



MAINSTREET
PARTNERS

IMPACT REPORT 2018



IMPACT REPORT 2018:

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LETTER TO STAKEHOLDERS: OUR REVIEW OF 2018

The investment required to ensure our planet prospers rather than perishes is enormous. The UN estimates the annual need to be in the range of US\$2.5tn but the business opportunity could well exceed US\$4.5tn with sustainable cities and communities making up a significant portion due to the centralisation of economic activity in urban areas.

Assets managed according to sustainability criteria amount to over €18 trillion.

Given the vast annual opportunity it is about time then that the investing community wakes up – and wake up they have. Sustainable investing is being embraced en masse – at least 300 new sustainable investment funds across asset classes were launched in 2018. According to the biennial study released by the Global Sustainable Investment Alliance, assets managed according to sustainability criteria (negative exclusion, ESG integration, thematic etc.) amounted to €18tn at the

start of 2018 – a cumulative growth rate of 34% worldwide since 2016 when the study was previously released. There are now more than 2,100 signatories to the UN's Principles for Responsible Investing which commits asset owners and investment managers to more responsible investment practices. That represents US\$81tn of assets.

The investing community is not just being lured by this enormous opportunity for growth, it is also being pressured by huge numbers of individual investors who are expressing interest in sustainable investments. Millennials (86% very interested) and women (84%) are the most strongly committed to values-aligned investing and they are voting with their money. More and more women now control substantial wealth and millennials are beginning a generation-long process of inheriting wealth. This latent demand is driving AUMs and it is driving innovation for new products which integrate non-financial targets into risk/return profiles.

After the “Goldilocks” environment in 2017 of robust global growth and subdued inflation, all eyes were on the mood of central banks in 2018 and how swiftly they would pivot into quantitative tightening (QT). After a stunning rally in January 2018, the year came to a close with a most turbulent end with almost every asset class tumbling. The tail wagged the dog and all planned rate hikes for 2019 were priced out. Dovishness was back in, risk assets rallied and the stock market witnessed the fastest recovery in memory.

If the story of 2018 was monetary policy, then the story of 2019 is trade policy. The two largest economies in the world are led by unrepentant strongmen who are going head to head on trade in what they view to be a zero-sum game: if one wins the other must necessarily lose. Free trade has always been a win-win situation but, in this particular variant of the Prisoner’s Dilemma, it is politically expedient for both President Trump and President Xi to keep tensions high and refuse de-escalation unless it is on their own terms. This is the most important geopolitical development of our era and the multilateral collaborative trading system is potentially at risk as governments take sides or strive for neutrality. Volatility is riding high on the major ups and downs of the conflict, increasing dispersion of stock returns between companies relatively exposed or insulated to tariffs.

Not enough attention is being paid to the “Great War”: sustainability.

Not surprisingly, in 2018 sustainable investing had thematic “winners” and “losers”. Our healthcare investments performed well during the period. Although this is to be expected given the sector’s defensive nature and the negative performance of the MSCI World Index over the course of the year, in fact health-care was above the index throughout the entire year, even before the fourth quarter sell-off. On the other hand, environmental technology companies performed worse than the benchmark - trade war concerns weighed heavily on industrials. Nonetheless, under the climate change theme we predominantly positioned ourselves in renewable energy infrastructure investments which were much more stable throughout 2018, rewarding us handsomely.

The outcome of our exposure to the financial inclusion theme depended very much on where we positioned ourselves on the spectrum from local microfinance on one end to national SME finance on the other end. Local players were much more isolated from trade tensions rippling through Emerging Markets





and these businesses grew at above average rates. The performance of our investments in larger SME banks depended much more on their geographical exposure and proximity to the United States and China.

Nonetheless, too much focus is being paid to the winners and losers of the trade war and not enough attention is on the "Great War": sustainability. Climate change, population growth, social unrest and rapidly depleting resources are the battles that will determine whether our planet prospers or perishes over the next 100 years. A 2018 IPCC report concluded that we have until 2030 to reduce our carbon emissions to a net zero in order to keep global warming below 2°C. We have already missed our opportunity to limit warming to 1.5°C – a level which entails significant consequences.

**These are the battles which
will determine whether our
planet prospers or perishes.**

Rising to the challenge, the Green Bond market has continued to flourish with new corporates issuing inaugural Green, Social and Sustainability Bonds every month. Sovereigns are also participating with Belgium issuing a €4.5bn Green Bond in February 2018, Ireland issuing a €3bn Green Bond in October 2018 and the Netherlands and Hong Kong ready to

issue in 2019. The total labelled bond market now exceeds €500bn and it is only a matter of time before we reach the €1tn milestone.

In 2018 the United Nations Sustainable Development Goals (UN SDGs) truly came to prominence in the investing world. The SDGs were adopted by all UN Member States in 2015 as a blueprint to achieve a better and more sustainable future for all. The 17 Goals address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice.

The SDGs provide the foundation of Main-Street Partners' sustainable investment philosophy. At the beginning of 2019 we launched the market's most advanced framework for determining alignment of investment portfolios to the SDGs. With this capability we can provide our clients with transparency into the social and environmental outcomes of the investments and we can enhance their sustainable investment allocation in accordance with their priorities. This truly is a powerful tool which puts impact on the same footing as financial return.

After more than a decade of innovation and leadership in the sustainable investing industry it is our honour and privilege to continue to work with clients committed to the highest standards of sustainability and who share our vision for a better and brighter future for all.

INTRODUCTION TO THE REPORT

MainStreet Partners' 2018 annual Impact Report shares our vision, results for the past year and objectives for 2019. This third annual Impact Report is an open dialogue with our stakeholders. Eleven years ago, MainStreet Partners was established to provide investors with transparent and easy access to sustainable and impact investments. By publishing this Impact Report, we aim to communicate accurately to our stakeholders where capital is invested, and the tangible and measurable impact achieved. Where and how capital is deployed has a strong influence in shaping our future world. For this reason, we want our clients to know exactly where their capital is invested and what financial, social and environmental results they are achieving.





ABOUT MAINSTREET PARTNERS

MainStreet Partners is a leading sustainable investments advisor, responsible for overseeing almost €450mln of assets as of 31st December 2018. We are a strategic partner to wealth managers, private banks and asset owners providing them with investment advice and portfolio analytics to effectively deploy capital at scale in sustainable and impact investments. Applying the highest standards

of financial and extra-financial due diligence, our objective is to achieve above market risk-adjusted returns while delivering tangible positive social and environmental results.

MainStreet Partners has been developing its capabilities and track record of investing in sustainable companies and funds since 2008:

Investment Advisory

- Manager Selection
- Direct Investments
- Bespoke Portfolios

Portfolio Analytics

- ESG Analysis
- SDG Alignment
- Impact Reporting

KEY EVENTS IN 2018

Assets under advisement invested in thematic and impact strategies increased by EUR 33.3 million (+15% compared to 2017) reaching EUR 260.4 million (gross of cash), while assets invested in generalist ESG strategies increased by EUR 68 million reaching EUR 193 million, making our total assets under advisement EUR 453 million by the end of 2018.

In 2018, MainStreet Partners continued to serve its clients faithfully and diligently. We built on our existing business relationships and embarked on new journeys to expand the reach of our sustainable investment offerings. 2018 saw the launch of innovative, dedicated and highly sustainable services in collaboration with Banca Generali and Euromobiliare Asset Management.

MainStreet Partners became Investment Advisor to Banca Generali to provide sustainability advisory services related to all the ESG funds available on the bank's platform for distribution and portfolio construction. This advice includes evaluation of each fund's sustainability covering the asset manager, investment process and portfolio holdings, assessment of each fund's alignment to the UN SDGs, and finally the delivery of impact metrics based on the social and environmental results of investing in each fund. This is truly a powerful capability which provides investors with unprecedented transparency into third party funds.

In addition, MainStreet Partners acts as Investment Advisor to Banca Generali's ESG discre-

tionary portfolios which are implemented via sustainable funds and securities aligned with the UN SDGs. With this partnership, sustainability factors are fully integrated in the investment process, portfolio construction, advice and reporting delivered to clients.

In collaboration with Euromobiliare Asset Management, MainStreet Partners was appointed Investment Advisor to the Science 4 Life fund which follows a globally diversified balanced strategy to invest in companies targeting financial returns and well-being for people and the environment with a focus on advanced treatments, healthy food, clean energy, sustainable infrastructure and resource management.

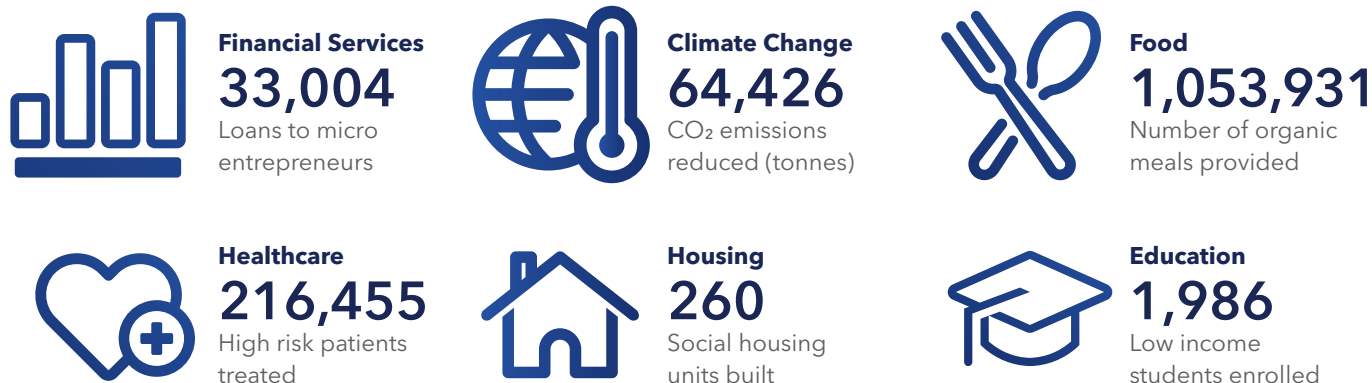
Susana Coutinho joined our team in August 2018 bringing over a decade of international experience in ESG analysis and rating of direct investments, having previously worked for ECPI Group in Milan and BlueBay in London.

MainStreet Partners strongly increased its media presence and coverage in 2018 by publishing over 130 articles and interviews. Our team contributed to a number of articles in leading media outlets including Morningstar, Responsible Investor, World Economic Forum, ilSole24Ore, Corriere della Sera, La Repubblica, Mondo Investor, Milano Finanza, Bluerating, Funds People, We Wealth, EticaNews, Advisors Online, Patrimoni and Monitor Immobiliare.

IMPACT OF OUR INVESTMENTS

ALL ASSETS UNDER ADVISEMENT

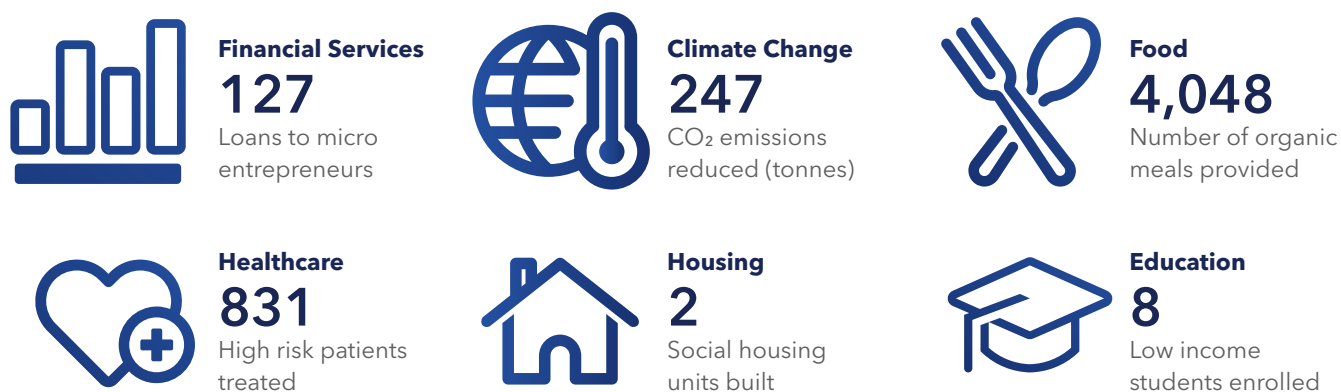
Investments across all our assets under advisement generated the following social and environmental results:



Gender equality is a value for MainStreet Partners which transcends all investment themes. As a result, our investments outperformed the benchmark¹ in this regard – on average across our investments women have 36% greater representation on company boards of directors.

EUR 1 MILLION

For each EUR 1 million equally allocated across our assets under advisement, investors achieve the following social and environmental results:



¹The reference benchmark is a proxy to the MSCI ACWI Index. Further information on the benchmark can be found on page 20

IMPACT RESULTS COMMENT

In our 2017 annual Impact Report we set ourselves the goal of increasing our investments in social themes (Education, Healthcare, Housing). Suffice it to say we smashed that target with a 110% increase in assets allocated to these three themes. We are thrilled with this result.

Since 2008, MainStreet Partners has been at the forefront of identifying and executing sustainable investment opportunities. For many years microfinance and climate change related investments dominated the sustainable investment universe. However, more recently we have seen the emergence of many exciting investments which positively contribute to diverse social outcomes and the strong growth of the Social Bond market is testament to this.

Therefore, we are proud to report that our investments have reached 216,455 high risk patients this year. Our investments in companies offering advanced treatments in developed markets and businesses providing essential healthcare to underserved populations in emerging and frontier markets are positively impacting not just the lives of those patients but their families and communities too, good health and well being (SDG 3) has to be a cornerstone for a better future.

Quality education (SDG 4) is another sustainability theme we actively promote. Our investments in this space help to provide education to children and adults in emerging markets with low student enrolment and to increase affordability of education. In 2018, we supported the enrolment of 1,986 students.

In 2018, our food allocation rotated towards large cap players such as Danone and Leroy Seafood which has diluted our impact achieved under this theme. One

of our goals for 2019 is to identify strong food companies in emerging markets supplying healthy or organic food to achieve greater impact.

Our investments under the housing theme contributed to the construction of 260 affordable homes. More and more families across the UK and abroad are feeling the pinch of higher property prices with many priced out of home ownership altogether. Investments in social housing provide those most at need with a secure place to live.

MainStreet Partners has continued to invest in financial services and microfinance in particular to support access to underbanked individuals in poor communities. In 2018 our capital made its way to over 33,000 micro-entrepreneurs. Loan sizes were larger compared to 2017 due to the inclusion of more small and medium sized enterprises in our strategy compared to pure microfinance institutions.

Our commitment to the climate change theme has never been stronger. Our fundamental conviction that companies providing solutions to climate change will be the champions of the next decade is becoming self-evident as civil society demands immediate action from governments and business globally. Our impact in this space makes a tangible difference. In 2018 our investments contributed to the reduction of 64,426 tonnes of CO₂. That is approximately equal to removing 38,400 cars from European roads each year. This goes to show that the battle to curb greenhouse gas emissions really can be won through coordinated action and large-scale investment.

We look forward to updating you on our results for 2019. Every year we deliver impact and every year we strive to achieve more.

ALIGNING INVESTMENTS TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

MainStreet Partners has developed an analytical model to assess a company's alignment to the UN SDGs by considering: (a) the company's management decisions and operational activities, (b) the company's products and/or services, and (c) the company's behaviour and involvement in controversies. Companies may be positively aligned, negatively aligned or neutral with respect to each SDG.

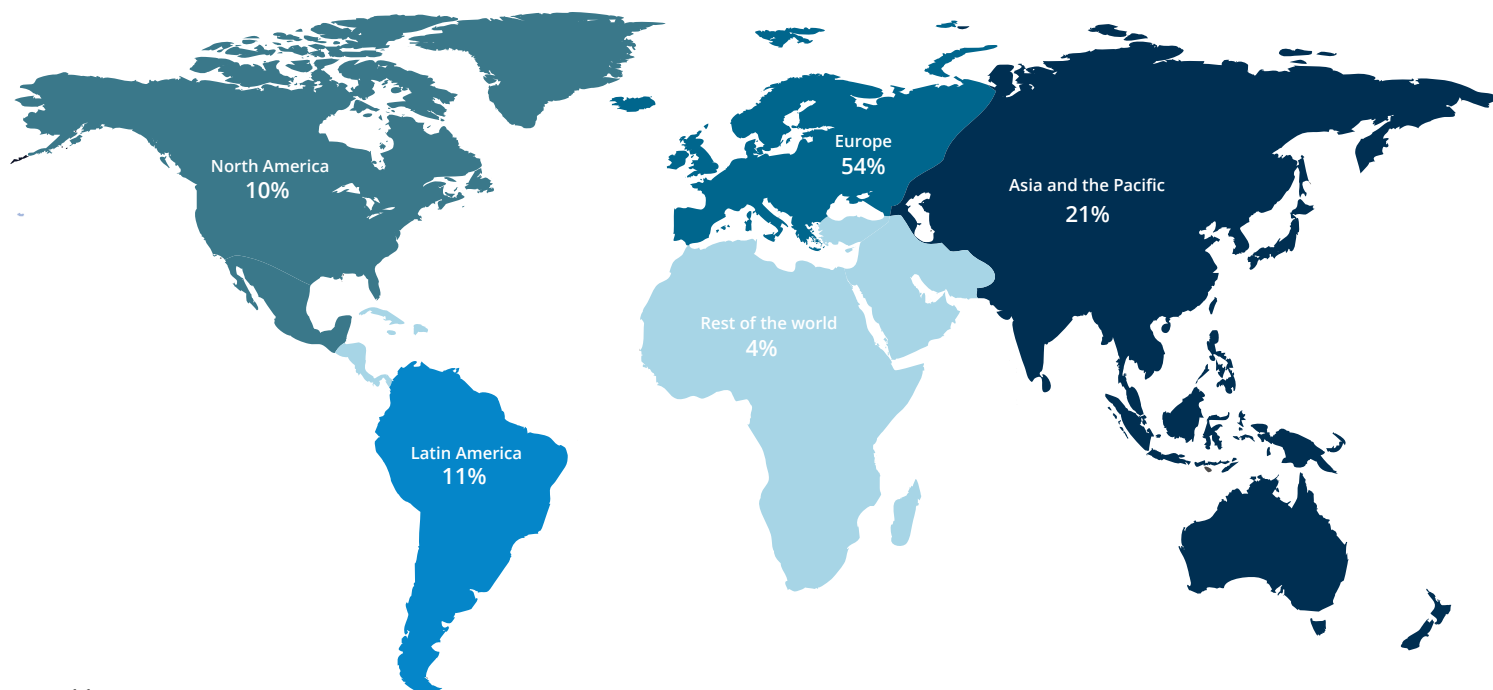
The model uses data points such as the percentage of revenues a company derives from positive or negative activities, quantitative footprint metrics such as greenhouse gas emissions or water usage, operational policies in place at a company, and finally reports of controversial or unethical business practices.

By aggregating company-level data, the model is also able to assess a portfolio's alignment to the SDGs which can supplement sustainability due diligence of a fund or prompt sustainability aware investors to adjust their portfolios.

In the following section we have highlighted some of the SDGs to which our showcased investments are positively contributing.

In the chart below you can find the number of investments we have made during 2018 which positively contribute to each of the SDGs. In addition, you can see the geographical allocation of our investments in the map.

GEOGRAPHICAL ALLOCATION OF OUR INVESTMENTS



NUMBER OF INVESTMENTS CONTRIBUTING TO EACH SDG



122



30



38



22



41



43



29



45



112



38



41



56



14



03



03



10



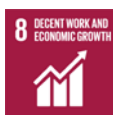
60

SELECTED IMPACT INVESTMENTS

MainStreet Partners has built one of the most comprehensive and diversified investable universe available in the sustainable and impact investing space. This section provides a representative sample of our investments across asset classes and geographies.

Financial Services

TBC BANK (Equity)



TBC Bank is the leading Georgian bank focused on micro, small and medium enterprises. The Bank was listed on the London Stock Exchange in 2014 and established its position in the microfinance segment after acquiring Bank Constanta and the loan portfolio of ProCredit Bank Georgia. The bank also serves corporate clients in Georgia.

38% share of the loan market.
67% of employees are women.

Instituto de Crédito Oficial (Fixed Income)



ICO is a Spanish state-owned bank tasked with supporting the country's economic growth and improving the distribution of wealth. ICO launched its Social Bond programme to promote employment in Spain's most economically disadvantaged regions. Each Social Bond finances small and medium sized enterprises in these areas.

ICO's 2017 Social Bond
financed over **10,000 SMEs**
and supported **55,000 jobs**.

Climate Change

Ørsted (Equity)



Ørsted is a Danish renewable energy company that develops, constructs and operates offshore wind farms across Europe, Asia and the US. It also provides smart energy products to its power distribution and energy customers. A decade ago, it initiated its full transition from an oil and gas producer to a green energy company.

Ørsted's green projects avoid **12.4 million tonnes of CO₂** and can power **11.7 million people**.

France Green OAT (Fixed Income)



In January 2017, Agence France Trésor launched its first sovereign green bond, the Green OAT, with a maturity of 22 years. The Green OAT 1.75% 25 June 2039 issuance amount was €7bn, making it the largest and longest-dated green benchmark bond ever issued. The Green OAT financed the green share of the French government's general budget including areas like renewable energy, low carbon public transportation and environmental protection measures.

€14.8bn outstanding amount.
Over **€8bn** financing energy efficiency and sustainable infrastructure.



Food

Lerøy Seafood (Equity)



Lerøy Seafood Group's core business is the farming and selling of salmon and trout. The Group distributes its products globally through a network of packaging and processing plants. Salmon is an excellent source of high-quality protein and omega-3 fatty acids which makes it a healthy choice compared to many meat products.

Distributes healthy food to more than **80 countries**.
5 million healthy meals delivered every day.

Danone (Fixed Income)



Danone is a world leading food company. Health and nutrition is at the core of Danone's business strategy. Danone employs more than 100,000 people in over 55 countries and its products are available in more than 120 countries across the globe. It is the number one company in Europe to provide advanced medical nutrition and a global leader in early life nutrition. Danone issued its corporate Social Bond in March 2018 in the amount of €300m. Proceeds were allocated to research and development for food security and to social integration of targeted populations such as dairy producers.

Danone's Social Bond has impacted **4.3 million** beneficiaries with **€108m** financing advanced medical nutrition R&D.



Healthcare

Edwards Lifescience (Equity)



Edwards Lifesciences is an American medical equipment company specializing in artificial heart valves and hemodynamic monitoring. The company's products improve the lives of patients with structural heart disease. The company also has a strong corporate responsibility programme which has impacted more than one million underserved patients. Edwards Lifesciences provides low-income patients with a \$1,000 grant to cover out-of-pocket expenses for their treatment, helping more people to get quality care.

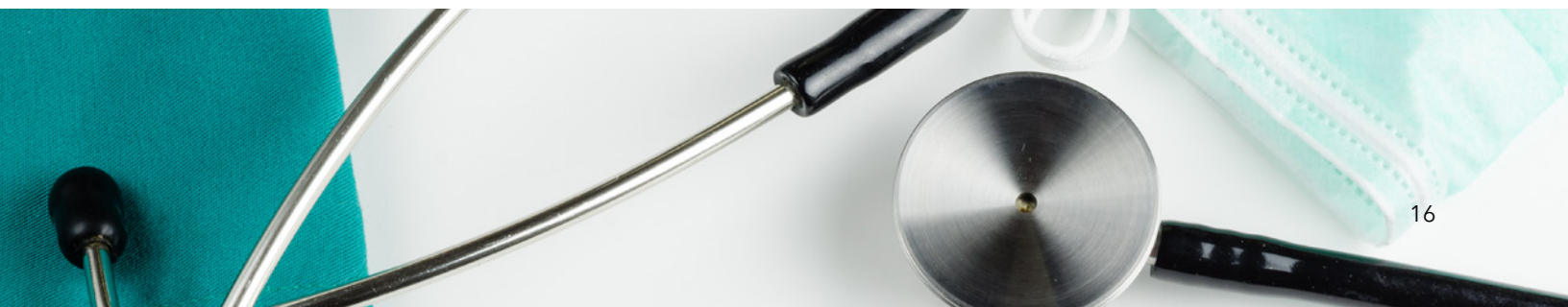
17% of revenues dedicated to R&D. Serving patients in over **100 countries.**

Fresenius Medical Care (Fixed Income)



Fresenius specialises in producing medical supplies for dialysis and providing care for its patients in hospitals and dialysis treatment centres. Fresenius is the largest company in the world focused on dialysis and it innovates to reduce costs and expand access to healthcare, improving the lives of patients suffering from renal failure.

Fresenius provides care for more than **336,000** patients in its global network of more than **3,900** dialysis clinics.



Housing

HICL (Equity)



HICL is a long-term equity investor in social, transportation and similar infrastructure projects. Investments deliver real assets, typically to public sector or quasi-public sector clients, which support the community and provide essential public services across a number of sectors such as social housing, justice, education and health. HICL is involved in the Miles Platting Social Housing project which is a concession to refurbish 1,500 occupied properties and build 20 new care homes and 11 family homes in Manchester, UK.

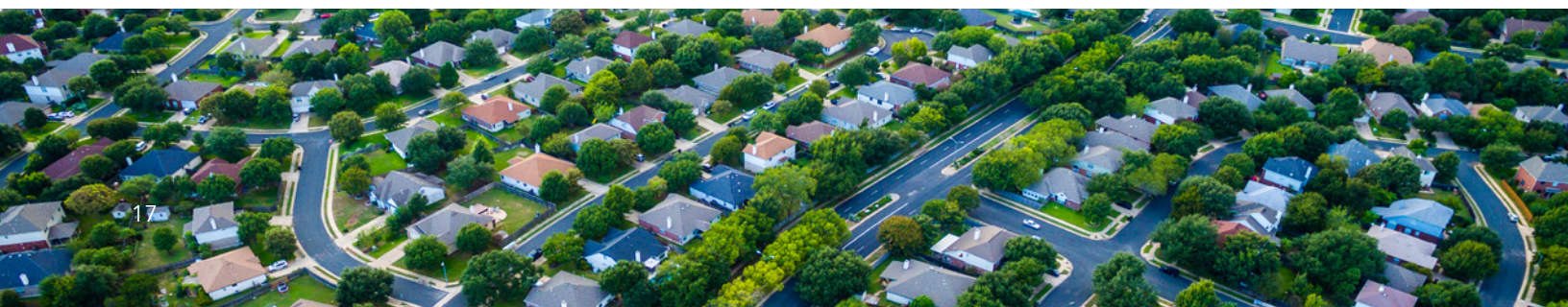
20 new care homes and
11 new family homes.

NWB Bank (Fixed Income)



NWB Bank operates as a bank for the Dutch public sector. The bank issued its third Affordable Housing Bond in April 2018. The proceeds are lent to Social Housing Organisations in the Netherlands which provide housing for low-income people. The housing projects promote diversity, integration, safe environments and quality housing leading to better living standards.

Rents capped at **€700** per month. Housing mainly goes to individuals earning less than **€35,000** per annum.



Education

Laureate Education (Equity)



Laureate Education is a leading provider of quality higher education through its global network of degree-granting higher education institutions and state-of-the-art collaborative partnerships with industry leaders. In 2018, Laureate provided over \$750 million in scholarships and discounts to students, further expanding access to higher education. Its network includes more than 875,000 students at over 25 higher education institutions with more than 150 campuses.

875,000 students. Over **150** campus and online courses.

Unite Students (Fixed Income)



Unite Students is the UK's leading manager and developer of purpose-built student accommodation, providing homes for 50,000 students, across 28 cities. Since 1991, Unite Students has been providing high quality, safe accommodation, located close to university campuses, transport links and local amenities. Unite Students is the founder and major donor of the Unite Foundation. Since 2012, this charity has provided free student accommodation and financial support to 160 young people in the UK who lack family support.

50,000 students housed.
Free accommodation for
160 students.



APPENDIX

Methodology: Metrics

MainStreet Partners has developed a unique investment process that dynamically combines financial analysis, ESG analysis and impact analysis. Our investment process is rooted in the 17 SDGs which provide our targeted sectors and eligible investment themes. Investment opportunities are screened by considering future expected social and environmental results. Impact investments subsequently undergo financial analysis and portfolios are constructed on the basis of both financial and extra-financial metrics. Finally, we report on the outcomes of our investments, summarised in our annual Impact Reports, in order to assess our contribution to each of the SDGs.



Our impact reporting methodology takes into account the size of our investments and the time we have been holding each investment to calculate fairly the impact attributable to our capital. Based on a sample of our actual investments we extrapolate an average measure of the results in each sector which can be applied to the whole of our portfolio. Calculating the social and environmental results of our investments requires the use of specialized metrics, which are not found in traditional accounting. Starting from a proprietary evaluation framework, MainStreet Partners uses metrics to measure the social, environmental and financial performance of investments under our sustainability themes. For each theme we have selected one metric which, in our opinion, is the best reporting metric for that type of investment. Each metric is chosen based on the investment's characteristics and the underlying data that we can collect, measure and report.

Through our investments, we finance the activity of each underlying company and consequently the social and environmental results they produce. To calculate these results, we adopt a theory of change framework which tracks our capital through to outputs and impact. This framework allows us to measure our past results and target our intended impact in future years.

For more information about the methodology used, please contact us at:
info@mspartners.org

Data as of December 31, 2018.



BENCHMARK

MSP has built a proprietary universe of approximately 4,000 companies and issuers which forms the reference database for the MSP SDG Score and Impact Metrics. Construction of this universe is based on a comprehensive approach which allows for meaningful coverage of both equity and fixed income securities issued by a variety of companies which are not adequately covered by a single market benchmark. In order to provide more inclusive coverage of the Fund Universe (agreed to between the Parties), the reference database includes companies and issuers beyond the ones included in the MSCI All Country World Index

(2,784 constituents as at November 2018) because many of the funds analysed follow an investment mandate which may considerably differ from this index. In addition, as an equity index the MSCI All Country World does not include many of the issuers covered by sustainable fixed income funds. As a result, the country and sector weights in the reference database may vary slightly from the MSCI All Country World Index but (a) are a reliable representation of the main market benchmarks in terms of geographic and sector allocation, and (b) provide a broader and more accurate universe in comparison with the sustainable funds under evaluation.



SOURCES

Sources: MainStreet Partners, Bloomberg, Bloomberg New Energy Finance, Global Sustainable Investment Alliance, Morgan Stanley, United Nations, International Monetary Fund, European Commission, United Nations Principles of Responsible Investment, World Economic Forum, Eurosif, Credit Agricole, UKSIF, Bank of America Merrill Lynch, MSCI, Environmental Finance, Climate Bond Initiative, United Nations Sustainable Development Goals, Global Impact Investor Network.

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