

MONTANARO

Better World Fund

Impact Report 2023

Certified



Corporation



Welcome

A very warm welcome once again to this, our sixth Impact Report. I hope that you enjoy it.

The Montanaro Better World Fund (“the Fund”) was launched in April 2018, so this marks our five-year anniversary. We had three main objectives:

1) To actively support the United Nations Sustainable Development Goals (UN SDGs) and be as far removed from greenwashing as it is possible to be:

BWF invests in six core, long-term impact themes that align with 14 of the 17 UN SDGs and the targets that underpin them. We would like to thank the United Nations Association – UK for their help and advice all those years ago.

We were among the first asset managers to be a certified B Corporation in June 2019 – the same year BWF was awarded the Label ISR by the French Finance Ministry – and have just re-certified with an even higher score. BWF is an Article 9 Fund under SFDR.

2) To deliver attractive returns by investing in companies that make a positive impact:

We never believed that investors had to sacrifice returns in order to do good. Quite the opposite. The UN SDGs seemed to us to offer a compelling investment opportunity. Despite a difficult year in 2022,

BWF has delivered a return since launch of 50% (in Sterling terms) and has outperformed in four years out of five. We remain as excited by the outlook as ever.

3) To make a difference:


We wanted to set the bar high, raising it higher each year and leading by example. Montanaro Asset Management (“MAM” or “Montanaro”) made a commitment at COP25 in 2019 to achieve Net Zero across its operations by 2030. Recently, we announced a goal to be carbon negative by the end of the decade and to remove from the environment all the carbon MAM has emitted since its founding in 1991. We believe we are the first UK asset manager to commit to these ambitious targets. Hopefully others will follow.

None of this would have been possible without your support. Thank you.



A handwritten signature in blue ink, appearing to read 'C. Montanaro'.

Charles Montanaro July 2023

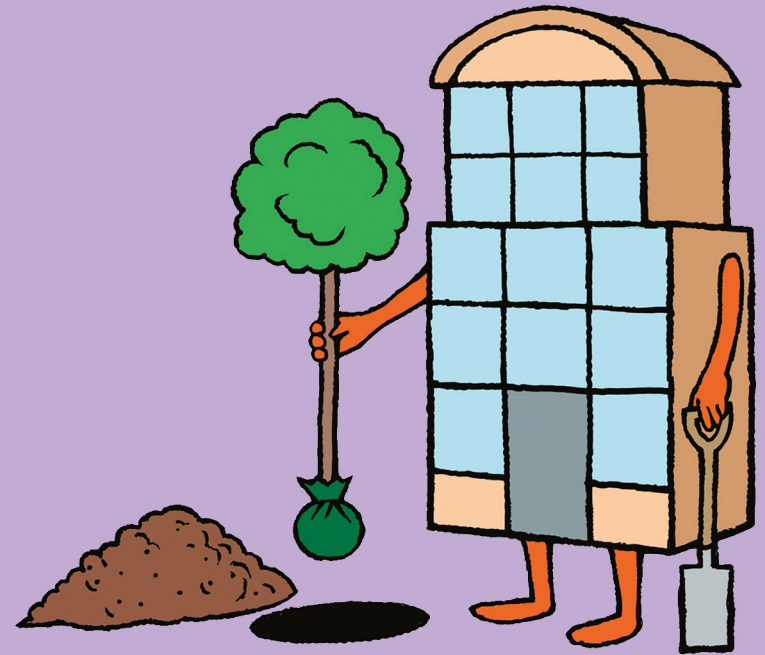


We believe in the allocation of capital to sustainable businesses. To us, a sustainable business is one that derives the majority of its revenues from positive impact themes, meets high standards of ESG and makes returns on investment consistently higher than the cost of capital.

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Impact Investing



The impact market

Impact investing in public equity markets is much better understood today than it was five years ago, when we launched the Fund.

The global impact investing market passed the US\$1 trillion mark for the first time in 2022, according to data from the *Global Impact Investing Network* (GIIN). Yet this is less than 1% of the total market capitalisation of global equity indices.

Impact investing remains in the foothills of its journey into the mainstream, as evidenced by data provided by the Investment Association in the UK (see chart).

This is not especially surprising. It is far simpler to demonstrate that ESG is integrated into a fund's investment process than it is to successfully manage a strategy defined by a sustainable or impact objective. The 1,500 European funds that reclassified at the end of 2022 from Article 9 (sustainable/impact) to Article 8 (ESG integrated) illustrate this.

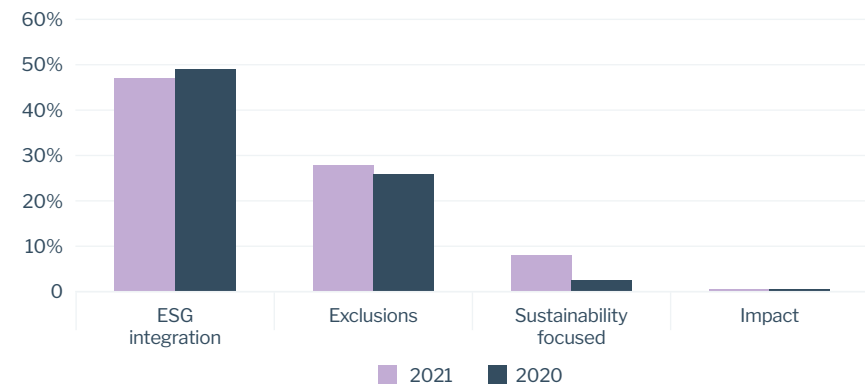
Pleasingly, the GIIN finds that capital is increasingly flowing from asset owners to positive impact active managers, especially from pension funds and insurance companies.

This is a positive development given the UN estimates that the annual funding gap to realising the UN SDGs is more than US\$4 trillion.

It is this reallocation of capital that can bring about a fundamental change. We continue to believe in the seminal academic paper, *The Effect of Green Investment on Corporate Behavior*, by Heinkel, Kraus and Zechner (2001), which found that sustainable capital allocation by institutions needs to reach 20% of the market for real change to happen.

We are making progress, but there is a long way to go.

UK assets under management (AUM) by responsible investment category



Source: The Investment Association Annual Survey, September 2022 [This data includes assets subject to both firm level and individual fund or mandate level responsible investment approaches.]



Realising the UN SDGs could unlock exciting investment opportunities worth US\$2 trillion a year by 2030

Source: Business & Sustainable Development Commission, 2017.

Why invest in quoted companies for impact?

Impact investing has its historical roots in private markets, but it is through public markets that impact investing can become truly mainstream. There are clear benefits to investing in public markets for impact:

- public markets offer scale and liquidity that private markets cannot match:
 - more investors can participate in impact investing
- standards of reporting, transparency and scrutiny are high:
 - there is clear accountability
- best practices tend to emerge in public markets and then spill over into private markets, not the other way round
- ease of ownership makes public markets well suited to addressing global problems that affect multiple stakeholders



The advantages of quoted companies

Engagement & Voting

- in public markets, voting is public, recorded and regular
- it is possible to work together with other shareholders to collectively support and address issues that matter
- engagement is a particularly useful way for investors to generate impact by addressing areas of weakness
- engagement can also encourage more impactful capital allocation by management
- in smaller companies, shareholders can build meaningful stakes for influence
- shareholders in smaller companies can get direct access to CEOs and the Board

Additionality

- if the capital provided is “additional”, then the resulting impact could only have happened as a result of the investment
- in private markets, which are typically primary markets, this link is straightforward: new investments translate into additional capital for the company to deploy
- in public markets, where shares mostly change hands without any capital injection in the company, investors’ capital allocation decisions also have an impact
- by investing in “positive impact” companies, investors can lower their cost of capital
- a lower cost of capital can help make new investments more profitable, enabling higher growth

Intentionality

- delivering positive impact must be an intention of a company, not a fortunate by-product
- we seek to understand if management’s impact aims are aligned with ours and if they are focused on increasing the positive impact of their products/services
- a sound corporate governance structure and R&D pipeline are important
- a key benefit of impact investing in quoted smaller companies is that they tend to be more focused
- smaller companies make it easier to assess and ensure impact alignment

Why Small & MidCap for impact?

- 1 95% of the world's quoted companies are Small & MidCap:**
 - most investors focus on the largest 600 companies in the world
 - there are nearly 12,000 Small & MidCap companies to choose from
- 2 Smaller companies are at an earlier stage on their sustainability journey:**
 - shareholder support is needed as few have internal sustainability teams
 - more limited reporting and disclosure
- 3 Pure impact companies are found in Small & MidCap:**
 - smaller companies typically provide focused products and services, offering higher revenue alignment with impact objectives such as the UN SDGs
 - a more specialised focus can make it easier to measure and manage the impact companies generate
- 4 Innovation and disruption:**
 - smaller companies are often at the forefront of innovation and disruptive solutions
 - many of these solutions address environmental or social challenges
- 5 You have direct access to senior management:**
 - investors can speak to the CEOs, who are the decision makers
 - it is easier to build meaningful share ownership in smaller companies and to have an influence



The sustainability revolution

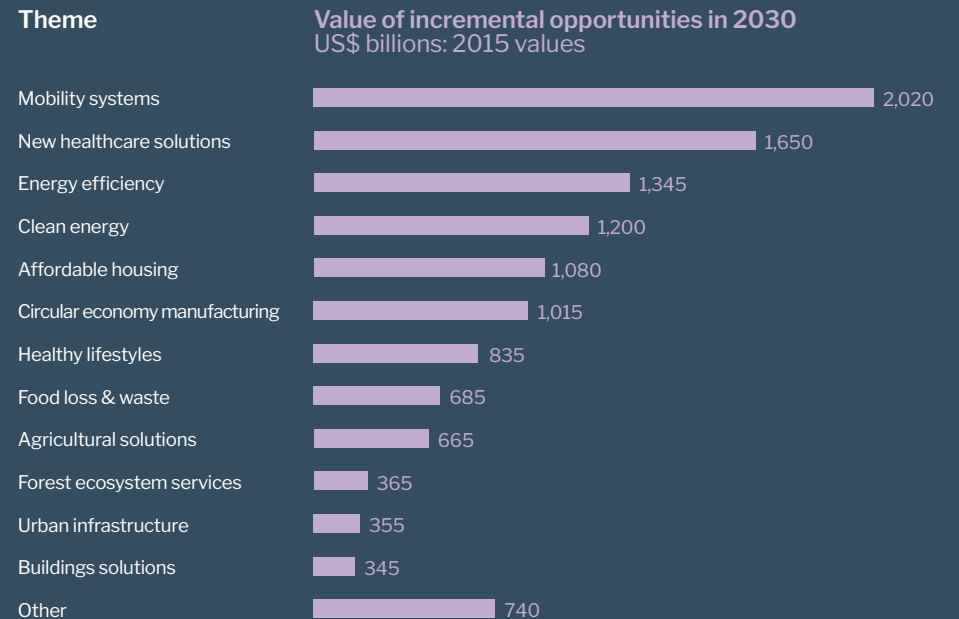
The world is at a tipping point: the evidence of global warming and the impact on the environment and biodiversity is there for all to see. Society faces challenges, from rising inequality to ageing demographics. These issues are not new, but the time to act grows ever shorter.

The sustainability revolution offers hope: new products and services from technological advances will help address and solve today's challenges, paving the way for a better future.

Supported by the UN SDGs, this revolution has the potential to be as transformative as the Industrial Revolution.

Impact investing offers the best way to participate in growth opportunities driven by the sustainability revolution that can balance People, Planet and Profitability.

12 largest business themes in a world economy heading for the UN SDGs



Source: UN SDG Website, Better Business Better World Report.
* Based on estimated savings or project market sizings in each area. Rounded to nearest US\$ billion.

Theory of Change

Impact funds are distinct from ESG and sustainable funds because of their impact mandate, against which progress is measured and action is taken. ESG funds “do no harm” whereas the goal of impact funds is to “do good”.

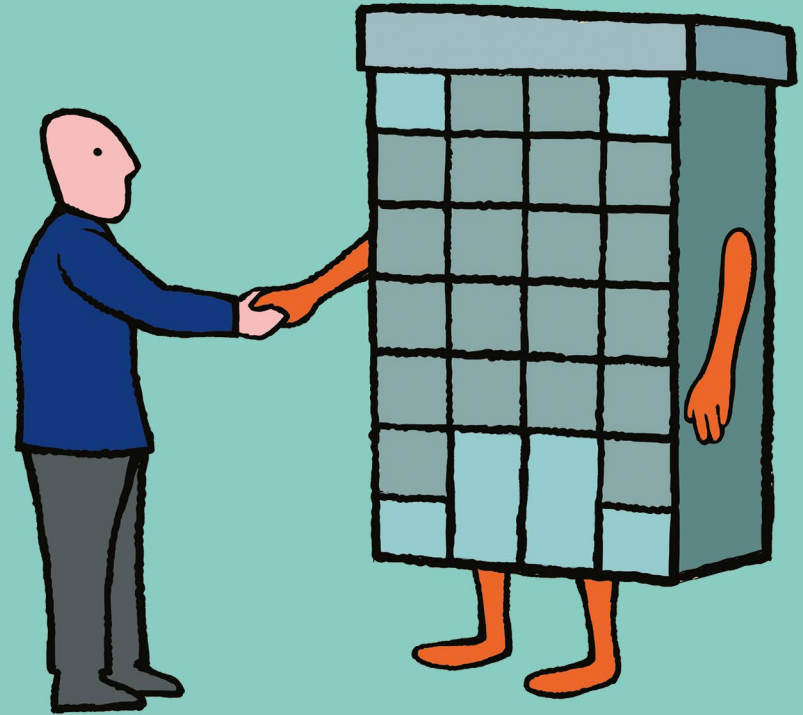
The Global Impact Investing Network (GIIN) defines this difference through a ‘Theory of Change’ framework. A problem is identified, with positive impact delivered by investee companies (via their products and services) and through investor contribution, such as engagement.

Every investment in the Fund is made with the intention of generating impact. We use our impact themes to understand global challenges and then identify companies offering solutions to help.

As active and engaged investors, we aim to increase the impact of our companies over time. We call this our ‘Theory of Change’.



Fund Overview



The Better World Fund

The Fund has a simple aim: to deliver strong investment returns by investing in companies that are helping to solve some of the world's greatest challenges and to make the world a better place.

LAUNCHED

April 2018

Domicile: Ireland

Note:
The **LF Montanaro Better World Fund**, domiciled in the UK, was launched in January 2020.

INVESTMENT OBJECTIVE & STRATEGY:

Long-term capital growth by investing in quoted global Small and MidCap companies in developed markets that make a positive impact on the world

RATINGS

Label ISR: sustainability rating awarded by the French Finance Ministry

Square Mile: AAA rating from 3D Investing

RSMR: Responsible rating

FundCalibre: Elite Radar

SFDR

Article 9

EXCLUSIONS

Tobacco

Alcohol

Weapons

Adult Entertainment

Gambling

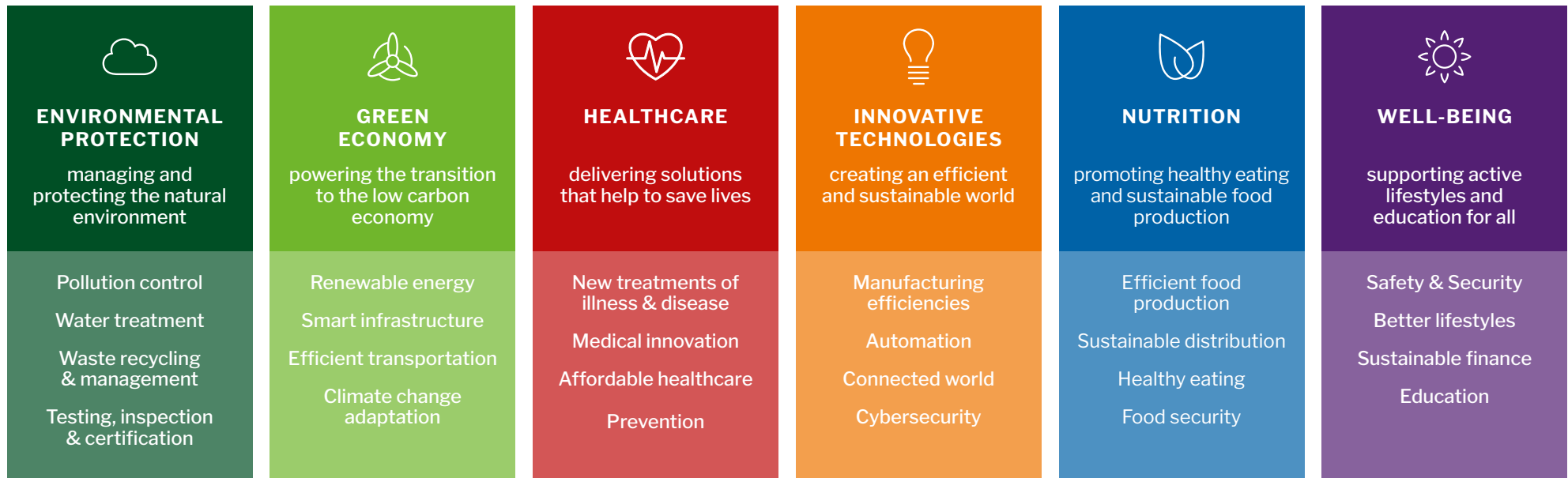
High-interest Rate Lending

Fossil Fuels

Animal Testing (ex-healthcare)

Impact themes

To build a more sustainable economy, capital needs to be shifted from the “**old world**” – of fossil fuels, energy intensive manufacturing, struggling healthcare systems – to a “**new world**” – of companies whose products offer better outcomes for people and the planet. Our impact themes help us to identify companies that can deliver this new, better world.



The UN SDGs

Our themes support the UN SDGs. With billions of dollars of capital required to meet these goals, the private sector has a key role to play. US\$4 trillion of investment is required each year to meet the 2030 deadline. Private sector opportunities created by the UN SDGs are estimated at US\$12 trillion annually.



Performance review

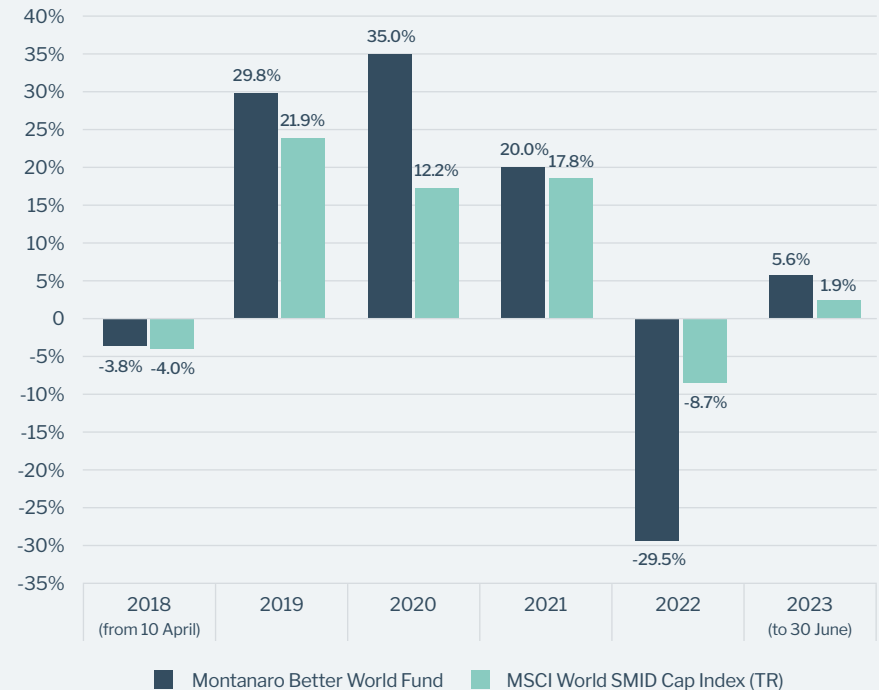
2022 proved a “perfect” storm for Quality Growth managers and it was a difficult year for the Fund.

This marked the first year of underperformance in the five years since we launched the Fund. Much of this was due to the severe style headwinds we faced in the opening months of the year, including one of the most dramatic rotations from Growth to Value we have witnessed in over 30 years of managing Small & MidCap portfolios.

During this time, we continued to believe that our companies were well-placed to meet their earnings expectations. Our companies remain strong, well-managed, with robust balance sheets and attractive growth prospects. They did not let us down.

As we approach the half-way mark in 2023, we are pleased that performance has recovered, with the Fund ahead of the benchmark and with positive returns. With Small & MidCap valuations looking more attractive, we are optimistic about the outlook.

Montanaro Better World Fund - Annual Returns (GBP share class)



Source: Internal (Calculations), BNY Mellon (NAVs). Note: Returns for the Better World Fund are net of Fees. Based on the GBP Share class of the Irish-domiciled Better World Fund. The LF Better World Fund is similar but not identical to the Irish domiciled Montanaro Better World Fund. The MSCI World SMID Cap became the official benchmark as of April 2020. Prior to this, it is shown for comparison purposes only.

Awards

2019

**Winner of
Best Impact
Fund**

INVESTMENT WEEK

**Winner of
Best Impact
Report**

PENSIONS FOR
PURPOSE

2020

**Highly
Commended
Best Impact
Fund**

INVESTMENT WEEK

2021

**Winner of
Best Impact
Equity Fund**

INVESTMENT WEEK

2022

**Winner of
Best Equity
Global Small &
MidCap Fund
3 years**

LIPPER

**Highly
Commended
Best Impact
Fund**

INVESTMENT WEEK

2023

**Winner of
Best ESG
Investment
Fund: Impact**

ESG INVESTING

Investment Philosophy & Process



What is a Better World Fund company?

- 1 Providing products & services that make a positive impact
- 2 A business model we can understand
- 3 Profitable
- 4 Focused business operating in growth markets
- 5 Market leader
- 6 High returns on capital with strong balance sheet / cashflow
- 7 Exemplary standards of ESG and a willingness to engage
- 8 Outstanding management



Investment process



Impact delivers growth...

ESG demonstrates quality

Impact of products & services

Every company that we consider for investment must pass our bespoke Impact Profile and be approved by our Impact Team.

The products and services of companies are measured on:

- Impact on People
- Impact on Planet
- Intentionality (of management)
- Additionality (of products/services)
- Impact risk
- Revenue by impact theme (at least 50%)

Impact research

Impact profile

Thematic revenue

Montanaro
Impact Score

Key performance indicators (KPIs)

We aim to identify KPIs to measure the impact a company makes on the environment or society, through its products and services.

We use the **IRIS+ System** to help identify KPIs, a database developed by the GIIN Investors' Council to improve the **transparency and credibility** in how investors measure the social and environmental performance of their portfolios.

Impact measurement is challenging and every company is different. It can be more straightforward to measure the impact of a “tangible” infrastructure asset such as a wind turbine (the amount of clean energy produced) compared to an “intangible” service company, such as a provider of medical equipment used to produce drugs.

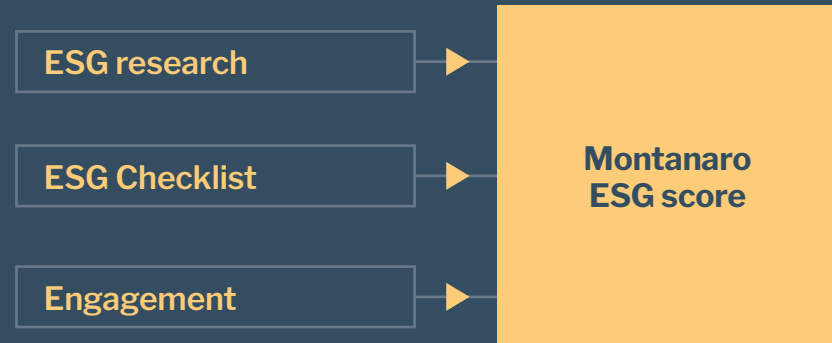
We therefore also work **directly with our companies** to identify the most suitable KPIs to measure impact.



ESG footprint

ESG factors form a key part of how we assess the Quality of a business. Analysts complete our bespoke ESG Checklist, which combines our own research with public data to assess a company's ESG calibre, risks and opportunities.

- **Environment:** including Carbon; Climate; Water and Waste management
- **Social:** including Workforce; Policies; Labour Practices
- **Governance:** including Board; Remuneration; Management; Stakeholders

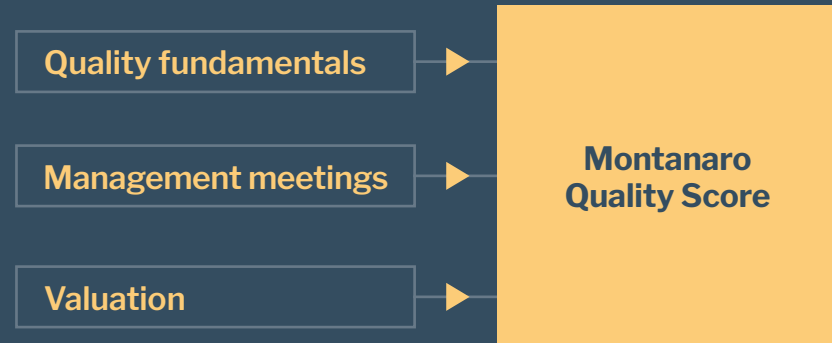


Investing in Quality

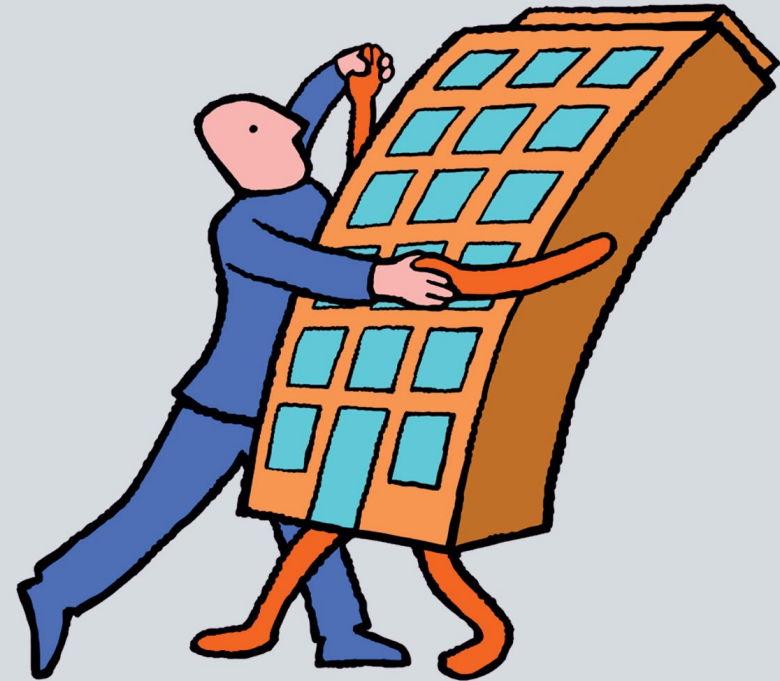
Every company we invest in must meet the “Montanaro Quality” threshold. This helps us avoid the trap of investing in “concept stocks” that sound impactful but have little hope of delivering an attractive financial return to investors.

Our due diligence process includes:

- **Quality Checklist:** assesses quality against a set of 14 key financial criteria
- **Financial model:** a proprietary model to understand the business drivers
- **Meetings:** meet with management and site visits
- **Valuation analysis:** valuing future cashflows (primarily discounted cashflows)



Companies in Action





Environmental Protection

Challenges:

- We are using the **Earth's resources in an unsustainable manner**, exacerbated by population growth and climate change.
- According to a **UN Report**, humankind has altered 70% of the planet's land from its natural state, causing up to 40% of land degradation. This has been a key driver of global warming. Current levels of **deforestation** and **plastic use** are unsustainable.
- Only 3% of the Earth's water is fresh. Lack of fresh water, as well as poor sanitation, impacts livelihood choices and food security across the world.

Solutions:

- **Pollution control**
- **Water treatment**
- **Waste recycling & management**
- **Testing, inspection & certification**

References: <https://www.carbonbrief.org/un-land-report-five-key-takeaways-for-climate-change-food-systems-and-nature-loss/>





Company in action

COMPANY

Badger Meter

DESCRIPTION

Badger Meter is a global provider of industry leading smart water solutions encompassing flow measurement, quality assessment and other systems. These provide customers with the data and analytics essential to optimise water operations and contribute to the sustainable use and protection of this precious resource.

STRATEGIC GOAL

Improving sustainability of industrial and municipal water practices.

ADDITIONALITY

Badger Meter helps to provide fresh drinking water, save water and improve water quality, benefiting both people and the planet.

KPI

Water saved and carbon emissions reduced as a result of improvements to water technology.

UN SDG TARGET

By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity. Substantially reduce the number of people suffering from water scarcity.

6 CLEAN WATER AND SANITATION





Green Economy

Challenges:

- The impact humanity is having on the planet is undeniable.
- A report by the **Intergovernmental Panel on Climate Change (IPCC)** proves that we are responsible for **1.1°C warming of the planet** versus pre-industrial levels. Global warming is now at 1.2°C and likely to breach 1.5°C during the next five years.
- **We must act now** to help avert the worst consequences of climate change.
- Climate change means energy systems must decarbonise and **move rapidly away from fossil fuels**.

Solutions:

- **Renewable energy**
- **Smart infrastructure**
- **Efficient transportation**
- **Climate change adaptation**

Reference: <https://www.carbonbrief.org/qa-ipcc-wraps-up-its-most-in-depth-assessment-of-climate-change/>





Company in action

COMPANY

SolarEdge Technologies (SolarEdge)

DESCRIPTION

SolarEdge is a provider of power optimisers, solar inverters and monitoring solutions for solar photovoltaic (PV) arrays (i.e. solar panels). PV cells convert sunlight directly into electricity. SolarEdge's products make solar panels more energy efficient and cost efficient.

STRATEGIC GOAL

SolarEdge's solutions facilitate the transition to a Green Economy. This can help to reduce the amount of fossil fuels used to generate energy.

ADDITIONALITY

Present in over 21 countries, including developing countries such as the Middle East & Africa.

KPI

Carbon emissions avoided.

UN SDG TARGET

By 2030, ensure access to affordable, reliable, sustainable and modern energy for all.

7 AFFORDABLE AND
CLEAN ENERGY



Reference: https://knowledge-center.solaredge.com/sites/kc/files/annual_sustainability_report_2021.pdf





Healthcare

Challenges:

- As populations grow and age, providing **cost-effective healthcare** is increasingly difficult.
- The **World Health Organisation (WHO)** has highlighted **preventing and controlling non-communicable diseases** as an important area for improvement. Premature mortality from diseases such as cancer need to be reduced through **prevention and treatment**.
- **Medical equipment** is needed to treat patients with high quality products available to a wide range of doctors and hospitals.
- A top priority for the WHO is to improve patient medical records and increase efficiency to reduce cost and avoidable deaths.

Solutions:

- **New treatment of illness & disease**
- **Medical innovation**
- **Affordable healthcare**
- **Prevention**

Reference: <https://www.un.org/en/global-issues/health>





Company in action

COMPANY	Shionogi
DESCRIPTION	Shionogi is a pharmaceutical company that specialises in drug discovery with novel compounds combatting infectious diseases, central nervous system disorders and antibiotic resistance.
STRATEGIC GOAL	Increasing access to essential medicines, medical supplies and vaccines.
ADDITIONALITY	Shionogi develops drugs to treat diseases that are a global priority for the UN 2030 agenda. The additionality comes from the research and development of medicines that target critical and urgent pathogens.
KPI	Number of healthcare products and services provided, and diseases or conditions addressed.
UN SDG TARGET	By 2030, reduce by one-third premature mortality from non-communicable diseases through prevention and treatment, and promote mental health and well-being.





Innovative Technologies

Challenges:

- New innovative technology is required to **develop solutions that can bring about a more sustainable world.**
- Manufacturing needs to become **cleaner, more efficient and faster** to realise the UN SDGs, which requires sustainable industrialisation, resilient infrastructure and the fostering of innovation.
- Automation and artificial intelligence are becoming increasingly advanced and their impact will be widespread, changing how we manufacture goods and work.
- An estimated one trillion objects are projected to be connected to the internet by 2025. Much like the Industrial Revolution, emerging technologies are set to reshape the global job market, with both positive and negative implications.

Solutions:

- **Manufacturing efficiencies**
- **Automation**
- **Connected world**
- **Cybersecurity**

Reference: UN: <https://www.un.org/sustainabledevelopment/sustainable-consumption-production/>





Company in action

COMPANY

Cognex

DESCRIPTION

Cognex is a provider of machine vision products that capture and analyse visual information to automate manufacturing and tasks where “beyond human” vision is required.

STRATEGIC GOAL

Mitigating climate change through sustainable manufacturing.

ADDITIONALITY

The company operates in numerous regions and is developing robotics to aid in the manufacture of products in a variety of industries.

KPI

Carbon emissions avoided by improving manufacturing efficiency.

UN SDG TARGET

By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean, environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.





Nutrition

Challenges:

- Pressure on **food systems, unhealthy diets** and **changing demographics** are placing strains on the environment and society.
- According to **the UN, almost a third of total global food production is lost or wasted**. This equates to **8-10% of global greenhouse gas emissions**.
- The WHO cites unhealthy diets as a cause of obesity and many chronic diseases, such as diabetes and cancer.
- Our food supply needs to be **secure and sustainable**. Innovation and advanced technological solutions are required to maximise food production and reduce food wastage.

Solutions:

- **Efficient food production**
- **Sustainable distribution**
- **Healthy eating**
- **Food security**

Reference UN: <https://www.un.org/en/observances/end-food-waste-day>
WHO reference: <https://www.emro.who.int/noncommunicable-diseases/causes/unhealthy-diets.html>





Company in action

COMPANY	Balchem
DESCRIPTION	Balchem is a leading producer of choline (Vitamin B4) - an essential nutrient for humans and animals. The company's ingredients deliver multiple health benefits to all age groups.
STRATEGIC GOAL	Enhancing sustainable food production.
ADDITIONALITY	The contribution of Balchem to plant and animal health is beneficial to sustainable agriculture and aids efficient food production.
KPI	Human health outcomes as a result of improved nutrition.
UN SDG TARGET	By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.





Well-being

Challenges:

- The WHO cites an individual's health as *“a state of complete **physical, mental and social well-being** and not merely the absence of disease or infirmity”*.
- The UN SDGs emphasise that *“**healthy lives and promoting well-being at all ages is essential to sustainable development**”*.
- According to **the UN**, anxiety and depression globally (in particular among women and the young) rose by 25% in 2020 due to Covid.
- Mental health and well-being is vital to live, work and enjoy life.
- **Education** is a fundamental human right and is central to creating better lives and a better world, giving people the resources, skills and knowledge to have good health and secure a job.

Solutions:

- **Safety & Security**
- **Better lifestyles**
- **Sustainable finance**
- **Education**

Reference: WHO: <https://www.who.int/data/gho/data/major-themes/health-and-well-being>
UN: <https://www.un.org/sustainabledevelopment/health/>





Company in action

COMPANY

IDP Education (IDP)

DESCRIPTION

IDP is engaged in the placement of international students into universities and colleges overseas. It offers specialist market knowledge in the form of counselling, assistance and guidance to students exploring study opportunities. It also distributes and administrates International English Language Testing System (IELTS) tests, an essential English language test for study, work and migration purposes.

STRATEGIC GOAL

Improving equitable access to education and learning for all.

ADDITIONALITY

The company operates in a number of countries, with a particular focus on developing nations such as India and China.

KPI

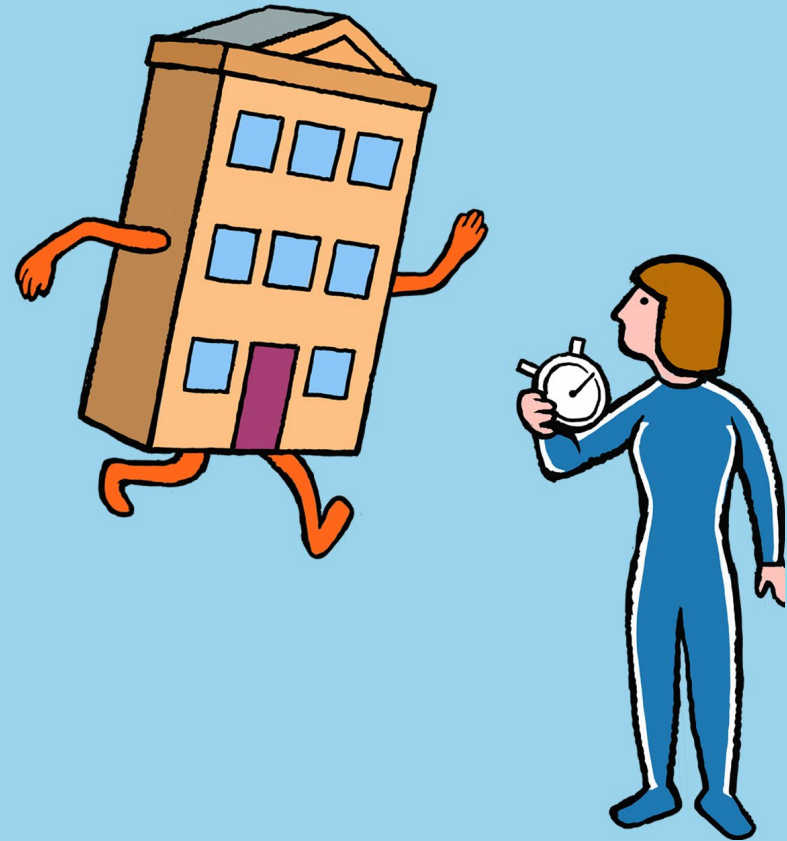
Number of students placed into higher education.

UN SDG TARGET

By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.



Measuring Impact



Our three steps to measuring impact

1

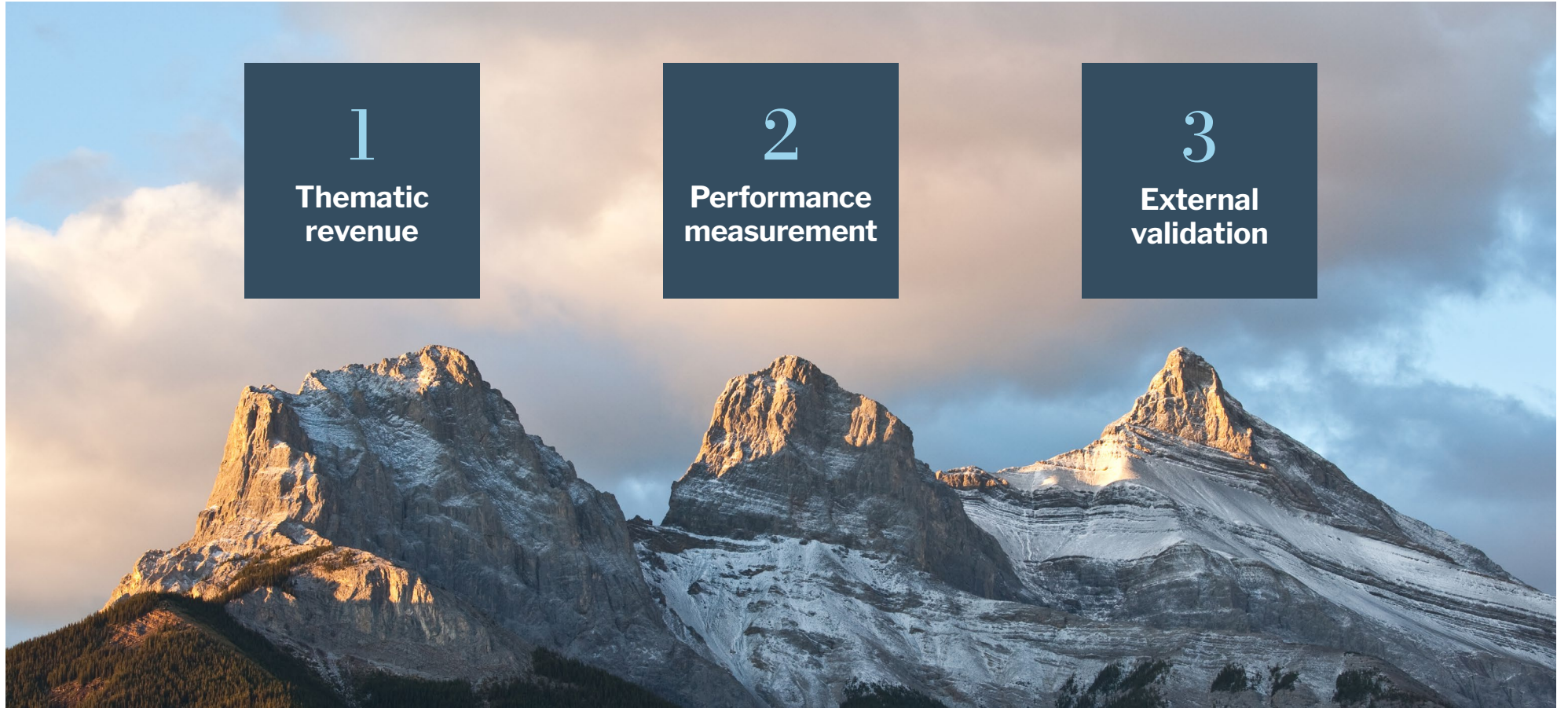
Thematic
revenue

2

Performance
measurement

3

External
validation



Thematic revenue: a balance of people & planet



Our impact champions in each of our six themes

The following companies have the highest scores in each of our impact themes:

Xylem

Impact Score: 39

UN SDG: 6

KPI:

Reduction in water wasted (measured in cubic metres).

Description:

Xylem delivers products to help save water throughout the water cycle.

Impact:

Between 2019 and 2022, the company saved over 1.91 billion m³ of water. The goal is to achieve 3.5 billion by 2025.



Alfen

Impact Score: 42

UN SDG: 7

KPI:

Emissions avoided (measured in metric tonnes of CO₂e).

Description:

Alfen's products help to deliver renewable energy, support the growth of EVs and improve storage options.

Impact:

In 2021, the company avoided 2.2 million tonnes of CO₂e emissions with EV charging solutions.



Pro Medicus

Impact Score: 40

UN SDG: 3

KPI:

Number of healthcare services provided and conditions addressed.

Description:

Pro Medicus develops and supplies healthcare imaging software and services to hospitals.

Impact:

We estimate that the company's Visage software was used in 30m radiology examinations in the US in 2022.



Spirax Sarco

Impact Score: 33

UN SDG: 9

KPI:

Emissions avoided (measured in metric tonnes of CO₂e).

Description:

Spirax provides products that improve plant efficiency across a range of industries.

Impact:

The company estimate 17.7 million tonnes of CO₂ can be saved annually by customers using products purchased in 2022.



Chr. Hansen

Impact Score: 34

UN SDG: 3

KPI:

Reduction in food wasted and increase in agricultural productivity.

Description:

Chr. Hansen develops natural ingredient solutions for the food, nutritional, pharmaceutical and agricultural industries.

Impact:

Chr. Hansen's food cultures can delay spoilage in food products. 520,000 tonnes of CO₂ could be saved if yoghurt waste alone is reduced by 30% by 2025.



IDP Education (IDP)

Impact Score: 33

UN SDG: 4

KPI:

Number of students educated.

Description:

IDP helps to place students at international universities and operates English language schools.

Impact:

In 2022, 1.9 million IDP International English Language Testing System assessments were taken by students and 5,337 offers were made to students through the IDP FastLane program.



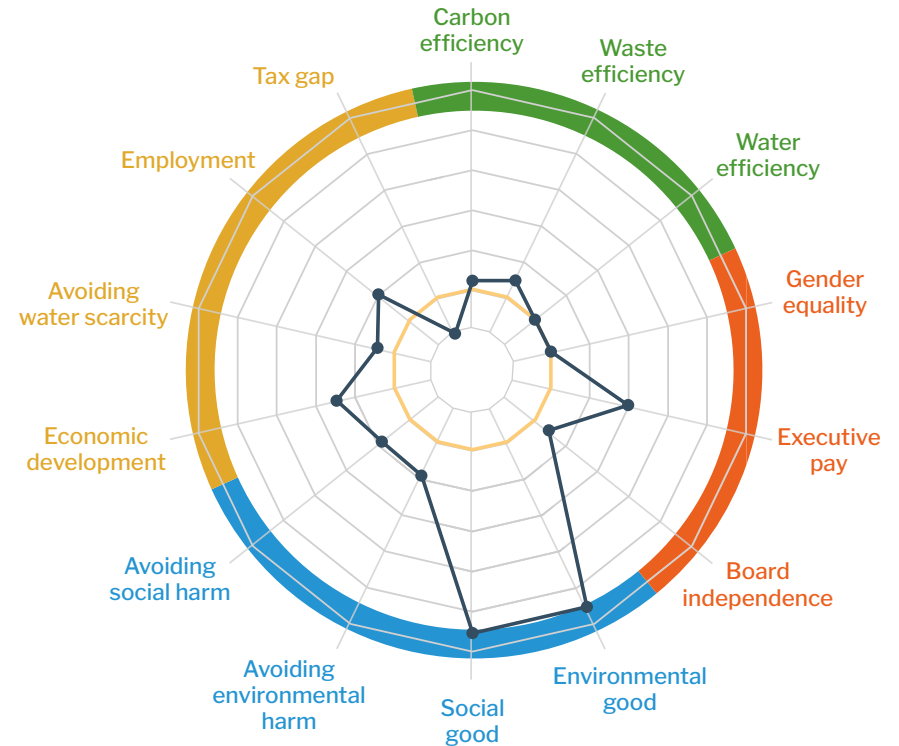
Source: Latest company sustainability reports

Independent sustainability assessment

Impact Cubed assesses the Fund against 14 sustainability metrics relative to a Global Developed SMidCap benchmark. The top scored areas are “Environmental Good” and “Social Good”, reflecting the strong impact focus of the Fund.

The only area of weakness came in the “tax gap” segment. This can be explained by tax breaks enjoyed by renewable companies in the US and the impact of stock-based compensation schemes on reported tax rates.

In its assessment, Impact Cubed normalises operational and revenue sustainability data for comparison versus the benchmark.



Alignment with the UN SDGs

Impact Cubed assesses the Fund's alignment with the UN SDGs. They consider both a company's revenues (products and services) and ESG operational factors to see how well they are aligned with the goals.

If the Fund is outside the the Global Developed SMidCap benchmark (the red dotted circle in the middle of the spider chart) it is outperforming.

We are pleased to report that the Fund has strong alignment with the aims of the UN SDGs.



Impact comparisons

Impact Cubed compares the impact of the Fund to the benchmark across a series of data points. In 2022, compared to the Global SmidCap Developed Market benchmark index, US\$1M invested in the Fund financed:

Environmental good:

24%

more invested in companies contributing to solving environmental issues

Social good:

26%

more invested in companies helping alleviate social issues

Carbon efficiency:

168

fewer tonnes of GHG emissions

Waste efficiency:

449

fewer tonnes of waste generated

Water efficiency:

7,000

cubic metres less fresh water used

Source: Impact Cubed. All comparisons are absolute figures rather than intensity.

Identifying Impact and ESG leaders

Our Investment Team has developed an “Impact Score” for each company, allowing us to better assess the spectrum of impact across the Fund.

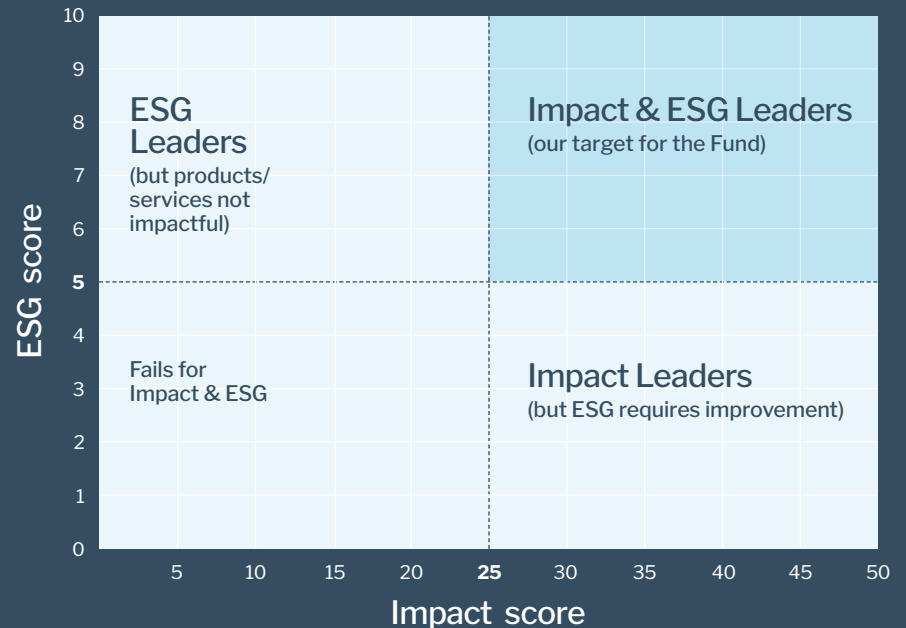
Companies are scored for impact based on our defined criteria. A company must have an impact score of at least 25 in order to pass.

We also assess the percentage of revenue aligned to our impact themes and will only invest in companies with at least 50% of revenue alignment.

Using our bespoke ESG Checklists, we analyse companies across numerous metrics and calculate a score out of 10. Companies must have a score of at least 5 in order to pass.

We look for leaders in both ESG and Impact.

We invest in Impact & ESG leaders



Impact & ESG scores

We invest in Impact & ESG Leaders.

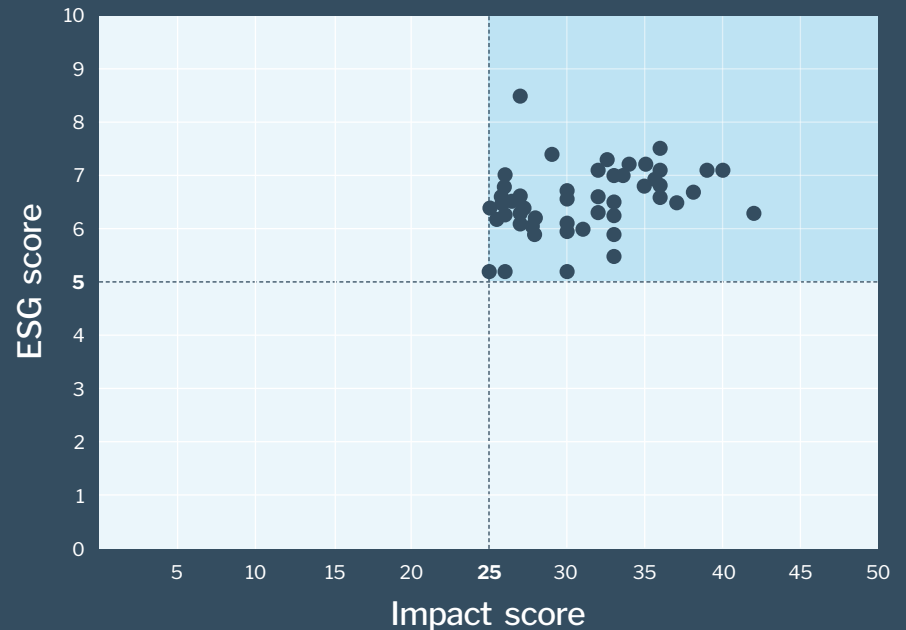
This chart compares the ESG scores of the companies in the Fund with their impact scores, based on our internal analysis.

Each dot represents a company in the Fund.

The Fund only invests in companies that meet strict impact and ESG criteria.

We will invest in companies that require improvement if an engagement opportunity exists.

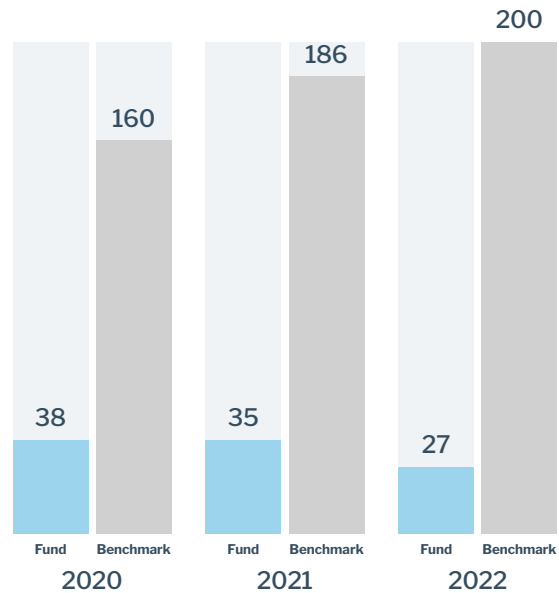
ESG scores versus Impact scores



Environmental metrics

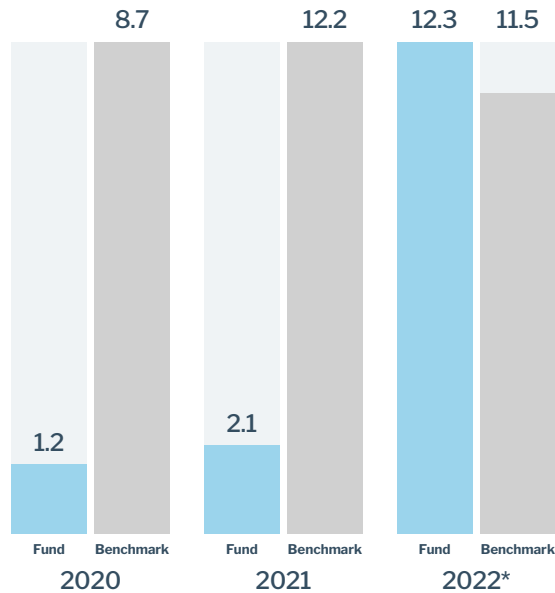
Carbon intensity

Scope 1+2 Intensity (t/US\$ million sales)



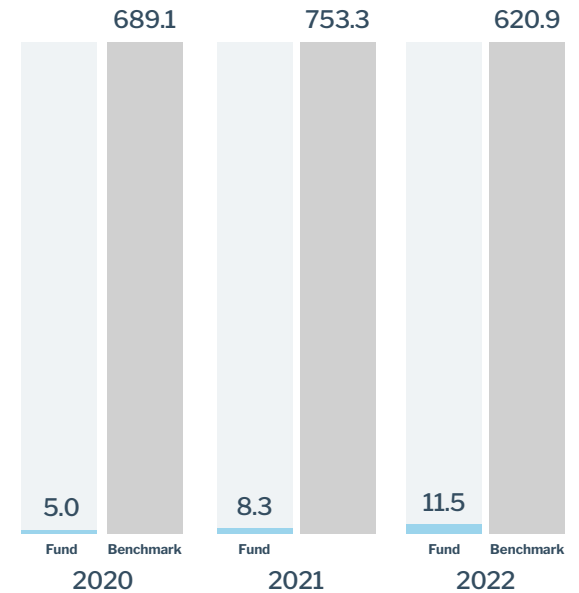
Water intensity

(thousand cubic metres fresh water used per US\$1M revenue)



Waste intensity

(tonnes of waste generated per US\$1M revenue)



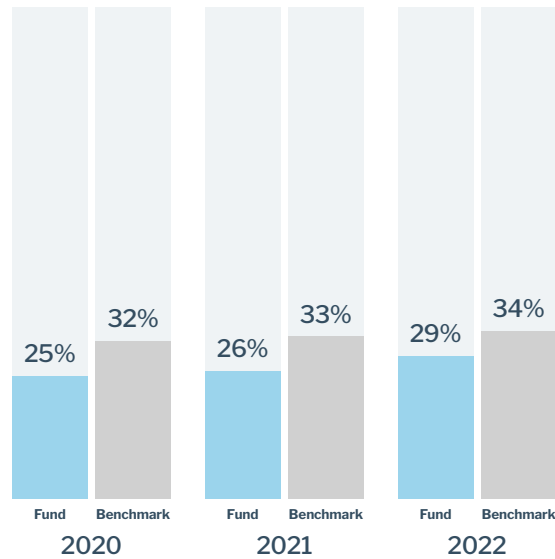
Sources: MSCI, Bloomberg, Company annual reports.

* During 2022 we added a number of new investments to the portfolio. One such name was a water utility company. As a consequence this has led to an increase in the water intensity of the portfolio.

Social and governance metrics

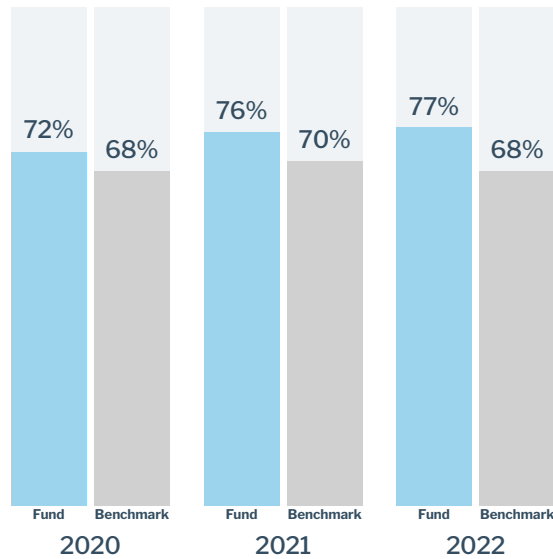
Gender equality

(women on boards and in top management)



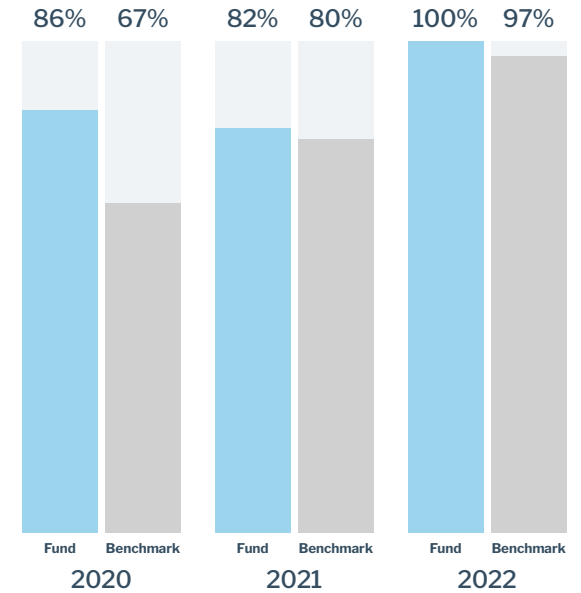
Board independence

(percentage of independent board members)



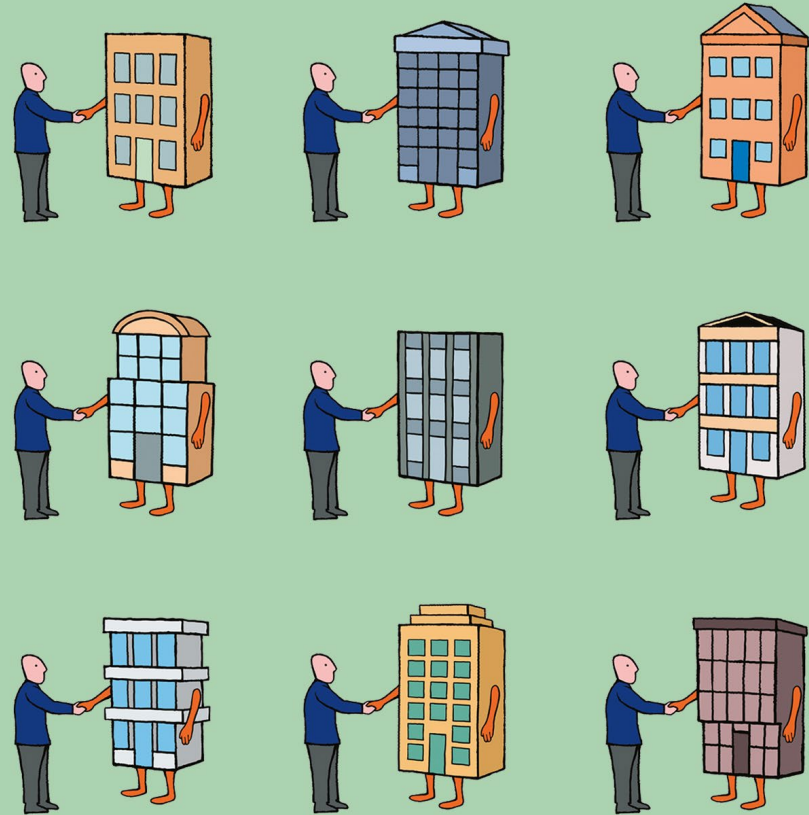
Business Ethics

(percentage of companies with an anti-bribery policy)



Sources: MSCI, Bloomberg, Company annual reports (we take data at the following April as this takes into account 2021 year end reporting).

Engagement



Why we engage

Engagement offers us an important way of delivering positive impact and enabling change.

Our aim is to improve areas of weakness in a company's impact or ESG profile. We also engage to support capital investment and research and development that enhances impact.

We engage where it matters, speaking to CEOs and Board members who hold positions of authority. We also seek different opinions to help us reach our conclusions and will speak to other stakeholders, including academics; industry leaders; or those in government.

Engagement can take place via email; over the phone; or when we attend company site visits. Engagements may be company specific, or they might relate to an issue that affects multiple companies, such as climate change.



Case studies: Trex and American Water

Trex: circular economy

Trex, a company specialising in composite decking products from recycled plastic and wood, has a strong environmental record, **never felling a tree for its products and recycling over 1.5 billion plastic bags annually**. During our visit to its Virginia headquarters in the US, we learned from the CEO about a pilot project aimed at recycling old products and positioning them for repeated use, a strategy we believe could enhance Trex's market position and environmental impact.

This innovative approach could prolong the lifecycle of disposable materials, **diverting more waste from landfills**. As part of our ongoing engagement, we plan to continue supporting Trex's endeavours to establish a fully closed-loop system, which is an exciting prospect for sustainable development.

American Water: reducing carbon emissions

After reviewing the carbon footprints of the companies in the Fund, we initiated an engagement with **American Water, identified as one of the most carbon-intensive holdings in our portfolio**. This engagement led to the company announcing new medium and long-term targets for its Scope 1 and 2 emissions, supplementing an existing 2025 goal.

The updated medium-term goal seeks to halve absolute Scope 1 and 2 emissions by 2035, using 2020 as the baseline. Looking even further ahead, American Water aims to reach net-zero absolute Scope 1 and 2 emissions by 2050, aligning itself with a more sustainable and environmentally-friendly future.

Case studies: Tristel and Ryman Healthcare

Tristel: transparency and disclosure

Tristel, a UK manufacturer of infection prevention products and one of the smallest companies in the Fund, has limited sustainability reporting. To address this, **we initiated discussions with the CFO on a project to measure Tristel's carbon emissions and devise an ESG strategy.** During our engagement, we offered best practice advice for reporting, including setting sustainability goals and highlighting the type of information that would be of most use to investors.

In response, **Tristel launched its new strategy at the beginning of 2023**, integrating our suggestions with a comprehensive set of data and ambitious sustainability objectives. This improved transparency is welcome and we look forward to following the company's future progress towards its sustainability goals.

Ryman Healthcare: safety and governance

We engaged with **Ryman Healthcare**, a New Zealand-based care home provider, to review its safety protocols and governance measures. **Our discussions with the CEO covered the organisation's culture and patient safety policies, providing us with reassurance that Ryman is well positioned to continue offering high quality care to its residents.**

Our proactive oversight continued as we monitored industry developments and in the final quarter of 2022, **undertook site visits to several Ryman care homes in New Zealand and Australia.** This gave us a deeper insight into the quality of care Ryman provides, enriching our analysis and understanding of the company.

CEO net zero roundtable

Climate change is an issue that every company faces.

Without the backing of business leaders, we cannot achieve the carbon reductions necessary to mitigate climate change.

During the summer of 2022, we hosted a CEO-to-CEO net zero roundtable, led by the CEO of a FTSE-100 company.

The aim of the session was to showcase an example of how one company has set ambitious environmental goals that have benefited its business and stakeholders.

Over 30 of our investee company CEOs joined from a range of sectors and geographies, sharing ideas and discussing the challenges and opportunities that come from transitioning a business to net zero. We hope that this initiative will encourage further collaboration and inspire others.



Collaborations

**We participate in collaborative engagements with like-minded peers to constructively influence our companies.
We joined a number of collaborations during the year.**

Taskforce on Nature-related Financial Disclosures (TNFD):

- The TNFD is an evolving framework that aims to help organisations manage nature-related risks and direct global finance towards nature-positive outcomes. It was recognised at the 2022 UN Biodiversity Conference (COP15), held in Montreal, Canada.
- **We contributed feedback to the initial framework** and eagerly await its final publication in September 2023. Our goal is to establish a globally accessible, science-based method for businesses to measure, report and protect nature across various sectors.

The Glasgow Financial Alliance for Net Zero (GFANZ):

- GFANZ is the world's largest coalition of financial institutions committed to transitioning the global economy to net zero greenhouse gas emissions.
- **Our Head of Sustainable Investment represents MAM on two workstreams:** the Mainstream Transition Finance Workstream and The Public Policy Workstream.
- We look forward to contributing to the important work GFANZ is leading ahead of key meetings between global leaders in the G7 and G20.

Voting for impact

Exercising shareholder voting rights is an essential part of acting responsibly.

We publish our voting guidelines on an annual basis and seek to develop our approach in line with best practice.

An addition we made to our guidelines in 2022 was the incorporation of climate considerations. We will vote against political donations, trade association membership, or the establishment of charitable or educational trusts that undertake lobbying against progressive climate legislation and whose objectives run contrary to the Paris Agreement.

We are transparent about how we vote and aim to vote on resolutions at all company meetings, except where we are restricted from doing so due to policies or regulation. We publish our voting record on a quarterly basis.



Stewardship: using your vote

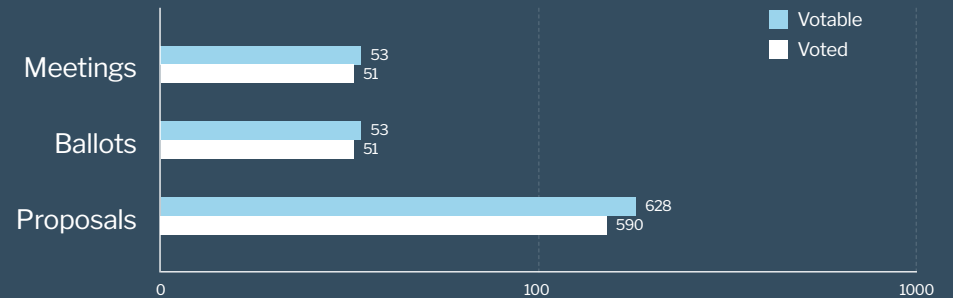
We voted at 51 of the 53 annual general meetings last year where we were entitled to vote (96%).

We receive independent third party corporate governance reports and voting recommendations from **Institutional Investor Services (ISS)**.

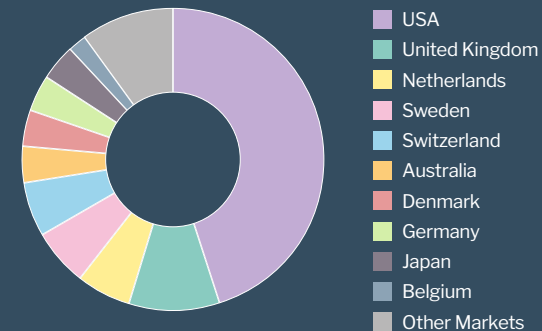
One of the unvoted meetings was for a **Japanese renewable energy company** that we had sold. We were still holding the shares at the point of the record date and so were eligible to vote. However, we felt it would be disingenuous to do so as the company was no longer part of the portfolio at the time of the AGM.

The other was **Surgical Science, a Swedish healthcare company**. Some smaller Swedish companies are not covered by a local custodian service. In order to vote, there are additional representation costs. As a consequence, we were unable to submit our ballots.

Voting statistics

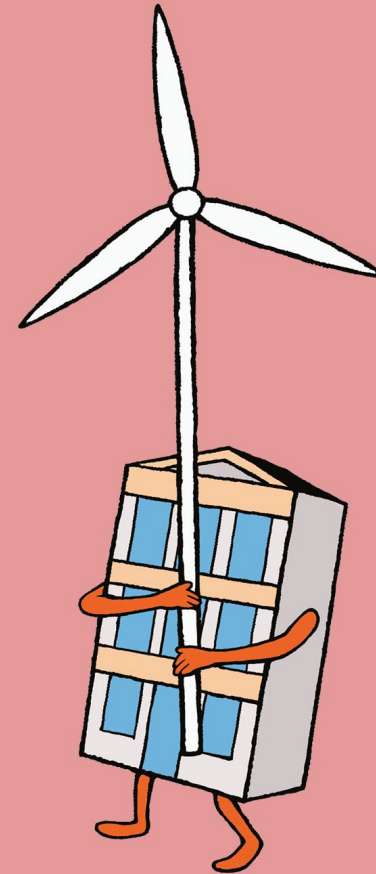


Meeting voted by market



Source: ISS

Climate Action



Our three ambitious climate goals

1

Remove historical carbon emissions by 2030

By 2030, MAM will have removed from the environment all the carbon it has emitted since its founding in 1991.

This target includes our operational Scope 1 and 2 emissions plus our Scope 3 emissions associated with business travel.

2

Carbon negative by 2030

We have partnered with Klimate* as we aim to remove more carbon from the atmosphere than our business produces by 2030.

We will select innovative carbon removal projects such as direct air capture; deep storage bio-oil; ocean kelp; and restorative tree-planting.

3

Reduce portfolio emissions by 100% by 2050

Achieve net zero financed emissions by 2050 with a 50% reduction by 2030 relative to the 2019 base level.

We are aiming for 100% of our portfolio companies to have set science based targets by 2040.

*Klimate is a Danish Carbon Removal Platform

Portfolio emissions: our approach

Our financed emissions are the greenhouse gas emissions associated with the economic activities of the portfolio of companies in which we invest in the Fund.

We have had the following targets in place across MAM's portfolios since joining the **Net Zero Asset Managers** initiative in 2021:

- **A 50% reduction in financed emissions by 2030 relative to 2019 base levels**
- **That 50% of the designated AUM will have implemented a Science Based Target (SBT) by 2030, increasing to 100% of AUM by 2040**
- **Net zero by 2050**



Engaging for net zero

Shareholder engagement is a crucial tool for encouraging companies to reduce carbon emissions.

As shareholders, we can use our influence to encourage greater environmental transparency and disclosure, as well as the establishment of climate change targets such as net zero goals. This can motivate companies to implement **sustainable practices and pursue emission reduction initiatives.**

In 2019, we launched “Project: Net Zero Carbon”, a multi-year engagement project designed to encourage companies to take measures to reduce their carbon footprints by setting **net zero targets.** We require our companies to have these targets approved and verified by the **Science Based Targets initiative (SBTi)** and report on progress towards their goals.



Progress towards a net zero portfolio

The financed emissions associated with the Fund decreased by **61.2%** between 2019 and 2020. There was a further decrease of **8.7%** between 2020 and 2021.

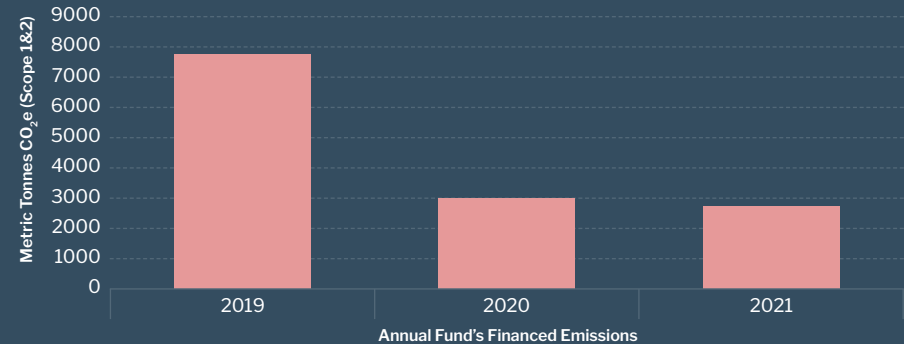
Progress

Between 2020 and 2022, the number of **portfolio companies** that have set SBTs increased from only 4 (representing 7% of the portfolio) to 12 companies (representing 21% of the portfolio).

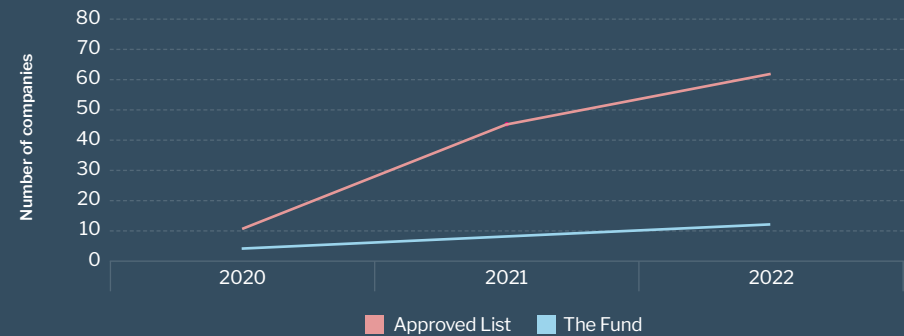
The number of companies with SBTs on our **Approved List** (those companies that have passed the stages of our investment process) increased from 11 to 60, driven particularly by significant action from UK companies. The UK is the country with the most approved SBTs and commitments.

Our Approved List includes c.250 companies that pass our Quality and ESG criteria.

Financed Emissions (metric tonnes)



Companies signed up to SBTi



Operational emissions: our approach

To become carbon negative by 2030 we will:

- reduce operational carbon emissions by at least 50% from a 2019 baseline
- implement a carbon removal scheme to neutralise our historical emissions by 2030

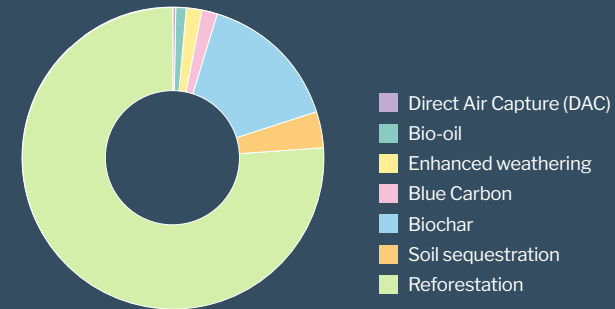
Our partner, Danish carbon removal platform Klimate, enables access to innovative, verifiable carbon removal solutions.

We will acquire carbon removal certificates from projects such as direct air capture; deep storage bio-oil; ocean kelp; and restorative tree-planting, all verified by Klimate.

Purchasing carbon removals allows us to set an internal carbon price, reminding everyone at MAM that emissions have a cost, spurring behavioural changes and emission reductions.

MAM Carbon Removals

Emissions period: 31 December 2021 - 30 December 2022



Source: <https://klimate.co/carbon-removal/>

“Failure to achieve carbon removal at scale places a fantastic burden on reduction efforts, nearly doubling the required global reductions to 15% every year through 2040 if the world is to have a real chance of limiting warming to 1.5°C”

Source: Microsoft*

* Source: Microsoft carbon removal, Lessons from an early corporate purchase, Microsoft, 2021

The role of carbon removals

Carbon removal is defined as the removal of **carbon emissions that are already in the atmosphere**. Solutions include direct air capture and carbon sinks such as forests, soil, oceans and wetland restoration.

The **Intergovernmental Panel on Climate Change (IPCC)** concluded that all climate scenarios consistent with the Paris Agreement (limiting warming to 1.5°C relative to pre-industrial levels) require some carbon removal.

According to MSCI, the Fund is invested in line with the Paris Agreement's goal of limiting the global mean temperature rise to below 2°C and if possible to below 1.5°C, compared to pre-industrial levels.

Carbon removal can reduce the net amount of greenhouse gases being added to the atmosphere; offset emissions from sectors that are struggling to decarbonise; and in the future even remove more greenhouse gases from the atmosphere than we add.



Our carbon removal partners

We receive verified proof of purchase certificates from Klimate with every carbon removal order placed.

Climeworks specialises in direct air capture technology. The company's Orca plant is the world's first direct air capture and storage plant in commercial operation.

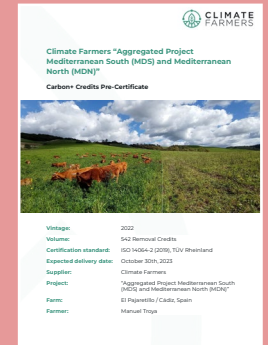
Orca combines Climeworks' direct air capture technology with the underground storage of carbon dioxide, which is carried out by the Icelandic company Carbfix. **Each CO₂ molecule is permanently removed for thousands of years.**



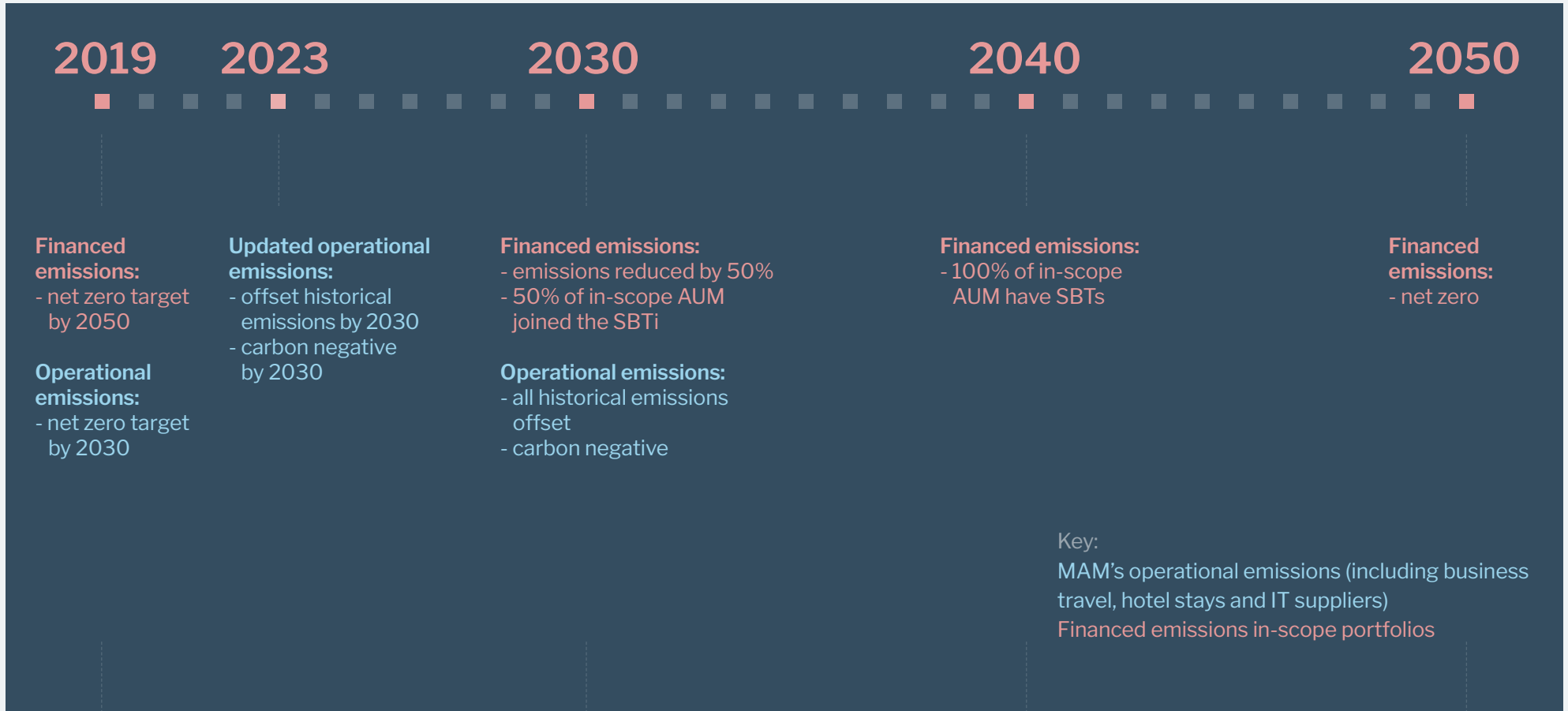
Running Tide aims to restore ocean health and fix the planet. They do this by growing kelp "seeds" on compressed wood-and-limestone buoys. These are released into the ocean where they absorb carbon from the water and sink into the depths, **storing away the embodied carbon for centuries.**



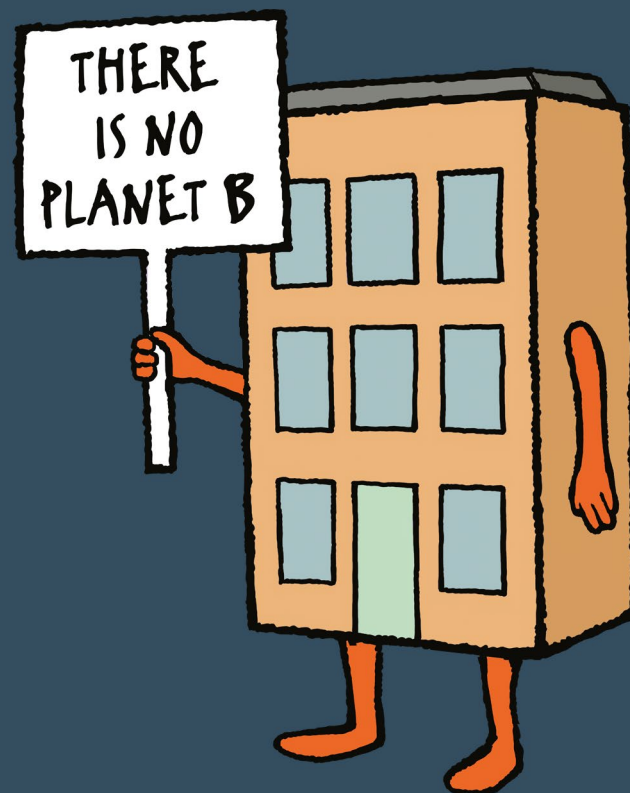
Climate Farmers employ regenerative agriculture for carbon sequestration, managing land to facilitate CO₂ passage into soils for storage. The potential of this method comes from the vast storage capacity of soils. **This also boosts biodiversity and enhances soil water retention.**



Climate goals timeline



Montanaro



About us

MAM researches and invests exclusively in global, quoted Small and MidCap equities. We were founded in London by Charles Montanaro in 1991.

Today, we remain a privately owned boutique known for our family culture. Based on Threadneedle Street close to the Bank of England, we have been described as “an Oasis in the City”.

We aim to deliver attractive investment returns and outstanding service to our clients. Our history of sustainable investing extends to the origins of our Company.

We introduced our first ethical restrictions in the 1990s, recognising that there were certain areas of the economy we did not want to invest in due to their negative environmental and social impacts (such as tobacco).

ESG has been integrated into our “Quality Growth” investment process for almost two decades, forming a key tool in our ability

to appraise the fundamental quality of a business and its management team.

We launched our first impact Fund in 2018, the Irish-domiciled Montanaro Better World Fund, to invest in businesses that help to make the world a better place. In 2020, we launched a UK-domiciled Fund, the LF Montanaro Better World Fund.

To deliver superior investment returns to our clients, we invest in companies that aid the transition to a more sustainable global economy.

As of 30 June 2023, we looked after £3.5 billion of assets for our clients.

A certified B Corporation

MAM first became a certified B Corporation in June 2019, one of only a handful of asset managers at the time, which meets verified standards of social and environmental performance, transparency and accountability.

In 2022, we began the process of recertification, a requirement every three years.

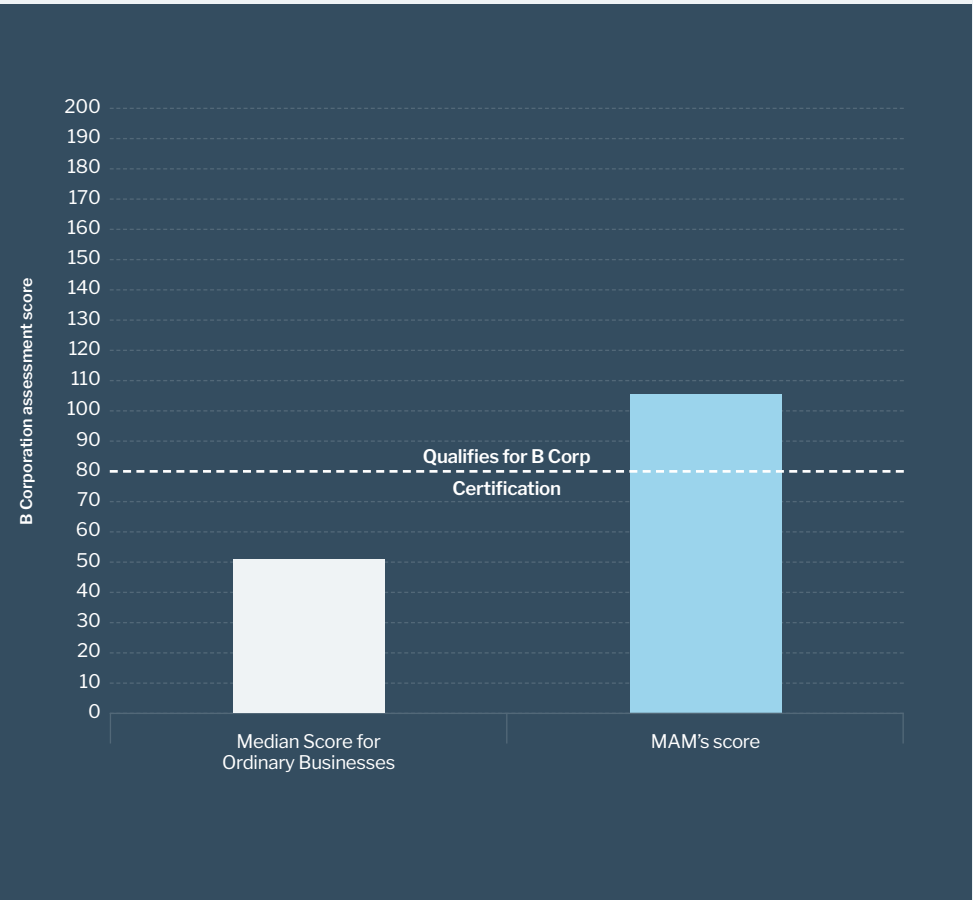
Pleasingly, we saw a material increase in our score to over 105.

Certified



This company meets the highest standards of social and environmental impact

Corporation



Pioneers in sustainability

1 Sustainability is part of our DNA:

- a certified B Corporation since 2019

2 We have set ground-breaking climate targets:

- carbon negative by 2030
- remove our historical emissions by 2030
- portfolios net zero by 2050

3 We engage where it matters:

- we speak to and influence CEOs to bring about change
- the only UK boutique to sit on two GFANZ workstreams
- we participate in leading consultations such as the TNFD

4 An experienced and dedicated Impact Team:

- one of the largest specialist teams with over two decades of sustainable investment experience
- impact and ESG fully integrated into our investment process
- we all invest alongside our clients



Impact Team

Our Impact Team is part of our seventeen strong investment team. We work together to ensure the Fund meets its investment and impact objectives.



Charles Montanaro
FUND MANAGER
& CHAIRMAN OF
MONTANARO



Mark Rogers
FUND MANAGER
& HEAD OF
INVESTMENTS



Ed Heaven
HEAD OF
SUSTAINABLE
INVESTMENT



Kate Hewitt
ESG & IMPACT
SPECIALIST



Harriet Evans
ESG & IMPACT
SPECIALIST



Manroop Bal
RENEWABLES
ANALYST

Our charity partners

City Harvest

MAM supports City Harvest. The charity collects high quality surplus food from the UK's leading retailers, wholesalers, restaurants and manufacturers to distribute to more than 350 community programmes that serve meals to vulnerable people in London.

[Visit City Harvest.](#)

Rewilding Britain

MAM supports Rewilding Britain. We are the anchor partner as the Dorset Wildlife Trust rewets the headwaters of the River Sherford in Dorset. The project will liberate the river and create over 30 hectares of wildlife rich wet land, storing carbon in wetter soils and reducing pollution and flooding.

[Visit Rewilding Britain.](#)

Tribal Survival

MAM founded and supports Tribal Survival, a UK registered charity, which aims to promote the well-being of indigenous people across the world. When possible, Charles and a team of doctors take medical aid to remote tribes, such as Korowai in West Papua, a trip that was supported by the WHO.

[Visit Tribal Survival.](#)



Biodiversity at Wild Woodbury

MAM is proud to be sponsoring the Wild Woodbury project in Dorset, managed by the Dorset Wildlife Trust.

This is a pioneering biodiversity project, transforming 170 hectares of land to increase the biodiversity and abundance of wildlife, capture carbon and reduce net nitrates entering the internationally important Poole Harbour.

“The partnership has taken our focus on the environment through our climate change targets one step further, into the rewilding and biodiversity sphere. This is something that is becoming more and more of a focus for our investors”,
(Ed Heaven, Head of Sustainable Investment at MAM).

As well as providing financial support, MAM employees have also spent time on site getting muddy and wet. It is inspiring to see the progress across the site, which you can see in this [short video](#).



Sustainability library

One of the ways we champion sustainability is through thought leadership publications for our clients. MAM produces content that showcases our expertise in sustainable investing.

This includes our research Deep Dives on topics such as supply chains and renewable energy; blogs on topics such as ESG integration and sustainability trends; impact reports; and our ESG Handbook. These can be found on our website: www.montanaro.co.uk

[Montanaro's Sustainability Library](#)

[Biodiversity Loss Deep Dive](#)

[Project Net Zero Carbon 2022](#)

[The Waitaki Hydropower Scheme](#)

[Project 2030: Becoming carbon negative & our historical emissions](#)

[ESG Handbook](#)



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Past performance is not a reliable indicator of future results. All investments are subject to risk and the value of shares and the income from them can fall as well as rise due to stock market and currency movements. You may not get back as much as you originally invested. Foreign exchange exposure may increase the volatility of returns.

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Some or all of the Share Classes of the Montanaro Better World Fund are registered for sale in the following jurisdictions: Denmark, Finland, France, Iceland, Ireland, Italy, Netherlands, Norway, Spain, Sweden and the UK.

MONTANARO