

Menhaden



Menhaden Capital PLC
Reporting Impact 2015

Foreword

The future is not what it used to be.

In the five month period covered by this Impact Report significant global environmental milestones have been achieved, including the historic Paris Agreement, which cements the long-term trajectory of climate regulation, and 2015 being the year in which, for the first time, more capital was invested in renewable energy around the world than in oil, coal and gas projects combined¹. The evidence is mounting that sustainability and growth go hand in hand.

The world is undergoing a rapid and large-scale transition to the much more efficient use of energy and other resources, across sectors. Some of the world's longest established, greatest companies now derive a significant and growing proportion of their revenues from the technology and services that deliver these efficiency gains, and these markets consistently seem to grow faster than the consensus expectation. Moreover, the accelerating adoption of renewable energy globally could hardly be more exciting. National renewable energy plans almost everywhere are increasingly ambitious, and governments are creating the regulatory and fiscal environment to ensure that they are achieved.

Furthermore, as the cost of equipment tumbles, especially of solar photovoltaic panels, there is a fast-growing list of situations and places in which renewables are the cheapest option for power generation. Menhaden Capital PLC is building a portfolio of investments in businesses across sectors that are changing the world. By taking a long term, patient approach to investing, Menhaden is uniquely well positioned to benefit from the great transition to an energy and resource efficient, low-carbon economy.

Measuring impact

We see significant value in measuring our sustainability impacts alongside our financial performance. The Company has invested in companies building wind and solar projects, making smart grids a reality and finding new ways to manage waste and water. The average carbon footprint of the public portfolio is less than a third of a comparable global index.

These are early days for Menhaden and this is the first report on impact since launch in July 2015. We hope it gives a useful insight into how we have initially assessed some of the positive impacts of the portfolio. The world faces enormous challenges to tackle climate change and manage natural resources as the world's population grows. Meeting these challenges represents perhaps the greatest investment opportunity the world has seen.

Ben Goldsmith
Menhaden Team



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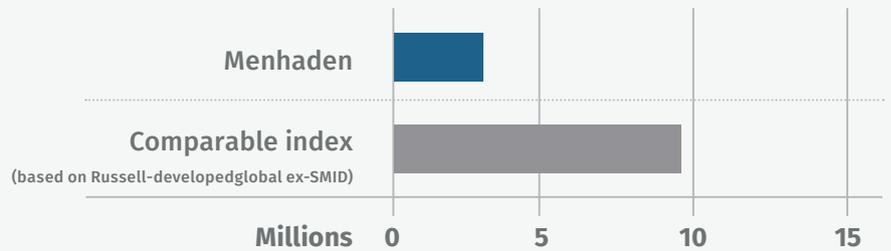
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Summary

“Last year’s climate agreement in Paris has put the spotlight on the need for sustainable investment. Menhaden’s portfolio - from insulation to infrastructure, wind to water, electric cars to emissions control - offers an inspiring glimpse into what the low carbon economy of tomorrow may look like, and it’s exciting to be a part of that.”

Chris Hohn, Managing Director, TCI Fund Management Limited

Average carbon footprint (t CO₂ eq)



An independent assessment of Menhaden’s public equity investments found its carbon footprint was **less than a third** of a comparable index based on a Russell-developed set of global small- and mid-cap (SMID) companies.

The vast majority of Menhaden’s public equity investments (78.9%) fell into the top Grades ‘A’ and ‘B’ for their carbon footprint according to research agency Vigeo Eiris.

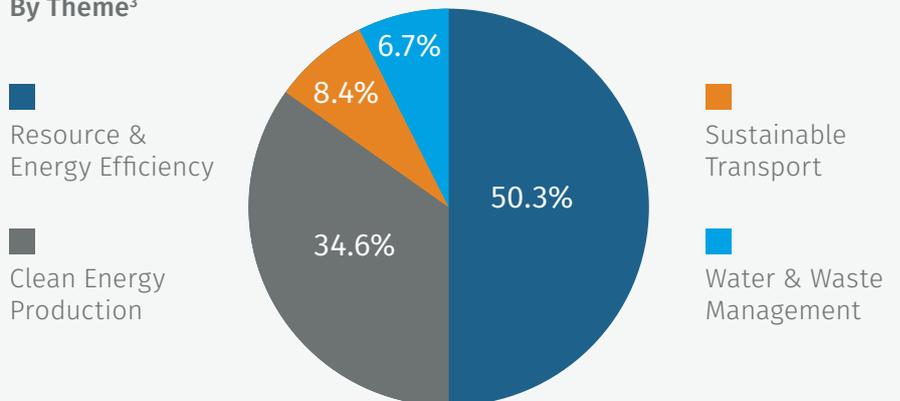
Total funds raised at launch²

£80m

Top 10 Holdings³

- X-ELIO (formerly Gestamp Solar)
- Alpina PE fund
- Osmosis MoRE World Resources Efficiency
- Terraform Power
- Roper Technologies
- SunEdison
- Acuity Brands
- Canadian Solar
- Ecolab
- AO Smith

By Theme³



Examples

Approx £10m invested in high-growth, low-carbon companies via private equity investments.

Solar operator X-ELIO aims to build 2.5GW of installed capacity by 2020 - power exceeding the capacity of the Hoover Dam.

Japanese bike makers Shimano produce bicycles with full life-cycle emissions of just 12g of CO₂/km travelled.

The water footprint of the Osmosis MoRE World Resources Efficiency Fund is less than a quarter of the MSCI World Index. The waste footprint is less than half.

Footnote

² 31 July 2015

³ 31 Dec 2015

Sources in Appendix

About us

“A fund such as Menhaden can bridge the gap between a wish to invest in projects with a positive impact on the environment and a concern about the “specific risk” of loss from making direct individual investments. While patience is likely to be required, notable reassurance is offered by the combination of a diversified, professionally managed portfolio and the dispassionate scrutiny of, as here, a strong and independent board of directors”

John Newlands, Head of Investment Companies Research, Brewin Dolphin Limited

Objective and strategy

Menhaden Capital PLC (“the Company” or “Menhaden”) aims to generate long-term shareholder returns, predominantly in the form of capital growth, by investing in businesses and opportunities that deliver or benefit from the efficient use of energy and resources.

The implementation of the Company’s investment objective has been delegated to Frostrow Capital LLP (“Frostrow” or the “AIFM”) by the Board. Ben Goldsmith, Alexander Vavalidis and Graham Thomas (together, the “Menhaden Team”), who have been seconded to Frostrow, carry out the portfolio management activities under the Board and Frostrow’s supervision.

The Menhaden Team’s aim is to create a geographically diverse, multi-asset portfolio investing either directly, through external funds or by co-investing with leaders in their respective fields, in a portfolio that is comprised of three main allocations:

- i) listed equity;
- ii) yield assets; and
- iii) private investments.

The Menhaden Team’s investment philosophy is that of an ‘impact investor’, that is to say that they will invest the Company’s capital in companies, projects and assets that intend to generate social and environmental impact alongside financial returns.

Menhaden’s structure

Menhaden has a transparent corporate governance structure with a Board of Directors, all of whom are non-executive, supervising the management of the company and looking after the interests of shareholders. Menhaden has appointed Frostrow as its Alternative Investment Fund Manager (AIFM) and the portfolio management services for which the AIFM has overall responsibility are carried out by the Investment Committee. The Menhaden Team comprise the Investment Committee and it is chaired by Graham Thomas.

The Board considers that all Directors are independent and there are no relationships or circumstances which are likely to affect or could appear to affect their judgement. Full details of the governance structure, including our Board of Directors and committees can be found in the governance section of our Annual Report.

About this report

This is Menhaden’s first Impact Report since the Company’s launch in July 2015. It aims to offer an insight into the Company’s environmental and social purpose, as well as providing a useful record of some of the positive impacts the underlying companies in the portfolio have helped bring about during the reporting period: 31 July – 31 December 2015. The report is also part of our commitment to membership of the Social Stock Exchange.

Impact reporting itself is still a nascent practice and we acknowledge that some of the methods and data that we express here tell only a partial picture of the companies in the portfolio.

This report is intended for all of Menhaden’s stakeholders, including shareholders, companies and projects, managers and suppliers. It will also be made available to the wider community of the investment industry, ethical and responsible investment media and the environmental sector and its supporters.

The Board welcomes feedback from all readers of this report.

Our approach to impact

"I believe that encouraging a longer-term approach to investment is good for society, good for the environment and good for investors. By using a fundamental, research-oriented approach to finding the technologies, products and services solving some of the world's most pressing challenges, Menhaden offers the opportunity for real long-term value creation."

Sir Ian Cheshire, Chairman

From positive allocation to progress on monitoring

All the companies, projects and other entities that Menhaden invests in will to some extent deliver sustainability benefits or help reduce environmental and/or social damage. This may be through either their core operations or through the products and services they provide – or both.

The heart of the Menhaden Team's approach is to look at the investee companies across four themes of investment:

Theme

Brief description

Clean energy

Positive impacts from entities producing power from clean sources such as solar or wind.

Resource and energy efficiency

Positive impacts from entities focused on improving energy efficiency (e.g. in buildings or manufacturing processes) or creating emissions reduction products or services.

Sustainable transport

Positive impacts by investing in transport sector-related companies helping to reduce harmful air emissions/km travelled.

Water & waste management

Positive impacts by investing in entities whose products or services enable reductions in usage/volumes and/or smarter ways to manage water and waste.

The Menhaden Team's approach is to invest in companies whose overall impact on the environment is positive.

However a number of the companies in which Menhaden invests may derive some revenue from products or services that do not have positive impacts. For example, China Longyuan Power owns both the world's largest portfolio of wind farms but also some coal fired power stations. The Menhaden Team's investment decision in this case is based on a judgement that the overall balance of their impact is positive and that the company's direction of travel – away from coal

and towards renewables - is in the right direction.

Social and governance impacts

The Menhaden Team's four core impact themes are largely related to environmental benefits, however they also fully intend to have a positive influence on social and governance issues such as protection of human and labour rights or fostering transparent corporate governance.

They do this by integrating all financially material ESG (environmental, social and governance) issues into their

investment decision-making process. For example, by giving due regard to global best practices such as the UN Global Compact which asks companies to adopt ten principles on areas such as human rights, collective bargaining and anti-corruption.

In addition, by having on-going engagement and dialogue with investee companies, including through proxy voting, they see their role as responsible stewards. The AIFM issues a statement of compliance with the Financial Reporting Council UK Stewardship Code and makes their proxy voting policy available online at www.frostrow.com.



With a little help from our friends

Menhaden itself does not have any employees or premises, nor does it undertake any manufacturing or other operations. All its functions are outsourced to third party service providers and therefore the Company does not have any employees or direct human rights issues, nor does it have any direct environmental impact.

A significant portion of the portfolio's impact is measured by specialist external managers. These external managers, WHEB Asset Management, Osmosis and Alpina Partners, provide deep expertise and undertake impact measurement on the entities in which they invest. Each manager tends to deploy different metrics to assess the positive impacts of investee companies. For example, WHEB Asset Management assesses the impact of each stock on a theme-by-theme basis, while Osmosis focus on resource efficiency and monitor corporate usage of energy, water and waste per unit of revenue. Alpina Partners uses the CLEAN™ framework for reporting fund contributions to areas such as carbon reductions, landfill avoidance, reduced air emissions and conservation of natural resources.

As ESG challenges such as climate change or corruption are too big for any one investor to tackle alone the Menhaden Team encourages the external managers to collaborate with other investors and be actively involved in organisations at the leading edge of sustainable and responsible investment. For example the external managers are signatories to the UN-supported Principles for Responsible Investment, WHEB are members of the Institutional Investors Group on Climate Change, Osmosis support the International Integrated Reporting Council and Alpina Partners are members of the UK Sustainable Investment and Finance Association.



The Menhaden Team asks all the external managers to report on a quarterly basis



“Menhaden’s conviction driven portfolio offers investors access to a diverse range of green projects and companies. The many sustainability challenges facing the world mean that there are increasing opportunities to make good returns from backing businesses like these over the longer term and we will remain committed to this area in the years to come.”

John David, Rathbone Greenbank Investments

Menhaden portfolio's impacts around the world

Menhaden takes a diversified multi-regional approach to investing, so the positive environmental and social impacts of the portfolio companies are felt on all continents. A snapshot of these is shown on this map:

1. UK

Kingspan, listed on London's largest stock exchange, supplies insulating boards which increase the energy efficiency of buildings by 30%. The company is working to have all facilities running on entirely renewable power by 2020.

2. Ireland

Mcor (private) is an innovative firm making the world's most affordable, safe and eco-friendly 3D printers using a system with fewer chemicals, airborne emissions and waste than conventional techniques.

3. Turkey

NASDAQ-listed **Canadian Solar** is bringing cheap, solar energy to emerging markets such as Turkey. The company has installed 10 GW of premium quality modules in over 70 countries and employs over 8,500 workers.

4. Spain

Spanish solar giant **X-ELIO** (private) is a world leader in solar infrastructure, generating over 650,000 GJ of renewable energy and reducing CO₂ emissions by over 68,000 tonnes in its last reporting year.

5. US

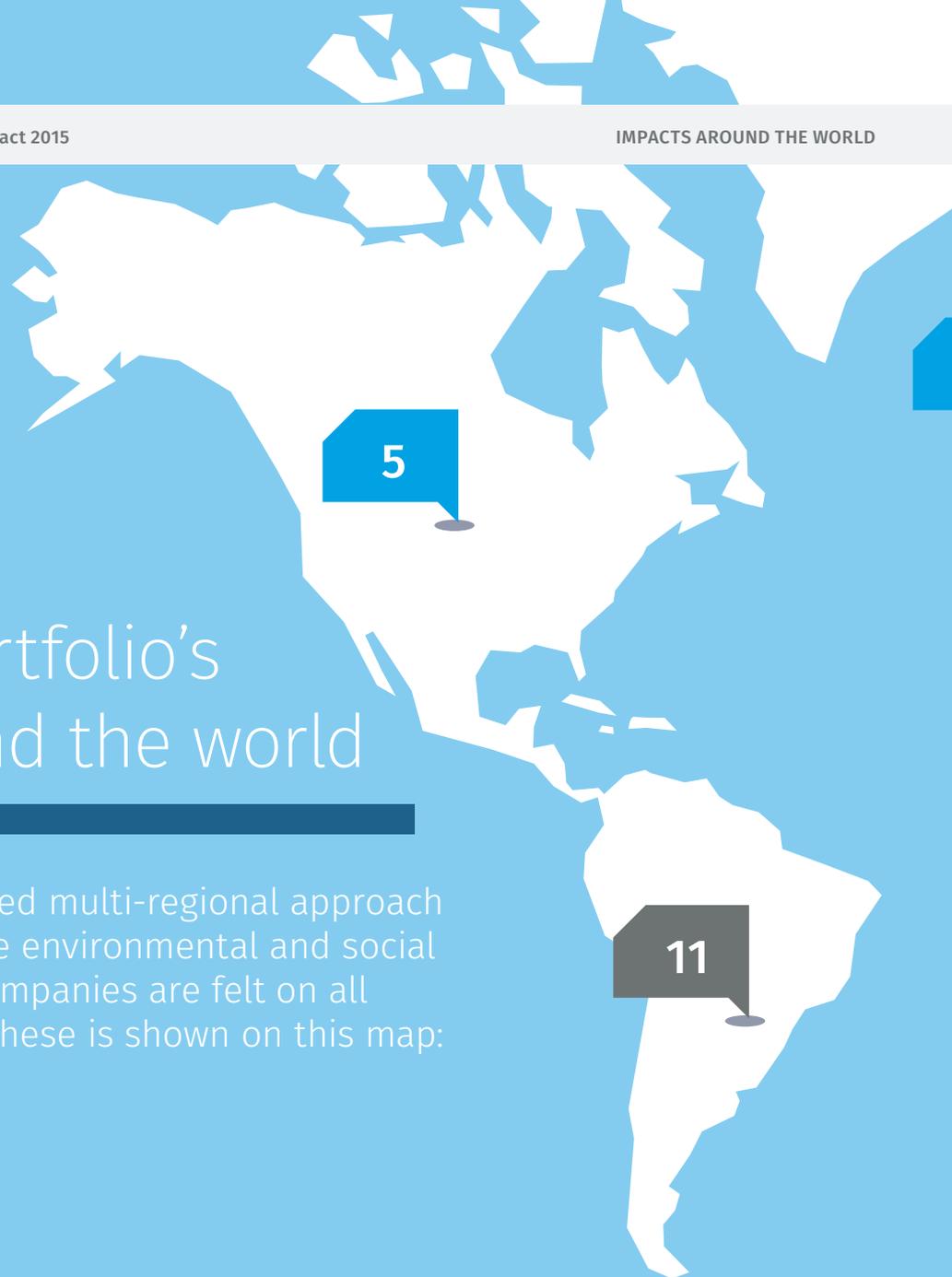
NASDAQ-listed **Stericycle** recycled 6.5 million pounds of consumer electronics, diverted 18 million containers from landfill and safely disposed of over 30 million pounds of pharmaceutical waste in 2014.

6. Switzerland

NYSE-listed **Ecolab** is a global leader in water, hygiene and energy technologies that helps its customers save more than 115 billion gallons of water in a year.

7. Japan

Bike maker **Shimano** (listed in Tokyo) recently completed the construction of an innovative eco-friendly factory which cuts emissions by 23 tonnes of CO₂ per year.





8. China

China Longyuan Power (listed in Hong Kong) is the owner of the world’s largest portfolio of wind farms. In its last year of reporting it produced wind power equivalent to leaving over 7 million tons of standard coal in the ground.

9. India

Johnson Matthey (listed on the London Stock Exchange) is helping power the electric car of the future. The company also runs graduate programmes in India to create employment opportunities and foster skills development.

10. South Korea

Via Optronics (private) use optical bonding technology to provide thinner displays that consume less power – and they were recently recognized as an ‘Excellent Supplier’ by S.Korean electronics giant Samsung.

11. South America

Clean energy giant **Brookfield Renewables** (listed in Toronto) provides hydroelectric and wind facilities across South America.

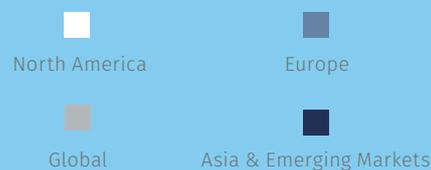
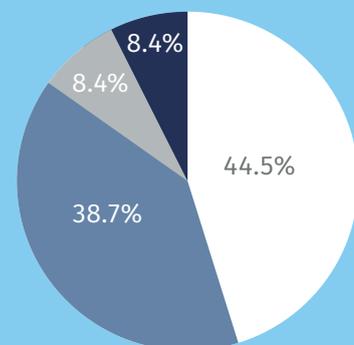
12. Australia

Canadian Solar is installing over 12,000 photovoltaic cells on the roofs of seven IKEA stores in Australia – creating CO₂ reductions equivalent to taking nearly 1,000 cars off the road.

13. South Africa

Terraform Global (NASDAQ-listed) is involved in six solar and wind projects in South Africa bringing a total capacity of over 90MW to the country.

Assets by geography



Listed equity

“As the world turns towards a low carbon future, Menhaden is investing in both the smaller-scale change makers providing innovation and ideas; and best-in-class multinationals who can deploy resource efficiency improvements on a global scale.”

Alex Vavalidis, Investment Manager

Around 55% of Menhaden’s portfolio is allocated to listed equity. A significant part of this is managed in collaboration with sector-leading managers WHEB Asset Management and Osmosis Investment Management, overseen by the Menhaden Team.

Solving sustainability challenges

On launch in 2015, the Menhaden Team allocated approximately 38% of the portfolio to a segregated account managed by WHEB Asset Management. The core strategy of this account is to generate risk-adjusted returns through companies providing solutions to the world’s sustainability challenges.

At a ceremony dubbed the ‘green oscars’, WHEB’s fund recently received the prestigious Sustainable Finance Award from the City of London Corporation.

WHEB analyse the impact of an investment’s sustainability policies and performance, and their products and services. For example the investment in Canadian Solar is co-managed with WHEB who classify it as a ‘Breakthrough’ environmental company and found that its emission rates are more than 95% lower than a typical combined cycle gas turbine power station.

“The smart money is going green. Innovation is dramatically lowering the price of renewables, and policymakers are finally stepping up on climate change. Menhaden - at the heart of this megatrend - is well placed to pick winners from amongst a huge and fast-moving set of opportunities.”

Deborah Meaden, Entrepreneur, investor and star of BBC’s Dragon’s Den

Investments that tread lightly on the world's water, carbon and waste requirements

8% of the portfolio is invested in the Osmosis MoRE World Resource Efficiency Fund (the "Osmosis Fund"). Osmosis Investment Management has developed a database of corporate disclosures on energy, water and waste use per unit of revenue and thus are able to provide Menhaden with a measure of the 'footprint' in each of these areas compared to the MSCI World Index.

Osmosis bring these three environmental factors together to create a resource efficiency factor. The resource efficiency of the companies in the Osmosis Fund is three times better than those in the MSCI World as a whole.

For the reporting period of this report the footprint of the portfolio invested in the Osmosis Fund in each reported area showed:

- A carbon footprint less than **33%** of the MSCI World
- A water footprint less than **25%** of the MSCI World
- A waste footprint over **50%** smaller than the MSCI World

[Case study: Nibe industrier](#)

Pumping up energy efficiency, and returns

As an innovative manufacturer of energy efficient heat pumps, Swedish firm Nibe Industrier are a natural fit for our portfolio.

Heat pumps operate almost like a refrigerator in reverse - using chemicals, compression and a small amount of electricity to draw heat from outside sources (like the ground or the air), and pump it into buildings to heat them.

Nibe estimate that ground heat pumps can reduce the energy consumed by building heating by as much as 80%. More heat pumps are therefore better for the planet and better for consumers - who can make significant savings on their energy bills.

This equation has seen Nibe grow strongly despite a difficult operating environment for the renewables sector. The company saw sales increase 20% in 2015 with operating profit up over 22%, making them the market leader for domestic heating solutions in the Nordic countries, Poland and Czech Republic.

Nibe's business has also been boosted by the classification of heat pumps as a renewable energy technology in the European Union, helping the company benefit from renewable energy subsidies.

Yield

Menhaden's yield assets are investments generally focused on renewable infrastructure in mature and commercially proven clean energy technologies. Menhaden is invested in operational solar and wind plants in the UK and Europe. These are assets that not only have the potential for future growth in value, but also the potential to provide steady returns to shareholders.

They are low complexity operations in a fast growing sector with low exposure to price risk on fuel source or other commodities.

Impact in 2015

This part of the Menhaden portfolio is exclusively focused on solar and onshore wind energy infrastructure – these projects deliver clean energy where fossil fuels might otherwise be required and thus the environmental impacts of these holdings are broadly positive.

Case study: Brookfield Renewable Energy Partners

Opening the floodgates to cleaner energy

Brookfield Renewable Energy Partners (BEP) is one of the world's largest renewable-power focused companies.

While, no energy generation method is flawless, hydropower is one of the best options as it can generate significant amounts of energy without causing air or water pollution, nor does it leave behind any toxic waste. Approximately 81% of BEP's total assets are in hydroelectricity generation.

BEP has:

- Facilities with a total of over 10,000 megawatts of installed capacity - enough to power all the homes in Uruguay or New Zealand.
- 23 hydroelectric facilities in British Columbia, Ontario, Québec and Louisiana, which all comply with the highly-respected EcologoM environmental certification standard.
- Hydro and wind power facilities that save the equivalent of approximately 15 million tons of CO2 if that same energy was generated by coal-fired power stations.
- A commitment to undertake a detailed Environmental Impact Assessment (EIA) process before all hydropower projects.
- Created jobs for over 2,000 people in seven countries, including the emerging economies of Brazil and Colombia. The company is regarded as an industry leader for safety and accident prevention.
- A policy to build strong and transparent relationships with all local communities affected by their operations, including preserving local environments, supporting lasting economic development and fostering education.
- 250 hydroelectricity stations across seven countries, together generating 7,300 megawatts of clean energy, equivalent to the total electricity generation capabilities of both Croatia and Slovenia.

Private investments

The underlying companies in one of the private equity funds in Menhaden's portfolio saved over 60 million m³ of water in a year, the amount consumed by 26,500 people.

This part of Menhaden's portfolio is split between direct investments, such as our holdings in X-ELIO (see case study) and exposure to private equity through external funds. Given the illiquid nature of unlisted equity investments this part of the portfolio is still to be fully invested, and the Menhaden Team continues to evaluate future opportunities.

Menhaden has acquired limited partnership interests in two funds managed by Alpina Partners (formerly WHEB Capital Partners LLP). These two funds focus on European small and medium sized enterprises serving markets such as cleaner industrial processes, smart grids, energy storage and renewable energy generation equipment.

Impact in 2015

As with the rest of the portfolio, the consideration of sustainability issues is a key part of the pre-investment process for the Menhaden Team in this asset class. For example, they ensure that due diligence will look at the quality of environmental management systems, health and safety, employee turnover and governance. Once an investment is made, these issues continue to be monitored.

Alpina Partners uses the CLEAN™ framework for reporting fund contributions to carbon reductions, landfill avoidance, energy savings, reduced air emissions and conservation of natural resources. Some of the cumulative benefits from the private equity funds in our portfolio run by Alpina include⁴:

- Carbon emission reductions of **360,074** tonnes, equivalent to the carbon footprint of **50,310** individuals.
- Landfill avoidance of **2,440** tonnes, equivalent to the waste generated by **9,300** individuals.
- Health and safety management plans are in place at eight out of nine underlying portfolio companies. There have been zero reports of supplier labour violations in regards to human rights at any underlying portfolio company.
- Most of the companies in these funds have a majority non-executive members which is a key factor to ensure independent oversight

Footnote

⁴As of July 2015



Case study: X-ELIO

Leading in solar and sustainability

In December 2015, Menhaden invested \$12m in private European solar development company X-ELIO (formerly Gestamp Solar) alongside the infrastructure arm of global investment firm KKR. X-ELIO is a leading owner, operator and developer of solar photo voltaic (PV) plants worldwide.

X-ELIO has set a target to have up to 2.5GW of installed capacity in operation by 2020 and it already has solar plants in operation or development in Europe, US, Japan, Mexico, Chile and other markets. It combines all the elements needed to capture the dramatic increase in demand for solar energy: capital resources to invest in the long term, an entrepreneurial mindset, technology leadership and the ability to scale the business.

Developing solar power, communities and skills

Some of the company's impressive impacts include:

- In a single year the company generated over 650,000 GJ of renewable energy, thus avoiding 68,190 tons of CO₂ emissions. Equivalent to taking almost 15,000 passenger vehicles off the road.
- Working with local communities and municipal authorities to avoid installing modules near protected species and to protect conservation areas. For example near their Marcovia site in Honduras, they have worked with local government to recover dry forest and natural habitats throughout the region.
- Providing nearly €7.5m to elevate the quality of life and services in regions where their plants are located in 2014 alone.
- Employing 150 individuals across 18 countries, including investing in 3,189 hours of training in their last reported year, an average of 21.8 hours per employee.

Voting and engagement

The Menhaden Board has delegated authority to Frostrow (as AIFM) to vote the shares owned by the Company. The Menhaden Team and WHEB Asset Management LLP have responsibility for carrying out the voting on Frostrow's behalf.

The Board has instructed that the Menhaden Team submit votes for such shares wherever possible and practicable as we believe this is both a responsibility that comes with our role as the ultimate owners of our investee companies, and a useful way to develop stronger relationships and deeper understanding of our investee companies.

Proxy voting and shareholder engagement is also a valuable way to use influence as a long-term investor to support practices that build both long-term value and create positive environmental and social impacts.

Our AIFM has a clear and transparent policy on voting and complies with the UK Stewardship Code.

Engagements in 2015

Menhaden's engagements in 2015 were generally carried out via WHEB, which has a well-developed system for engaging with companies involving correspondence, formal or informal meetings and/or potential collaboration with other investors. WHEB also measures the impact of this engagement work and applies a simple measure which classifies the work as either: 'successful', 'partially successful', or 'unsuccessful'.

In the reporting period for this report WHEB engaged with four portfolio holdings on Menhaden's behalf, of which two were successful (i.e. the company agreed to improve its approach to the issue) and one was partially successful (i.e. the company has acknowledged the problem and agreed to review its position).

The first successful engagement involved a discussion with Johnson Matthey to ensure that their technology was not implicated in the VW emissions scandal and to ensure they are prepared for the likely tightening of emissions standards in the medium-term. The second encouraged the photovoltaic manufacturer Canadian Solar to be more transparent about their approach to sustainability, which led to the company producing its first English language sustainability report in 2015. The other two engagements were with Roper Technologies to encourage them to improve auditor independence and with Shimano to ask them to improve ESG disclosure.

4

engagements with portfolio companies on issues such as emissions standards and sustainability



Appendix

Endnote sources for page 3

-
- **X-ELIO reference** – Climate Central, energy comparisons
-
- **Shimano reference** – Reporting Impact, Annual Report 2014', WHEB Asset management
-
- **Water footprint reference** – data from Osmosis Investment Management

Endnote sources for pages 8 and 9

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- **UK** – 'Reporting Impact, Annual Report 2014', WHEB Asset management
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- **Ireland** – Mcor website, accessed March 2015
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- **Japan** - Shimano Social Activity Report
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- **Australia** – Canadian Solar website, accessed March 2015
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- **South Africa** - Terraform Global website, accessed March 2015

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