



in alliance with



# Affirmative Global Bond Fund 2018 Impact Report

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**This executive summary is an extract of the full report,  
which may be available upon request.**

Details on the impact reporting methodologies used by AIM and our partners, ISS-ESG, are available in the full report.

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# Management Commitment to Impact

## Message from Colonial First State (CFS)

At Colonial First State, we have helped over 1 million Australians with their superannuation, investment and retirement needs since 1988. We are a proud leader in our field across a range of wealth management solutions that aim to deliver the best possible outcomes for our members, over the long term. We also have a heritage of partnering with investment managers that have an emphasis on sustainable or impact investing.

Today, investors are increasingly concerned with issues such as climate change, human rights, and ethical supply chains. There is growing demand for investment products to reflect this, by adopting meaningful and measurable sustainability practices—rather than solely delivering positive performance outcomes. To address this, in 2018, we launched an exclusive partnership with leading international green and impact bond manager, Affirmative Investment Management (AIM). The product of this partnership is the Affirmative Global Bond Fund—a vehicle that seeks to engage investors to deliver funding for real solutions to global environmental and social problems. The Fund is more than a sustainable investment solution—it is a means by which investors can choose to put their capital to work in a way that aligns with their values, while still pursuing their financial objectives. To measure the benefits of this alignment, the annual Affirmative Global Bond Impact Report provides investors with transparent measurement of the positive impacts in climate change mitigation and adaptation, and global sustainable development achieved by the Fund's bond portfolio.

Through this inaugural Impact Report, we are pleased to present to you a summary of the positive change investors have made by their investment in the Fund. We remain committed to bringing world-class investment strategies to the Australian market and are delighted that our partnership with AIM enables retail investors to access proven performance, admirable heritage, and investment solutions which create such positive social, economic and environmental outcomes.

## Message from Affirmative Investment Management (AIM)

AIM is proud to present the first annual Impact Report for the Affirmative Global Bond Fund, which covers the period from the Fund's May 2018 launch to the end of December 2018. It reinforces our view that a pure play focus to investing, founded on deep analysis and engagement, can be beneficial to both investors, in terms of financial returns, and to the broader society, in terms of environmental and social outcomes.

The 2018 Impact Report is a culmination of extensive engagement with all the underlying issuers with which the Affirmative Global Bond Fund invested during the year. Every investment within the fund, on a time-weighted basis, underwent rigorous verification, and over 90% of the portfolio is covered in this report. One of the key highlights of 2018 was the alignment of the portfolio with all 17 of the United Nations Sustainable Development Goals, which were supported, to differing degrees, by the 1,000-plus projects financed in part by our bond holdings.

In compiling the report, AIM maintained a conservative approach for calculating the impact metrics. We believe that understating the potential impacts is preferable to a risk of overestimating outcomes. Transparency and positive impact are key objectives of the Affirmative Global Bond Fund and this report provides clear evidence of both.

We endeavour to continually expand our impact measurement and reporting capabilities—for instance, in 2018 we began an innovative partnership with industry leader, South Pole, to develop a TCFD-aligned physical risk assessment tool for green bonds, details of which can be found on page 29. We strive to improve our analysis to provide investors with greater visibility and information about the underlying portfolio. To this end, the Affirmative Global Bond Fund Impact Report will continue to be both progressive and pioneering in the depth and quality of reporting.

# Affirmative Global Bond Fund Impact Highlights

## Affirmative Global Bond Fund Snapshot



**52**

Impact bond frameworks



**1,048**

Projects/initiatives partially or fully supported by impact bonds held in the Fund



**130**

Countries receiving impact bond commitments and disbursements<sup>1</sup>

## SUSTAINABLE DEVELOPMENT GOALS



**17/17**

Sustainable Development Goals supported

**6**

Environmental sectors supported

**5**

Social sectors supported



**80bps**

Portfolio absolute annualised performance as of end-2018<sup>2</sup>



**Over 90%**

Of the portfolio by average 2018 weights is covered in this report



**\$A25m**

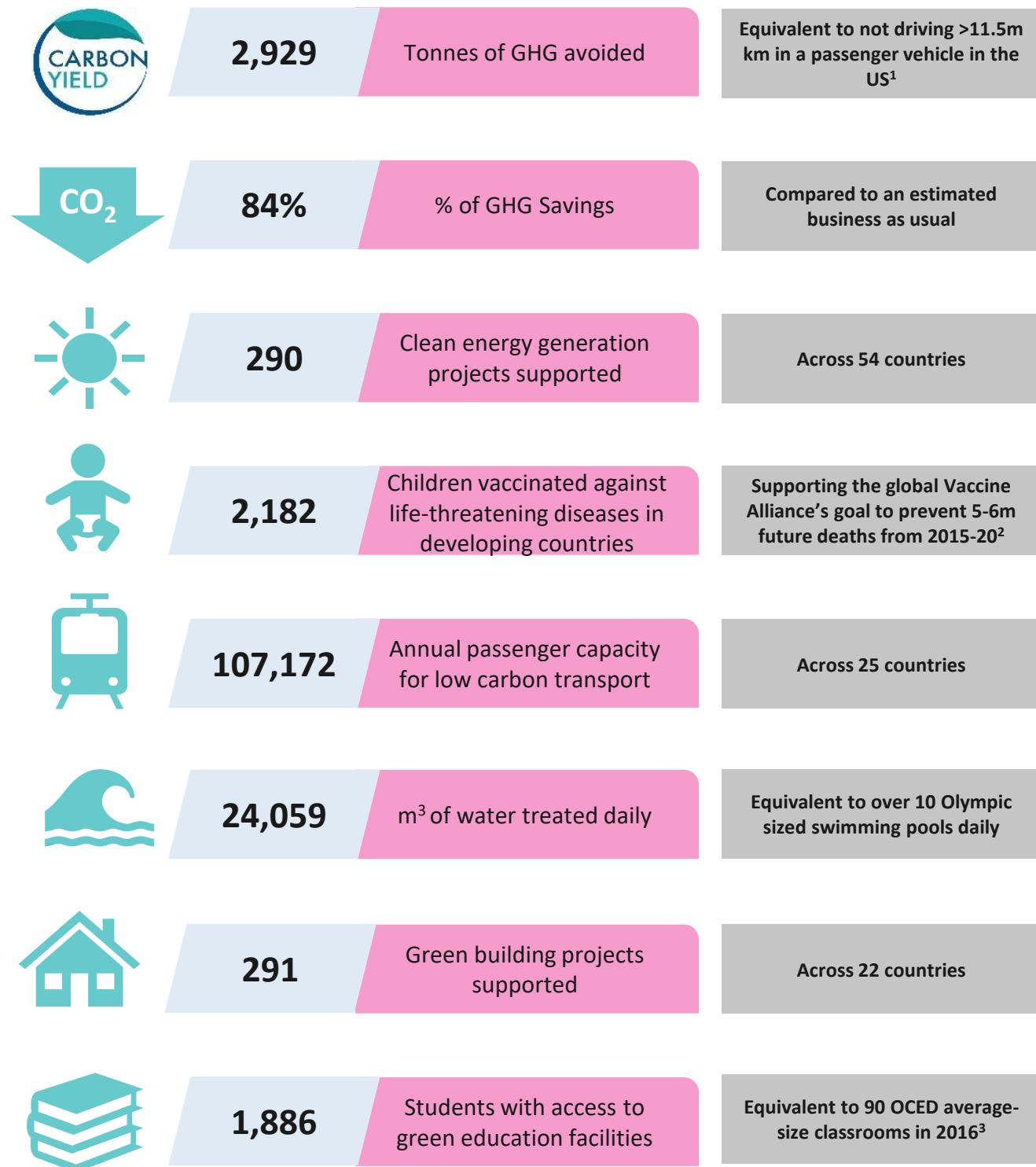
Funds under management as of end-December 2018

<sup>1</sup> Impact bond issuers may report on bond proceeds commitments and/or disbursements. A project may receive a total commitment from an impact bond in 2018 which was/is disbursed over multiple time periods.

<sup>2</sup> CFS Affirmative Global Bond Fund (Net)

# Affirmative Global Bond Fund Impact Highlights

In 2018, the Affirmative Global Bond Fund invested in 52 impact bond frameworks, including four unlabelled pure play impact bonds. AIM surveyed the issuers, collected data and conservatively estimated the impact highlights from the impact bond funded activities below, adjusted for 2018 Affirmative Global Bond Fund holdings. These figures only begin to tell the story around the Fund's impact, as issuers were not always able to provide complete data on all their funded assets.



<sup>1</sup> United States Environmental Protection Agency, 2018 (passenger vehicles are defined as 2-axle, 4-tire vehicles, including passenger cars, vans, pickup trucks and sport utility vehicles), converted from miles to kilometres.

<sup>2</sup> 2017 Annual Progress Report, The Vaccine Alliance (Gavi)

<sup>3</sup> OECD.Stat, Average Class Size, 2019

# Supporting the UN Sustainable Development Goals

The Affirmative Global Bond Fund supported 17 out of 17 Sustainable Development Goals which aim to eradicate poverty, fight inequality and tackle climate change.

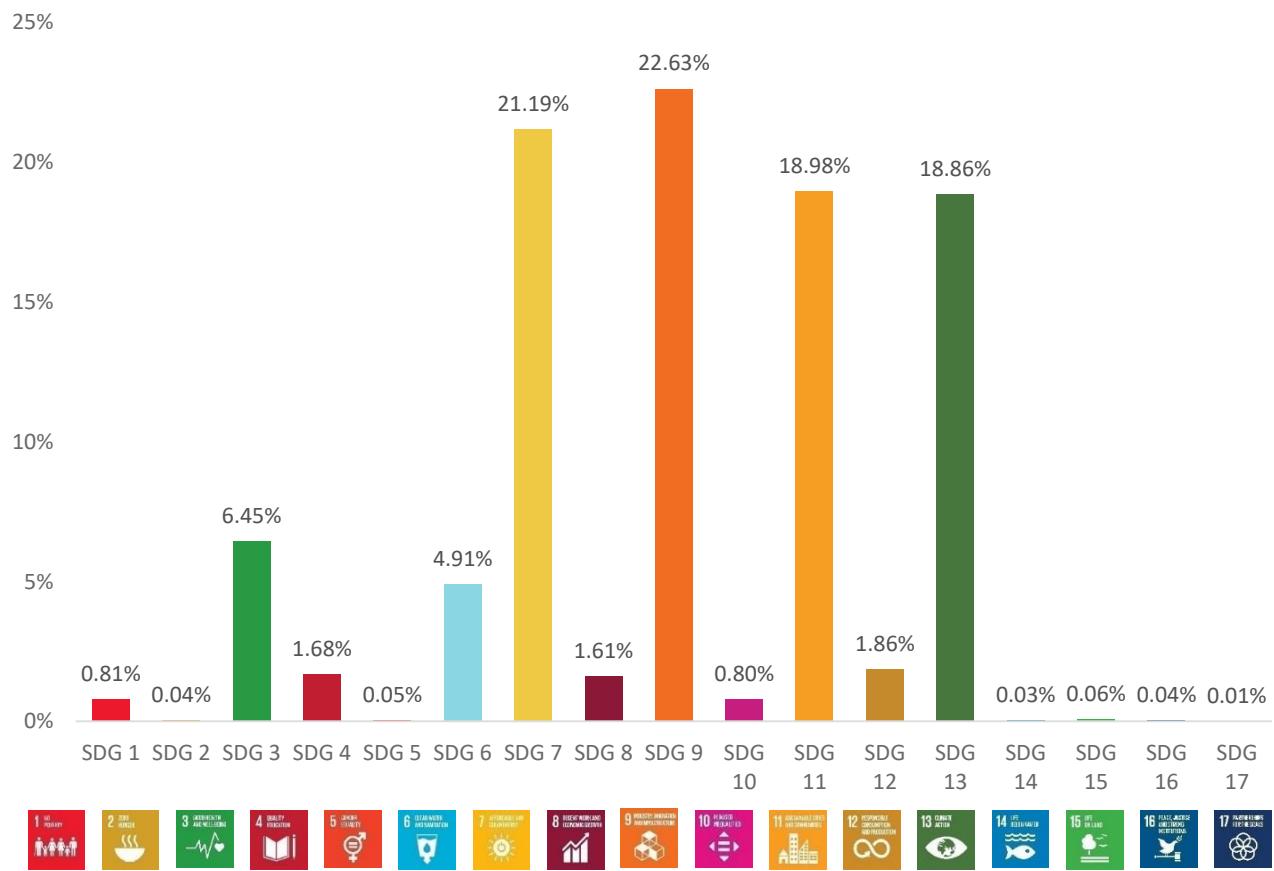


The portfolio-weighted impact bond commitments were most aligned with Goal 9: Industry, Innovation and Infrastructure; Goal 7: Affordable and Clean Energy; Goal 13: Climate Action; and Goal 11: Sustainable Cities and Communities. AIM is conservative in SDG mapping and we only map projects by their underlying SDG targets. The heaviest concentrations fall, unsurprisingly, within clean energy and sustainable infrastructure but, as many projects often have multiple benefits, the portfolio supports all 17 Sustainable Development Goals.

Projects often support more than one goal—for example, a renewable energy project such as the ADB's Access to Clean Energy Programme (page 25) not only installs hydro and solar technologies, but also includes a social mission to expand access to energy in off-grid areas, targeting facilities supporting women and girls (SDG 5), such as maternal/antenatal primary care and girls' schools (SDG 3 and 4). The SDG-aligned case studies (pages 23-28) provide more examples of how projects often support more than one SDG, and illustrate some of the types of projects funded.

Although not included in the chart below, which accounts only for impact bond funded activities, the CFS and AIM partnership is aligned to Goal 17, which includes private sector engagement in sustainable development, particularly in developing countries.

Affirmative Global Bond Fund 2018 SDG alignment  
(portfolio-weighted, USD equivalent)



# 2018 Sector Distribution

Affirmative Global Bond Fund invests in a range of environmental and social sectors that support the Paris Agreement, climate resilience and the SDGs. (See Annex 1 for examples of AIM-eligible sectors.)

In 2018, the top three sectors that impact bond proceeds in the Affirmative Global Bond Fund were allocated to were environmentally focussed:

**30%**  
ENERGY

Renewable energy generation,  
modern energy access, energy storage  
and energy efficiency technologies

**290** renewable energy projects  
supported across 54 countries

**28%**  
CLEAN  
TRANSPORT

Low carbon and mass transport: urban  
rail rolling stock and networks, electric  
and hybrid vehicles, urban  
transport planning

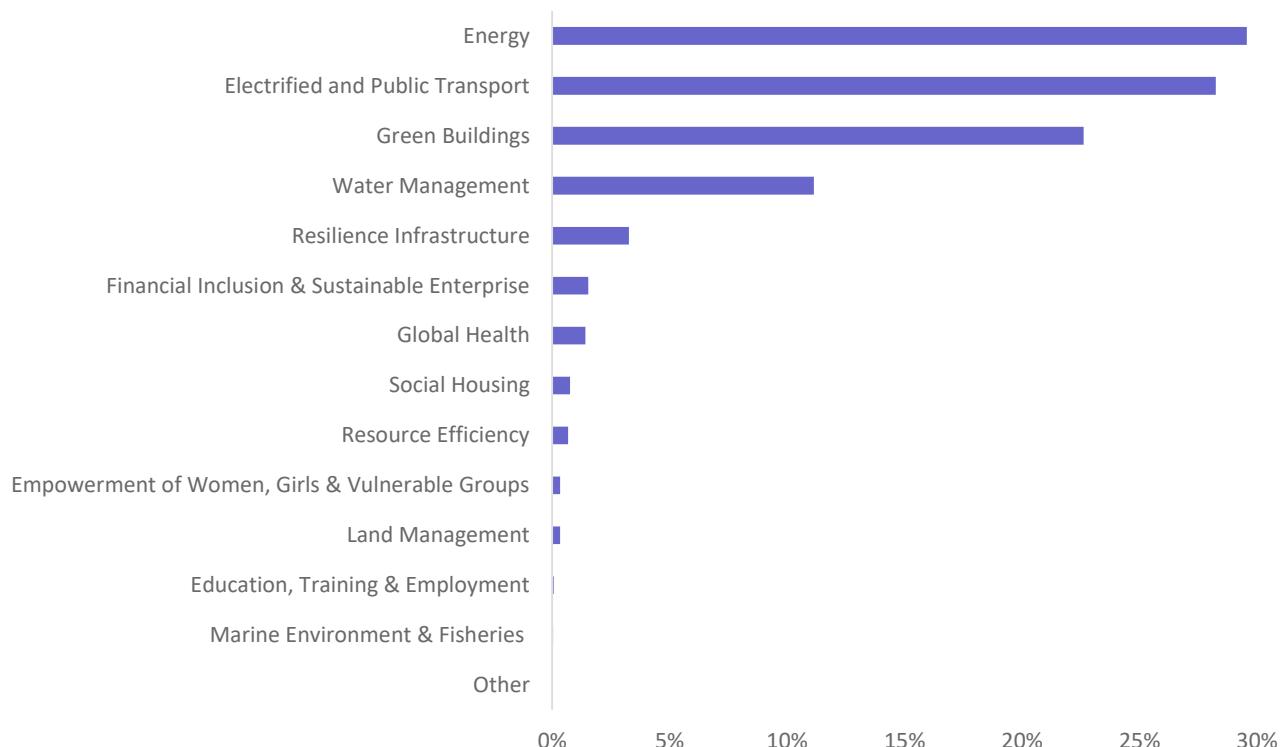
Over **100,000**  
passenger capacity in low carbon  
transport supported annually across  
25 countries

**23%**  
GREEN  
BUILDINGS

Buildings constructed or retrofitted to  
higher efficiency standards in energy  
demand and consumption and/or other  
resource efficiencies

**291** green building projects  
supported across 22 countries

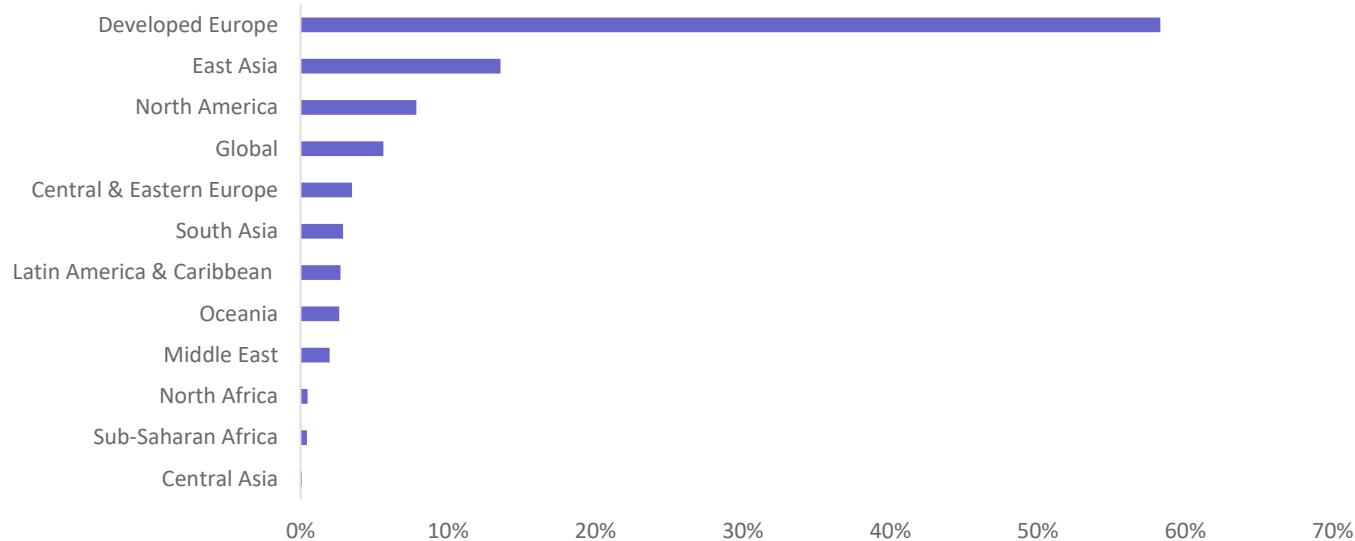
Affirmative Global Bond Fund 2018 Sector Distribution  
(portfolio-weighted, USD equivalent)



# 2018 Geographic Distribution

Affirmative Global Bond Fund invested in impact bonds supporting activities in **130 countries**

Affirmative Global Bond Fund 2018 Geographic Distribution  
(portfolio-weighted, USD equivalent)

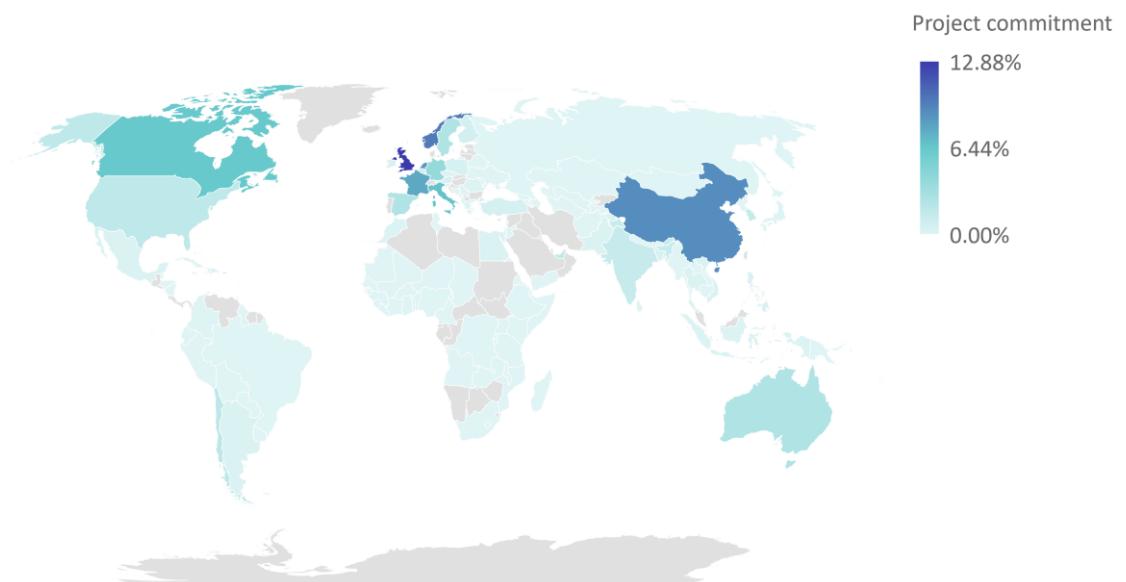


Over 65% of portfolio-weighted impact bond commitments were made within developed markets.

58% of 2018 portfolio-weighted supported projects were in developed Europe, followed by over 14% in East Asia and 8% in North America.

The top three countries, however, by portfolio-weighted use of proceeds were United Kingdom, Norway and China.

Affirmative Global Bond Fund 2018 Map of Project Commitments  
(portfolio-weighted, USD equivalent)



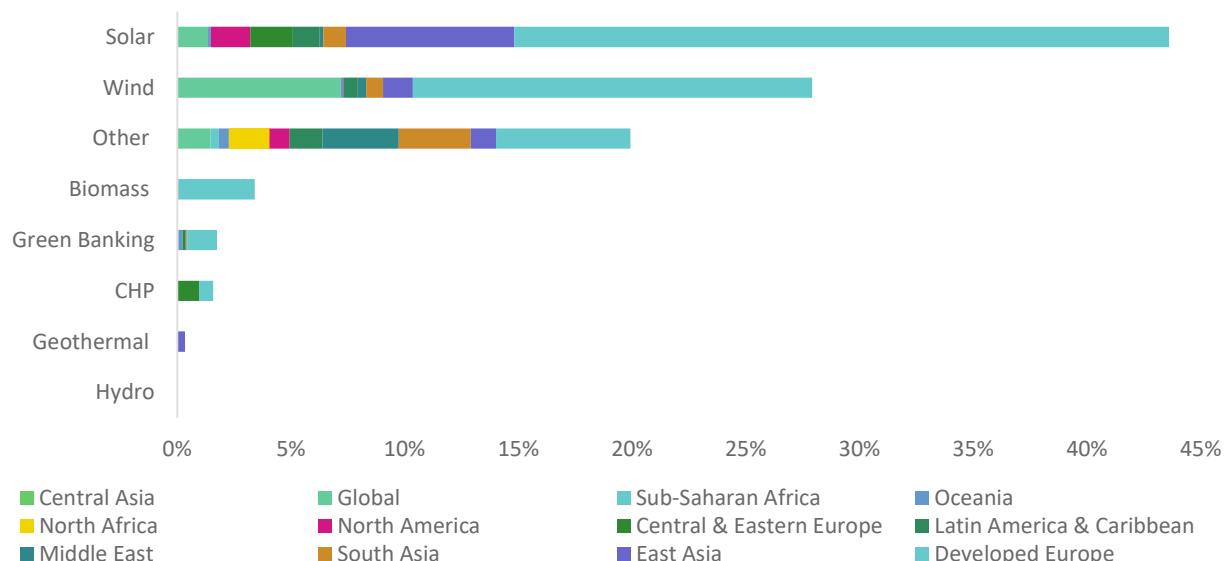
# Affirmative Global Bond Fund Investing in Energy

In order to address the major objectives of the IEA's Sustainable Development Scenario—which supports the Paris Agreement—of clean air and increased access to modern electricity for areas with energy poverty, renewables need to rise from 25% today to 66% of electricity generation by 2040.<sup>1</sup>

Energy is the most significant sector supported by the Affirmative Global Bond Fund portfolio, accounting for 30% of investment, with renewable power generation the main 2018 beneficiary within the energy sector, at ~26% overall.

The most significant portfolio-adjusted investments in energy went towards wind, solar and mixed renewable energy generation in developed Europe. The European Union, as a bloc, is the third largest global emitter of GHGs, according to the World Resources Institute.<sup>2</sup> The EU has ambitious targets to reduce emissions collectively by 40% versus 1990<sup>3</sup>, with 32% of total energy consumption to come from renewable sources.<sup>4</sup> The European Parliament is discussing increasing the EU's 2030 reduction goal to 55%, which brings it closer, but still falls short of the level required for a 2-degree global warming pathway, according to Climate Action Tracker estimations.<sup>5</sup> It is evident that much more action and investment are required to decarbonise the system and improve energy efficiency.

Affirmative Global Bond Fund Energy Generation Breakdown by Geography  
(portfolio-weighted, USD equivalent)



As global renewable energy capacity continues to grow, solar PV is now cost competitive against new coal in many countries, particularly those with utility-scale facilities. However, with the growth of the wind and solar sectors comes the need to update energy transmission networks to enable connection and also to build in large-scale flexibility through enhanced energy storage. Conventional gas-fired peaking plants remain the primary solution to managing fluctuations in supply and demand. Improvements to battery storage systems are required if renewable energy potential is to be maximised. Investment in energy infrastructure is, therefore, becoming increasingly important with the expansion of our clean energy generation capability.

While projects supported by the Affirmative Global Bond Fund portfolio in the energy sector were predominantly generation projects, the Fund also supported energy infrastructure, such as upgrades to transmission networks. For example, the Lietuvos Energija green bond funded the renewal and optimisation of electricity distribution networks across five regions in Lithuania. The International Bank of Reconstruction and Development (IBRD) green bond funded a rural electrification project in Peru aiming to extend the conventional grid to rural communities, supplemented by installing solar photovoltaic systems.

<sup>1</sup> World Energy Outlook, IEA, 2018

<sup>2</sup> CAIT Climate Data Explorer, World Resources Institute

<sup>3</sup> Nationally Determined Contribution, European Union

<sup>4</sup> Renewable Energy Directive, European Union

<sup>5</sup> Climate Action Tracker

# 2018 Portfolio Greenhouse Gas Emissions Results

**77%**

GHG

coverage of  
portfolio

**84%**

Estimated  
portfolio  
GHG savings

The table below estimates the Affirmative Global Bond Fund's GHG impact over the expected lifetime of the investments and per annum.

On average, we were able to estimate GHG figures for 77% of the 2018 portfolio, covering about 78% of issuer disbursements per analysed framework (compared to our coverage of approximately 90% on total issuer disbursements).

Issuer frameworks were not included in the GHG analysis if they did not significantly fund climate mitigation assets (eg focussed on social benefits, such as vaccination programmes), or if issuers had not reported in time for AIM's annual impact data collection. Please see Annex 2 for our GHG analysis methodologies. Definitions of different GHG scopes can be found on page 21.

## AFFIRMATIVE GLOBAL BOND FUND INDEPENDENT GHG EMISSIONS FOOTPRINT ASSESSMENT<sup>1</sup> (portfolio-weighted, tonnes of CO<sub>2</sub>e)

Issuer operations emissions scope 1 & 2	893
Funded projects scope 1 & 2 (operational emissions)	542
Funded projects scope 1, 2 & 3 <sup>2</sup> (operational, construction and material use emissions)	1,005

## AFFIRMATIVE GLOBAL BOND FUND INDEPENDENT GHG EMISSIONS AVOIDED ASSESSMENT<sup>1</sup> (portfolio-weighted, tonnes of CO<sub>2</sub>e )

Funded projects lifetime GHG emissions avoided	149,369
Funded projects GHG emissions avoided per annum	2,929

## AFFIRMATIVE GLOBAL BOND FUND PORTFOLIO CARBON YIELD® (portfolio-weighted)



0.15 tonnes of CO<sub>2</sub>e avoided per US\$1,000 per annum

Or equivalent to 11 tonnes of CO<sub>2</sub>e avoided per \$A100,000 per annum<sup>3</sup>

Equivalent to 590 km driven by an average passenger vehicle in the US in 2016<sup>4</sup>

<sup>1</sup> The portfolio greenhouse gas emissions data was calculated with the assistance of ISS ESG. The Carbon Yield® was co-developed by AIM, ISS ESG and Lions Head Global Partners, with funding from Rockefeller Foundation. Information about the methodologies is found in Annex 2.

<sup>2</sup> Please refer to page 21 and page 35-38 for GHG emissions scope definitions and methodology.

<sup>3</sup> Based on Bloomberg average 2018 AUDUSD exchange rate.

<sup>4</sup> EPA, Greenhouse gas equivalences calculator. Converted from miles to kilometres.

Source: Annex 3, ISS ESG

SECTOR	PROJECT	LOCATION	AIM SUMMARY
GLOBAL HEALTH 	<p><b>The International Finance Facility for Immunisation (IFFIm) Vaccine Bond Preventing Cancer Through Vaccinations</b></p> <p>IFFIm raises capital for the Vaccine Alliance (Gavi) based on long-term government donor pledges to accelerate the delivery of immunisation in developing countries. By aggregating demand, IFFIm helps Gavi reduce vaccine prices and, by increasing long-term funding predictability, enables large-scale deployment of vaccines in some of the world's poorest countries. Gavi deploys two cancer vaccines, the HPV vaccine which protects against cervical cancer, and the hepatitis B vaccine which prevents liver cancer—the second most lethal type of cancer among men, after lung cancer. The WHO estimates that vaccination against hepatitis B and HPV can prevent over 1 million cancer cases every year.</p>	<p><b>47 Low Income Countries</b></p> <ul style="list-style-type: none"> <li>47 countries eligible to apply for Gavi support in 2018 based on a gross national income per capita below or equal to average of US\$1,580 over the past three years.</li> <li>73 country campaigns for the Pentavalent vaccine launched between 2010 and 2017.</li> <li>30 campaigns for the HPV vaccine launched between 2012 and 2017.</li> </ul>	<p>Cancer screening and treatment is very limited in Gavi-eligible countries—some of the world's poorest, with weak health infrastructure. According to the WHO, healthcare costs push as many as 100 million people below the poverty line every year, with 150 million others facing catastrophic healthcare costs. Affordable, routine immunisation can safeguard families across the developing world, helping them to stay healthy and improving their resilience against poverty.</p>
CONTEXT	OUTPUT (ISSUER KPIs)	RELATED SDGs	
<p>The World Health Organisation (WHO) estimates that vaccinations save 1.5 million lives a year.<sup>1</sup> Vaccination also has indirect benefits, such as improving a child's physical strength and educational attainment. The Vaccine Alliance (Gavi) estimates that it takes, on average, more than 15 years for vaccines introduced in advanced economies to reach low income countries.</p> <p>Every year, almost 9 million people die of cancer worldwide. By 2030, this figure is expected to increase to 13 million. As with infectious diseases, this trend will hit developing countries the hardest: close to 70% of all cancer deaths are in the low- and middle-income countries.<sup>2</sup></p> <p>In 2017, 817 million people worldwide were considered undernourished, representing 11% of the global population.<sup>3</sup></p>	<p><b>As reported by Gavi (2010- 2017)</b></p> <ul style="list-style-type: none"> <li>&gt;400 million children immunised against hepatitis B as part of the 5-in-1 Pentavalent vaccine.</li> <li>HPV vaccine can prevent up to 90% of cancer cases.</li> <li>1.5 million girls (aged 9-14) immunised against HPV.</li> </ul>	  	
PROJECT	LOCATION	AIM SUMMARY	RELATED SDGs
	<p><b>Danone Social Bond Research and Innovation for Advanced Medical Nutrition</b></p> <p>The project finances research and development (R&amp;D) in Early Life Nutrition and Advanced Medical Nutrition at the Nutricia Research centre at Utrecht in the Netherlands. Focussing on the development of evidence-based, specialised nutrition for infants, pregnant women and the elderly, the centre develops dietary solutions for patients around the world suffering from disease-related malnutrition, those unable to metabolise essential nutrients and those who cannot swallow or eat. In 2018, the Danone Social Bond proceeds were dedicated to research on paediatric neuro-disabilities, and adult malnutrition and oncology.</p>	<p><b>Global</b></p> <ul style="list-style-type: none"> <li>Danone operates in over 130 countries across 5 continents, with over 60% of revenues generated outside of Europe.</li> <li>Danone is the largest advanced medical nutrition company in Europe.</li> <li>The R&amp;D centre in Utrecht has more than 600 employees and is situated in the Netherlands' largest science park.</li> </ul>	<p>Danone has an extensive business in advanced medical nutrition, which accounted for approximately 29% of its 2018 sales, and this international corporation has a global footprint that covers many major emerging markets, including Indonesia and Mexico.</p> <p>Nutricia Advanced Medical Nutrition is a leader in Europe in the development of nutritional solutions for serious medical conditions.</p> <p>While R&amp;D can, by nature, be an uncertain endeavour, it is critical for scientific advancement.</p>
CONTEXT	OUTPUT (ISSUER KPIs)	RELATED SDGs	
	<ul style="list-style-type: none"> <li>Estimated 1,833,000 beneficiaries, pro-rated for social bond investment in advanced nutrition (paediatric and adult).</li> </ul>		

<sup>1</sup> Immunization Coverage, WHO, 2018

<sup>2</sup> Fact Sheet: Cancer, WHO, 2018

<sup>3</sup> The State of Food Security and Nutrition in the World, FAO, 2018

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