

OUTCOMES  
BEYOND  
PERFORMANCE

# HERMES IMPACT OPPORTUNITIES FUND

Quarterly Impact Report

Hermes Investment Management  
Q4 2018

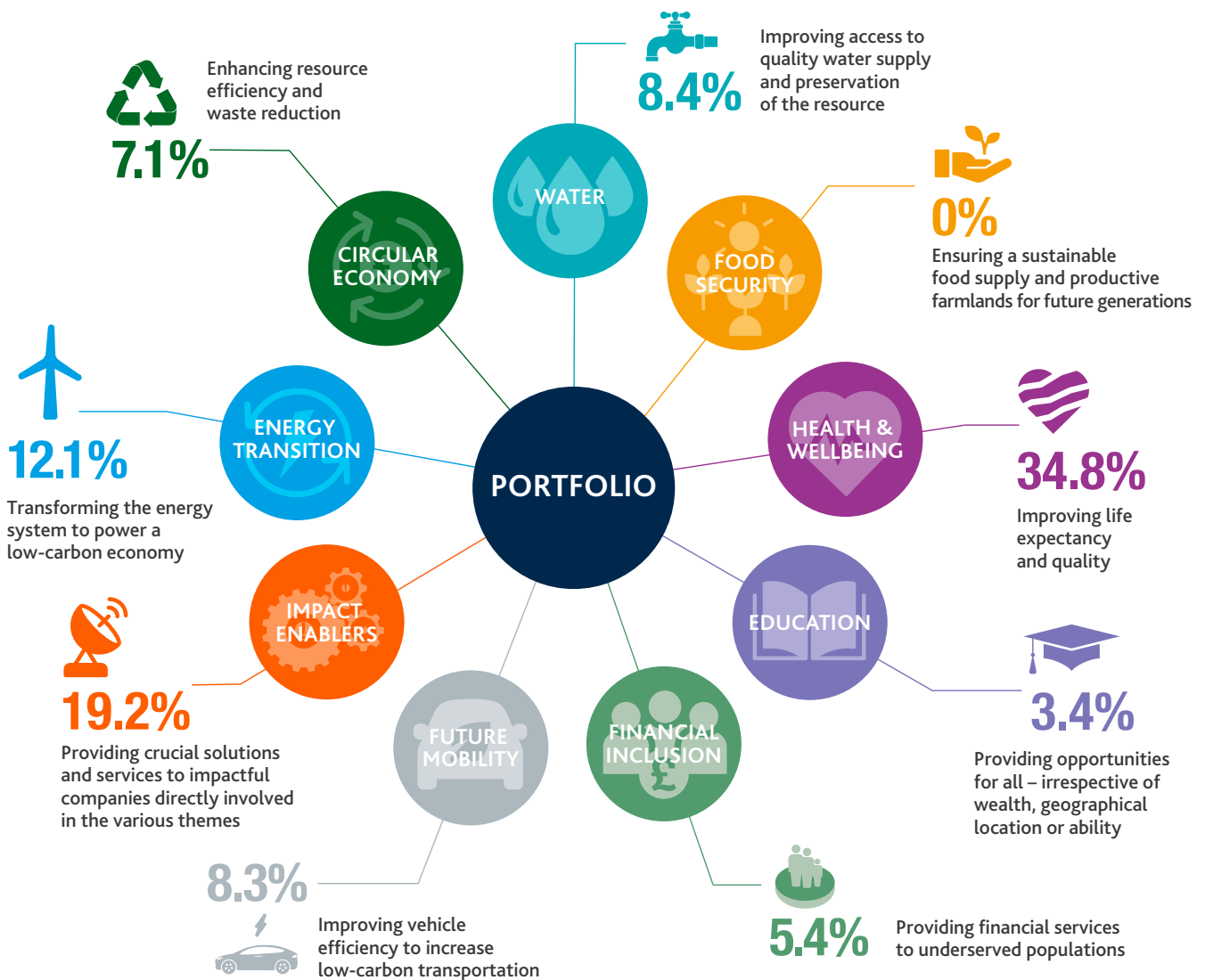
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**HERMES**  
INVESTMENT MANAGEMENT

The Hermes Impact Opportunities Fund is a high-conviction global equity strategy with a bold objective. It aims to generate long-term outperformance by investing in companies succeeding in their core purpose: to generate value by creating positive and sustainable change that addresses the underserved needs of society and the environment. In this way, it focuses on tomorrow's leading companies, today.

## EXPOSURE BY IMPACT THEME



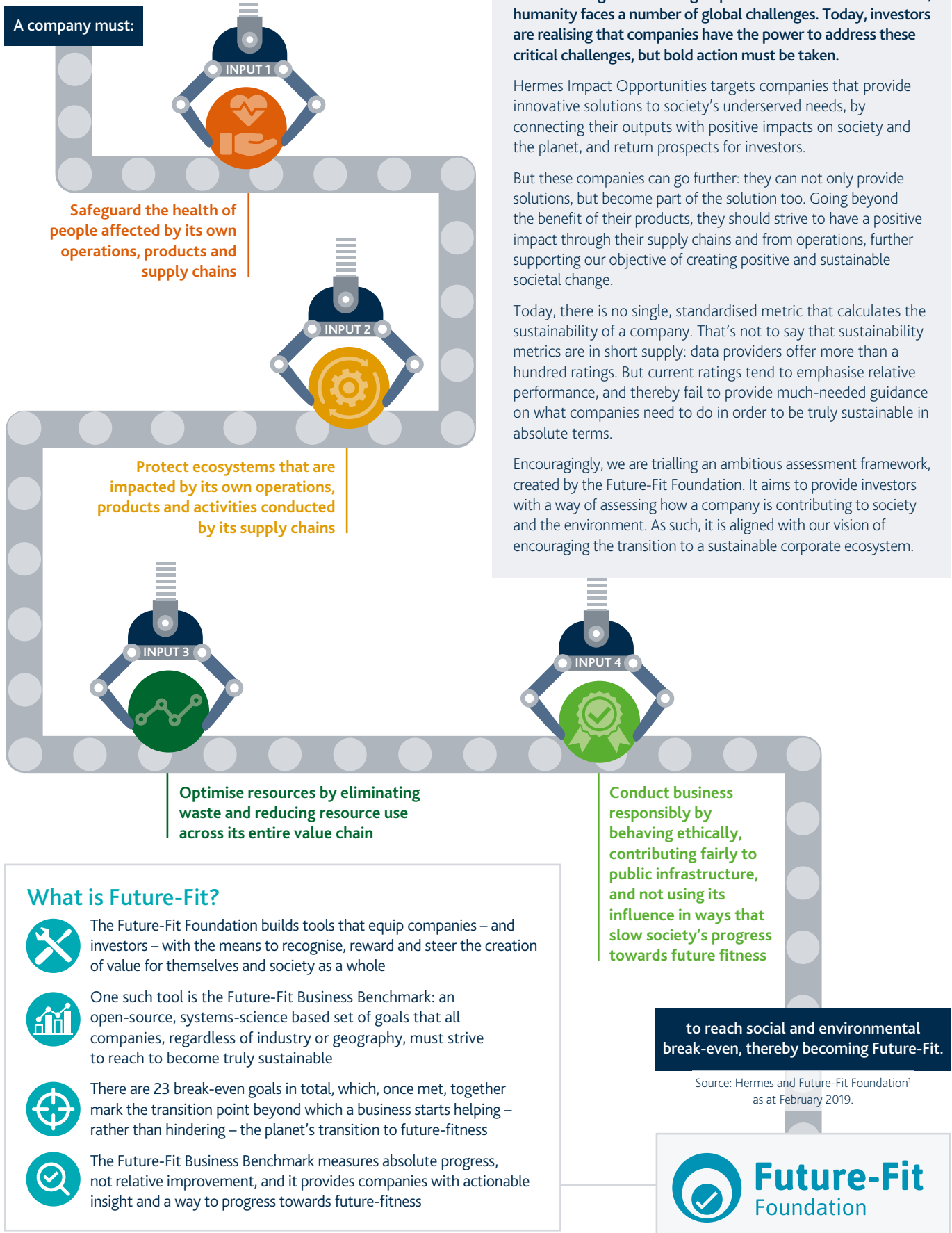
Source: Hermes as at 31 December 2018.

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# THE JOURNEY TOWARDS POSITIVE IMPACT

A clear destination: how a company can reach social and environmental break-even



From ending poverty and reducing inequality to tackling climate change and working to preserve our oceans and forests, humanity faces a number of global challenges. Today, investors are realising that companies have the power to address these critical challenges, but bold action must be taken.





Hermes Impact Opportunities targets companies that provide innovative solutions to society's underserved needs, by connecting their outputs with positive impacts on society and the planet, and return prospects for investors.

But these companies can go further: they can not only provide solutions, but become part of the solution too. Going beyond the benefit of their products, they should strive to have a positive impact through their supply chains and from operations, further supporting our objective of creating positive and sustainable societal change.

Today, there is no single, standardised metric that calculates the sustainability of a company. That's not to say that sustainability metrics are in short supply: data providers offer more than a hundred ratings. But current ratings tend to emphasise relative performance, and thereby fail to provide much-needed guidance on what companies need to do in order to be truly sustainable in absolute terms.

Encouragingly, we are trialling an ambitious assessment framework, created by the Future-Fit Foundation. It aims to provide investors with a way of assessing how a company is contributing to society and the environment. As such, it is aligned with our vision of encouraging the transition to a sustainable corporate ecosystem.

## What is Future-Fit?

-  The Future-Fit Foundation builds tools that equip companies – and investors – with the means to recognise, reward and steer the creation of value for themselves and society as a whole
-  One such tool is the Future-Fit Business Benchmark: an open-source, systems-science based set of goals that all companies, regardless of industry or geography, must strive to reach to become truly sustainable
-  There are 23 break-even goals in total, which, once met, together mark the transition point beyond which a business starts helping – rather than hindering – the planet's transition to future-fitness
-  The Future-Fit Business Benchmark measures absolute progress, not relative improvement, and it provides companies with actionable insight and a way to progress towards future-fitness

<sup>1</sup>Methodology Guide: From systems theory to practical tools," published by the Future-Fit Foundation in February 2018.

## Creating change together



Hermes is a member of the Future-Fit Development Council – a group of multinational companies and investors, which help the Future-Fit Foundation create the tools that will help every business become more sustainable for the future.

Future-Fit is currently creating an investor-focused assessment framework – and as already mentioned, we have trialled this model on two of our portfolio companies – Ørsted and Novo Nordisk. The model is still in its infancy and we are going to provide systematic feedback to Future-Fit. But so far, we hope that it will allow us understand the full extent of these companies' impacts on society and the environment – good and bad – and across their entire value chain. What's more, we hope that it will allow us to improve the net impact of our portfolio as we integrate the outcomes from the assessment – that is, the companies' contributions to a sustainable future – into our engagement strategy.



A small number of companies are already using the Future-Fit Business Benchmark to assess their impact on society. Using the self-assessment model, a company calculates its Future-Fit metrics using the break-even goals. It subsequently identifies key performance gaps flagged by the goals, prioritises corrective actions and executes them to close these performance gaps. An independent assurance can be conducted by an accredited third party and upon verification, the scores can be published. Importantly, the benchmark provides companies with a clear direction along the multi-decade journey to future-fitness.

One of our portfolio companies Novo Nordisk became the first company to complete the Future-Fit Business Benchmark in late 2018, while Ørsted is a member of the Future-Fit Development Council (see our case studies for further information).

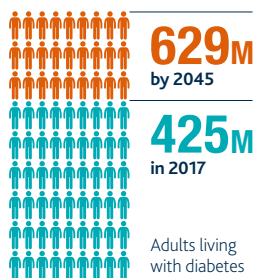
## CASE STUDY Novo Nordisk

Although great progress has been made in medicine over the last decade, there are still significant unmet medical needs: rates of obesity and diabetes are rising at an alarming rate around the world.

Since 1975, obesity rates have almost tripled<sup>2</sup>. Meanwhile, about 425m adults are living with diabetes – that's about 7-8% of the global population. This number is expected to rise to 629m by 2045<sup>3</sup>.

x3

obesity rates have almost tripled since 1975



Danish healthcare group Novo Nordisk is uniquely positioned to take a leading role in the fight against diabetes and contribute positively to the United Nations Sustainable Development Goals. For example, its newly-developed generation of diabetes drugs, which use Glucagon-like peptide-1 (GLP-1), are already shaking up the market. GLP-1s decrease blood-sugar levels by enhancing the secretion of insulin, thereby lowering the risk of long-term diabetes complications and the short-term fear of developing hypoglycaemia (too low blood sugar).

Novo Nordisk has also been actively raising awareness of obesity as a chronic disease that requires long-term management. In recent years, the company has increased its investment in obesity drugs, and today, it dominates its R&D pipeline, with five Phase 1 and one Phase 3 obesity-related trials.

1<sup>ST</sup>

company to complete the Future-Fit Business Benchmark

### Impact beyond medicine

But it's not just focusing on delivering transformational biological and technological innovation, Novo Nordisk is going further to deliver positive contributions to society and the environment.

At the end of 2018, it became the first company to complete the Future-Fit Business Benchmark. It is also a member of the Future-Fit Development Council<sup>4</sup>.

Using the benchmark, the company performed well in some areas of future fitness and identified gaps in others<sup>5</sup>. In addition, the benchmark's progress indicators offered the company the opportunity to calculate where it is today and importantly, what it needs to work on.

**Novo Nordisk has also been actively raising awareness of obesity as a chronic disease that requires long-term management.**

<sup>2</sup>"Obesity and overweight," published by the World Health Organisation on 16 February 2018. <sup>3</sup>International Diabetes Federation as at 2017. <sup>4</sup>"17 goals to transform the world," published by Novo Nordisk in January 2019. <https://www.novonordisk.com/sustainable-business/performance-on-tbl/more-about-how-we-work-and-report/the-sustainable-development-goals.html> <sup>5</sup>"Righting wrong metrics: lessons on Future-Fitness and Fixing Materiality," published by Sustainable Brands in November 2018.

## CASE STUDY

### Ørsted

The global temperature will reach 1.5 degrees Celsius above pre-industrial levels by as early as 2030<sup>6</sup>, precipitating the risk of extreme drought, wildfires, floods and food shortages for hundreds of millions of people.

Indeed, limiting global warming to this level requires profound change: human-induced greenhouse gas emissions would need to peak by 2020 and decline rapidly thereafter to reach carbon neutrality by 2050. Wind power can play a major role in the transition to a low-carbon economy: each gigawatt of installed capacity could reduce emissions by 2.6m tonnes of carbon dioxide<sup>7</sup>. That's equivalent to taking 570,000 cars off the road for a year<sup>8</sup>. What's more, Bloomberg New Energy Finance forecasts suggest that wind power may represent 25% of global electricity generation by 2050, up from 6% in 2017.



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**2.6M**  
tonnes CO<sub>2</sub>



That's equivalent to taking

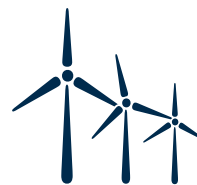
**570,000**

cars off the road for a year

Ørsted is the world's largest offshore wind farm operator, having started life as a state-owned energy company when Denmark looked to harness North Sea oil and natural gas resources in the early 1970s. And over the past decade, the company has repositioned its business from oil, gas and coal to renewable energy, including offshore wind. Its green energy share in power and heat production has surged from 17% in 2006 to 75% in 2018, and it

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**Ørsted is taking steps to not only provide solutions, but become part of the solution too as a member of the Future-Fit Development Council.**

aims to be carbon free by 2025 – 25 years ahead of the 2-degree temperature rise scenario. That compares to the adoption of coal, oil and natural gas, which took 25 years to increase from five to 15% of global energy supply<sup>9</sup>.

#### Powering change

Like Novo Nordisk, Ørsted is taking steps to not only provide solutions, but become part of the solution too as a member of the Future-Fit Development Council.

Since 2015, Ørsted's total recallable incident rate has decreased by 45%. It has in-sourced more of its operations upon noticing that its safety track record was better than those of its contractors.

In addition, 70% of its Denmark-based combined heat and power plants have been converted to biomass, of which 7% is certified sustainable – it has a target of 100%<sup>10</sup>.

Work is still needed on end-of-life decommissioning, and the environmental impact of input materials, to further strengthen the environmental case for wind energy.

**45%**  
decrease in Ørsted's total recallable incident rate since 2015



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<sup>6</sup>Global Warming of 1.5 degrees Celsius," published by the Intergovernmental Panel on Climate Change in October 2018. <sup>7</sup>Calculations based on Siemens Gamesa Renewable Energy's numbers of 6.7GW of wind installed capacity reducing emissions by 18m tonnes of carbon dioxide. Source: Siemens Gamesa Renewable Energy's 2018 Sustainability report (page 47). <sup>8</sup>The US Environmental Protection Agency as at December 2018. <sup>9</sup>"Energy Transitions: History, Requirements, Prospects," published by Vaclav Smil in 2017. <sup>10</sup>Ørsted Sustainability Report 2017" published by Ørsted.

### Hermes Investment Management

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Our goal is to help people invest better, retire better and create a better society for all.

### Our investment solutions include:

High active share equities, private markets, credit and responsible investment advisory services.

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