

MINIMUM STANDARDS FOR SUSTAINABILITY



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Integration of sustainability
risks in our portfolios

MINIMUM STANDARDS FOR SUSTAINABILITY

SDG Invest's philosophy is to invest exclusively in companies that take leadership in the sustainable transformation, and which actively contribute to the achievement of the UN Sustainable Development Goals (SDGs).

We invest in global companies that deliver innovative solutions, positively impacting their surroundings and contributing to a sustainable transition of society.

These are companies that practice leadership throughout their value chain, meaning that they work strategically with suppliers, and have due diligence processes in place to mitigate and restore potential negative impacts in their value chains.

The following minimum standards accompany the SDG Invest 'guidelines and policy for sustainability and ethics', elaborating on the integration of sustainability risks in the composition of our portfolios.

EXCLUSIONS

All SDG Invest investments must contribute to the sustainable transition of our society. SDG Invest has therefore elected to exclude several economic activities from our portfolios, as these activities are not deemed compatible with our investment philosophy.

Certain economic activities which represent significant environmental and social risks are excluded from SDG Invest portfolios. SDG Invest operates with a zero-tolerance policy to minimise sustainability risks as much as possible.

SDG INVEST DOES NOT INVEST IN COMPANIES WHERE...

more
than  of revenues are
derived from...



the fossil fuel
industry



alcohol



gambling



pornography



weapons



tobacco

DEFORESTATION POLICY

The world's forests play a decisive role in mitigating climate change and protecting biodiversity, and the livelihood of countless farmers and local communities are directly dependent on forests. It is therefore important to recognise the large impact of deforestation on the climate, local ecosystems and communities, with indigenous communities especially affected. Global deforestation accounts for more than 10 % of all CO₂ emissions and is driven by the production of raw materials used all over the world*. It is essential that companies take responsibility for preventing deforestation and protecting forest areas.

SDG Invest expects companies with significant risks related to deforestation to have introduced due diligence procedures and programmes to minimise risks in their own operations as well as in their supply chains. This applies to all portfolio companies, however with a strong emphasis on companies with specific exposure to deforestation risks as a result of their relation to the production and sourcing of palm oil, soy, cattle, and timber.

To ensure an understanding of potential deforestation risks in the SDG Invest portfolios, we complete an annual analysis of all portfolio companies and their approach to deforestation. We analyse their progress toward eliminating deforestation risk in the value chain, including targets, monitoring, and quality of reporting.

Through active ownership activities, SDG Invest engages with companies on deforestation. We expect our portfolio companies to be committed to eliminating deforestation from their value chain, and this expectation is a central part of our dialogue with companies.

OUR PROMISE TO INVESTORS

SDG Invest does not invest in companies particularly exposed to deforestation risks that do not acknowledge this risk through policies or action plans specifically addressing deforestation throughout the value chain.



*) Source: lse.ac.uk/granthaminstitute/explainers/whats-redd-and-will-it-help-tackle-climate-change/

BIODIVERSITY POLICY



More than half of the world's GDP is moderately or highly dependent on nature and its services, and the World Economic Forum has highlighted biodiversity loss as one of four most significant risks for humanity*. It is estimated that nature and well-functioning ecosystems deliver services at an annual value of more than USD 40 trillion, and a collapse of biodiversity could therefore jeopardise the global economy, with low-income countries being the most affected. The private sector is both dependent on biodiversity and contributing to its degradation. Therefore, it is vital that companies have policies and procedures in place to ensure the protection and strengthening of biodiversity.

The SDG Invest portfolio is composed of large, global companies. Several of these companies are dependent on nature and simultaneously negatively influence it. Due to this composition, SDG Invest is exposed to biodiversity risks. Risks are especially present in the supply chain of raw materials, such as palm oil, soy, cotton, timber, and animal products, and in operations impacting protected areas or species. SDG Invest expects companies to incorporate biodiversity risks in relevant policies applied across the value chain.

All companies in the SDG Invest portfolios undergo an annual analysis of their efforts related to biodiversity. This analysis takes departure in the Science-Based Targets for Nature, which recommends four steps to guide company efforts within biodiversity: *"Avoid, reduce, restore & regenerate, and transform"*. Our analysis maps biodiversity risk in our portfolios through evaluation of company impacts, monitoring, and reporting on the subject.

SDG Invest is committed to engaging companies that have not yet recognised biodiversity as an essential area of their sustainability efforts. Portfolio companies are expected to minimise negative impact through a systematic approach covering the entire value chain. Additionally, SDG Invest expects portfolio companies to contribute to strengthened biodiversity through restoring and protecting ecosystems.

OUR PROMISE TO INVESTORS

SDG Invest will always be invested in companies that offer solutions or products specifically adapted to biodiversity. This includes supplying solutions or products designed to minimise negative impact or entailing a direct positive contribution to strengthening biodiversity.

*) Source: un.org/en/un-chronicle/biodiversity-key-building-sustainable-future-all

ENERGY POLICY

Mitigating and adapting to climate change are the key challenges of the 21st century. Energy generation and consumption is at the core of these challenges, especially in relation to the dependence on fossil fuels. Approximately two-thirds of global CO₂ emissions are related to the burning of fossil fuels, used for heating, electricity, transportation, and industry*. To be successful in limiting global warming and achieving the targets of the Paris Agreement, a transition to clean and renewable energy is urgent.

SDG Invest has a zero-tolerance for fossil fuels in the portfolio. It is not enough that companies have plans in place to phase out fossil fuels, nor if those are consistent with the Paris Agreement in the long term. SDG Invest invests only in the companies that take leadership for the sustainable transition of society and economic activity from fossil fuels is not compatible with this investment philosophy.

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OUR PROMISE TO INVESTORS

SDG Invest does not invest in companies with revenues from the fossil fuel industry.

*) Source: eea.europa.eu/signals/signals-2017/articles/energy-and-climate-change

HUMAN RIGHTS POLICY

SDG Invest does not wish to contribute to the violation of human rights and there are several procedures in place to minimise risk among the companies in our portfolio. We take departure in the UN Human Rights Declaration and the UN Guiding Principles on Business and Human Rights in the evaluation of company approaches to securing human rights throughout the value chain. Special attention is given to the risk of violating rights of particularly vulnerable groups, such as women, children, indigenous peoples, and activists.

Respect for human rights is integrated into our yearly analysis of the companies in our portfolio. Through our Sustainability Scorecard, we evaluate companies' approaches to securing human rights on several parameters, including due diligence processes, policies, governance of risk, supply chain monitoring, and reporting.

This analysis provides an in-depth understanding of the companies and insight into the level of transparency companies illustrate in potential breaches of their policies.

SDG Invest continuously monitors public sources for stories involving portfolio companies and potential human rights risks. Additionally, SDG Invest is a member of the investor forum Investor Alliance for Human Rights, through which there is a coordinated effort to strengthen company approaches to human rights.

As active owners, we encourage all portfolio companies to publish the results of their due diligence procedures, and how potential breaches of their policies are treated, including remedies for negatively impacted groups. SDG Invest expects portfolio companies to proactively mitigate human rights risks and transparency about risk is a priority.

OUR PROMISE TO INVESTORS

SDG Invest does not invest in companies that do not acknowledge human rights through a dedicated policy on the topic. This is a minimum requirement, which does not in itself eliminate the risk of human rights violations, but which shows that companies are aware of their responsibility.



LABOUR RIGHTS POLICY

All companies in the SDG Invest portfolio are expected to acknowledge and secure basic labour rights in their own operations and in their value chain. SDG Invest takes departure in the ILO Declaration on Fundamental Principles and Rights at Work in the evaluation of company efforts on the topic.

Risks are associated with five particular rights. As a result, SDG Invest has an emphasis on these rights in the annual analysis of portfolio companies. The five rights include:

- the elimination of child labour
- elimination of all types of forced labour
- elimination of discrimination in hiring and working conditions
- freedom of association, and the right to collective bargaining.

SDG Invest conducts an annual analysis of company approaches to labour rights, and maps the risk of potential violations. It is expected that companies have due diligence procedures in place, and that the results of these procedures are published. Additionally, SDG Invest monitors public sources for potential violations of labour rights.

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OUR PROMISE TO INVESTORS

SDG Invest does not invest in companies that operate in industries particularly exposed to labour rights violations throughout the value chain, without having policies and procedures in place that acknowledge labour rights, including freedom of association, health and safety and decent working conditions.

**Fund manager**

StockRate Asset Management A/S
Sdr. Jernbanevej 18D
3400 Hillerød
Telefon: +45 3833 7575
E-mail: info@stockrate.dk
www.stockrate.dk

Sustainability manager

SDG Lead ApS
Sdr. Jernbanevej 18D
3400 Hillerød
Telefon: +45 5051 7630
E-mail: info@sdglead.com
www.sdglead.com

Administration

StockRate Forvaltning
Sdr. Jernbanevej 18D
3400 Hillerød
Telefon: +45 3833 7575
E-mail: info@stockrateforvaltning.dk
www.stockrate.dk/forvaltning

