



Regnan Global Equity Impact Solutions Strategy

Quarterly Impact Report

Q2 2022

Brought to you by J O Hambro Capital Management

Regnan



Relative performance improved in the quarter, and while the environment remained challenging, there are signs that headline inflation is peaking following the recent wave of rate hikes from the Federal Reserve, including a rate increase of 0.75% in June, the most significant rise since 1994. The fundamentals remain strong across our portfolio companies, and we continue to see good earnings momentum in absolute and relative terms. As long term investors, this is an exciting time where we can see opportunities on the horizon for new names to enter the portfolio.

This quarterly report focuses on the theme of water, which is highly topical given Europe's worst drought in 500 years. Without remedial action, it is estimated that half of the world's population will live in areas at risk of water scarcity by as early as 2025. Faulty infrastructure and leaking pipes result in 20% to 30% of the world's water being lost before it reaches its intended destination. This presents both a huge challenge and an opportunity. Xylem, held in the portfolio and featured in this quarterly report, provides innovative solutions to improve water-use efficiency rates and prevent waterway pollution. Xylem is a leading provider of water equipment and solutions that enable water reuse and conservation to mitigate water scarcity, reduce water losses and optimize water system assets to improve water affordability.

Recent market volatility provided an opportunity to add our first new buy this year, ATS Automation (ATS). It is a Canadian automation systems integrator that fits into the circular economy theme and has some exciting solutions to help their clients, mainly in the Healthcare and Electric Vehicle (EV) battery producer industries. ATS's focus on battery manufacturing contributes to the faster ramp-up of electric vehicles, which have at least 50% lower emissions than internal combustion engines (ICE). Their process reduces costs, making EVs more affordable, which ultimately drives higher adoption. We believe leading businesses, such as ATS, with solutions that help their customers deal with input cost inflation, will continue to benefit in this inflationary environment and in the long term as resource efficiency becomes more important.

At Regnan, we believe in taking a systems level approach to sustainability, given the inherent complexity and interlinkages around environmental and social topics. In June, we held our first Director Roundtable on Sustainable Agriculture, bringing together over 40 senior representatives across the agricultural and food production value chain from the public and private sector, industry associations, not-for-profits, research and academia. The objective was to increase awareness of the need to transition the agricultural sector to more sustainable practices and highlight examples of collaborative practice in support of this transition. The session identified several collaborative opportunities to support progress on issues such as waste, emissions reduction, soil health and consumer education and agreed to meet again to discuss options for implementation.



Mohsin Ahmad,
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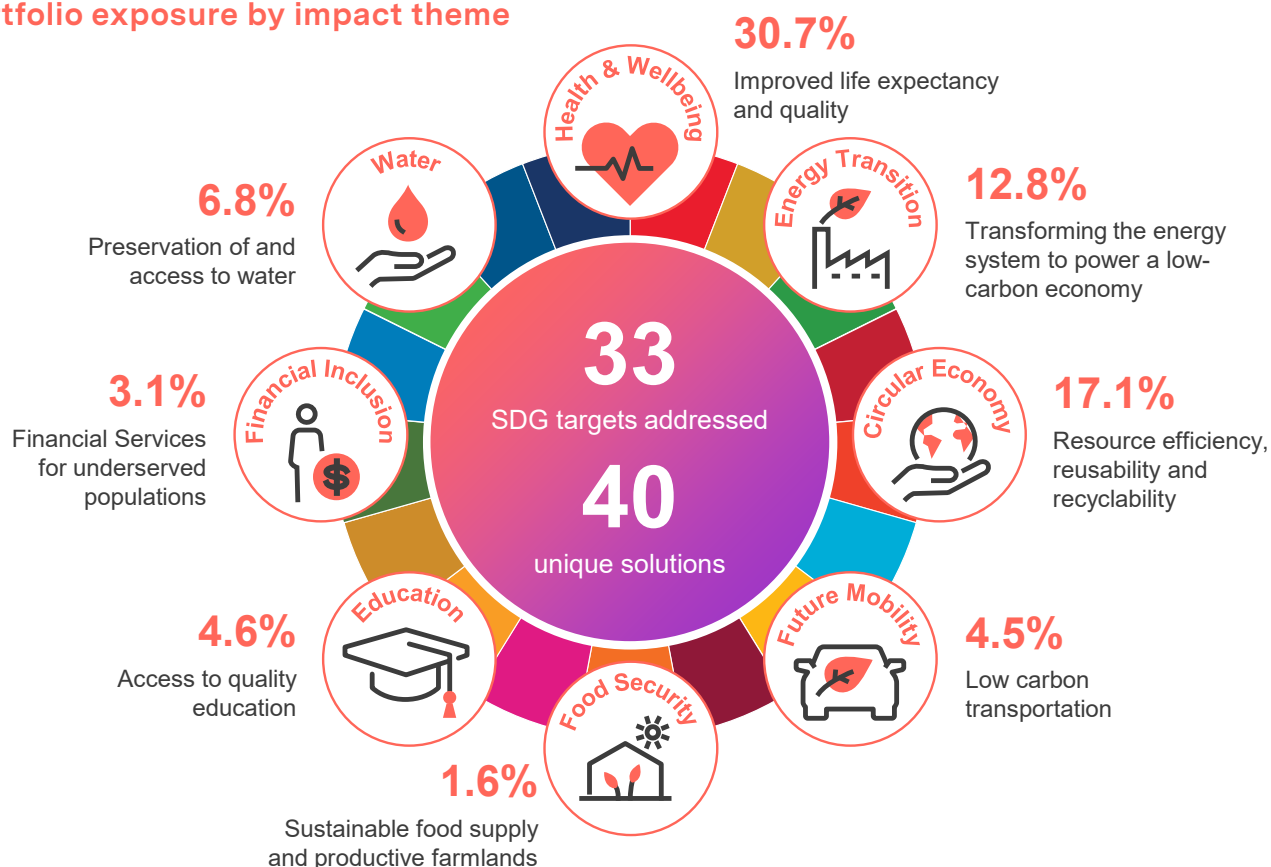
The Regnan Global Equity Impact Solutions strategy is a solutions-first strategy. It is focused on investing in mission-driven businesses that address underserved environmental and social challenges and deliver real, systematic change for the better. The team aspire to demonstrate that investing for impact not only makes good environmental and social sense; it also makes good financial sense. The intention is to broaden the appeal of impact investing and redirect capital towards impact investing. We aim to do this by delivering our investors market-beating long-term returns because we have identified 'system changers' that innovate, disrupt and ultimately produce positive environmental, social and financial outcomes.

Strategy Overview

- The strategy aims to generate long-term outperformance by investing in the listed shares of mission-driven companies that create value for investors by providing solutions for the growing unmet sustainability needs of society and the environment, using the United Nations Sustainable Development Goals (SDGs) as an investment lens.
- Underpinned by the Regnan SDG taxonomy – the team has built a comprehensive proprietary framework to identify companies that provide solutions to the environmental and societal challenges facing the world.
- An actively managed, high conviction, diversified, global multi-cap portfolio with very low portfolio turnover and a strong emphasis on driving impact through engagement.
- Benchmark: MSCI ACWI Investable Market Index.
- The use of the Index does not limit the investment decisions of the fund manager, therefore the composition of the portfolio may differ significantly from those of the Index.

Regnan Global Equity Impact Solutions

Portfolio exposure by impact theme



Source: Regnan / JOHCM as at 30 June 2022. Note: Thematic exposure attribution to eight impact themes based on estimates of company revenues or other relevant metrics. Cash position: 5.8%. Neutral impact (11.1%) is estimated where revenues not directly tied to any theme. Negative impact (2.1%) estimated where revenues may be detrimental to UN Sustainable Development Goals (SDG). Data representative of Regnan Global Equity Impact Solutions, a sub fund of Regnan UK Umbrella Fund, domiciled in the UK.



THEMATIC SPOTLIGHT

WATER

Not all water is the same

Contribution to SDG targets:

2.4; 3.3; 3.9; 6.1; 6.2; 6.3; 6.4; 6.6; 7.3; 8.4; 9.1; 9.4; 9.5; 11.1; 12.2; 12.4; 13.1



While water covers around three-quarters of the planet, only 3% is freshwater.

More than two-thirds of water (~70%) deemed fit for consumption is underground, and 29% is frozen in polar ice caps, leaving around 1% for personal use. Of this 1%, around 9 in 10 cups are used in commercial activity, from industry to agriculture. Water is an essential resource, but its supply is limited. Supply limitations will be further exacerbated by population growth, higher urbanization rates and climate change. In a current ‘business as usual’ scenario, the global water supply and demand gap is forecast to reach 40% by 2030. Not only is supply constrained, but the quality of water is deteriorating.¹

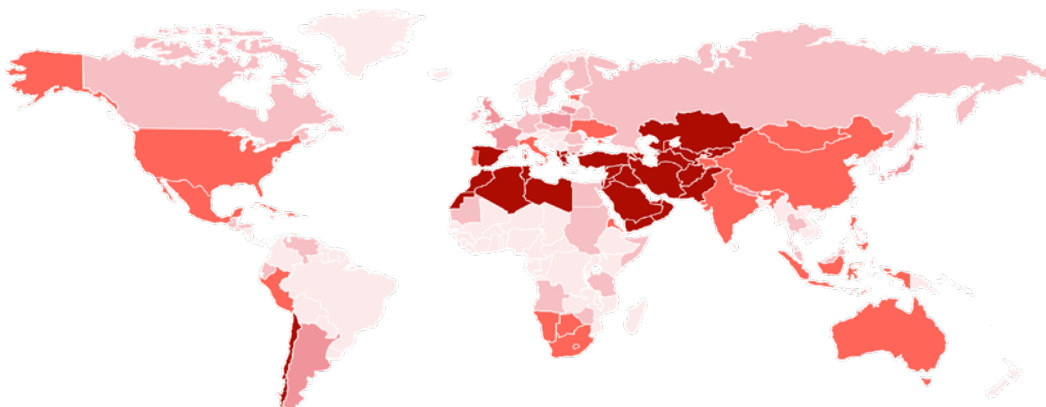
What is the impact of water scarcity? In several countries, water demand already outstrips sustainable supply and water stress is hampering economic development. The World Bank concluded that the annual economic fallout from water scarcity, poor sanitation and flooding could be as high as \$470 billion, wiping off 6% of the value of the global economy over the next 30 years.² The severity of the impact will be felt disproportionately in poorer communities.

It is estimated that nearly two thirds of the global population will experience “severe water scarcity” for at least one month each year. Currently, over 2 billion people live in countries where water is considered “inadequate” or unsafe. Without remedial action, nearly half of the world’s population will live in areas at risk of water scarcity by as early as 2025. In the longer term, around 700 million people could be displaced by a lack of water supply by 2030. By 2040, it is thought that 25% of children worldwide will be forced to reside in areas of “extremely high water stress”.³

Current water use practices are in urgent need of reform. In the UK alone, 3.1 billion liters (or ~660 million gallons) of water are lost every single day.

That is the equivalent of 1,245 Olympic-size swimming pools.⁴ Non-revenue water – water that has been produced and “lost” before reaching the end user – is a growing problem. From industry to agriculture, water wastage levels are rising, exacerbating scarcity. In our portfolio, we seek to capitalize on those businesses offering new solutions to improve water-use efficiency rates and prevent pollution. These solutions range from smart metering and analytics to wastewater treatment, desalination and equipment.

Water stress by country: 2040



Ratio of withdrawal to supply

Low (<10%) Low to medium (10-20%) Medium to high (20-40%) High (40-80%) Extremely High (>80%)

Source: World Resources Institute.

¹“We’re helping to close the gap between global water demand and supply”, World Economic Forum.

²“climate-driven water scarcity could hit economic growth by up to 6% in some regions”, World bank, 2016.

³“Water scarcity: addressing the growing lack of available water to meet children’s needs”, UNICEF.

⁴Discoverwater.co.uk



XYLEM

CASE STUDY

Xylem’s activities contribute to the following SDG targets and Regnan themes:



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



9.1 – Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all

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



13.1 – Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

Theory of Change

Water is at the center of most sustainability issues. Water pollution may lead to nearly 2 million deaths every year. Wastewater treatment is a major source of energy use (5% of US energy use) and a major greenhouse gas (GHG) emission contributor. In the last 25 years, the amount of freshwater available worldwide has declined significantly on a per capita basis. Freshwater and wastewater systems in developed countries have suffered from decades of underinvestment, with as much as half of water leaking in many cities. In developing countries, improved sanitation requires new water and waste treatment infrastructure. Xylem is a leading provider of water equipment and solutions that enable water reuse and conservation to mitigate water scarcity, reduce water losses and optimize water system assets to improve water affordability.

Xylem’s water treatment solutions address the world’s gargantuan wastewater problem: UNESCO estimates that 80% of wastewater flows back into the ecosystem without being treated or reused

What they do?

Xylem is a leading equipment and service provider for water and wastewater applications with a broad portfolio of products and services addressing the full cycle of water, from the collection, distribution and use to the return of water to the environment. Xylem operates in three segments, Water Infrastructure, Applied Water and Measurement & Control Solutions. The company’s solutions help address some of the key water ecosystem challenges, such as wastewater treatment solutions. Xylem is a pioneer in creating innovative water technology solutions, including the world’s first wastewater pumping system with integrated intelligence and solutions from smart water infrastructure analytics to water treatment.

Xylem reduces water contamination that threatens human health with digital technologies that enable customers to treat drinking water and prevent polluted water from flooding communities or entering local waterways. Through testing and treatment solutions, Xylem brings clean water programming interventions and innovation to communities to combat waterborne and infectious diseases.

Why is it in the portfolio?

Xylem’s ‘Let’s Solve Water’ mission statement reinforces the intentionality of the business and its commitment to innovate and enable significant improvements in water system controls, monitoring and diagnostics, which encourages a more holistic approach to water system management.

Aside from being fundamental to life, water is integral to economic activity and growth. Xylem’s solutions deliver economic benefits through increased water-use efficiency, leading to a decoupling of economic growth from water use across the main water using sectors like agriculture, industry, energy and municipal water supply.

As pressures on water systems increase, both on freshwater withdrawals and wastewater discharges, the need for improved solutions and infrastructure may drive a rapid expansion of the total addressable market, well ahead of broader GDP growth. The company’s focus on digital solutions is another advantage as water technology adoption remains low, and areas such as water metering offer a significant long-term runway for growth and solution adoption.

The historic underinvestment in water means that developed markets often need to invest in large scale water infrastructure upgrades. In emerging markets, there is a significant need to build new water infrastructure to cope with rising populations, increased urbanization and higher consumption. Xylem stands to benefit from an increased focus on water quality in emerging markets, particularly in India and China, its second largest market after the US. China has mandated improvements in water quality, systems resilience and water consumption. Xylem is well positioned to capitalize on this opportunity through its innovative, technological and digital water management systems.

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ATS Automation Tooling Systems

CASE STUDY

ATS's activities contribute to the following SDG targets and Regnan themes:



8.2 – achieve higher levels of productivity of economies through diversification, technological upgrading and innovation, including through a focus on high value added and labor-intensive sectors



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

9.5 – Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending

Theory of Change

ATS Automation (ATS) provides factory automation solutions that contribute to higher resource efficiency across manufacturing processes, reducing the energy and material intensity of goods. In life sciences and food, those systems increase the quality and safety of medical devices, drugs and food produce, with a focus on aseptic solutions and reducing the risk of product safety issues. In transportation, ATS's focus on battery manufacturing contributes to the faster ramp-up of electric vehicles (EVs), which have at least 20% lower emissions than ICEs. Their process reduces costs, making EVs more affordable, which ultimately drives higher adoption.

What they do?

ATS Automation Tooling Systems is a factory automation equipment and systems provider based in Canada. They serve customers across the globe that are typically in highly regulated industries where product quality and safety requirements are very high and require specialized solutions. They engage with customers on both greenfield programs, such as equipping new factories, and brownfield programs, such as capacity expansions, line moves, equipment upgrades, software upgrades, efficiency improvements and factory optimization. The inflationary environment is a further boost as automation improves manufacturing efficiency and potentially reduces input costs while improving resource efficiency. Previously, ATS was orientated towards the solar market. However, the business has undergone a significant transformation and is now focused on developing proprietary technology to service their end markets which include life sciences, transportation (particularly EV battery manufacturing) and food & beverage.

Why is it in the portfolio?

The company helps meet the demand for faster and more efficient production, balanced with increasing requirements for safety and quality. In life sciences, ATS supports the growth ramp-up of transformative medical devices and pharmaceutical products with huge addressable markets and the potential to improve health outcomes globally. In transportation, ATS's solutions are incorporated into the production of electric vehicle batteries, improving safety and efficiency, and broadening the adoption of EVs, which have clear environmental benefits.

ATS's end markets have strong growth prospects, with large and growing total addressable markets benefiting the Sustainable Development Goals (SDGs). We expect automation investment to remain elevated as end users seek process optimization and higher productivity while responding to inflationary pressures and greater environmental scrutiny by reducing input costs and lowering GHG emissions per production output. We see growth opportunities for ATS given its capital light business model with high margins and cash generation and the ability for the business to leverage its expanding client base with the scale up of after sales service.

ATS made and delivered over 70 EV battery assembly systems to customers worldwide.

Provider of end-to-end automation solutions



About Regnan

At Regnan we've been thinking forward and shaping the responsible investment movement since 1996 – long before it became mainstream.

2020 marked our expansion into funds management supported by the investment platform of J O Hambro and the Pandal Group. We've brought together proven sustainability and impact teams with track records tested through cycle, with the depth of insights provided by our engagement, advisory and research team.

Our collective purpose is to contribute to a more sustainable future by developing and promoting principled, rigorous and outcome-oriented approaches in responsible investment.

Client solutions sit at the heart of all that we do and are based on four key pillars:

- Delivering our clients attractive investment returns; we aim to grow their real wealth over the long term.
- Understand the materiality of sustainability issues to deliver improve decision-making and real world outcomes.
- Creating differentiated, innovative strategies that serve a purpose in client portfolios.
- Our strategies are authentic and provide significant exposure to underlying sustainability opportunities.

Regnan Global Equity Impact Solutions

The Regnan Global Equity Impact Solutions strategy is a solutions-first approach, focused on investing in mission-driven businesses that address underserved environmental and social challenges and deliver real, systematic change for the better. It is a high-conviction, global, multi-capitalization portfolio with low turnover and a strong emphasis on driving impact by engaging companies to improve measurable outcomes.

Regnan Sustainable Water and Waste

Our Thematic Investing team joined Regnan in April 2021 and launched the Regnan Sustainable Water and Waste Strategy in September 2021. Combining exposure to both water and waste-related companies makes this strategy a distinctive thematic investment proposition with diversification benefits.





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