

Impact Cubed Impact Report

Impact Alpha Strategy

NET IMPACT
385 bps

of tracking error
accounting for

42%

out of 909 bps total
tracking error

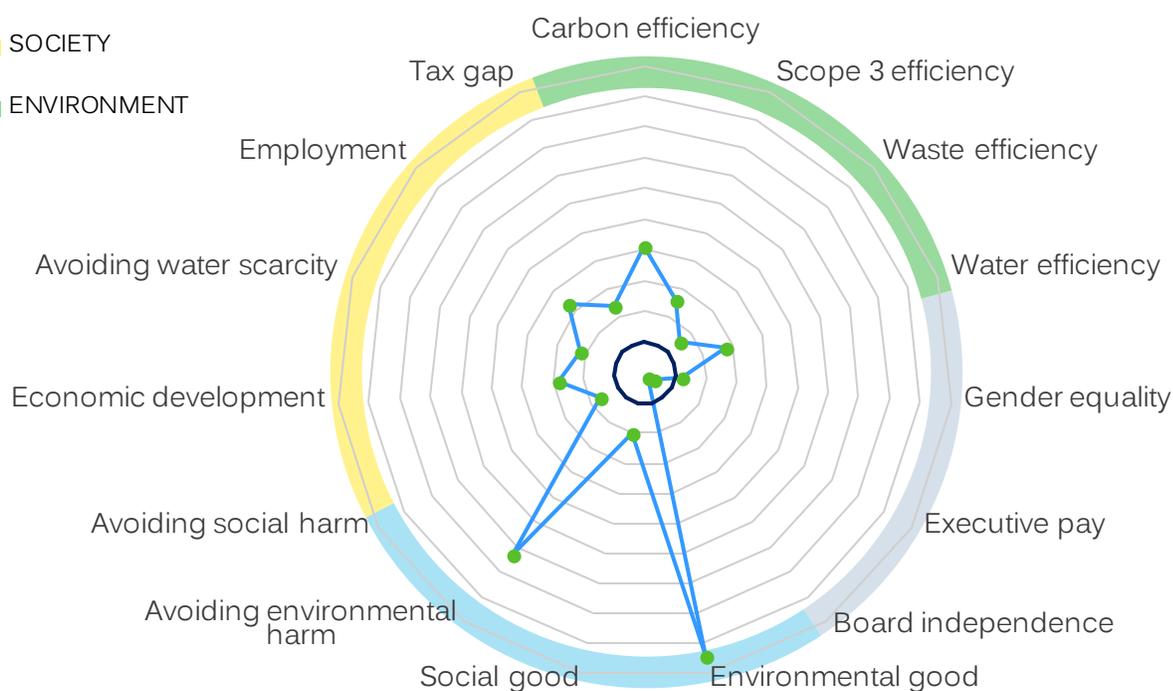
Middle circle: Short Positions; Light blue: Long Positions

Positions date: June 2021

The data in this report are based on Impact Cubed's overlay that has been geared 5 times



- GOVERNANCE
- PRODUCTS & SERVICES
- SOCIETY
- ENVIRONMENT



IMPACT ATTRIBUTION		% MAPPED	
COUNTRY SELECTION	11%	LONG POSITIONS	>99%
SECTOR SELECTION	89%	SHORT POSITIONS	>99%

Impact Alpha Strategy

STRATEGY IMPACT MEASURES

	Long	Short	Based on company reported	% data estimated	
				Long	Short
Carbon efficiency	308.30	2450.50	tonnes of GHG (Scope 1 & 2) emissions per \$1M revenue	43%	6%
Scope 3 efficiency	244.43	1507.75	tonnes of Scope 3 emissions per \$1M revenue	67%	56%
Waste efficiency	129.63	1025.47	tonnes of waste generated per \$1M revenue	57%	37%
Water efficiency	29.98	61.69	thousand cubic metres fresh water used per \$1M revenue	76%	26%
Gender equality	20.2%	19.8%	percentage of women in boards and top management	1%	0%
Executive pay	36.5	32.9	ratio of executive level pay to average employee pay	24%	55%
Board independence	64.6%	68.5%	independent board members	2%	0%
Environmental good	78.1%	3.5%	portfolio allocated to environmental solutions	not applicable	
Social good	1.9%	0.3%	portfolio allocated to help alleviate social issues	not applicable	
Avoiding environmental harm	3.2%	58.7%	portfolio allocated to environmentally destructive industries	not applicable	
Avoiding social harm	0.4%	0.9%	portfolio allocated to industries aggravating social issues	not applicable	
Economic development	\$45,000	\$51,000	median income of portfolio weighted geography of economic activity	not applicable	
Avoiding water scarcity	2.22	2.39	geographic water use (World Resource Institute scale 0-5 from most to least water scarce areas)	not applicable	
Employment	5.7%	5.1%	unemployment in portfolio weighted area of economic activity	not applicable	
Tax gap	2.26%	3.21%	estimated % tax avoided by corporate tax mitigation schemes	not applicable	

INVESTMENT EQUIVALENTS

In real terms compared to the Short Positions of Impact Alpha Strategy Benchmark, \$1M invested in Long Positions of Impact Alpha Strategy finances:

		Real world equivalent	SDG relevance
Carbon efficiency	1739.52	less tonnes of GHG (Scope 1 & 2) emissions	7, 15
Scope 3 efficiency	1055.94	less tonnes of Scope 3 emissions	7, 15
Waste efficiency	727.78	less tonnes of waste generated	6, 12, 14, 15
Water efficiency	38.0	less thousand cubic metres fresh water used	6
Gender equality	0.4%	more women in top management	5
Executive pay	-3.6	more multiples of average employee pay paid to top executives	10
Board independence	-3.9%	less board independence	10, 16
Environmental good	74.6%	more invested in industries contributing to solving environmental issues	most SDGs
Social good	1.7%	more invested in industries helping alleviate social issues	most SDGs
Avoiding environmental harm	55.4%	less invested in industries aggravating environmental issues	most SDGs
Avoiding social harm	0.5%	less invested in industries aggravating social issues	most SDGs
Economic development	\$ 6,000	more economic activity in less developed economies	1, 8, 9, 16, 17
Avoiding water scarcity	0.17	less water use in water scarce localities (World Resource Institute)	16, 17
Employment	0.7%	more economic activity in high unemployment geographies	1, 8, 11, 12, 16
Tax gap	0.95%	more tax paid	1, 9, 10, 16

Active Positions of Impact Alpha Strategy

TOP AND BOTTOM PERFORMERS

Strategy top performing holding

Strategy bottom performing holding

IMPACT INDICATOR LEVEL

Carbon efficiency	Ballard Power Systems Inc
	China Everbright Environment G
Scope 3 efficiency	5 equally Scope 3 efficient companies
	Innogy SE/DE
Waste efficiency	Xinjiang Goldwind Science & Te
	Tianneng Power International L
Water efficiency	Knorr-Bremse AG
	GCL-Poly Energy Holdings Ltd
Gender equality	American States Water Co
	Kubota Corp
Executive pay	Tesla Inc
	Vestas Wind Systems A/S
Good governance	4 companies with equally high board independence
	Central Japan Railway Co
Environmental good	46 companies with equal % revenues from environmental good
	11 companies with no revenues from environmental good
Social good	Calavo Growers Inc
	82 companies with no revenues from social good
Avoiding environmental harm	88 companies with no revenues from environmental harm
	Salmar ASA
Avoiding social harm	90 companies with no revenues from social harm
	Suedzucker AG
Economic development	5 companies with equal exposure to high GDP economies
	Salmar ASA
Avoiding water scarcity	Salmar ASA
	Talgo SA
Employment	Talgo SA
	4 companies with equally low exposure to high unemployment geographies
Tax gap	45 companies with no tax gap
	Essential Utilities Inc

Long Positions of Impact Alpha Strategy

UN SDG PORTFOLIO EXPOSURE

1 NO POVERTY		CARBON EFFICIENCY, GENDER EQUALITY, ENVIRONMENTAL GOOD, SOCIAL GOOD, ECONOMIC DEVELOPMENT, EMPLOYMENT
2 ZERO HUNGER		TAX GAP, ENVIRONMENTAL GOOD, SOCIAL GOOD, AVOIDING ENVIRONMENTAL HARM, ECONOMIC DEVELOPMENT, EMPLOYMENT, AVOIDING WATER SCARCITY
3 GOOD HEALTH AND WELLBEING		CARBON EFFICIENCY, WASTE EFFICIENCY, WATER EFFICIENCY, GENDER EQUALITY, TAX GAP, ENVIRONMENTAL GOOD, SOCIAL GOOD, AVOIDING ENVIRONMENTAL HARM, AVOIDING SOCIAL HARM, EMPLOYMENT, AVOIDING WATER SCARCITY
4 QUALITY EDUCATION		GENDER EQUALITY, TAX GAP, SOCIAL GOOD, EMPLOYMENT
5 GENDER EQUALITY		WATER EFFICIENCY, GENDER EQUALITY, EXECUTIVE PAY, ECONOMIC DEVELOPMENT, AVOIDING WATER SCARCITY
6 CLEAN WATER AND SANITATION		WASTE EFFICIENCY, WATER EFFICIENCY, ENVIRONMENTAL GOOD, SOCIAL GOOD, AVOIDING ENVIRONMENTAL HARM, AVOIDING SOCIAL HARM, AVOIDING WATER SCARCITY
7 AFFORDABLE AND CLEAN ENERGY		CARBON EFFICIENCY, ENVIRONMENTAL GOOD, AVOIDING ENVIRONMENTAL HARM
8 DECENT WORK AND ECONOMIC GROWTH		CARBON EFFICIENCY, WASTE EFFICIENCY, WATER EFFICIENCY, EXECUTIVE PAY, BOARD INDEPENDENCE, TAX GAP, ENVIRONMENTAL GOOD, SOCIAL GOOD, AVOIDING ENVIRONMENTAL HARM, ECONOMIC DEVELOPMENT, EMPLOYMENT, AVOIDING WATER SCARCITY
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE		CARBON EFFICIENCY, WASTE EFFICIENCY, WATER EFFICIENCY, TAX GAP, ENVIRONMENTAL GOOD, SOCIAL GOOD, AVOIDING ENVIRONMENTAL HARM, AVOIDING SOCIAL HARM, ECONOMIC DEVELOPMENT, AVOIDING WATER SCARCITY
10 REDUCED INEQUALITIES		GENDER EQUALITY, EXECUTIVE PAY, BOARD INDEPENDENCE, TAX GAP, ECONOMIC DEVELOPMENT, EMPLOYMENT, AVOIDING WATER SCARCITY
11 SUSTAINABLE CITIES AND COMMUNITIES		CARBON EFFICIENCY, WASTE EFFICIENCY, WATER EFFICIENCY, TAX GAP, ENVIRONMENTAL GOOD, SOCIAL GOOD, AVOIDING ENVIRONMENTAL HARM, AVOIDING SOCIAL HARM, ECONOMIC DEVELOPMENT, EMPLOYMENT, AVOIDING WATER SCARCITY
12 RESPONSIBLE CONSUMPTION AND PRODUCTION		CARBON EFFICIENCY, WASTE EFFICIENCY, WATER EFFICIENCY, ENVIRONMENTAL GOOD, SOCIAL GOOD, AVOIDING ENVIRONMENTAL HARM, AVOIDING SOCIAL HARM,
13 CLIMATE ACTION		CARBON EFFICIENCY, WASTE EFFICIENCY, WATER EFFICIENCY, ENVIRONMENTAL GOOD, AVOIDING ENVIRONMENTAL HARM, ECONOMIC DEVELOPMENT, AVOIDING WATER SCARCITY
14 LIFE BELOW WATER		CARBON EFFICIENCY, WASTE EFFICIENCY, WATER EFFICIENCY, ENVIRONMENTAL GOOD, AVOIDING ENVIRONMENTAL HARM, AVOIDING WATER SCARCITY
15 LIFE ON LAND		CARBON EFFICIENCY, WASTE EFFICIENCY, WATER EFFICIENCY, ENVIRONMENTAL GOOD, SOCIAL GOOD, AVOIDING ENVIRONMENTAL HARM, AVOIDING WATER SCARCITY
16 PEACE, JUSTICE AND STRONG INSTITUTIONS		GENDER EQUALITY, EXECUTIVE PAY, BOARD INDEPENDENCE, TAX GAP, ENVIRONMENTAL GOOD, SOCIAL GOOD, AVOIDING ENVIRONMENTAL HARM, AVOIDING SOCIAL HARM, ECONOMIC DEVELOPMENT, EMPLOYMENT
17 PARTNERSHIPS FOR THE GOALS		GENDER EQUALITY, EXECUTIVE PAY, TAX GAP, ECONOMIC DEVELOPMENT

METHODOLOGY NOTE

IMPACT NUMBER

Our measure of total impact is the risk (measured in tracking error to short positions) of the active ESG shares needed to achieve the long positions' impact exposure. The total number is a net of positive and negative impacts, so our measure can be negative if the portfolio has more negative exposures than positive (think 'sin' fund). The impact number will always fall between the total traditional tracking error figure and its negative. For example, if a portfolio has 100bps tracking error, its impact will fall between 100 and -100.

The negative and positive impact numbers are shown separately for the set of factors above and below the short positions. Separating the positive and negative impact exposures can be useful, because sometimes strategies with the same net impact arrive at a similar number with very different underlying exposures.

For example, Strategy 1 with Positive Impact = 41bps, and Negative Impact = 39bps, and Strategy 2 with Positive Impact = 6bps and Negative Impact = 4bps both arrive at the same net Total Impact of 2bps. But if you are concerned about avoiding negative sustainability impacts through your investments, you would see Strategy 2 much more positively than Strategy 1.

RELATIVE PERFORMANCE

The relative performance measure takes into account the amount of net impact relative to the strategy's overall TE. The higher this ratio relative to all strategies analysed to date by Impact Cubed, the higher the quartile in which the result will place. The blue marker shows approximately where the result falls within the quartile.

The strategy universe is a diversified sample of ESG and mainstream strategies, covering all types of geographies, market caps and other characteristics, all analysed against their own benchmark. We update the universe periodically with new results. Because the sample is not peer matched to the particular strategy or otherwise rules-based, we advise to read the relative performance measure as a general indication only.

IMPACT GRAPH

How to read the impact graph

1. The symmetrical navy circle in the middle of the graph represents the short positions.
2. The (usually more irregular) bright blue line shows the long positions' factor exposures relative to the short position values on each factor.

We use standard deviations of each indicator to unify the scale in the impact graph.

If the two lines were exactly the same, this would mean the long positions are tracking the short positions closely on every impact factor.

When parts of the blue line which represent the long positions are outside the short positions circle, that indicates a positive impact. The further they are outside the short positions circle, the bigger the active exposure of the long positions to that particular impact indicator.

When the blue line falls inside the short positions circle, this indicates that it has negative active exposure to an impact indicator. For example, in the example graph above, the sample strategy allocated more capital to companies with highly paid and male executives.

All the indicators used in the model are positive indicators, meaning that the long positions line falling outside the short positions circle is always a positive. By looking at the graph, we can quickly tell how the positive and negative areas either side of the short positions circle compare to each other in terms of size (summarized in the single impact number), and also how the long positions' impacts are distributed between the different indicators.

For example, if you were looking at a best in class governance quality strategy, you would want to see the blue line outside the short positions circle for *Board independence*, *Executive pay* and *Gender equality*, whereas someone looking for an environmentally focused strategy would want to see strong exposures in carbon, waste, water, and water scarcity, as well as the environmental good and harm revenues-based indicators.

STRATEGY IMPACT MEASURES

This section reports the raw data in terms of long vs short positions, indicator by indicator. For example, for *Executive pay* we will show the weighted average of the ratio of top management pay over average employee pay for the long and short positions side by side. The standardized difference in these values is what is plotted on the impact graph.

Estimated data

This is the percentage of positions by weight in the portfolio that did not report the data we use to calculate an indicator. We fill gaps in company reporting with proprietary estimation models and run quality checks on reported data to identify outliers. In rare instances, the numbers reported by companies are completely implausible and we actually replace them with estimations. We disclose the percentage of reported data for transparency, and because it is a simple and commonly recognized metric to understand how much of the data comes directly from companies and how much relies on estimation.

INVESTMENT EQUIVALENTS

This table translates the long positions impact measures from the previous section into the impacts per unit of investment (for instance a euro, a pound or a dollar) compared to the short positions, and maps each of them to the UN Sustainable Development Goals. The values in green are positive impacts, and those in red are negative.

For example, in real terms, what is the difference between investing in a strategy with 8% tax gap vs. 12%? This section would translate this difference into 3 cents less tax paid by the listed companies held in the long positions per 1 dollar invested, compared to investing in the short positions. This number would show up in red because it's a negative impact, and in the last column in the table you will see that this impact relates to Sustainable Development Goals 1, 9, 10, and 16.

IMPACT ATTRIBUTION ANALYSIS

This part of the report shows the drivers of the portfolio's impact both by indicator and at overall portfolio level. It is based on traditional financial performance attribution for a portfolio.

Country and sector

We list what proportion of the impact in % is due to country vs. sector allocations.

This attribution helps further deepen the understanding of the impact profile of a portfolio and differentiate between similarly performing strategies.

For example, a strategy performing well on *Gender equality* where 80% of this performance can be attributed to country selection is different than one with similar performance on this indicator driven 80% by sector selection.

The first would hint that most of the impact may be achieved simply by investing more in markets where gender balance in leadership is more even. The second would suggest that the same positive impact is more so the outcome of allocating to sectors which tend to have more women on boards and executive committees.

Top and bottom performers

Under Strategy Top and Bottom Performer we name the securities from the strategy holdings that have the highest and lowest factor exposures. For *Tax gap*, *Gender equality*, and business model based indicators, we report the number of positions which have no revenues from environmental and social good and harm, and those that have no diversity in top management or no tax gap.

CONTRIBUTION BY SDG GOAL

This table shows to what degree the long positions analysed contributes to each of the 17 SDGs. The measure we use is a weighted average of all factor exposures (relative to the short positions) mapped to a particular SDG, adjusted for the number of these factors. The weighted average takes into account the direct or indirect relationship between factors and a specific goal.

	NO POVERTY
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	GENDER EQUALITY
	CLEAN WATER AND SANITATION
	AFFORDABLE AND CLEAN ENERGY
	DECENT WORK AND ECONOMIC GROWTH
	INDUSTRY, INNOVATION AND INFRASTRUCTURE
	REDUCED INEQUALITIES
	SUSTAINABLE CITIES AND COMMUNITIES
	RESPONSIBLE CONSUMPTION AND PRODUCTION
	CLIMATE ACTION
	LIFE BELOW WATER
	LIFE ON LAND
	PEACE, JUSTICE AND STRONG INSTITUTIONS
	PARTNERSHIPS FOR THE GOALS

CONTACT US

If you have questions about the Investment Impact report, or you would like to discuss the model and its application with us further, we will be happy to hear from you at info@impact-cubed.com.

ABOUT IMPACT-CUBED

Impact-Cubed measures Investment Impact in terms of sustainable development for any portfolio of listed securities.

Understanding, measuring and managing investment impact facilitates cheaper access to capital for more sustainable companies, and with that, encourages a flourishing planet.

Impact-Cubed was originally used to measure investment impact in-house by Auriel Equity Investors LLP. It was spun off as a separate company (currently seeking B-Corp Certification in the UK) in summer 2017 with the intention of becoming a self-sustaining service to the investment community.

It is our hope that this service helps investors make informed decisions about the way they allocate capital, by shedding light on the varying levels and areas of impact delivered by different investment strategies.

DISCLAIMER

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