SDG Invest

IMPACT REPORT 2018

Value for generations

A YEAR WITH SDG INVEST

TIMELINE

7/2 2018 — Launch of SDG Invest

29/5 2018 — Retail license by the Danish Financial Supervision Authority

08/10 2018 — Retail partnership with Merkur Andelskasse

21/01 2019 — SDG Invest on NASDAQ Copenhagen

18/03 2019 — Member of Climate Action 100+

SDG Invest

FINANCIAL OVERVIEW

57
companies in SDG Invest portfolio

5,140,244
employees in portfolio

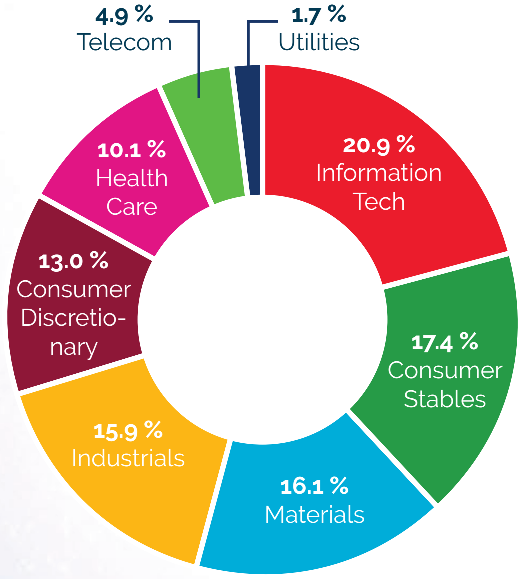
$1,466bn
annual revenue in portfolio

$5,474 bn
market cap size

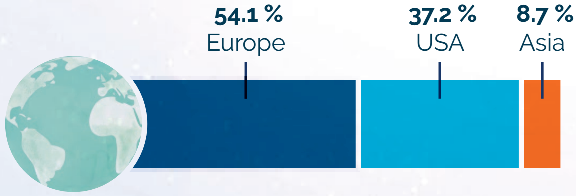
$41.5 million
SDG Invest market value

+200
investors

SECTOR FOCUS



GEOGRAPHICAL FOCUS



2018 IMPACT HIGHLIGHTS

IMPACT OF COMPANIES IN THE SDG INVEST PORTFOLIO

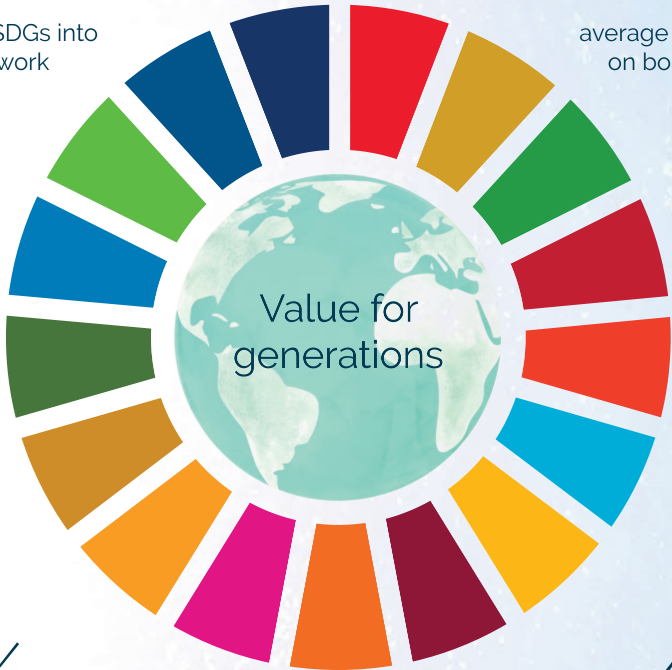
93 %
with ambitious targets for reduction of GHG emissions

47 %
full integration of SDGs into sustainability work

29 %
average number of women on boards of directors

60 %
committed to circular economy

24 %
average number of women in executive management



95 %
engaged in multi-stakeholder initiatives/partnerships to create systemic changes

95 %
are actively seeking to achieve the SDGs with products

35 %
have Science Based Targets for GHG emissions

40 %
have stringent due diligence practices for human rights

44 %
working with their supply chain to reduce GHG emissions

THE UN SUSTAINABLE DEVELOPMENT GOALS

At SDG Invest we contribute to the fulfilment of the Sustainable Development Goals through the companies we invest in, as well as the tools we apply as asset managers.

TOOLS

How the SDG Invest team contribute to the SDGs

4 QUALITY EDUCATION

- Ensure education in sustainable development through thought leadership and external events
- Active ownership where we engage with all companies in the portfolio and international organisations and sustainable movements

8 DECENT WORK AND ECONOMIC GROWTH

- Ensure financial strength and growth to maximise a sus-tainable develop-ment through our investment product

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

- Introduction of new technolo-gies to promote sustainable development e.g. the Sustainability Scorecard

13 CLIMATE ACTION

- Diverting investment in black energy to green energy by excluding oil and coal as part of our negative ESG screening

17 PARTNERSHIPS FOR THE GOALS

- Active ownership to push the SDG agenda
- Collaboration through interna-tional partnerships including the UN PRI, and Climate Action 100+
- Financing and mobilising private funding for sustainable development

PORTFOLIO IMPACT

How the companies in SDG Invest work with the SDGs

1 NO POVERTY
- Eradicating poverty by inclusion of local communities and job creation
- Creating products and solutions for BoP markets

2 ZERO HUNGER
- Sustainable forestry, agriculture and food production with focus on nutritional value

3 GOOD HEALTH AND WELL-BEING
- Access to health-care services and medicines
- Developing new products and services

4 QUALITY EDUCATION
- Training in sustainable development throughout the supply chain
- Increasing capabilities for BoP segments

5 GENDER EQUALITY
- Gender diversity at the level of board of directors and executive management
- Gender pay gap focus

6 CLEAN WATER AND SANITATION
- Responsible water and waste treatment
- Protect and restore water-related ecosystems

7 AFFORDABLE AND CLEAN ENERGY
- Increasing renewable energy in energy mix
- Improvement in energy efficiency

8 DECENT WORK AND ECONOMIC GROWTH
- Inclusive and sustainable economic growth, full and productive employment and decent work for all
- Promotion of labour rights in the supply chain

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- Inclusive and sustainable industrialisation, and upgrading of infrastructure
- Reduction of GHG emissions

10 REDUCED INEQUALITIES
- Equal opportunities for all and focus on living wage as minimum payment

11 SUSTAINABLE CITIES AND COMMUNITIES
- Improving housing facilities, technology solutions, air quality and inclusion of BoP segments

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- Circular economy – reduce, recycle and reuse
- Sustainable production methods

13 CLIMATE ACTION
- Science Based Targets and climate change strategies

14 LIFE BELOW WATER
- Collecting ocean plastic for reuse
- Responsible water usage and treatment

15 LIFE ON LAND
- Sustainable forestry
- Responsible palm oil
- Support to ecosystems

16 PEACE, JUSTICE AND STRONG INSTITUTIONS
- Responsible tax behavior
- Supporting and promoting responsible and transparent legal measures

17 PARTNERSHIPS FOR THE GOALS
- Sustainable development through partnerships within and across sectors and countries

A LETTER FROM OUR CHAIR OF THE BOARD

DEAR STAKEHOLDER

In year 2019, the 14th Global Risk Report was released at the World Economic Forum in Davos. For the third consecutive year, the risk deemed to have the highest likelihood was 'extreme weather events'. 'Failure of climate-change mitigation and adaptation' was risk number two and 'natural disasters' was risk number three. To mitigate environmental risks, companies need to take responsibility. It is an absolute necessity if we are to prevent average global temperatures from rising beyond the Paris Agreement's 1.5°C target. One way to create incentives for companies to change behaviour is to direct the money flow towards sustainable companies.

Since we launched SDG Invest in February 2018, Denmark has seen a steady increase in sustainable investment funds from nine to 17. Investors are increasing in numbers and the demand for a sustainable alternative to traditional investment opportunities is evident. Therefore, we are proud to announce that within the first year, we have launched the investment fund at Nasdaq Copenhagen. In this way, we seek to make it as easy as possible to 'leave-no-one-behind' following UN's Sustainable Development Goals (SDGs), upon which our portfolio is founded. Each company in the portfolio is driving this agenda.

We have had an engagement rate of 100% in our active ownership by actively contacting the Chair of the Board in each company in which we are invested. In this way, we seek to continuously drive the agenda and inform the companies where they have sustainability gaps based on our thorough knowledge about the companies.

With a changing investor demand focusing on sustainable investment opportunities SDG Invest seeks to push the agenda by proving that investing in the most sustainable global companies delivers a great financial return in the long run, while creating a positive impact in society when seeking to achieve the SDGs. I believe it is fair to say, that SDG Invest is already delivering. With a long-term focus, we will continuously drive the agenda by actively pushing each company towards an even greater sustainability and SDG impact.

The focus of SDG Invest is to ensure a financial return while creating shared value and achieving the SDGs. SDG Invest's return since launch is at 11.5 % by 29-04-2019. We urge more companies to drive this agenda, or as a minimum initiate their journey. This report will give an insight into new focus areas for companies working with sustainability and the impact of our portfolio.

We look forward to your feedback on this report and to our continuous work towards achieving the SDGs.

KARIN VERLAND
Chair of the Board

»With a long-term focus, we will continuosly drive the agenda by actively pushing each company towards an even greater sustainability and SDG impact«

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PORTFOLIO IMPACT 2018

THE NEW FRONTIERS OF SUSTAINABLE INVESTING; MOVING ON FROM ESG

Environmental, social and governance (ESG) screening is a well-known concept by now, applied by investors across the world in their selection of assets. According to the marketing company Edelman, more than six in 10 institutional investors have changed their approach to voting or have incorporated environmental, social and governance criteria in the past 12 months.

ESG screenings are done in numerous ways from following the reputational risk of an asset to measuring impact within ESG issues. As a concept ESG screening has forced investors to consider the impact of their investments. However, ESG screening is at best compliance driven. Basically, three types of ESG screening exist:

Negative/exclusionary screening
The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria.

Positive/best-in-class screening
Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.

Norms-based screening
Screening of investments against minimum standards of business practice based on international norms[1].

However, compliance-driven negative screening is not enough anymore. Investors are looking for sustainable companies that proactively take leadership in changing their industry towards a more sustainable future. These companies are addressing their own negative impact, and with a strategic approach they seek to mitigate this and integrate sustainability to create a positive business case. With the creation of the Sustainable Development Goals it is time to move on from the compliance-based ESG screening.

WHY SDG INVEST?

The Sustainable Development Goals (SDGs) have created a new common understanding of where to go and more importantly how to get there. The SDGs – contrary to its predecessor the Millennium Development Goals – are talking about growth and prosperity as well as including business as one of the actors to achieve them. And, businesses are essential and key to reach the SDGs. Globally, 49% of CEOs believe that business will be the single most important actor in delivering the SDGs[2].

»Companies are absolutely integral actors in reaching the SDGs, therefore it is pivotal to integrate these goals into business models.«

1. Source: unpri.org/fixed-income/esg-screening-in-fixed-income-investing/36.article
2. Source: accenture.com/t00010101T000000Z__w__/de-de/_acnmedia/PDF-64/Accenture_Strategy_CompaniesForChange_2017_Handbook_digital.pdf

Business is essential to the creation of jobs to lift people out of poverty, and vital in creating innovative alternatives to existing materials destroying our climate. Business is crucial in developing societies and countries by paying taxes as well. Companies are absolutely integral actors in reaching the SDGs, therefore it is pivotal to integrate these goals into business models. In the long run these companies will be ahead of legislation, be ahead of changes in the world and thus be a more sustainable business.

In SDG Invest, we represent a combination of financial experts and sustainability experts. The sustainability experts analyse each company utilising our Sustainability Scorecard, which consists of 42 parameters and 136 scoring options in the categories *sustainability*, *governance* and *leadership*. This scoring is done manually, which ensures quality of the analysis as well as an in-depth knowledge about each company in the portfolio. In most ESG screenings, companies with a negative impact on the SDG agenda are included provided they have less than 20 % of their business in the oil industry for example, or less than 20 % in alcohol. In SDG Invest, we do not invest in any of these grey-areas. We have a zero tolerance policy for the industries of oil and coal, alcohol, tobacco, gambling and porn. We invest in companies working to impact the SDG agenda positively.

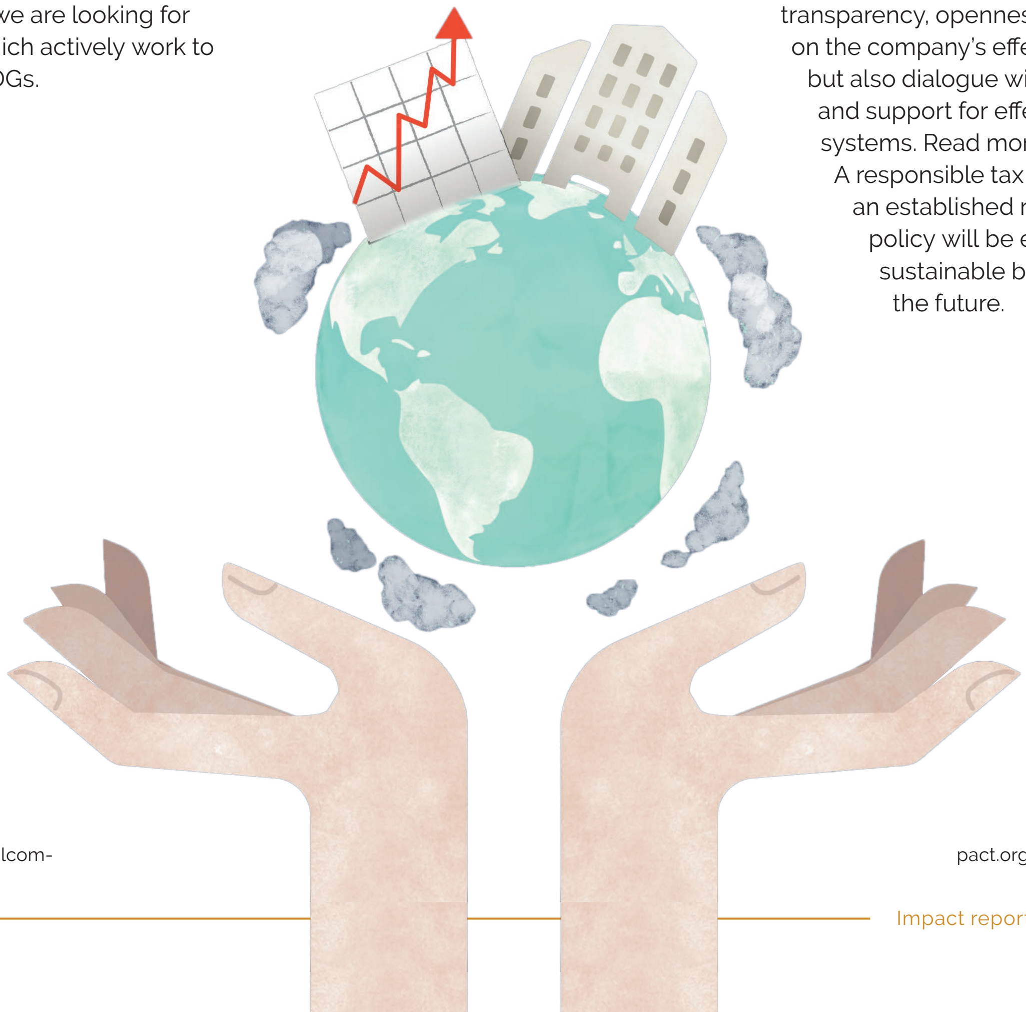
Following the UN Global Compact's Progress Report[3] from 2018 *"80% of companies are reporting that they are taking actions to advance the Global Goals"*, however *"66% of companies note that their primary way of addressing the global goals is through adherence to the ten principles"*. To truly work towards the SDGs, adherence is not enough and in SDG Invest we are looking for companies which actively work to achieve the SDGs.

This report will describe what companies should work for in 2019 and what SDG Invest is expecting of companies to address in the following years. In SDG Invest, our Sustainability Scorecard includes these areas to identify companies taking leadership in the sustainability agenda. The same areas are also the ones addressed by us through our active ownership, involving our direct engagement by 100% into the companies of our portfolio. In the last half of the report, we are showing how our portfolio is doing on specific parameters and describe best practices in each of them with specific cases.

ENCOURAGE RESPONSIBLE TAX BEHAVIOUR

For a multinational company taxes may be complex – on the other hand responsible tax behaviour is straight forward. Pay taxes fairly and be transparent about your affairs. It is as simple as that. With an enormous focus from investors, media and general public on this issue combined with the scandals "Panama Papers", "Lux Leaks" and "Paradise Papers", we encourage from companies in our portfolio to have a responsible tax approach. Therefore, we engage with every company which does not have one, to create and establish responsible tax practices in line with OECD BEPS. Multinational entities may be operating in tax havens, however, being transparent about the reason why a part of the Group is present in that specific tax haven is important.

Unilever is a best-practice example of a multinational company which is transparent in its approach to tax by illustrating its country-by-country reporting and describing its approach to e.g. tax havens. Unilever is a part of The B Team's 'A New Bar for Responsible Tax'-initiative proposing seven principles of responsible tax behaviour, including transparency, openness, reporting on the company's effective tax rate, but also dialogue with authorities and support for effective tax systems. Read more on page 26. A responsible tax behaviour with an established responsible tax policy will be essential for sustainable business in the future.



3. Source: unglobalcompact.org/library/5637

THE TRANSFORMATION TOWARDS A CIRCULAR ECONOMY

In SDG Invest we do not expect global companies to be circular – yet. As many companies have emerged from a take-make-dispose extractive industrial model it will take years to integrate circular economy into their business. However, it is time to move on from this take-make-dispose train of thought, to initiate measures to focus on designing out waste and pollution, to keep products and materials in use, and to regenerate natural systems. If companies fulfil their commitments and invest in circular solutions, they stand to reap great financial and reputational benefits. Finish UPM have found new product lines by integrating circular economy into their business. For instance, UPM created UPM BioVerno, which is biofuel from residue of pulp production. Thus, they have developed a source of sustainable energy from what was waste or thrown away before. Read more at page 27. A circular economy aims to redefine growth, focusing on positive society-wide benefits, which is essential to mitigate climate change disasters and ensure growth benefitting all people. Packaging and product's end-of-life are for most companies a place to start. It is important to start the journey towards a circular economy, as this understanding will generate profits and a sustainable business.

ENSURING THE COMMITMENT OF TOP MANAGEMENT AND BOARD OF DIRECTORS

In order to truly integrate sustainability into a business strategy it is important that the executive management and the board of directors are on top of the agenda. A specific way to get the board of directors on board is by creating a Sustainability Committee at board level. Moving sustainability to a strategic level at the very top will ensure engagement and focus, thus it will gain strategic value.

A natural step following the creation of a sustainability committee would be to tie remuneration to non-financial targets – both at the level of the board of directors and at the level of the executive management. This will create incitement to deliver results. In Corporate Knight's annual list of the 100 most sustainable companies in the world, 87 percent of the global top 100 companies remunerate its management with financial bonuses meeting sustainability goals. In Novo Nordisk, the executive leadership had to accept a reduced bonus as they did not to meet the company's non-financial goals for year 2016.

CROSS-SECTOR PARTNERSHIPS FOR SYSTEMIC CHANGES

To take leadership, it is an absolute necessity to understand that working towards sustainable solutions is not possible to do alone. Partnerships within and across sectors are essential to innovate sustainable solutions. At page 28-29 we have examples of best practice sustainable partnerships which have created business cases while creating sustainable solutions.

Industry-wide multi-stakeholder initiatives are also important to this, exemplified by Ellen Macarthur Foundation. Our portfolio proves that the impact is enormous when large companies with financial strength are taking responsibility in creating new solutions in partnerships.

FOLLOW THE UN GUIDING PRINCIPLES ON HUMAN RIGHTS AND ESTABLISH RESPONSIBLE SUPPLY CHAIN MANAGEMENT

Child labour, miserable working conditions, underpayment, deforestation and modern slavery are by no means acceptable. Therefore, social audits and due diligence processes are essential. Following UN's Guiding Principles on Business and Human Rights, the responsibility of corporations to respect human rights has created a framework and standard which is integral for a multinational company. In SDG Invest, we expect every company to uphold human rights, labour rights and to have responsible supply chain management. Focus on these areas may vary from being policy-based to actively working on mitigating issues.

To us, a policy-based approach is not enough. We want to see risk assessments, programmes, follow-up and remedy systems. When multinational companies proactively work with these areas, they affect a huge amount of people. Nestlé has 685.000 direct suppliers, therefore, when they are proactively working to improve working conditions for their suppliers, they positively impact the lives of millions of people. Focus on these areas will be a continuous point of improvement for every company. Therefore, an annual status with description of efforts is required by SDG Invest. Companies with best practices also engage with their suppliers on sustainability efforts, for example by focusing on reducing carbon emissions (Unilever is reporting on GHG' emissions across their value chain including consumer use and supply chain), by increasing minimum wage (Unilever's collaboration with Oxfam increasing the wage for workers in Vietnam) and the like. Sainsbury[4] is a good example of a company focusing on human rights and modern slavery throughout the supply chain, training suppliers on preventing exploitation beyond tier 1. Sainsbury's source own-brand products from more than 2,500 supplier sites based in over 70 countries, and they sell over 90,000 products. Sainsbury is proving that it is possible to go beyond tier 1 despite a complex web of sources.

SOLID DATA AND MEASURING SDG IMPACT

We look for a third-party assurance to validate and verify data and methods in the reporting. Some companies' third-party limited assurance only applies to data on GHG emission for Scope 1 and Scope 2, this is however not enough as a validation of sustainability data in our scoring. Assurance on sustainability reporting should be for data as well as method. To be able to make an analysis of any company in this field it is important to report and to describe the approach to sustainability, governance and leadership actions in sustainability.

4. This company is not included in the SDG Invest portfolio. It is an example of best-practice.

And while reporting on qualitative and quantitative data, why not do as the Danish company Chr. Hansen and calculate how much of the revenue which positively impact the SDGs. In SDG Invest we urge for a collective reporting method with more quantitative data. However, our methodology goes beyond this issue as we are focused on analysing qualitative data since the SDG Invest sustainability scorecard builds on a maturity scale. Our method reveals that the very best companies within sustainability report on their efforts and impact.

WHY INVEST IN LARGE GLOBAL COMPANIES?

SDG Invest invests primarily in large global companies. We invest in listed companies addressing global challenges and adapt to a world where they will continue being profitable in the future. One reason is that these companies have the financial strength to scale innovative solutions across the world. Another reason is that they due to their global setup and size have a huge impact on climate, people's lives, and markets in everything they do. When Nestlé and Unilever (two of the biggest food providers in the world) decide to act sustainably, they are impacting the lives of millions of people.

Take our portfolio as an example; the companies directly employ almost 5 million people. These people are directly impacted by sustainable behaviour in the companies, and when you move to their supply chains you can multiply the amount of people with hundreds. Unilever has a target of positively impacting the lives of 5.5 million by 2020. By the end of 2017 they have reached 716,000 smallholder farmers and 1.6 million small-scale retailers. 2.5 billion used Unilever products on a daily basis. In 2017, their Sustainable Living brands grew 50% faster than the rest of the business, this one reaches billions of people. Therefore, changing the behaviour of global large-cap companies can positively impact an enormous amount of the global population.

As noted by the University of Cambridge Institute for Sustainability Leadership in 'The future of sustainable business: Reflections from 30 sustainability leaders'. To create transformational change, one of the most promising solutions is to enable costumers to drive change. Therefore, it is essential that companies seek to drive the change by educating the costumer at a public sector, corporate sector and private level. By encouraging the customer to understand the necessity of sustainable products, the company is able to strengthen costumer relations. This is another way for global large companies to drive the change and create new market opportunities while reaching the lives of millions of people.

ACTIVE OWNERSHIP AT SDG INVEST

At SDG Invest we are proud to say that we have a 100 % engagement rate with companies in our portfolio. Actually, we are engaging with companies beyond our portfolio, as a potential company to our portfolio may be entangled in tax evasion or other issues. We then seek to push for them to work with this issue. This kind of engagement is valuable to us, to the companies and to our investors. We engage with the companies in our portfolio to ensure that they are not only the leaders of today, but also the leaders of tomorrow.

At SDG Invest we place high demands on the companies' financial results, their work on sustainability, corporate governance, and their work on addressing the global challenges and the UN's 17 Sustainable Development Goals. It is part of our philosophy and promise to the investors that we do not compromise on returns or sustainability.

Therefore, only the best and most ambitious companies are included in the SDG Invest portfolio. Out of 65,000 listed companies worldwide, 57 meet the requirements we set. We are thorough when we find our investment opportunities, and therefore we also know a lot about the companies in which we are invested. We actively use this knowledge to start a dialogue with companies, with the hope of achieving the SDGs in 2030 and to push the companies even further.

ENGAGEMENT ON HOW TO IMPROVE SUSTAINABILITY WORK

Every company in which SDG Invest has invested has been analysed and screened via our financial model and our sustainability scorecard. The financial model analyses more than 65,000 global businesses for their earnings strength, financial strength and stability. We choose only the companies with the highest economic quality. Then, our scorecard assesses companies on 42 parameters and 136 sub-categories in the field of sustainability, corporate governance and leadership. Under the category of leadership, we place demands on the companies' work on diversity, circular economy, tax policy, and products/services that directly address the SDGs. This kind of in-depth analysis gives us the ability to engage with the companies on where they are leading and where they can still improve. Based on this information we send a letter addressed to the chair of the board, where we encourage them to address immediate actions and focus on long-term strategies. As part of this letter, we have meetings with some of the companies with representatives from management, investor relations and sustainability departments.

WHAT IS ACTIVE OWNERSHIP?

Actively exercising rights as a shareholder. The two main ways to do this are by voting at shareholder meetings and engaging – having an active dialogue – with investees.

ACTIVE OWNERSHIP

- 100 % engagement rate
- Dialogue with 20 %
- Some of these are: Nestlé, Sonova, Compass Group and Danone.

»Our active ownership philosophy is that this kind of approach adds value to the business, as we truly believe that a sustainable company is a company for the future«

WE RESPOND TO CURRENT CASES AND ISSUES

We daily monitor the news and financial reports for stories about companies in which we invest. If we consider that the cases are contrary to our investment principles, we put the companies on our observation list and we will contact the company directly. It is important to us to understand how they are handling these cases and how they seek to mitigate a given wrongdoing. We are aware that we are investing in large companies with complicated supply chains throughout the world, and that the companies therefore cannot always sanctify themselves against cases and crises. However, we expect them to be transparent about issues and dilemmas, as well as initiating actions that can address any negative impact.

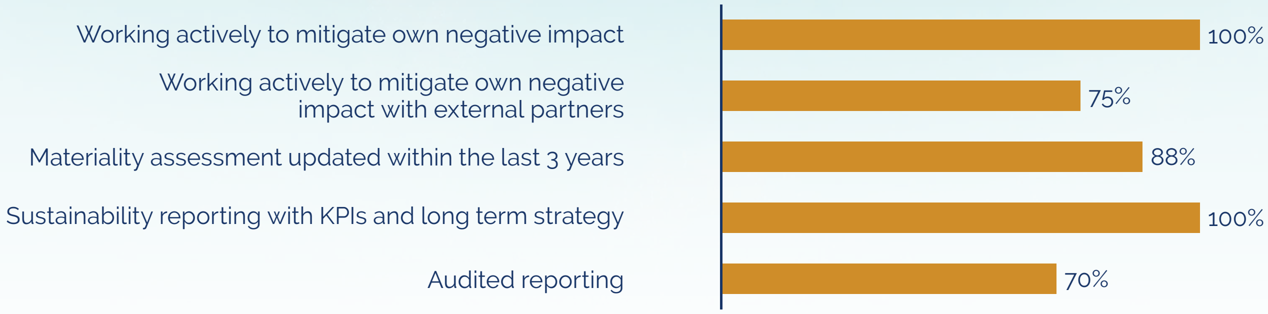
WATCH LIST

Based on our scorecard and stories about negative behaviour in some of our investment principles, we have a watch list. Currently, we have five companies on this watch list. The companies on our watch list are there for different reasons. Some only scored just enough when we created our portfolio. As we updated our scoring parameters during the year to match the recent developments within sustainability, they only just made it. One company is there due to stories about bad tax behaviour, why we have requested to hear from them on this issue. As we updated our scorecard parameters, we have had to exclude one company from the portfolio as well. This company scored below the threshold in their latest scoring, why they have been excluded. We sent them an exit-letter, describing how to become relevant again, and we hope for these measures to be taken.

VALUE-DRIVEN APPROACH

As investor in SDG Invest you can trust that we engage in these difficult dialogues. We dare to put ourselves out there, demanding action from the companies in our portfolio. Our active ownership philosophy is that this kind of approach adds value to the business, as we truly believe that a sustainable company is a company for the future. As we identify new sustainability initiatives and trends, we inform our companies, and this gives them a chance of knowing what investors will look for in the future. The areas described in the previous section are part of our active ownership and represent some of the areas in which we have mostly asked for our companies to develop.

IMPACT 1
SUSTAINABILITY FOCUS AND WORK WITH MATERIAL ISSUES



To SDG Invest it is essential that companies address issues which are impacted negatively by them. It does not make sense for a textile company to focus the most on paper printed at the offices. Their sustainability efforts should focus on more relevant negative impact such as water, raw materials and the like", whereas paper printing will become a matter of course due to an integrated sustainability focus. 100 % of the companies in our portfolio are actively working to mitigate their negative impact, and 75 % are working with external partners to mitigate these issues.

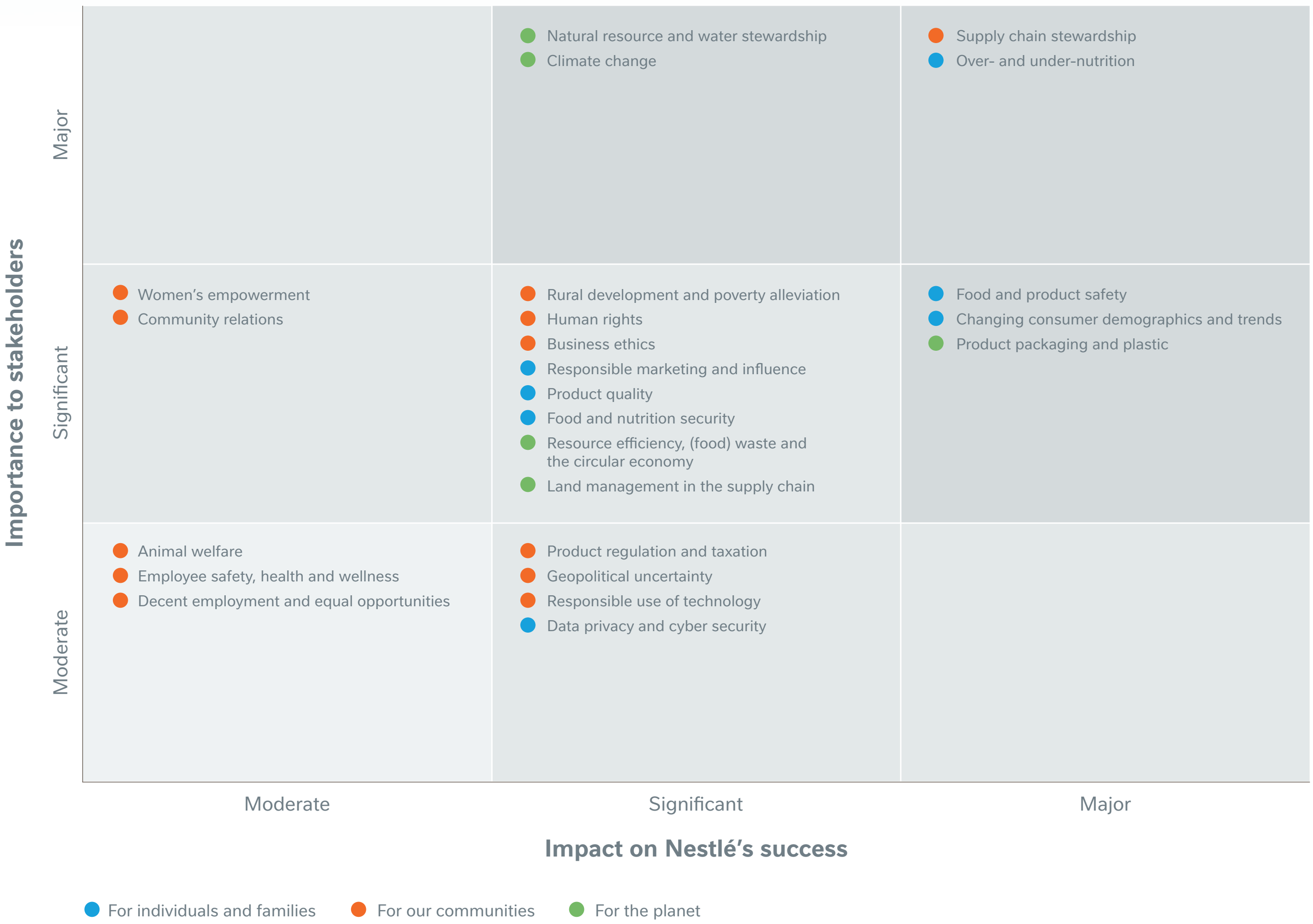
In order to understand negative impact of an enterprise, a materiality assessment can be illuminating. By engaging with external stakeholders, a materiality assessment strategises the company's sustainability work. 88 % of the companies in our portfolio have made this prioritisation by mapping where they are able to have most impact while taking into account stakeholders' interest.

As we use publicly available material in our analysis it is important that we can trust this information, and therefore we look for audited sustainability reporting. 70 % of the companies have their sustainability data and method audited, why their data outweighs that of others. 100 % of the companies in our portfolio report on sustainability with the inclusion of key point indicators and a long-term strategy with specific targets for their work.

Across the companies they are positively impacting all of the SDGs with their sustainability strategy and work. To be able to do this work in the most impactful way it is essential to have the basics in place such as a materiality assessment, sustainability reporting and set targets.

CASE **NUTRITION AND WATER ARE ON TOP OF NESTLÉ'S SUSTAINABILITY AGENDA**

Nestlé's materiality assessment is methodically developed by inclusion of external stakeholders. In collaboration they have identified areas in which Nestlé is able to impact the most, and the areas which are the most important to stakeholders. This ensures that Nestlé is working strategically with the most important issues for society and the company. In this way, Nestlé ensures to address the most material issues and create shared value to society[4].



4. Source: nestle.com/asset-library/documents/library/documents/corporate_social_responsibility/creating-shared-value-report-2018-en.pdf

IMPACT 2
SDG FOCUS AND SOLUTIONS

SDG Invest has emerged from the SDGs, and these are integrated in our sustainability scorecard as well as in our mission and vision. Thus, companies in our portfolio are actively engaged and a part of achieving the SDGs. 72 % of companies mention the SDGs in their annual corporate or sustainability report, and 23 % of companies disclosed meaningful Key Performance Indicators and targets related to the SDGs, according to what PwC has found in the 'SDG Reporting Challenge 2018', where they made an analysis of 729 companies from 21 countries and territories, and 6 industries. In the SDG Invest portfolio, we can proudly disclose that 84 % are addressing the SDGs in their reporting, and 47 % have integrated the SDGs in their sustainability strategy and work.

From this sustainability work it is essential that new business models and products emerge to achieve all of the 17 SDGs. 'Business as usual' will not solve anything. 74 % of the companies in our portfolio have products that directly seek to achieve the SDGs. Additionally, 21 % are in the developing phase of creating products that directly seek to achieve the SDGs. Thus, 95 % are actively seeking to achieve the SDGs with their products.

The examples below seek to achieve specific SDGs and are part of the solution to global challenges

CASE **THROUGH PARTNERSHIP ADIDAS HAS CREATED A NEW PRODUCT**

Adidas has teamed up with Parley for the Ocean to help spread awareness and transform ocean plastic pollution into high-performance sportswear, spinning the problem into a solution. The threat, into a thread. In 2018 Adidas announced their intend to sell five million pairs of ocean plastic shoes - at an average retail price of around $220. This means the brand is set to make more than a billion dollars in revenue by trying to solve one of the world's big environmental problems.

Adidas has furthermore announced that by 2024 they will only use 100% recycled polyester in all their products. Currently polyester makes up 50% of the materials used in the more than 920,000,000 products made by Adidas each year.

CASE **ROCKWOOL'S PRODUCT IS A PART OF THE SOLUTION**

Rockwool insulation product's carbon impact is net positive. Building insulation throughout its lifespan typically saves approximately 80 times the carbon emitted during its production from cradle to gate. This positive impact increases saving on average to 4000 times the carbon emitted when using technical insulation for large-scale industrial applications.

In 2017, Rockwool sold building insulation products which will save globally the equivalent of the annual carbon emissions of Denmark, Norway and Sweden together, during their lifetime. The technical insulation products sold save even more in their lifetime – equivalent to Germany's annual carbon emissions.

IMPACT 3
HUMAN RIGHTS AND SUSTAINABLE AND RESPONSIBLE SUPPLY CHAINS

"All human beings are born free and equal in dignity and rights." UN's Declaration of Human Rights states this in article 1. Instead of creating one goal for human rights, it is enshrined in each of the SDGs. Focus on human rights therefore impact all of the SDGs. Human rights should not stand alone. To ensure that both communities and workers are being treated fairly throughout the entire value chain, companies need to focus on labour rights and their supply chain as well. In SDG Invest we are looking for not only policies on these three issues: We analyse how the company is working with the issues. Therefore, we look for a proactive approach to mitigating breaches on human rights and labour rights within own operations and in the supply chain. We therefore measure whether the company has due diligence procedures for each of these three parameters and the depth of these procedures.

As the graph depicts 100 % of the companies have understood their responsibility in the supply chain, thus they have created policies, which they expect suppliers to uphold, and 61 % proactively work with their supply chain with responsible supply chain management conducting social audits and established due diligence procedures.

96 % have policies on human rights and 95 % have policies on labour rights. However, only 40 % and 30 %, respectively, have established due diligence processes for these two focus areas. Therefore, we have noted these focus areas in our active ownership letters and urged these companies to establish due diligence processes following UN's guiding principles. Thus, actively working to achieve the SDGs by working to positively impact human rights and labour rights.

»Human rights should not stand alone. To ensure that both communities and workers are being treated fairly throughout the entire value chain, companies need to focus on labour rights and their supply chain as well.«

CASE **BURBERRY ENHANCING HUMAN RIGHTS IN AFGHANISTAN THROUGH PRODUCTION**

Example 1) In 2017 a partnership was established with Oxfam to support community cohesion and youth employability in Tuscany, Italy. The Florentine area is renowned for its garment and luxury leather goods production, with a strong tradition of creativity and craftsmanship. However, in recent years the region has faced challenging levels of poverty, youth unemployment and economic migration.

Example 2) In partnership with Oxfam and PUR Project, the Burberry Foundation has launched a five-year programme, the first of its kind in Afghanistan, to develop a more inclusive and sustainable cashmere industry and help herders enhance their livelihoods. The programme will facilitate the development of community owned collective action organisations, pro-actively involving women in their design and management, and will provide herders with the knowledge, technical skills, tools and services to advance sustainable farming and economic development in the region.

CASE **LIVING WAGE TO UNILEVER'S DIRECT EMPLOYEES**

Unilever is following the UN Guiding Principles with established due diligence processes, providing access to remedy and publishing a human rights report, in which they have identified 8 salient human rights issues, which they describe specific action points on. For example, Unilever has identified fair wages as an issue. Among other initiatives they have an ambition that none of their direct (169,000) employees earn less than a living wage to end 2018. They identified 6,288 employees from 25 countries who were receiving less than a living wage in 2017, and as a consequence they have put plans in place to remediate this.

Unilever has established their own social audit method named Understanding Responsible Sourcing Audit, which assess the supplier's conditions in labour rights, health and safety, human rights, land tenure rights, and environmental approach.

IMPACT 4
DIVERSITY AND INCLUSION

Gender equality has its own SDG, namely SDG 5, but as UN Women points out gender equality is present in all of the SDGs. Gender discrimination is still holding too many women and our world back. Companies with gender diversity are more likely to financially outperform peers, as found by McKinsey & Co. in their 'Delivering through diversity' report from year 2018. Derived from the SDGs, we are measuring how each company is performing on gender diversity on boards of directors and in executive management. For our portfolio the average number of women on a board of directors is 29 % and at executive management level the number is 24 %. We will continuously address gender diversity at these two levels in our active ownership.

We also score on ways and measures with which each company works to create gender equality at the workplace.

47 % of our companies are taking leadership within gender equality by having programmes in place for diversity and inclusion. These programmes are followed with specific targets and with an annual follow up.

To create equal opportunities for women and to end discrimination, equal pay is necessary. Globally the gender pay gap is 23 %. This is a very specific and measurable issue, which companies can positively impact by creating gender pay gap reports for their global operations followed by specific targets and actions to close the gap. In the UK a gender pay gap report is required by law, however only on UK operations. 42 % of the companies in our portfolio are acknowledging this issue and are initiating measures to mitigate it. We urge all of the companies to publicly address this issue and to create a gender pay gap report to get the full overview of the issue,

»Gender discrimination is still holding too many women and our world back. Companies with gender diversity are more likely to financially outperform peers. «

CASE **GENDER DIVERSITY AS A LEADERSHIP TOOL IN DANONE**

Board of directors: 44 % women and 56 % men
Executive Management: 33 % women and 67 % men
Danone's three key priorities in their diversity and inclusion work are i) developing inclusive behaviours in the workplace, ii) improving diversity in terms of gender and cultural background, and ii) engaging people at all levels of our organisation on Danone's inclusive diversity journey.

Irrespective of gender, all Danone parents will be offered full-paid time off to bond as a family and adjust to new responsibilities. This includes: 18 weeks of primary caregiver leave for a birth parent; 14 weeks for an adoptive parent and 10 working days for the secondary caregiver. Danone's parental leave is acknowledged by UN Women.

CASE **HERPROJECT™ HAS REACHED MORE THAN 850,000 WOMEN**

BSR's HERproject™ is a collaborative initiative that strives to empower low-income women working in global supply chains.

Bringing together global brands, their suppliers, and local NGOs, HERproject™ drives impact for women and business via workplace-based interventions on health, financial inclusion, and gender equality. Since its inception in 2007, HERproject™ has worked in more than 700 workplaces across 14 countries and has increased the well-being, confidence, and economic potential of more than 850,000 women.

Burberry is one of the 45 companies working on women's rights throughout the supply chain in this initiative.

TARGETS SDG INVEST ADDRESS

5. End all forms of discrimination against all women and girls everywhere

5.4 Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate

5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life

IMPACT 5
GREEN HOUSE GAS EMISSIONS

Climate change is one of the biggest issues faced by the world. Companies have an enormous negative impact on climate and especially in terms of greenhouse gas (GHG)/CO_2 emissions. Global large-cap companies are a huge driver to reach the Paris Agreement, where 195 of the world's governments commit to prevent climate change by limiting global warming to well below 2 degrees Celsius. To us, this is vital. Therefore, we are proud to announce that 100 % have KPIs on this issue, 93 % have ambitious targets for reduction of GHG emissions, 38 % of these have Science Based Targets and 44 % are actively working with their supply chain seeking to reduce their GHG emissions as well.

BEST PRACTICE KPI SETTING

Targets adopted by companies to reduce greenhouse gas emissions are considered "science-based" if they are in line with the level of decarbonisation required to keep global temperature increase below 2 degrees Celsius compared to preindustrial temperatures, as described in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC AR5).

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

It is important to have focus on the entire supply chain, as for example Kering[1] have learned through their Environmental Profit and Loss calculations that their biggest environmental impact is in tier 4 at the raw material production. This is important knowledge to take action where the company has the most impact.

To us, scoring on actions, quality of the KPIs and depth of focus are more valuable than measurement of the total CO_2 emission for our portfolio: This number would not be informative. On the other hand, it is important to us to be able to see action by the companies. These numbers are an indication of that. We have already excluded oil, coal, tobacco, cement, mining and weapons from our portfolio, which is why the collective positive impact from investing in SDG Invest is enormous.

For companies the focus on a low-carbon economy creates new business opportunities, saves costs, and keeps them in front of legislation (transitional costs). Companies setting ambitious targets now will lead innovation and the transformation of tomorrow.

INDICATOR

9.4.1 CO_2 emission per unit of value added

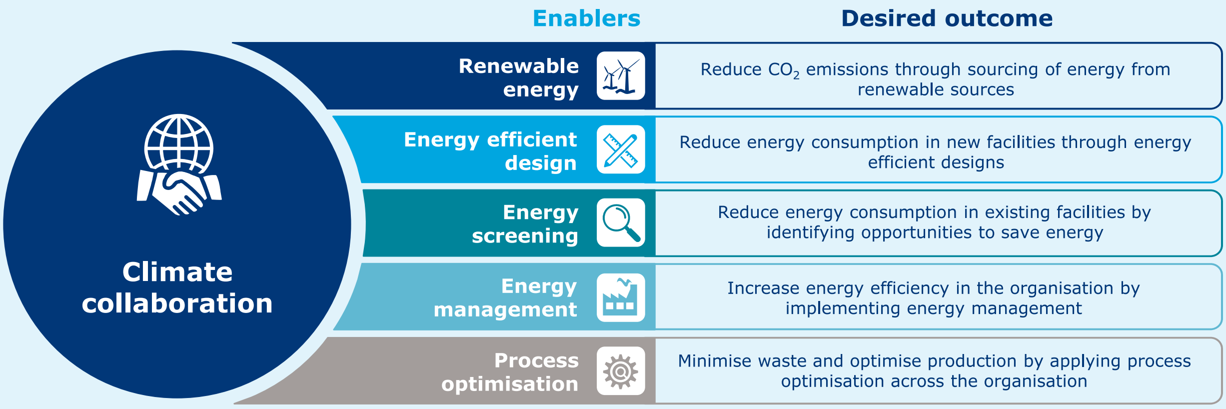
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

1. This company is not included in the SDG Invest portfolio. It is an example of best-practice.

CASE **ENERGY EFFICIENCY IN NOVO NORDISK**
Novo Nordisk's focus to reduce CO_2 emissions is by increasing the efficiency of activities and by using renewable energy. By investing in energy optimisation and shifting to renewable energy they have cut carbon emissions from global production sites by almost 60% since 2004. In 2017, the share of electricity from renewable sources was 79%. The goal is 100 % renewable energy.

Novo Nordisk focus is also to include indirect emissions, for example they collaborate with raw material suppliers to reduce their CO_2 emissions, and they focus on reducing emissions related to purchased goods and services such as business travel and company cars[5].

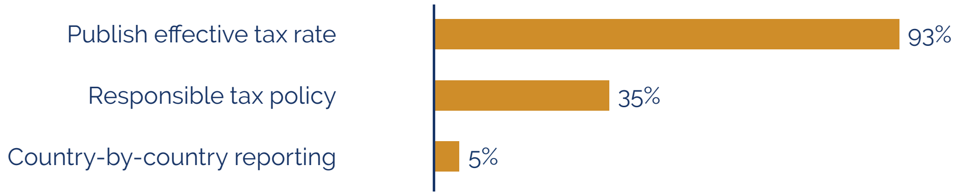
CLIMATE COLLABORATION WITH SUPPLIERS



»Companies setting ambitious low-carbon targets will lead innovation and the transformation of tomorrow.«

5. Source: novonordisk.com/content/dam/Denmark/HQ/sustainablebusiness/performance-on-tbl/more-about-how-we-work/TBL-quarterly/TBL-quarterly/TBL-Quarterly-no4-2016.pdf.pdf

IMPACT 6
RESPONSIBLE TAXATION



Tax can contribute to greater equality, to the development and construction of infrastructure, of educational systems and these contributes increase responsibility between citizens and state. All this is something from which society and companies benefit in the long run. Therefore, it is important that companies support a society where they can grow together.

Multinational companies and new technologies create challenges for established tax laws and international framework agreements. It is therefore important that the company proactively addresses its tax behaviour in a responsible way to ensure sustainable development. This includes explaining tax practices and outcome.

Responsible tax behaviour is an emerging issue, and an area where companies can take tremendous leadership. This is why we address this in our active ownership, and why we look for companies that are adopting this behaviour. 33 % of the companies in our portfolio have adopted a Group-wide responsible tax policy, however only 5 % are publishing a country-by-country report.

93 % publicly announce their effective tax rate. However, this is not equal to a responsible tax behaviour, which is why a responsible tax policy and country-by-country reporting are ways to move forward.

When companies assume responsibility within tax, they positively impact the SDGs due to creation of better conditions for responsible investment and sustainable growth. Tax is an important resource for the state for public services and investments. For instance, tax is a tool for combatting poverty, as well as ensuring better welfare for younger and older people. Consequently, tax contributes to SDG 1 and SDG 3, as well as a number of other derived effects from this development. Governments can also use tax as a political tool, as an incentive or direct paid tax to increase investment, for example into infrastructure, research and development (R&D), education or job creation, all of which contribute to achieving the SDGs if applied for sustainable development. Companies are able to push for such an agenda in dialogue with the governments.

CASE **UNILEVER IS TAKING THE LEAD ON RESPONSIBLE TAX PRACTICES**

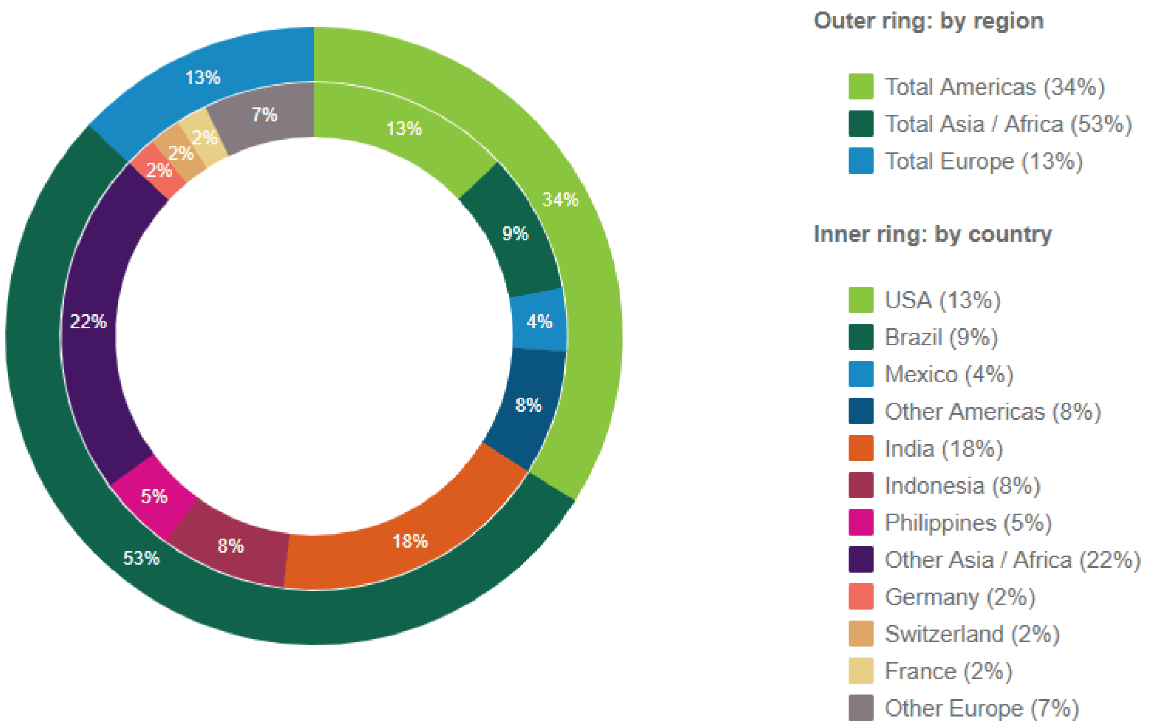
Unilever is a best-practice example when it comes to responsible tax behaviour as a multinational company. Unilever is one of the founders in the creation of best practice principles put forward in 'A New Bar For Responsible Tax'.

Unilever discloses their country-by-country tax payment and they are transparent about their practices. For example, Unilever describes operations in tax havens: *"Tax havens: We use the OECD definition of tax havens and as at 31 December 2017 we have four companies in the Unilever Group located in countries identified as tax havens: two in Panama, one in Jersey and one in the Isle of Man. The Panama companies are both operating companies: one is a marketing and sales company and the other provides regional services including logistics. The Jersey and Isle of Man companies are both holding companies which are UK tax resident and therefore subject to tax in the UK. As well as these companies located in countries on the OECD tax havens list, we had a dormant subsidiary in the Cayman Islands which has now ceased to exist."* [6]

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS

Corporate tax paid by region (2017)



6. Source: unilever.com/sustainable-living/what-matters-to-you/tax.html

IMPACT 7
CIRCULAR ECONOMY

Globally we are using the resources of 3 planets. Companies use many of these resources and products are produced to be thrown away after one-time usage. This is a linear way to handle resources following a take-make-dispose philosophy. With an increasing global population and with developing countries reaching levels of consumption of those of the developed countries, news ways to produce and consume are needed. Circular economy is one of the answers. Here the goal is to close the loop by reducing, recycling and reusing resources. The worldwide circular economy has the potential to generate $4.5 trillion in additional economic output by year 2030, Accenture estimates. Even reaching a 75 % waste diversion rate could create 1.1 million new jobs by 2030 in the U.S. alone, according to 2018 research[7].

Global large-cap companies are one of the reasons for mistreatment of waste and plastics in the ocean, but they are also part of the solution, which the New Plastics Economy initiative proves (read more about this initiative at next page). Therefore, we are proud to say that 60 % of our companies are committed to circular economy. 21 % of all of the companies in our portfolio are actively working to close the loop with set targets and specific initiatives. We expect to see an increase in this from year to year, and it is great news that global companies have understood the necessity in implementing this concept. Take a look at Nestlé's approach to plastic and packaging, they have committed to make 100% of its packaging recyclable or reusable by year 2025. Such commitments can make systemic changes.

CASE **NESTLÉ WILL ACHIEVE A WASTE FREE FUTURE**

Nestlé has a broader vision to achieve a waste-free future and has announced a series of specific actions towards meeting its commitment to make 100% of its packaging recyclable or reusable by 2025, with a particular focus on avoiding plastic-waste.Between 2020 and 2025, Nestlé will phase out all plastics that are not recyclable or are hard to recycle for all its products worldwide. In doing so, Nestlé is rolling out alternative packaging materials across its global product portfolio and establishing partnerships with cutting-edge packaging specialists.

Over and above delivering on its 2025 commitment, Nestlé has a longer-term ambition to stop plastic leakage into the environment across its global operations.Responding to the plastic waste challenge and striving for zero environmental impact in its operations is an integral part of Nestlé's commitment to creating shared value for shareholders and society. Nestlé is particularly dedicated to accelerating action in tackling the plastic waste issue and report on its progress publicly.

CASE **UPM USE WASTE FOR PRODUCT INNOVATION**

Resource efficiency is at the core of UPM's Biofore strategy. They use renewable forest biomass responsibly and efficiently. A circular economy model has created new business opportunities, for example UPM BioVerno, which is their second generation biofuel, this product uses the residues from pulp production to create a new product. To UPM circular economy unifies environmental targets and economic goals.

The aim is to become a Zero Solid Waste to Landfill company globally by 2030. This means UPM deposit no production waste whatsoever at landfill sites and no production waste without efficient energy recovery.

Already UPM reuse or recycle most of their production waste, while constantly striving to develop innovative new solutions. UPM is the world's top re-user of recovered paper in the production of graphic papers.

7. Source: triplepundit.com/story/2018/starbucks-aligns-new-circular-economy-roadmap/55421

IMPACT 8
PARTNERSHIPS FOR SYSTEMIC CHANGES

Engaged in multi-stakeholder initiatives or sustainable partnerships to create systemic change

SDG 17 is an innovative and absolute essential goal to achieve the SDGs. SDG 17 has created the space to talk even further about partnerships and multi-stakeholder initiatives to drive sustainable development forward. It allows for companies to talk about growth while creating systemic change. SDG 17 potentially impacts the other 16 SDGs in a positive way, when partnerships are addressing global challenges. 95 % of the companies in the SDG Invest portfolio are part of multi-stakeholder initiatives or sustainable partnerships which create systemic change.

SDG 17 creates new business opportunities. Below you find two cases on different partnerships; the New Plastics Economy is a cross-sector initiative and addressing a global issue with a great number of companies.

mMitra is another cross-sector initiative with one global company to provide content knowledge. The size and strength of these companies enables them to reach and positively impact a huge amount of people and create systemic changes. This, in turn, creates sustainable development.

SDG 17 is pivotal when addressing the global challenges such as reaching the Paris Agreement. The Science Based Targets Initiative and the Task Force on Climate-related Financial Disclosures are partnerships which have been established to reach the Paris Agreement. Such partnerships have emerged from the SDGs (read more about the Science Based Targets at page 23). At SDG Invest we believe this is the way to move forward and to have the greatest impact as possible.

CASE **CREATING A NEW GLOBAL PLASTICS ECONOMY**

The New Plastics Economy Global Commitment is led by the Ellen MacArthur Foundation, in collaboration with UN Environment. Signatories commit to three actions to realise this vision. Eliminate all problematic and unnecessary plastic items. Innovate to ensure that the plastics we do need are reusable, recyclable, or compostable. Circulate all the plastic items we use to keep them in the economy and out of the environment.

Brand participants, including Danone, PepsiCo, L'Oreal, Unilever and Johnson & Johnson, represent 20 percent of all plastic packaging produced globally. These firms have signed on to evidence-based, time-bound targets as part of the initiative—including pledges to increase their use of recycled material, eliminate unnecessary packaging, and make all packaging reusable, recyclable or compostable by 2025.

NEW PLASTICS ECONOMY

»SDG 17 is pivotal when addressing the global challenges such as reaching the Paris Agreement.«

CASE **PARTNERING FOR HEALTH SERVICES TO LOW-INCOME WOMEN**

In India, close to 150 mothers die every day from pregnancy-related complications, and more than 3,500 children under the age of five die each day. The lack of access to basic health education on preventing diseases, preparing for birth and understanding the complications that could occur during pregnancy and infancy periods are major contributors to these statistics. Building on successful and growing programs in Bangladesh and South Africa that have reached nearly two million women and families over the past three years, Johnson & Johnson partnered with the Mobile Alliance for Maternal Action (MAMA), a public-private partnership with U.S Agency for International Development, United Nations Foundation and BabyCenter™, to launch a mobile health program for low-income Indian women in urban communities in late 2014.

Called mMitra, or "mobile friend", this program sends pregnant women and new mothers voice calls twice a week that provide preventive care information directly to their mobile phones in their chosen language and preferred time-slot corresponding to the stage of their pregnancy or the developmental stage of their child. The program plans to reach up to one million new and expectant mothers, promoting positive and health behaviors in low-income urban communities across India.

To do this, MAMA is working closely with local implementing partner ARMMAN to design and implement sustainable interventions to reduce maternal, newborn and infant mortality. Babycenter, LLC, a Johnson & Johnson company, provides content expertise, and USAID and UNF bring significant knowledge and resources from programs launched in other countries.

3 GOOD HEALTH AND WELL-BEING | 17 PARTNERSHIPS FOR THE GOALS

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FEEDBACK

We are looking forward to your feedback. Please send feedback to info@sdglead.com.

PARTNERSHIPS

SDG Invest are part of:

PRI Principles for Responsible Investment

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A special thanks to:

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»SDG Invest will continuously drive the sustainability agenda by actively pushing each company towards even greater sustainability and SDG impact.«

Methodology/disclaimer
Data is derived from the companies' publicly available material. The analysis is based on company reports from 2017.