people in Kenya;
- the delivery of energy efficient cookstoves to households in Ghana.

LIMITING GLOBAL WARMING TO 1.5°C COULD REDUCE THE NUMBER OF PEOPLE EXPOSED TO CLIMATE-RELATED RISKS BY SEVERAL HUNDRED MILLION BY 2050



SOURCES: BBC NEWS, THE CITY THAT WON'T STOP GROWING, 2017. CAMBRIDGE CENTRE FOR SMART INFRASTRUCTURE AND CONSTRUCTION. CAMBRIDGE INSTITUTE FOR SUSTAINABILITY LEADERSHIP, IN SEARCH OF IMPACT: MEASURING THE FULL VALUE OF CAPITAL, 2019. EUROPEAN COMMISSION, BEYOND GDP. GLOBAL CARBON PROJECT. GLOBAL FOOTPRINT NETWORK. GMO, THE RACE OF OUR LIVES REVISITED, 2018. HALLEY FAUST, PREVENTION VS. TREATMENT, 2011. INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE, GLOBAL WARMING REPORT, 2018. MCKINSEY GLOBAL INSTITUTE, JOBS LOST, JOBS GAINED, 2017. NATIONAL GEOGRAPHIC, WE MADE PLASTIC. WE DEPEND ON IT. NOW WE'RE DROWNING IN IT, 2018. NATIONAL POPULATION COMMISSION OF NIGERIA. OFFICE FOR NATIONAL STATISTICS, UK. PWC, CHANGING DEMOGRAPHICS DEMAND HEALTHCARE REFORMS, 2019. THE NATIONAL CYBER SECURITY CENTRE, UK. UBS, EXTREME AUTOMATION AND CONNECTIVITY. UN FOOD & AGRICULTURE ORGANISATION. UN, COP 23. UN, DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS. UN, POPULATION DIVISION. UN, SUSTAINABLE DEVELOPMENT GOALS. UN, WATER. UNESCO, HOW CAN ARTIFICIAL INTELLIGENCE ENHANCE EDUCATION?, 2019. WHO, GLOBAL STATUS ON ROAD SAFETY.



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The Mark of Responsible Forestry

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