



# Regnan Global Equity Impact Solutions Fund

Quarterly Impact Report

Q4 2020

Brought to you by J O Hambro Capital Management

**Regnan**



## We're back – and what a world we've returned to.

The team and I are excited to be up and running again, having successfully launched the Regnan Global Equity Impact Solutions strategy in October 2020. This is the evolution of the project we started together back in early 2016. Our ambition has always been to create an exciting and differentiated core global equity solution for our clients, one that also allows investors to deliver a genuine positive impact by investing in mission-driven companies that create the environmental and social solutions which drive the advancement of our productive systems; one where we engage with these companies, on our investors' behalf, in order to work with them to mitigate their negative impacts.

We used to be mistakenly seen as sitting at the extreme end of the responsible investment spectrum of capital. But, less than a year on, it seems that the fund management community is tripping over itself to reinforce its impact credentials. That is a good thing, of course, if done with integrity. Indeed, we are encouraged by the tangible outcomes that are being driven by a market that rewards those companies driving positive solutions and increasingly penalises companies that have failed to plan and transition towards being fit for the future, and which calls their economic sustainability into question.

Regnan takes its name from the eucalyptus regnan tree, the world's tallest flowering plant which is endemic to Australia. Its roots trace back to 1996 when the Monash Centre for Environmental Management investigated the business impact of environmental issues for its clients. In 2007, Pental Group (formerly BT Investment Management Limited) co-founded Regnan Governance, Research & Engagement, which focused its research and advocacy efforts around ASX-listed companies and their environmental and social impacts.

Fast forward to 2019 and Regnan became a wholly-owned subsidiary of the Pental Group, expanding into investment management with the aim of applying over two decades of thought leadership to best-of-breed sustainable and impact investing strategies.

As the first global equity impact strategy under the Regnan banner, we are excited about what this means for our depth of knowledge and resource. We are now part of a broader team of sustainability specialists who think the same way we do: to build a sustainable future, investors need to think about the sustainability of our systems of productivity as a complex, interconnected whole and consider which solutions are best suited for the future.

This is a change from viewing sustainability as a discrete process, one that is separate and distinct from the financial analysis of a company and which measures only the impacts of inputs and outputs that are specific to a single company.

To that end, it is business as usual for the team and me. We continue from where we left off, only now surrounded by a larger team who are contributing to our effort to better understand the problems we are trying to address and the solutions that are best positioned to meet these challenges.

This is our maiden quarterly report as a Regnan team. Each quarter our impact report will consist of a thematic thought piece from some of the collaborative work we undertake with our systems research colleagues as well as two stock-specific case studies. An annual report will follow later in the year which will measure and track impact KPIs. We hope you find the following report interesting and insightful and welcome feedback from you, our investors, as we seek to report in a manner which keeps you informed and engaged as we invest for positive impact.

Thank you to all our investors that continue to support and believe in the strategy. We will continue to invest in mission-driven companies that are committed to driving change to a more sustainable future with the innovative solutions that they deliver. We are excited to do our bit towards building a rewarding future for all.

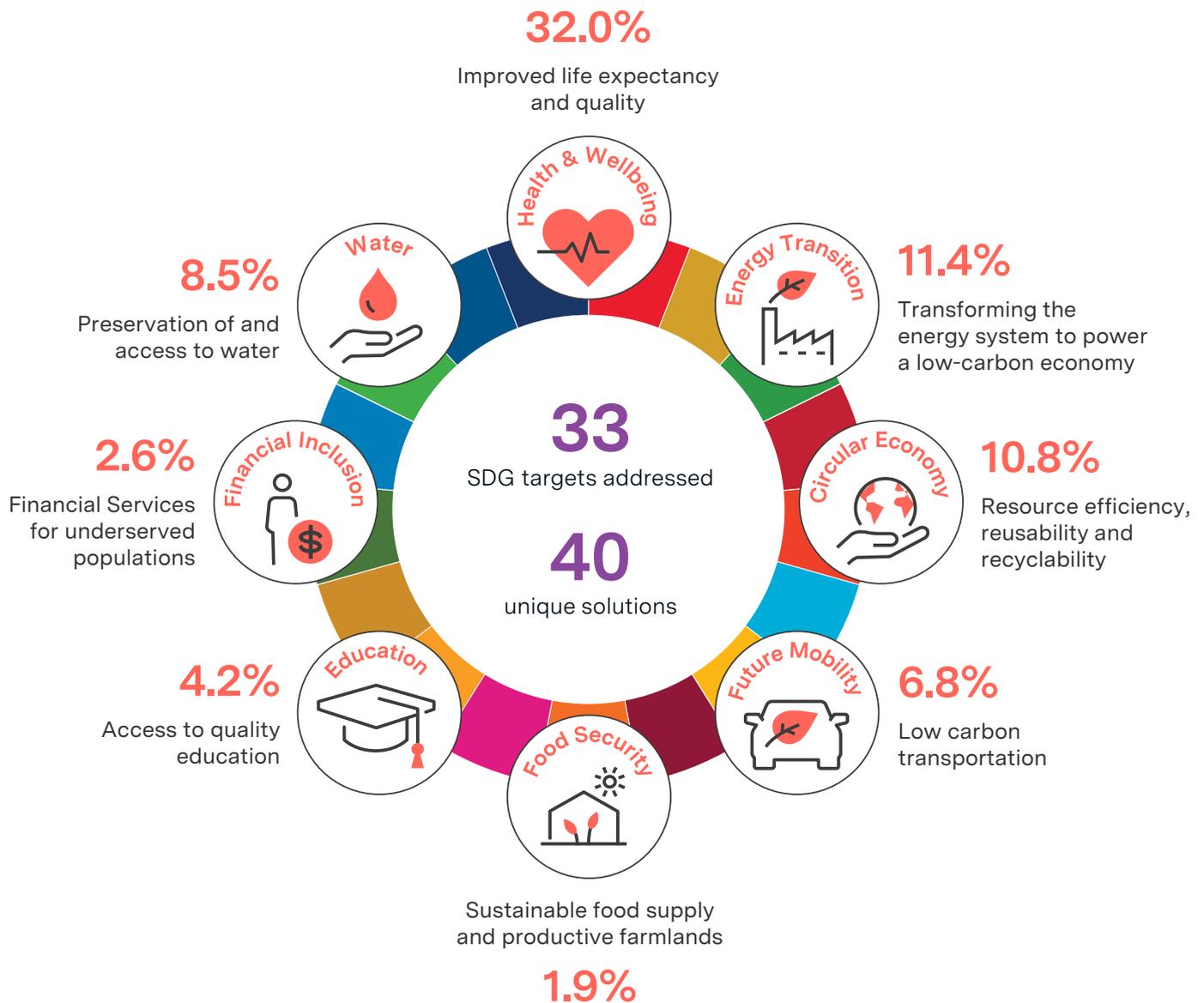


**Tim Crockford,**  
Head of Equity Impact Solutions and  
Senior Fund Manager, Regnan Global Equity Impact Solutions

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.

## Regnan Global Equity Impact Solutions

### Portfolio exposure by impact theme



Source: Regnan/JOHCM as at 31 January 2021. Note: Thematic exposure attribution to eight impact themes based on estimates of company revenues or other relevant metrics. Cash position: 4.44%. Neutral impact (14.5%) is estimated where revenues not directly tied to any theme. Negative impact (2.8%) estimated where revenues may be detrimental to UN Sustainable Development Goals (SDG).



# THEMATIC FOCUS FOOD SECURITY

## Catalysing Sustainable Agriculture and Food Production

The concerns around fossil fuels and the roles for renewable energy and electric vehicles in reducing our reliance upon them are widely accepted. When it comes to agriculture, however, there is much greater complexity. Industrial agriculture has been responsible for significant leaps in crop yield, which are needed to serve growing populations. But it has come at a cost. We can't continue to grow crops and farm animals the way we do if we are to sustainably feed the world's population and address climate change.



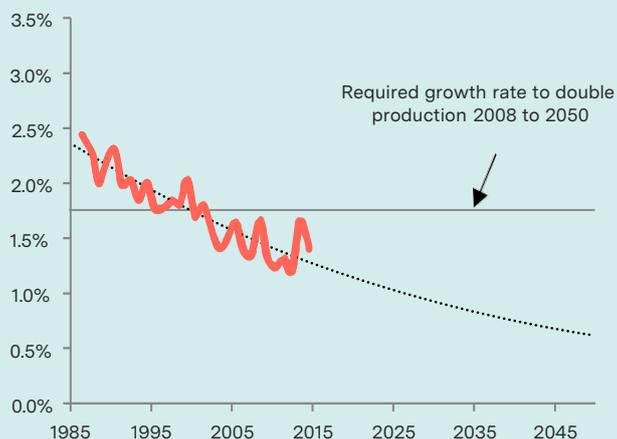
### The issue: Industrial agriculture

Large scale mono-cropping and animal systems, which require high chemical input, have increased the productivity of farming and yields since the 1950s, but they now threaten the very ecosystems they rely on.

Food production needs to grow by 50% to feed the estimated 10 billion people on the planet by 2050. Yet we can't rely on current approaches to agriculture that focus purely on yields. These are unsustainable, with heavy ecological loads – related issues include the creation of ecological dead zones which result in soil degradation, loss of biodiversity, deforestation, overuse of chemicals and pollution of water systems. We believe a fundamental system change is required to transition agriculture and food production to more sustainable and resilient models.

### Yield improvement is increasingly difficult to achieve

**Figure 1:** Global growth in grain yields (average of big four – maize, rice, soybeans and wheat), rolling 25-year CAGR



Source: OECD, 2016.

### Soil is a key part of the solution

Soil health and the restoration of soil quality is a perhaps surprising but central solution to both the sustainability of agricultural systems and climate change mitigation.

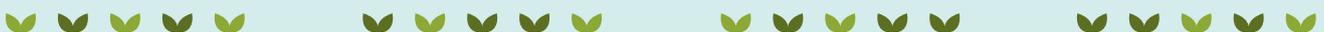
Soil restoration entails rebuilding organic matter through modified farming and grazing methods.

While most soil is only 2-10% organic matter, every 1% increase in soil organic matter helps soil hold 20,000 gallons of water per hectare, building resilience to drought and heavy rain and requiring less irrigation. Healthier soil leads to healthier crops.

Equally important to increasing the organic matter in soil, soil sequesters carbon dioxide. At scale, this has the potential to act as a major climate change mitigation strategy.

The opportunities to sequester carbon through soil are similar in scale to greenhouse gas reduction opportunities across the global transport sector.

For further information on soil carbon sequestration, please visit [Project Drawdown](#).



Through the Regnan SDG taxonomy, we monitor developing technologies, while maintaining a critical eye on new innovations that show potential to contribute to our solution areas and provide pathways to achieving the Sustainable Development Goals (SDGs).

## We find four broad solution areas:



### Regenerative / organic farming

Farming methods that optimise the interactions between plants, animals, humans and the environment and capture carbon in soils and above ground biomass.

Farming methods that emphasise soil conservation and use of biological rather than chemical inputs.



### Controlled / vertical farming

Highly applicable in land constrained areas. Using highly intensive, chemical-free, indoor farming and sophisticated monitoring and sensing technologies to optimise plant growth and yield while minimising ecological impact.



### Circular food systems

Redesign of processes to eliminate or minimise waste across value chains through infrastructure improvements, storage and handling improvements, by product use and water repurposing.



### Sustainable food products

Food products that reduce or replace resource intensive products.

## Investable opportunities:

- Organic farmland
- Geospatial technologies
- Microbiome technologies
- Bio crop protection

- Smart greenhouse Internet of Things
- Precision irrigation
- Greenhouse sensors
- Planting mediums

- Food waste minimalisation
- Waste management platforms
- Bio food preservation
- Intelligent food logistics

- Plant-based proteins
- Organic food ingredients
- Sustainable aquaculture



## Why is this important for investors?

Ultimately these issues represent a risk to return on investment and could carry significant long-term financial costs. However, the sustainable agriculture and food production space is spawning a multitude of new technologies and business models, providing attractive investment opportunities.

Through the Regnan SDG Taxonomy we monitor developing technologies, while maintaining a critical eye on new innovations that show potential to contribute to our solution areas and provide pathways to achieving the SDGs. Often these solutions are at early stages of adoption and benefit from significant growth in their addressable markets.

This detailed study was co-authored by Mohsin Ahmad, co-manager of Regnan Global Equity Impact Solutions, and Doug Holmes, Senior Advisor, RI Projects (Regnan Australia). It is a great example of the intellectual collaboration between the Impact team and Regnan Insight and Advisory Centre in Australia.

For a full copy of the report, please visit our website at: [www.regnan-johcm.com](http://www.regnan-johcm.com)



BEFESA

CASE STUDY

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

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

TARGET 12.2

TARGET 12.4

TARGET 12.5

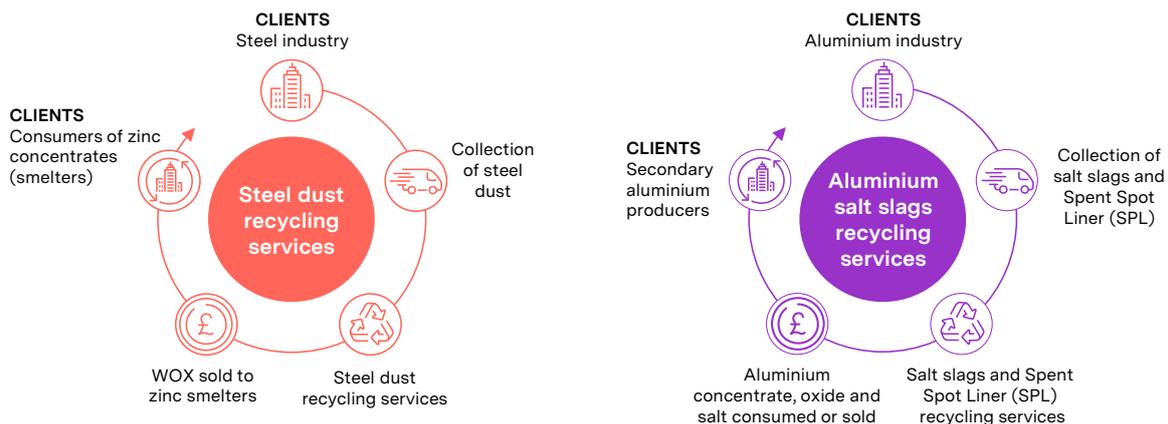
### Theory of Change

Germany's Befesa enables circular business models in the aluminium and steel industries. Secondary steel and aluminium production are preferable to primary production methods due to their significantly lower CO<sub>2</sub> footprint (c.3.5x less for steel, for example), as well as their lower natural resource use (secondary production methods primarily use steel and aluminium scrap, as opposed to raw materials, which need to be mined). However, both secondary steel and aluminium production produce hazardous wastes, which are often landfilled today, which risks groundwater contamination. Befesa provides a double-pronged solution to this. Firstly, its best-in-class recycling technology offers an alternative to landfills. Secondly, Befesa's technology is able to extract and re-use the valuable metals contained within these hazardous wastes (in the form of zinc, aluminium oxides, salts and aluminium concentrates), thereby reducing the need to directly extract these metals from the earth.

**“Best-in-class recycling technology offers an alternative to landfills”**

### Circular economy

Figure 2: Befesa contributes by reintroducing valuable materials into the production process



Source: Befesa Sustainability Report 2019, p.3.

### What Befesa does

Befesa is one of the newest additions to our portfolio. It is the market and innovation leader in aluminium salt slags and steel dust recycling, using the most efficient Best Available Technology (BAT). While the majority of its recycling plants are currently in Europe, it also has a presence in South Korea and Turkey. In addition, it is currently constructing the very first, state-of-the-art steel dust recycling plants in China, which represents a huge impact and financial opportunity.

### Why Befesa is in the portfolio

Steel and aluminium are the literal pillars of today's industrialised world. These ubiquitous materials are, however, also two of the most challenging industries to decarbonise and are commonly designated 'hard-to-abate', jointly with sectors such as cement. But, if the world is to get serious about mitigating climate change, the need to decarbonise the steel and aluminium industries becomes pressing, as they account for about 10% of all direct emissions from fossil fuels worldwide.

One important decarbonisation pathway for the industry, drawing on established, scalable technologies, is the replacement of primary production, which uses mined raw materials in a highly energy-intensive production process, with secondary production, which instead uses aluminium and steel scrap as input feed. This makes the production process not only circular but also up to 3.5x less CO<sub>2</sub> intensive.

**1.5m** tonnes of residues recycled annually

**1.2m** tonnes of materials recovered annually

However, there is one problem with these secondary production processes: they create hazardous wastes, in the form of salt slags, in the case of aluminium, and steel dust, in the case of steel. By not only recycling but extracting and ensuring the reuse of the valuable materials contained within these hazardous wastes (for example, waelz oxide in the case of steel dust, which it then sells onto zinc smelters), Befesa helps create a closed-loop, circular process. The alternative to recycling is landfilling these hazardous wastes, which can, among other problems, lead to groundwater contamination. Befesa's recycling and material recovery services are therefore crucial to enabling the full circularity of secondary aluminium.



YDUQS

CASE STUDY

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

TARGET 3.8	TARGET 4.3	TARGET 8.6	TARGET 10.1	
<b>3</b> GOOD HEALTH AND WELL-BEING 	<b>4</b> QUALITY EDUCATION 	<b>8</b> DECENT WORK AND ECONOMIC GROWTH 	<b>10</b> REDUCED INEQUALITIES 	

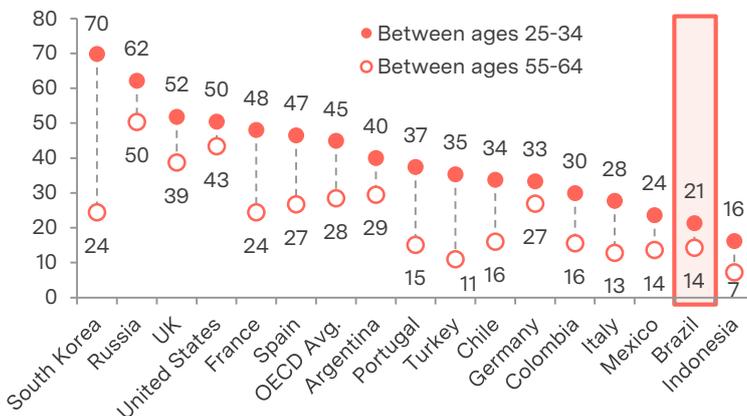
### Theory of Change

Access to higher education is central to Brazil's economic development and is regarded as a key catalyst for social mobility. Yet today only 16% of Brazil's population aged 25-34 have a degree level education. Private post-secondary education companies in Brazil play a vital role in providing access to students from lower and middle-class backgrounds with the support of government incentives. This is important given degree holders earn a 2.4x higher salary versus high school leavers in Brazil. University degree holders also experience significantly lower levels of unemployment relative to those without university qualifications (5.9% vs. 13.5% in 2016, based on OECD data).

**“A higher education diploma improves chances of salary increases and employment prospects”**

### Higher education in Brazil still underpenetrated vs. the world

Figure 3: Percentage of population with higher degree by age group (%)



Source: OECD, 2016.

### What YDUQS does

YDUQS is the second largest post-secondary education provider in Brazil, serving over 750,000 students across 119 campuses and 1,225 distance learning centres. YDUQS provides a broad range of undergraduate, masters and other related programmes.

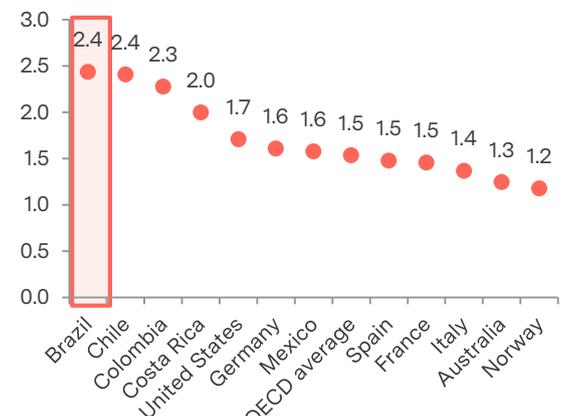
### Why YDUQS is in the portfolio

Brazil's public universities are high quality institutions and are supported by generous research budgets. However, they have limited places to offer (c.250,000 vs. several million prospective students) and those few places are disproportionately taken by students from privileged socioeconomic backgrounds. Against this backdrop, YDUQS provides opportunities for less privileged Brazilians to undertake degree level studies and to therefore benefit from significant salary increases relative to high school leavers and better employment prospects.

750k		119
students		campuses

Distance learning provides individuals in lower socioeconomic groups and remote areas with access to quality education which might not otherwise be possible. This helps address inequality imbalances between urban and rural areas. YDUQS's strategy to focus on distance learning and medical courses (which represented almost 40% of revenues in FY20) is key to the investment case and therefore the impact case. Distance learning has grown substantially, accelerated by the pandemic. This is a high margin alternative to the core on-campus business. Medical courses are one area which are considerably oversubscribed in Brazil, with 5x applicants per seat and occupancy rates at or close to 100%. Additionally, medical courses represent higher ticket fees, are more defensive through the cycle while broadening access to medical professionals across less penetrated regions of Brazil.

Figure 4: Average salary increase for degree holders vs. high school graduates



Source: OECD, 2016.

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