

OUTCOMES
BEYOND
PERFORMANCE }

HERMES IMPACT OPPORTUNITIES STRATEGY

Quarterly Impact Report

Hermes Investment Management
Q3 2019

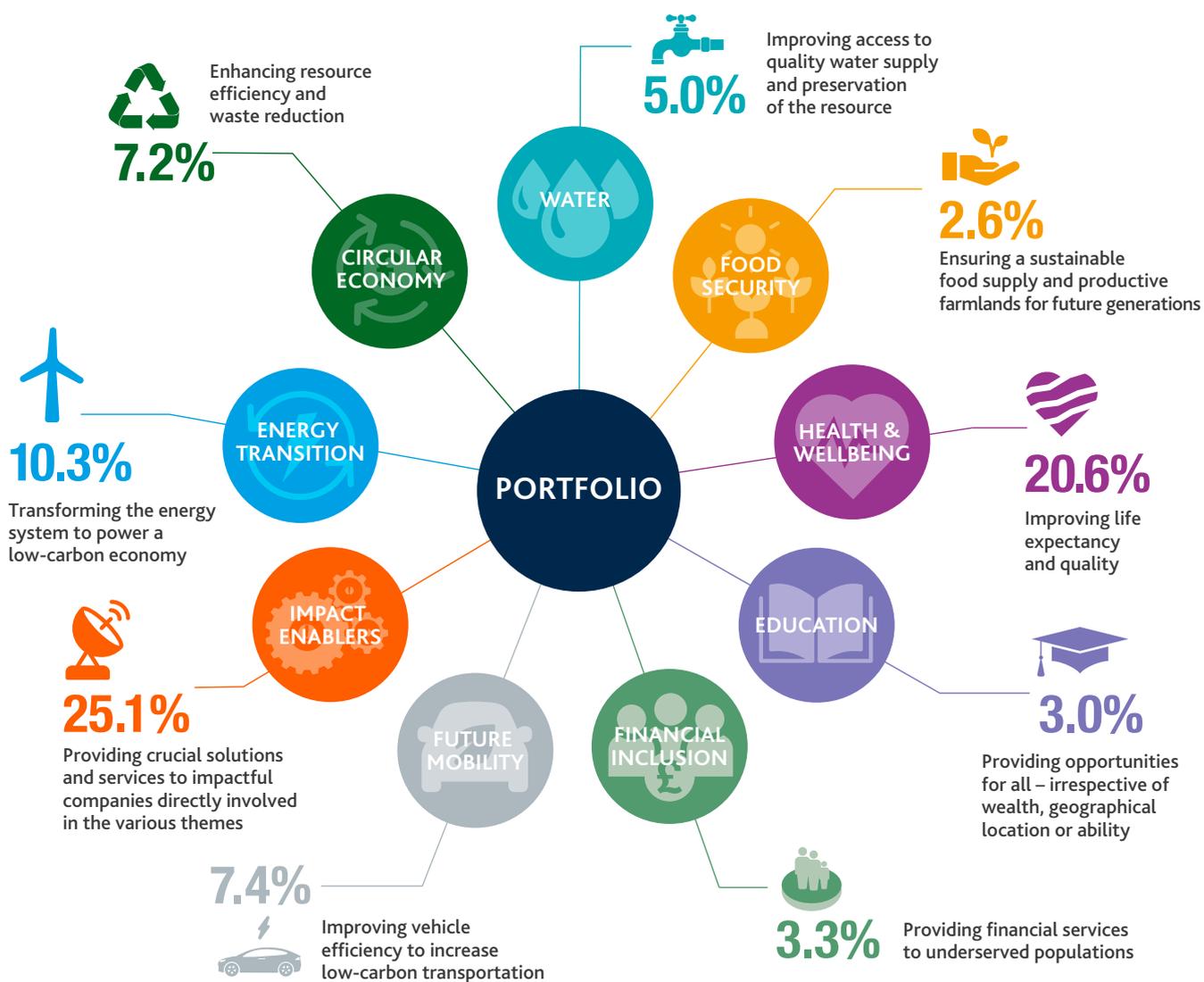
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HERMES
INVESTMENT MANAGEMENT

Hermes Impact Opportunities 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 THEME¹



Source: Hermes as at 30 September 2019.

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¹Note: we revised our thematic exposure methodology earlier this year to provide a more granular attribution of thematic exposure for each portfolio holding. As at 30 September 2019, 15.4% of our exposure was not directly related to any of our nine impact themes.

THE HERMES IMPACT MEASUREMENT PHILOSOPHY

A meaningful approach that guides internal investment decision-making

Research intensive

- We use independent research – provided by intergovernmental organisations, non-governmental organisations (NGOs) and academics – to understand the link between company-produced outcomes and the broader impact.
- We construct a Pathway of Change model for each portfolio company to track the sequence from inputs to impact.



Measurement is one of the key pillars of impact investing – alongside intentionality and additionality – that distinguishes it from other traditional forms of investing. However, in a rapidly growing market, impact measurement is not a straightforward science.

Impact goes beyond ESG

- Despite being an important part of our investment process, ESG data is focused on how sustainably a company is run, particularly its operations.
- In contrast, impact data focuses on the impact of its products and services.



Qualitative and quantitative inputs

- We use quantitative metrics alongside qualitative inputs to form an opinion about a company's impact performance.
- Few impact data points are audited or adhere to a common reporting standard. Therefore, we reach out to our portfolio companies to understand the methodologies they use when publishing impact data.



Engagement tops estimation

- In the absence of company-provided and third-party data, we do not estimate impact.
- We pursue regular, constructive engagements with companies: it encourages companies to understand, measure and, ultimately, be accountable for their impact.



Collaboration

- Impact measurement needs to become a precompetitive issue – and so, collaboration is key.
- Contributing to measurement and reporting initiatives is crucial as they have the capacity to develop a shared performance for impact measurement, such as the Impact Management Project (IMP).

For insights into the rationale of our impact measurement philosophy, use the following link:
<https://www.hermes-investment.com/ukw/wp-content/uploads/2019/07/hermes-impact-opportunities-impact-measurement-commentary-q3-2019.pdf>

CASE STUDY

SPECIALTY BIOPHARMACEUTICAL COMPANY



SDG target 3.3: By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases.

SDG target 3.5: Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol.

SDG target 3.9: By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.

Theory of change

This company has a portfolio of current and development stage medical countermeasures for a broad range of potential epidemics, including Zika, Chikungunya, Influenza A and Ebola viruses. Its prophylactic and anaphylactic treatments can be used in strategic national stockpiles, increasing country resilience during outbreaks. Studies point to countries' lack of readiness for public health threats linked to chemical and biological hazards and emerging infectious diseases.

Epidemics: a severe threat to global health

Globalisation has made the world more vulnerable to societal and economic impacts from outbreaks of epidemic-prone diseases. Travel and trade, rapid urbanisation, human displacement, limited access to healthcare, climate change as well as other trends create the conditions for fast-spreading, catastrophic outbreaks.

According to the World Health Organisation (WHO), pandemic preparedness globally is estimated to cost \$4.5bn a year – that's less than 1% of the estimated cost needed to respond to a medium-to-severe pandemic.

Preparedness for future pandemics

One of our current holdings, a multinational specialty biopharmaceutical company, focuses on public health threats. By investing in R&D and buying smaller biotech companies, it has developed an extensive product portfolio and pipeline for potential epidemics, including Ebola, Zika and smallpox. Its treatments can be used in strategic national stockpiles to respond to future pandemics. In doing so, the company contributes to improving the preparedness and response to pandemics, thereby increasing the world's resilience during outbreaks of infectious diseases.

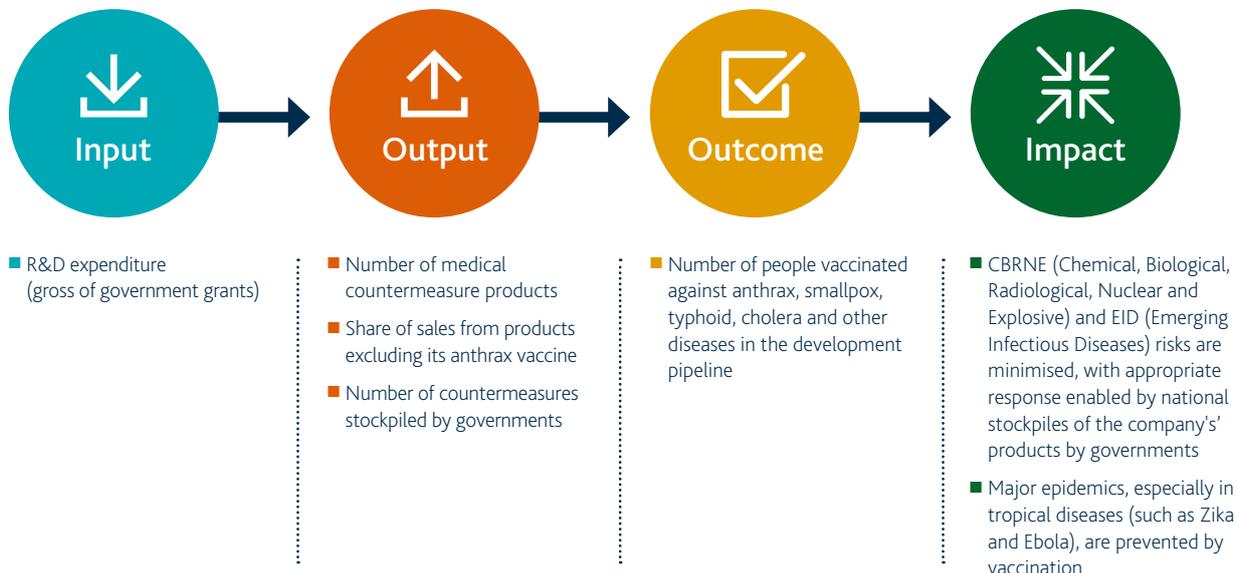
70,000 people die every year from drug overdoses in the US

For example, drug abuse is addressed by SDG target 3.5. In the US, drug overdoses are responsible for 70,000 deaths a year. The company's nasal Naloxone spray – the only Food and Drug Administration (FDA) approved needle-free emergency opioid overdose treatment – has an efficacy rate of 94%.

Measuring impact

As already documented in our impact measurement philosophy, we use a Pathway of Change model – and in doing so, we were able to establish the link between the Theory of Change and the impact metrics used (see Figure 1). However, impact measurement for a company like this one is intrinsically difficult. After all, in an ideal world its products shouldn't be used if major public health threats do not materialise. That said, should an epidemic occur, the company's products will enable governments to respond appropriately.

Figure 1. The company's Pathway of Change



Source: Hermes as at October 2019.

CASE STUDY

GLOBAL BIOTECH COMPANY



SDG target 3.2: By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being.

SDG target 3.8: Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.

Theory of change

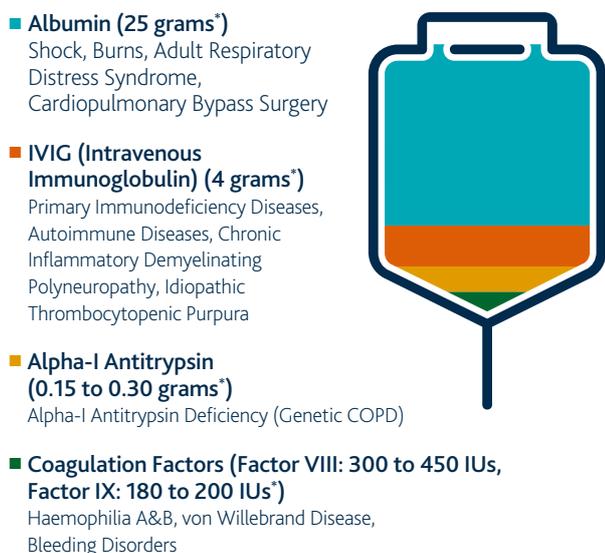
This company is the largest global provider of plasma therapies which treat a host of diseases, ranging from serious immunodeficiency diseases to coagulation disorders. Human immunoglobulins – one of the company's growth drivers – feature on the WHO's list of essential medicines. It has an ambitious plan to dramatically increase its plasma collection capacity, which should in turn allow it to produce more plasma-derived therapies. The remainder of its global business sells vaccines, with influenza topping the list of burden of disease and disability-adjusted life years.

Plasma therapies: addressing an unmet need

Plasma² therapies are life-saving: from haemophilia to immunodeficiency, they treat a range of diseases. However, plasma-related diseases remain vastly undertreated. Research by CLSA estimates that the market for immunoglobulin (IG) treatment would be 342m grams every year, if those who required the treatment in the US and European Union received it. That compares to an estimated global IG usage of 165m grams in 2017. As such, plasma therapies address one of society's unmet needs. And that's where our current holding, a global biotech company, plays an important role.

As the largest global provider of plasma therapies, the company operates 176 plasma collection centres across the globe through one of its divisions (which accounted for 85% of revenue in FY18/19³). The company has ambitious plans to expand its presence by opening 25-30 more centres this year, thereby increasing the supply of plasma worldwide. One of the group's key growth drives is human immunoglobulins – which features on the WHO's list of most efficacious, safe and cost-effective medicines for primary conditions. It also has a particular focus on growing its specialty products that focus on rare diseases such as Hereditary Angioedema.

Figure 2. Plasma proteins treat a vast range of diseases



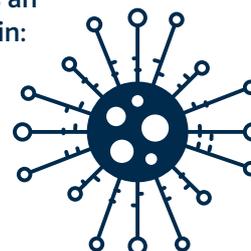
*Plasma protein yields per litre of plasma
 Source: Politico.

In addition, a division within the company specialises in cell-based influenza vaccines. Indeed, influenza remains the most burdensome infectious disease, both in terms of incidence and mortality rate. Evidence shows that the company's cell-based jab was 26% more effective than standard egg-based vaccines in preventing flu-like illness in the US in 2017/18⁴.

The burden of influenza

Seasonal influenza remains an annual epidemic, resulting in:

3-5M
of severe illness



290,000-650,000
deaths

Influenza is the most likely disease to develop into a pandemic. A global pandemic could cost:

\$3TN+
nearly 5% of global GDP

Source: WHO, World Bank.

Tracking impact progress

As already mentioned, the diseases that plasma therapies treat are vast, stretching across many medical sub-specialities, such as neurology and immunology. And so, the company has limited visibility about the use of its products once they are sold. This makes it difficult to measure the impact of plasma therapies. Nevertheless, one of the impact metrics we use is the number of plasma collection centres. This acts as a proxy for plasma supply growth – to us, it is arguably the best proxy to use owing to its widespread disclosure (across industry peers).

² Plasma, which accounts for about 55% of the overall content of blood, helps to transport nutrients, hormones and proteins – including clotting factors that help to stop bleeding – to different cells.

³ "Annual Report 2018/19," published by the company in June 2019.

⁴ The company's FY19 Results Presentation, slide 13.

Hermes Investment Management

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

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