SDG Invest

IMPACT REPORT 2021

Value for generations

A LETTER FROM OUR CHAIR OF THE BOARD

DEAR STAKEHOLDER

2021 has been another volatile year marked by the COVID-19 pandemic. However, while we spent much of 2020 focused on building capacity to handle a global pandemic, 2021 saw renewed emphasis on preparing for future challenges. Global environmental challenges, such as climate change and biodiversity loss, will cause social and economic damages far larger than those caused by COVID-19. It is essential that economic recovery from the global pandemic is accompanied by real progress on achieving the Paris Agreement and the Sustainable Development Goals (SDGs).

As investors, we play an important role in advancing sustainable development, through mobilising investments in sustainable companies and financing the sustainable transformation of society. For SDG Invest, it is therefore vital that we are always increasing the level of ambition for our portfolio, illustrated by our categorisation as an Article 9 investment fund. Several initiatives were implemented for the SDG Invest portfolio in 2021 to raise ambitions, most notably our new net-zero target. With this target, we have committed to achieve net-zero for the SDG Invest portfolio by 2040. We believe that this is exactly the right move for SDG Invest, as it underscores our striving for leadership within sustainable investments.

SDG Invest has high expectations for the companies in our portfolio to act in a manner that is compatible with a more sustainable future for us all. We expect companies to actively pursue opportunities for positive sustainable impact and to mitigate sustainability risks. Already, we can see that sustainability risks are having a real impact on companies, jeopardising supply chains and the ability to operate a successful business. 'Business as usual' is not an option for companies that are thinking about delivering long-term value. We have updated the SDG Invest Sustainability Scorecard. method for analysing companies to reflect this reality, placing more emphasis on climate change strategies and sustainable supply chain programmes.

The performance of the SDG Invest portfolio has been highly satisfactory in 2021, both in terms of financial returns and sustainability impact. In 2021, SDG Invest delivered a financial return after costs of 27.94 %. We also made significant progress on our strategic focus on increasing accessibility of SDG Invest to a larger number and a broader range of investors. Changing the nominal value of the share contributed to a 79 % increase in the number of investors, allowing more investors access to our sustainable investment portfolio.

For performance on sustainability impact, we have also seen a continued strong commitment from our portfolio companies to achieving the SDGs, illustrated, for instance, by the decrease in the carbon emissions of our portfolio and an increase in companies setting science-based targets and in engaging their supply chain in decreasing emissions. Other key indicators that have seen a positive development in 2021 include the ratio of women in senior management positions, the share of companies with publicly available and extensive human rights due diligence procedures in place, and the share of companies strategically integrating circular economy principles across business operations.

As we look towards the future, it is clear that volatility will remain a factor on financial markets for some time. The worst of the COVID-19 pandemic seems to be behind us, but we are facing uncertainty in the form of rising inflation, geopolitical tensions, and supply chain challenges initially triggered by the pandemic and exacerbated by continued environmental and demographic pressures. However, at SDG Invest, we remain confident that our investment philosophy will prove worthwhile in the long run, both in terms of financial return and sustainable impact.

We look forward to 2022, where we will continue creating value and positive impact for generations.

KARIN VERLAND
Chair of the Board

»We have committed to achieve net-zero for the SDG Invest portfolio by 2040. We believe that this is exactly the right move for SDG Invest.«

TABLE OF CONTENTS

PORTFOLIO IMPACT

PARTNERSHIPS

Listed on NASDAQ Copenhagen

Member of

Investor Signatory

Signatory

Retail partnerships with

Photos: Front and back page: Mikimad, page 6: Matt Palmer, page 8: Mads Rosendahl, page 17: Atstock Productions, page 19: UPM Biofore, page 21: Thiago Matos, page 22: Filippo Bacci, page 24: Mastercard, page 31: Coloplast.

2021
YEAR IN REVIEW

HIGHLIGHTS

+1,800	27.94%	31,6%
investors (79 % increase from 2020)	return in 2021 after costs	CO_2 reduction (Weighted Average Carbon Intensity)

ARTICLE 9 FUND

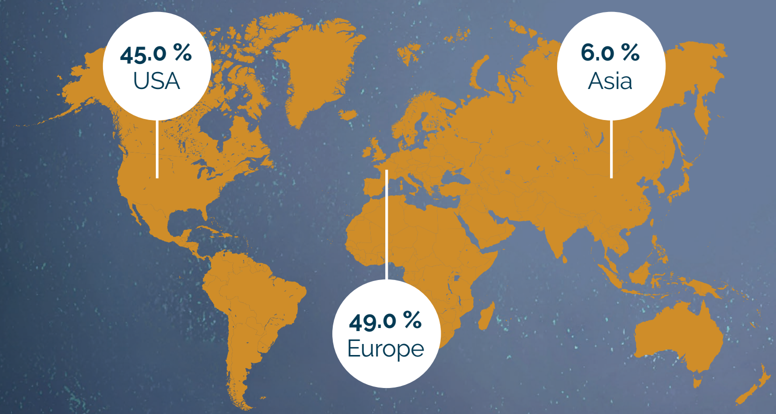
SDG Invest is classified as an Article 9 fund. Article 9, or 'Dark Green' funds, are 'products targeting sustainable investments'. In other words, an Article 9 fund is *'a fund that has sustainable investment as its objective or a reduction in carbon emissions as its objective'.* This classification of funds is one of several strategies by the EU to stimulate sustainable investments in order to help achieve the Paris Agreement and the EU Green Deal.

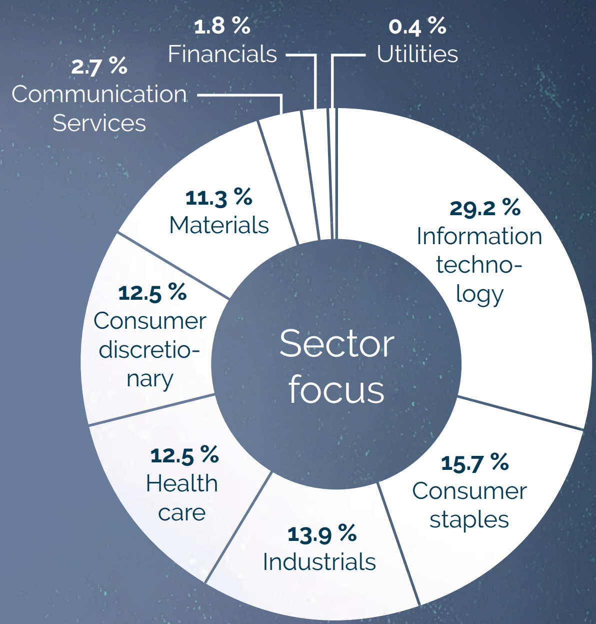
ARTICLE 9

Investment funds that have sustainability as an integral objective of their investment strategy

PORTFOLIO OVERVIEW

62	90,557	$28 bn
portfolio companies	average number of employees per portfolio company	average annual revenue per portfolio company





AMBITIOUS NET-ZERO TARGETS FOR THE SDG INVEST PORTFOLIO

In April 2022[1], The Intergovernmental Panel on Climate Change (IPCC) released the final part of its sixth assessment report. The overall conclusion was that greenhouse gas emissions were at the highest levels recorded in human history in the period between 2010-2019, but that the rate of growth has started slowing. However, the world is still on course to overshoot the 1.5-degree target outlined in the 2015 Paris Agreement. If we are to stay below the 1.5-degree threshold, immediate and steep reductions are required across all sectors.

As an institutional investor, we have the opportunity to make a difference, and this is a challenge we are ready to seize. Therefore, SDG Invest is proud to commit to a goal of net-zero by 2040. Setting the target 10 years ahead of consensus is ambitious, but we believe that a high level of ambition is needed for the immediate action necessary to achieve the Paris Agreement. Our commitment to net-zero by 2040 is founded in our passion for sustainability and builds on an in-depth analysis of the companies we work with. This, coupled with a vision for a more sustainable future, is the basis for our ambitious targets.

Science plays a vital role in understanding the implications of climate change and is key to achieving a net-zero, sustainable future for generations to come. For this reason, SDG Invest only considers net-zero commitments set through the 'Science Based Targets Initiative', as we believe this to be the most comprehensive framework to reach net-zero emissions.

To reach net-zero by 2040, we have outlined the roadmap of interim targets in 2025 and 2030 depicted below.

Reaching net-zero will be a massive undertaking for all sectors and stakeholders, and if we succeed, it could potentially become one of humanity's biggest accomplishments ever. At SDG Invest, we believe in this goal and are looking forward to engaging with our portfolio companies to reach these targets through dialogue and engagement activities.

DEFINITION

SDG Invest relies on the Science-Based Targets Initiative's definition of corporate net-zero:

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

- Reducing scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net-zero emissions at the global or sector level in eligible 1.5°C-aligned pathways
- Neutralising any residual emissions at the net-zero target year and any GHG emissions released into the atmosphere thereafter.

SDG INVEST COMMITS TO THE FOLLOWING NET-ZERO GOALS

100 % of our portfolio companies will have achieved the status **'Targets set'** with the Science Based Targets Initiative.

By 2025

100 % of our portfolio companies will have **set net zero targets** with the Science Based Targets Initiative.

By 2030

100 % of our portfolio companies will have **achieved net zero emissions.**

By 2040

1) Source: ipcc.ch/report/ar6/wg3/

THE FUTURE OF SUSTAINABILITY BEYOND COMPANY BOUNDARIES

Sustainability is a continuously evolving concept, as it is evident that developments within sustainability are urgently needed, if we are to achieve a more prosperous future for people and the planet.

SDG Invest follows ongoing developments within sustainability closely, and every year we publish our perspective on the sustainability trends, which we predict will shape the sustainability agenda in the coming years.

This year, we focus our attention on the procurement of raw materials and the importance of reliable sustainability data.

RAW MATERIALS GETTING SUSTAINABILITY RIGHT FROM THE BEGINNING

In the past few years, a trend has emerged within sustainability, accelerated by the COVID-19 pandemic, climate change and supply chain challenges; companies are rethinking their approach to the raw materials that are essential to their production. Companies have been faced with the realisation that raw materials will not always be readily available. Additionally, there is a rising awareness that the extraction and/or production of many raw materials can have a direct negative impact on people or the environment.

Companies are thus faced with a tremendous task, as they need to rethink sourcing strategies and re-evaluate product designs, to ensure that the raw materials in their products are securely and sustainably sourced.

Historically, companies have used production structures that leveraged the raw materials, which were either the easiest, cheapest, or most efficient to use. However, to an increasing extent, companies now must consider a range of other factors, including resource scarcity, the effects of climate change, and the potential negative impact of raw materials extraction on people and the planet.

Raw materials are mostly finite, and their supply will be increasingly volatile, as climate change is leading to more frequent and more extreme weather events. Additionally, certain raw materials, such as palm oil or soy, can contribute to deforestation and climate change, while raw materials, such as coffee or cocoa, have been linked to child labour and forced labour. Consumers, regulators, and civil society are placing higher demands on how companies deal with these sustainability risks.

TWO DOMINANT STRATEGIES FOR SUSTAINABLE RAW MATERIALS

Two main strategies are emerging among leading companies around ensuring that raw materials are sourced and produced sustainably.

First, companies are placing increased emphasis on the traceability and certification of raw materials. This implies increased oversight of the entire supply chain and a closer relationship with suppliers to ensure and implement sustainable practices. This strategy requires an extensive responsible supply chain management programme but can bring significant benefits. Ensuring traceability and certification of raw materials means decreasing the risk of negatively impacting people or the environment. Additionally, closer engagement and longer-term collaboration with suppliers enables investments into sustainable practices throughout the supply chain. Finally, supply chain resilience can be strengthened through sustainable sourcing programmes, with 63 % of companies reporting that their sustainable procurement initiatives helped them endure the COVID-19 pandemic[1].

The second strategy for rethinking raw materials is substitution, i.e., using alternative raw materials in redesigned products. Some substitutions are relatively simple and do not require extensive redesigning, as more sustainable alternatives are readily available, such as recycled plastics over virgin plastics, or using biodegradable alternatives. However, for many raw materials, there are no readily available sustainable alternatives. Companies will therefore need to innovate to increase the sustainability of their products, through creating alternative raw materials, or designing products so they do not require raw materials that cannot be sustainably sourced.

This is a demanding and often expensive process, but companies that are successful in their innovation endeavours will improve their capacity for innovation, their products will be easier to differentiate, and they can potentially gain access to a cheaper raw material or even a new source of income. However, companies also must consider their impact on local communities across the supply chain, as many communities in developing countries are dependent on their role in international supply chains for local development and growth. As a consequence, disruptive changes to the supply chain, brought on by sustainability initiatives, has the potential to severely impact human rights. With this in mind, companies should prioritise a just transition for local communities as they consider changing their sourcing strategies.

CHANGE IS NECESSARY

Rethinking raw materials will become urgently necessary for all companies in the coming years, as factors such as growing populations, a growing middle class, climate change, and biodiversity loss will exacerbate supply chain volatility. Already, demand for many raw materials is outweighing supply. Further, the increased focus on sustainable sourcing of raw materials by investors, civil society, and consumers, will be reflected in regulatory requirements for companies. An example is the proposed EU regulation on deforestation-free products[2], which will require companies to collect the geographic coordinates of the area where the specific raw material has been produced, among other requirements.

SDG Invest expects that all larger companies will implement strategies to address sustainable sourcing of raw materials in the coming years, either voluntarily, through investor pressure or through regulation. Such strategies make sense from an environmental, social, and economic perspective. We believe that sustainable sourcing strategies will bring increased cooperation between companies and their suppliers, advancing sustainable practices throughout the supply chain. Additionally, we expect to see increased innovation in alternatives to harmful raw materials. However, rethinking raw materials is a challenge that will require large investments. SDG Invest will urge our portfolio companies to lead the transition and inspire others to follow.

OUR APPROACH

The sustainable sourcing of raw materials is emphasised both in our investment decisions and in our annual analysis of all portfolio companies. We evaluate the quality of responsible supply chain management programmes, and the degree to which sustainable sourcing of key raw materials is prioritised.

Further, we analyse whether companies are redesigning or innovating products, to ensure the sustainability of the raw materials within them. The sustainability of raw materials also plays an increasingly important role when we conduct active ownership activities, through our direct dialogue with portfolio companies

1) Source: resources.ecovadis.com/sp-barometer/2021-sustainable-procurement-barometer
2) Source: ec.europa.eu/commission/presscorner/detail/en/qanda_21_5919

SUSTAINABILITY DATA
DEMANDS FOR TRANSPARENCY AND ACCOUNTABILITY

SDG Invest predicts that the coming years will bring a major transformation in the field of sustainability and sustainable investments, in the shape of increased demands in the private sector for accountability and transparency in sustainability data and reporting. The rise of ESG standards and the improved understanding of sustainability data for investors, consumers, and regulators alike, means that companies will no longer be able to hide sustainability inaction behind empty promises. Instead, companies are expected to diligently communicate and document their sustainability progress, through interim targets, and sustainability data that is quantifiable, comparable, transparent, and credible.

FROM PROMISE TO PERFORMANCE

For a long time, it was very difficult for external stakeholders to correctly gauge the sustainability performance of a company. Sustainability reporting was often an elaborative communicative exercise, where sustainability efforts were accompanied by vague wording and empty promises. However, developments in the area of sustainability reporting means that stakeholders increasingly know how to properly evaluate performance and communication on a broad variety of ESG factors. Standards and methodologies have been developed, increasing the transparency of sustainability data, and allowing for a higher degree of accountability for companies.

The Science-Based Targets Initiative, for instance, has transformed net-zero from a vague concept to a standardised method based on climate science. Meanwhile, the Greenhouse Gas (GHG) Protocol presents companies with tools for standardised measurement of GHG scope 1, 2 and 3 emissions. As a result, choosing not to report on key sustainability data will become difficult to justify to investors, business partners and consumers.

Regulation is another significant factor contributing to increased transparency and accountability surrounding sustainability data. The framework for sustainability reporting presented by the Task Force for Climate Related Financial Disclosures (TCFD) has become mandatory in the UK, while the EU is also taking major steps in making sustainability disclosure mandatory and uniform for all larger EU companies, through e.g., the EU Taxonomy, the Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD). These, and other regulatory developments, will make it easier to verify sustainability claims, thus putting even more pressure on companies to be transparent in their sustainability efforts.

We expect that external assurance of sustainability data will play a larger role in the coming years, as it will become mandatory through the CSRD, and as it will become an expectation from investors. External sustainability assurance means independent evaluation of sustainability data, ensuring the quality of the data collected and reported.

Obtaining external assurance on sustainability data is an essential way for companies to ensure the validity and credibility of their reporting. Accounting firms are already preparing for a boom in ESG reporting and auditing.

THE EFFECTS OF TRANSPARENCY: CHANGING SUSTAINABILITY STRATEGIES

The developments in sustainability data and reporting standards means that companies of the future will have to adjust their sustainability strategies to meet the increased demands of investors, consumers, civil society, and regulators. This can be a massive undertaking for companies inexperienced in the field of sustainability, however failing to live up to demands means risking severe reputational, legal, and financial consequences.

Companies that are overstating the impact of their sustainability efforts will face public scrutiny, but the increased attention to transparent and credible sustainability information also presents a huge opportunity for ambitious companies that are serious about their sustainability journey.

From an investor perspective, increased reliability and transparency in communication and data on sustainability efforts is vital, if we are to reward genuine progress rather than empty promises. We, as investors, are demanding that companies publish reliable, quantitative data to support their sustainability claims, and that long-term targets are accompanied by interim targets and specific action plans. This information will facilitate meaningful dialogue with portfolio companies and a better understanding of sustainability risks and opportunities in investment decisions.

OUR APPROACH

SDG Invest believes that improvements in the quality and quantity of the sustainability data published by companies, will be essential in creating impactful action on sustainability issues.

Our investment decisions and the quality of our annual analysis relies on extensive and transparent sustainability data.

We evaluate whether companies have obtained external assurance on their sustainability reporting, whether their sustainability targets are accompanied by action plans, and whether their data is developed in accordance with leading ESG and sustainability standards.

Only companies with extensive sustainability data and reporting, both qualitative and quantitative, will be part of the SDG Invest portfolio.

»Sustainability reporting was often an elaborative communicative exercise, where sustainability efforts were accompanied by vague wording and empty promises. However, developments in the area of sustainability reporting means that stakeholders increasingly know how to properly evaluate performance and communication on a broad variety of ESG factors.«

SELECTION METHOD A PORTFOLIO OF LEADERS WITHIN SUSTAINABILITY

Only the best performing companies with a strong financial and sustainable profile are considered for the SDG Invest portfolio. Using our unique scoring model, we ensure that we only pick the top performers.

A THREE-STEP MODEL FOR SELECTING COMPANIES

1

FINANCIAL SELECTION

The StockRate model

- Strong earnings history
- High financial strength
- High economic stability

2

SECTORIAL SCREENING

Negative screening

Exclusion of companies operating in certain industries

3

SUSTAINABILITY SCORING

SDG Invest Sustainability Scorecard

Screening and analysis of companies' approach to

- Leadership
- Sustainability
- Governance

All companies considered for the SDG Invest portfolio go through our three-step selection process. This is our unique way of ensuring that we only pick the most financially sound and sustainable companies.

First, companies must meet certain requirements related to their financial strength, history, and stability. Second, companies with revenues stemming from certain industries (including but not limited to fossil fuels, alcohol, and weapons) are excluded. Finally, our proprietary SDG Invest Sustainability Scorecard facilitates a thorough scoring process based on our expert knowledge in sustainability. The Scorecard ensures that only the most sustainable companies in the world make it to the portfolio.

Our scoring is comprised of three categories:

- Sustainability (**25 %**)
- Governance (**25 %**)
- Leadership (**50 %**)

Every year we adjust the Scorecard to reflect current trends, new focus areas, and to raise the bar for what is considered sustainable. This means that parameters are removed or added on an annual basis. In 2021 we added 5 new parameters and 18 new scoring options, thereby bringing the total to 50 parameters with 167 scoring options.

SUSTAINABILITY SCORECARD
THE 5 NEW PARAMETERS ADDED IN 2021

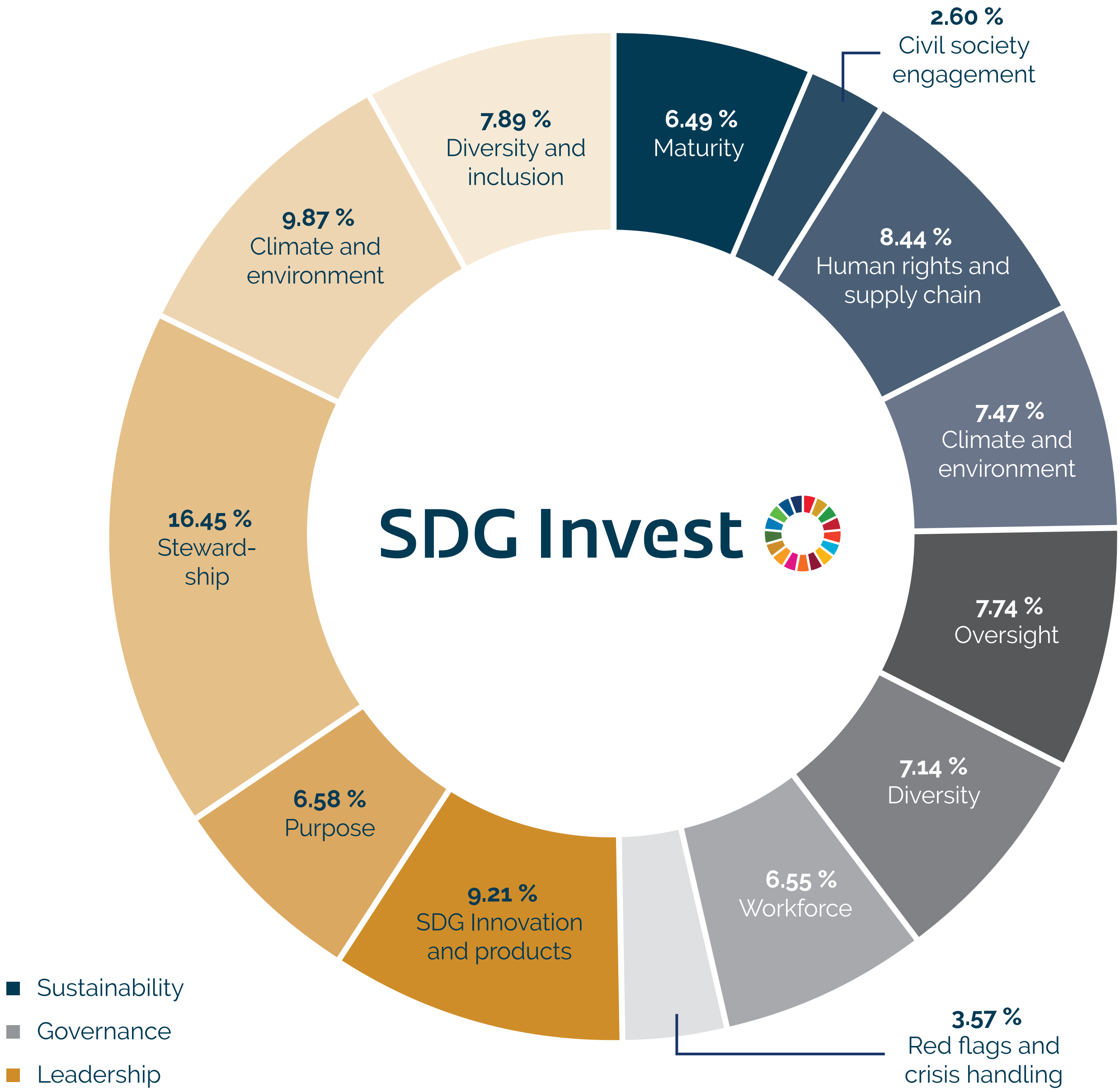
1. CLIMATE CHANGE
Showing commitment to climate change is for many companies the new norm. To reflect this, we have strengthened our assessment of the extent to which companies are committed, whether through a simple policy on climate change or through a full scenario analysis in line with TCFD recommendations, or somewhere in between.

2. RENEWABLE ENERGY
Clean energy is at the centre of the green transition. For this reason, companies are now assessed based on how large a share of their total energy consumption stems from renewable resources.

3. SCIENCE BASED TARGETS
Setting climate targets in line with climate science is key to having a common benchmark for reductions and to better understand how we can reach net-zero emissions. For this reason, we have expanded our assessment of portfolio companies' targets with 'The Science Based Targets Initiative', and their alignment with net-zero requirements.

4. BIODIVERSITY
The understanding of nature's importance for the climate and for our well-being has gained traction in recent years. We now assess to which extent companies focus on biodiversity in their sustainability strategy, and if companies have a strategic stand-alone approach to biodiversity.

5. ETHNICITY AND MINORITY DIVERSITY
Diversity and inclusion efforts should extend beyond gender. We evaluate initiatives in support of (potential or current) employees that are LGBTQ+, black, indigenous, people of colour or otherwise marginalised.



INVESTMENT FUNDS WITH SPECIFIC ENVIRONMENTAL OR SOCIAL SUSTAINABILITY CRITERIA

In 2021, the Sustainable Finance Disclosure Regulation (SFDR) proposed by the EU was implemented. With a growing focus on sustainability, there is a greater need for a more transparent classification of investment funds, and with the SFDR, investors now have a common definition to compare the level of sustainability of investment funds. Funds are classified into three categories:

Sustainability has always been at the core of our investment philosophy, which is why the SDG Invest portfolio is classified as an Article 9 fund. This also means that we adhere to the EU's 'Do No Significant Harm' principle.

Ensuring that we set the highest standards for the companies we wish to invest in is central to our approach to sustainability and requires that we manage risks in our investments thoroughly.

Our proprietary SDG Invest Sustainability Scorecard is our most important tool when we assess sustainability impact and risks. Not only do we assess the company itself, but we also consider the entire value chain. This includes analysing the company's approach to human rights, responsible supply chain management, and which due diligence processes are in place. We also assess how a company works with climate, biodiversity, water & waste management. And finally, we assess governance structures. On a continuous basis, we monitor media and company press releases for potential red flags.

ARTICLE 6

Investment funds that do not or only at a limited level integrate sustainability

ARTICLE 8

Investment funds with specific environmental or social sustainability criteria

ARTICLE 9

Investment funds that have sustainability as an integral objective of their investment strategy

SDG Invest

SUSTAINABILITY FOCUS

LOW — HIGH

»Our proprietary SDG Invest Sustainability Scorecard is our most important tool when we assess sustainability impact and risks.«

ACTIVE OWNERSHIP
USING OUR VOICE TO ENACT IMPACT

Action points in 2021	Action points in 2020
262	276

At SDG Invest, we see active ownership as an essential element of investing responsibly. Through exercising the rights of ownership and through capitalising on our position as investors, we engage with portfolio companies and the investor community in efforts to advance sustainable development.

DIALOGUE WITH PORTFOLIO COMPANIES

SDG Invest conducts an annual analysis of all portfolio companies using our Sustainability Scorecard methodology. This analysis results in an in-depth understanding of each company's sustainability profile, revealing areas where the company takes leadership in the sustainable transformation of society, and areas where improvements are desirable.

Our analysis provides extensive knowledge about each portfolio company. We use this knowledge as the basis for our dialogue, as we annually conduct individual outreach to all portfolio companies to inform them about our observations surrounding their sustainability performance, and to engage in improving sub-standard performances. In 2021, SDG Invest sent letters to all 62 portfolio companies, containing a combined 262 specifically recommended action points. These action points are designed to encourage our portfolio companies to increase their efforts within areas of sustainability that are of concern to us and to our investors.

Companies in the SDG Invest portfolio are leaders in sustainable development, however, we always believe that improvements can be made. Our expectation is that portfolio companies are continuously working to increase their positive impact on the environment and on society, and we communicate that expectation to our companies.

WORKING TOGETHER WITH THE INVESTOR COMMUNITY

As investors, we can achieve more if we collaborate with other investors. SDG Invest on its own is a small actor, but we are engaged in several investor alliances through which we can amplify our influence.

Participating in investor alliances such as Climate Action 100+ allows SDG Invest to engage more companies in meaningful dialogue. Investor alliances are also an important resource in sharing knowledge on best practices in responsible investing.

Another benefit of collaboration across the investor community is the ability to organise investor campaigns, urging action by companies, regulatory bodies, and governments. In 2021, for instance, SDG Invest participated in an investor campaign leading up to the COP26, along with 732 other investors. The campaign '2021 Global Investor Statement to Governments on the Climate Crisis' amassed support from investors managing more than 52$ trillion in assets, equivalent to around 50 % of global assets under management.

The '2021 Global Investor Statement to Governments on the Climate Crisis' urges governments to raise their climate ambition to limit global warming to no more than 1.5 degrees, implement effective emissions reduction policies, and end fossil fuel subsidies and coal-fired power generation, among other targets. The statement received strong support from the investor community, illustrating that investors are fully committed to a more sustainable future.

RESPONDING TO CURRENT CASES AND ISSUES

SDG Invest monitors news coverage of all the companies in our portfolio, to stay informed on possible cases that may arise. If we consider the cases contrary to our investment principles, we place the implicated company on our watchlist and initiate direct contact. It is important that we understand how our portfolio companies are managing cases and how they seek to mitigate any given wrongdoing. Investing in large companies presents complex issues. We expect our portfolio companies to be transparent on issues and dilemmas, and to take actions to address and mitigate negative impact.

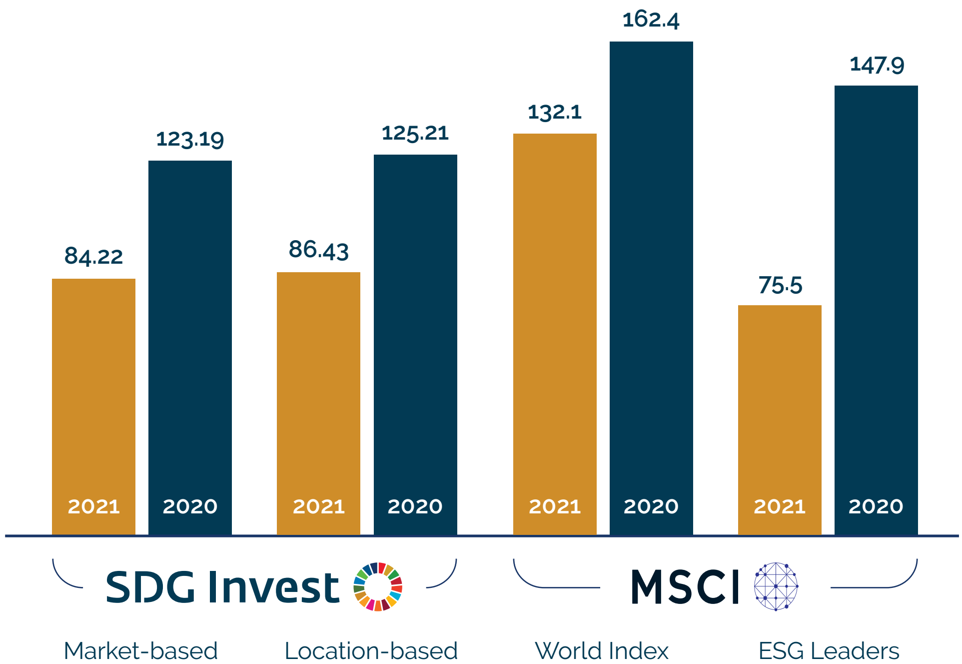
IMPACT 1
CLIMATE CHANGE AND ENVIRONMENT

This impact area describes how SDG Invest portfolio companies approach climate change and environment. Halting climate change and protecting the environment are the key issues of our time, and the SDG Invest portfolio should reflect this. We therefore have procedures in place to ensure that sustainability risks related to climate change and the environment are minimised in our portfolio, including active ownership activities, exclusion of the fossil fuel industry and in-depth analysis of e.g., water and waste management, emissions reductions efforts and targets, and biodiversity integration.

THE CARBON FOOTPRINT OF THE SDG INVEST PORTFOLIO

WEIGHTED AVERAGE CARBON INTENSITY

(tons of CO_2e/$M revenue)



TOTAL CARBON EMISSIONS

(tons CO_2e)

Market-based	Location-based
5113.03	5257.24
2020: 6009.69	2020: 6056.91

CARBON FOOTPRINT

(tons CO_2e/$M invested)

Market-based	Location-based
44.05	45.29
2020: 72.49	2020: 73.06

CARBON INTENSITY

(tons of CO_2e/$M revenue)

Market-based	Location-based
108.51	111.57
2020: 181.36	2020: 182.79

METHODOLOGY

Our carbon footprint metrics have been developed following the methodology set forth by the TCFD*. To calculate our carbon footprint metrics, reliable data on the GHG emissions of each company in our portfolio is required. 97 % of our companies submit their emissions data to CDP following the Greenhouse Gas Protocol.

*) Source: bit.ly/tcfd-methodology

The remaining 3 % publish emissions data in their yearly reports. We work under the assumption that this publicly available data is accurate, however each company may vary in how they measure and report their emissions. When calculating market-based metrics, we have used location-based data for companies that do not report this information, and vice versa.

At SDG Invest, we believe that transparency in reporting is an important prerequisite for enabling sustainable investments. We therefore publish key metrics on the carbon footprint of the SDG Invest portfolio as recommended by the Task Force on Climate-Related Financial Disclosures (TCFD). SDG Invest does not claim to be a 'green' investment fund. Despite this, we see significant improvements in the carbon footprint of the portfolio, as compared to 2020.

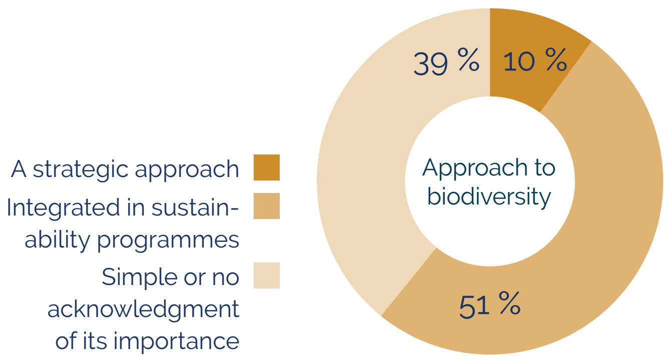
The Weighted Average Carbon Intensity, which describes portfolio exposure to carbon-intensive companies, has decreased by 31.6 % over the past year. This decrease should be seen in light of the global COVID-19 pandemic; however, it is impressive nonetheless, and shows commitment by portfolio companies to reduce GHG emissions.

BIODIVERSITY NEW PARAMETER SPOTLIGHT

Biodiversity plays a key role in building a sustainable future, with more than half of global GDP dependent on nature[1]. The cost of inaction is increasing, and it is already evident that biodiversity loss and ecosystem degradation is threatening nature's ability to provide life-sustaining services, while also disproportionately affecting marginalised populations.

At SDG Invest, we recognise that private companies have a significant role in both past infractions and in future reparations. In 2021, biodiversity was therefore added as a specific topic in our annual analysis of portfolio companies. The analysis of each company's approach to biodiversity shows that the majority of portfolio companies have included biodiversity into their sustainability programmes.

SDG Invest will encourage our portfolio companies to adopt a strategic approach, integrating science-based biodiversity efforts throughout the value chain.



»SDG Invest will encourage our portfolio companies to adopt a strategic approach, integrating science-based biodiversity efforts throughout the value chain.«

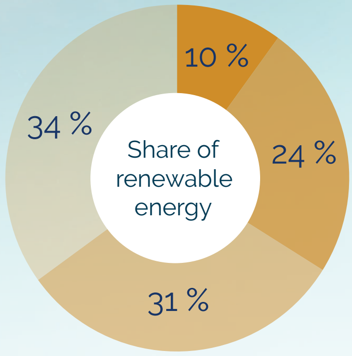
1) Source: www.un.org/en/un-chronicle/biodiversity-key-building-sustainable-future-all

RENEWABLE ENERGY

The Intergovernmental Panel on Climate Change (IPCC) has found that emissions from fossil fuels are the dominant cause of global warming. About two thirds of global GHG emissions are linked to burning fossil fuels for energy used for heating, electricity, transport and industrial processes.

The transition away from fossil fuels is essential in mitigating climate change and achieving the Paris-agreement target of limiting global warming to 1.5°C. The SDG Invest portfolio companies have already begun the transition. As of 2021, 34 % of portfolio companies have a share of renewable energy larger than 50 %.

As large companies increase demand for renewable energy solutions, it becomes possible to speed up the transition away from fossil fuels. SDG Invest is therefore proud to see a large share of companies prioritising the use of renewable energy.



SCIENCE BASED TARGETS COMMITMENT

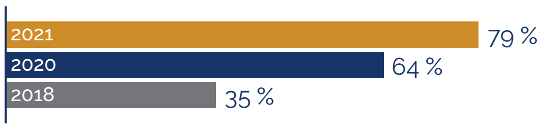
The Science Based Targets initiative (SBTi) is a partnership between CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature (WWF). The initiative enables companies to set emissions reduction targets that are validated using the latest climate science and in line with the goals of the 2015 Paris Agreement.

Companies with the status 'committed' have not yet had their targets approved by the SBTi, whereas companies with the status 'targets set' have approved targets aligned with the Paris Agreement. In 2021, SDG Invest set a target for the portfolio that 100 % of companies achieve the status 'targets set' with the Science-Based Targets Initiative (SBTi) by the end of 2025.

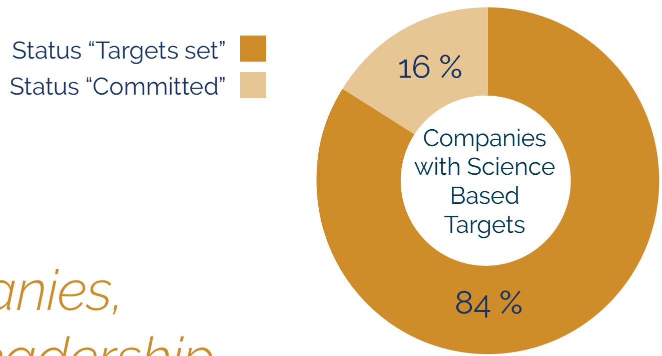
That figure reached 66 % in 2021, illustrating that a large share of portfolio companies is on the forefront of action on climate change and achieving the Paris Agreement.

SDG Invest has set the portfolio target, based on the belief that science-based targets are the optimal and most effective way for companies to show that they deliver on the goals of the Paris Agreement. The next step for companies wishing to illustrate further leadership toward the transition to a carbon neutral society, is setting net-zero targets through the methodology presented by the SBTi in 2021. This will be a key topic of engagement for our active ownership activities in the coming year.

Involved[1] with the Science Based Targets



SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



»The next step for companies, wishing to illustrate further leadership toward the transition to a carbon neutral society, is setting net-zero targets.«

1) Share of portfolio companies with the status 'targets set' and 'committed'

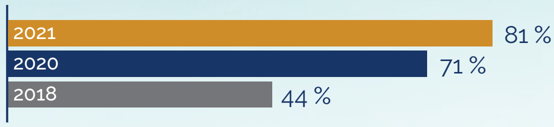
WORKING WITH SUPPLIERS PARAMETER HIGHLIGHT

Supply chain GHG emissions are, on average, more than 11 times higher than a company's operational emissions[1]. Ambitious companies, aiming to combat climate change, must therefore look beyond their own emissions to enact change. It is incredible to see a positive development in the share of SDG Invest portfolio companies that engage their supply chain in emissions reduction.

These companies are affecting change in the area where change is most needed.

MSCI writes: *"As the world's biggest companies work to go net-zero, downward emissions pressure may become as familiar to suppliers as downward price pressure… 'B2B engagement' could become the next frontier of climate influence".*

Working with supply chain to reduce CO_2E emissions



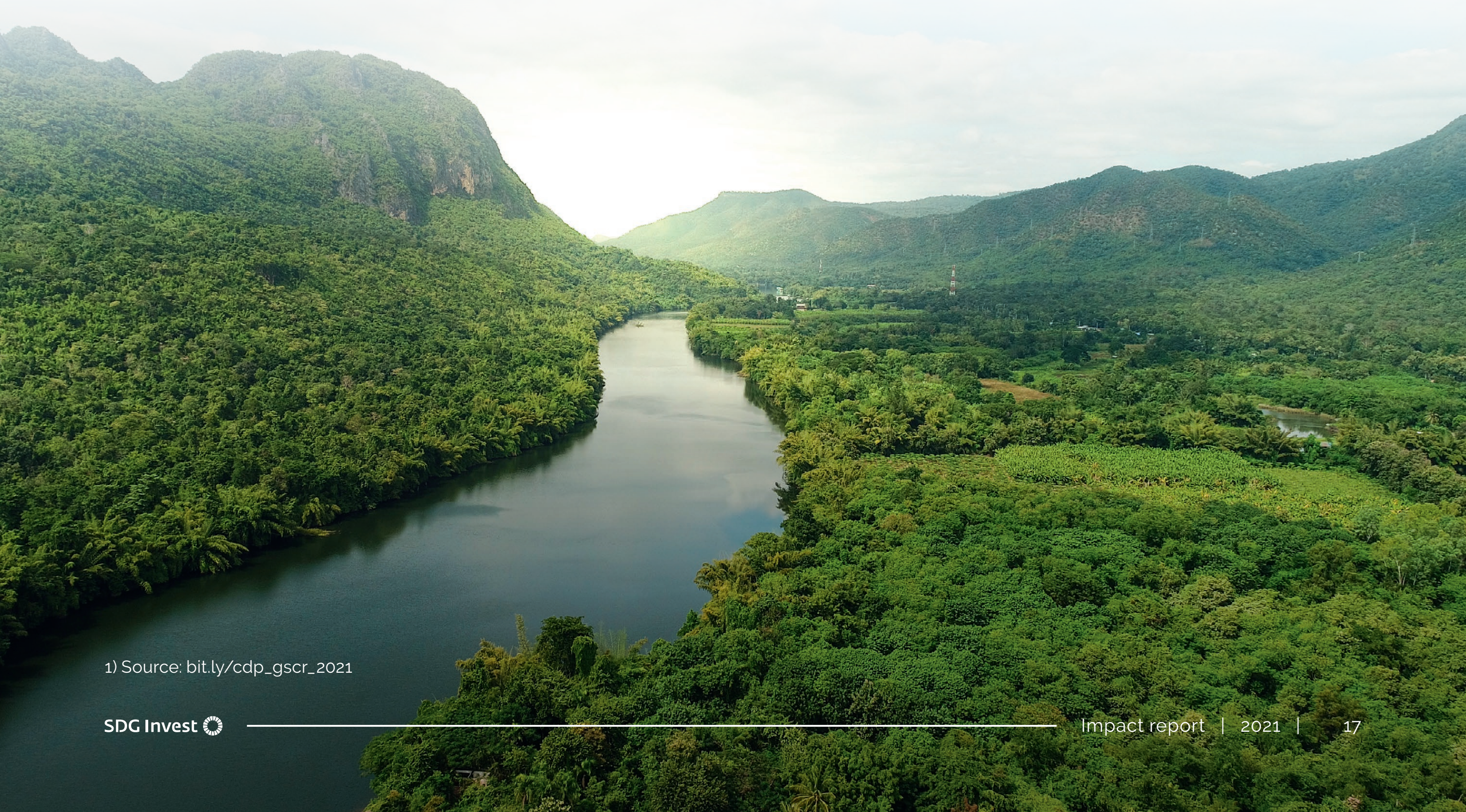
CASE **UNILEVER WANTS TO BECOME NET-ZERO BY 2039**

The general consensus is that we need to reach net-zero by 2050 in order to stay below the 1.5-degree temperature increase as outlined in the Paris Agreement. But some companies are taking an even more ambitious approach. One of them is Unilever. With a target to reach net-zero across all 3 scopes of emissions by 2039, 11 years "ahead of time", Unilever shows leadership and inspires other companies to take similar action. To get there, Unilever aims to reduce emissions by 70 % in 2025 and to eliminate scope 1+2 emissions by 2030.

With more than 60,000 suppliers worldwide, a large share of Unilever's emissions stem from suppliers. For this reason, Unilever is working strategically with existing suppliers to cut emissions.

Additionally, Unilever prioritises partnerships with new suppliers who have already set science-based targets.

Through its Unilever Climate Programme, Unilever provides targeted support to suppliers whose products have been assessed to have the biggest impact on climate change. Unilever is currently conducting a pilot project with a small group of suppliers before rolling out the project on a larger scale in 2023. Another initiative is the SME Hub, where Unilever supports small- and medium suppliers on the transition towards net-zero.



1) Source: bit.ly/cdp_gscr_2021

IMPACT 2
CIRCULAR ECONOMY

This impact area describes the degree to which SDG Invest portfolio companies have integrated circular economy principles in their business. The transition to a circular economy can both reduce pressure on the environment and boost economic growth in society. It can also be an effective way for companies to reduce sustainability risks, specifically physical climate-related risks arising from changes in the weather and climate.

Climate change represents a severe physical risk to the supply of raw materials and adopting circular economy principles is an excellent way to improve the security of raw materials supply.

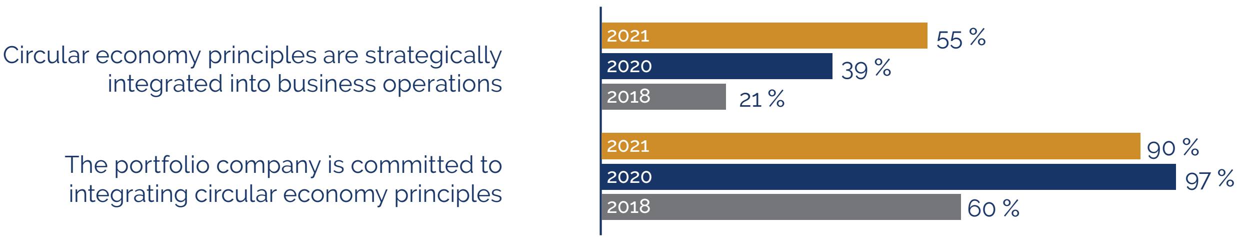
COMMITMENT TO CIRCULAR ECONOMY

In our current economic model, we take materials from the Earth, make products from them, and eventually dispose of them. This pattern of production, consumption and disposal is unsustainable, as the demand for raw materials far exceeds planetary boundaries, with the problem only exacerbated by a growing world population and middle class.

The circular economy is an economic model where the life cycle of products is extended, and economic growth is decoupled from the consumption of finite resources.

It is a model which could reduce pressure on the environment and create innovation, economic development, and jobs. It is also suited to tackle global challenges such as climate change, biodiversity loss, waste, and pollution.

In the SDG Invest portfolio, we have seen a slight decrease in the share of companies broadly committed to circular economy principles. More importantly, however, is the significant increase in portfolio companies that have integrated circular economy principles strategically in business operations. These are the companies that are rethinking how products should be designed, produced, and reused.



»The current pattern of production, consumption and disposal is unsustainable, as the demand for raw materials far exceeds planetary boundaries.«

CASE **UPM HAS TRANSFORMED TO BECOME 'CIRCULAR-BY-DESIGN'**

Being in the forest industry, circularity is deeply integrated in UPM's identity. UPM is a Finnish forest company which produces a wide range of forest-related products including Pulp, paper, biofuels, and timber. Having close ties with nature, UPM has a strong focus on reducing, reusing, and recycling, and 89 % of UPM's production waste is either reused or recycled, while 35 % of the nutrients used in their wastewater treatment plants come from recycled sources.

To limit its impact on nature, UPM aims to become a "Zero Solid Process Waste to Landfill" company in 2030. As part of this process, UPM develops solutions through which excess materials can be circulated to generate value. Using synergies between its various product divisions as well as partnerships with other companies to utilise secondary raw materials, UPM excels at minimising waste.

BioVerno is a good example of this approach. BioVerno is a renewable fuel made from crude tall oil, which is extracted from the pulp production process used to produce paper. The product helps to eliminate otherwise wasted byproducts from the pulp production, through its use as biofuel, which is mixed into traditional gasoline or diesel fuel. Additionally, biofuels help to lower emissions from cars, trucks and buses and is a requirement in traditional gasoline and diesel fuel in the EU. However, compared to traditional biofuels, BioVerno does not use raw materials used in food production and therefore does not affect food scarcity.

UPM focuses on product stewardship both to minimise environmental effects of production, and to ensure that products can start a second life at the end of their lifecycle. By doing so, UPM helps to mitigate climate change by replacing fossil-based products with bio-based renewable alternatives.

UPMBIOFORE
BEYOND FOSSILS

IMPACT 3
HUMAN RIGHTS, LABOUR RIGHTS AND SUPPLY CHAIN MANAGEMENT

This impact area describes how SDG Invest portfolio companies approach human rights and labour rights throughout their value chains, and how they ensure responsible supply chain management. For SDG Invest, it is essential that portfolio companies are committed to doing no harm through their operations and sourcing. We therefore have procedures in place to ensure that sustainability risks related to human rights and sourcing are minimised in our portfolio, including active ownership activities, specific requirements on policies, and in-depth analysis of e.g., due diligence processes, and supply chain reporting and monitoring.

1 NO POVERTY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

RESPONSIBLE SUPPLY CHAIN MANAGEMENT

Responsible supply chain management is a voluntary commitment by companies to acknowledge and act upon social conditions and environmental impact of all activities along the supply chain. By implementing responsible supply chain practices, companies can preserve the long-term viability of their business, secure a social licence to operate and, most importantly, protect the people and planet impacted by business activities.

In the SDG Invest portfolio, all companies have policies in place for responsible supply chain management and an incredible 87 % of companies have detailed descriptions of their due diligence procedures to ensure responsible sourcing of raw materials. SDG Invest will always urge portfolio companies to exhibit transparency, through publishing their due diligence efforts and the results of those efforts.

Raw materials responsibly sourced through established due diligence procedures

HUMAN RIGHTS IN THE SUPPLY CHAIN

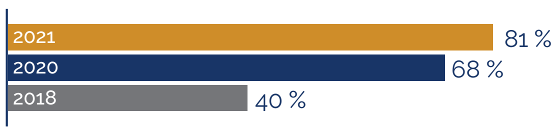
The 2030 agenda is a call to action for people, the planet and prosperity, with the pledge that no one will be left behind. Recognising that the dignity of humans is fundamental, the Sustainable Development Goals seek to realise human rights for all.

The SDG Invest portfolio consists of companies that recognise the responsibility of the corporate sector to respect human rights and ensure that the principles and actions in the UN's Guiding Principles on Business and Human Rights are promoted.

SDG Invest portfolio companies should always have a proactive approach to human rights, both in their own operations and in the supply chain. We annually analyse and evaluate the quality of due diligence procedures, to ensure that human rights risks are minimised, and we are proud to see that 81 % of portfolio companies publish extensive information on their due diligence.

At SDG Invest, we encourage our companies to continuously develop and improve their due diligence practices and their engagement with suppliers. We know that global companies that prioritise this work can have a positive impact on millions of lives throughout their global supply chains.

Human rights secured through established due diligence procedures



LIVING WAGE PARAMETER HIGHLIGHT

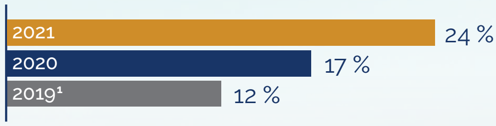
Low wages drive inequality and poverty around the world and addressing low wages in global supply chains is essential for any company that is serious about the achievement of the Sustainable Development Goals.

The ability to earn enough for a worker to cover their basic needs and the needs of their families is recognised as a human right. By going beyond legal requirements of a minimum wage, companies can play a pivotal role in ensuring a living wage in their supply chain.

Fragmented supply chains across borders and no universal definition of what monetary amount constitutes a living wage are difficult challenges to overcome. However, companies should not use such challenges as an excuse for inaction.

24 % of the SDG Invest portfolio companies describe their efforts to secure a living wage in the supply chain, through direct supplier engagement or collaborative approaches with civil society organisations. We are proud to see a positive development in the share of companies committed to paying a living wage, and will encourage the remaining portfolio companies to follow suit.

Actively engaged in securing a living wage in the supply chain



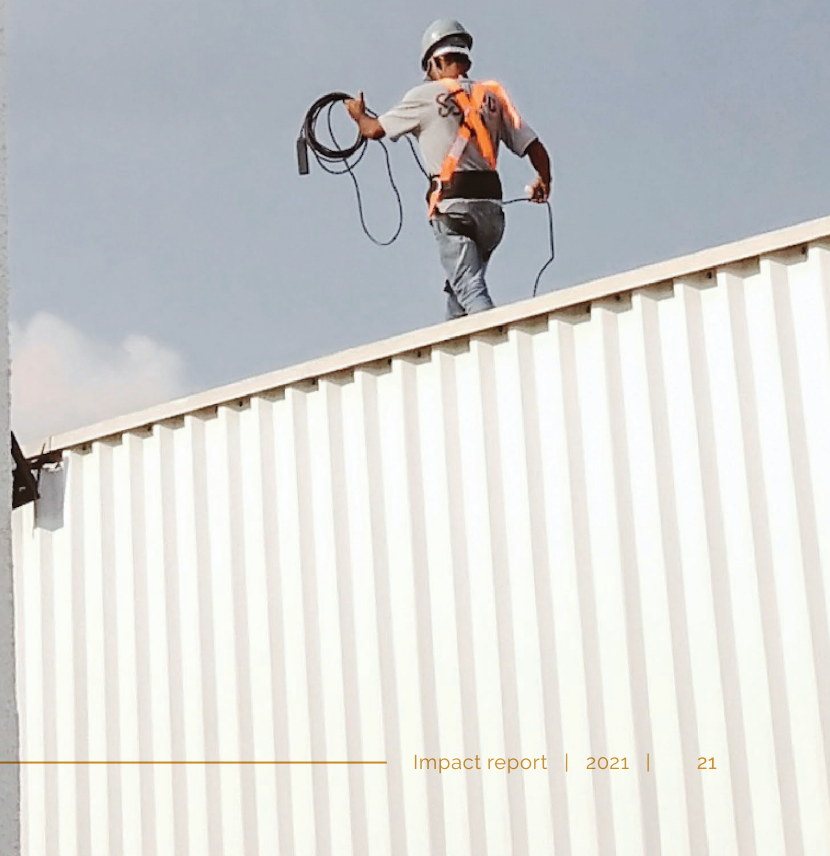
DEFINITIONS

MINIMUM WAGE

is a **national floor level** set by the government

LIVING WAGE

is what workers need in order to provide their families with **decent standards of living**

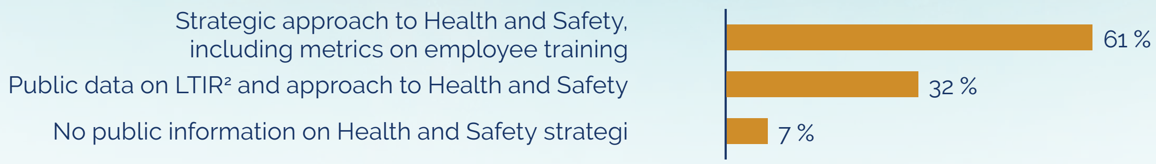


1) Data from 2018 not available

HEALTH AND SAFETY PARAMETER HIGHLIGHT

Respect for workers' rights and compliance with labour standards are the foundation of decent work, and decent work is an essential factor in promoting sustained, inclusive and sustainable economic growth. It is vital that companies respect and promote labour rights throughout their operations and value chain.

Health and safety is a fundamental right for workers, with its importance only heightened during the COVID-19 pandemic. SDG Invest expects all portfolio companies to take concerted action to protect worker's physical and mental health. It is therefore incredible to see strategic health and safety initiatives among 61 % of our portfolio companies. For the future, we hope to see even more companies integrate health and safety in a strategic manner.



CASE **L'ORÉAL EXCELS ON HUMAN RIGHTS IN ITS SUPPLY CHAIN**

Being the world's largest cosmetics producer means working with a vast number of suppliers and navigating a complex supply chain. For these reasons, it is essential to have the right measures in place to ensure that human rights are respected.

One of the most common ways of ensuring human rights is through auditing. Despite COVID-19, L'Oréal conducted 1,268 on-site audits for suppliers in 2021 – equal to 96 % of supplier sites being audited at least once.

L'Oréal also has a strong focus on strengthening human rights with external stakeholders.

Since 2019, L'Oréal has been collaborating with the Danish Human Rights Institute to mainstream its approach to human rights. This collaboration focuses on the gaps that exist in L'Oréal's current human rights approach and policies as well as a human rights impact assessment with emphasis on the supply chain.

Additionally, in 2020, L'Oréal introduced a global employee human rights policy, which ensures, among other things, a living wage for all its employees worldwide, and rights such as freedom of association and expression and universal paid vacation.

L'ORÉAL

»SDG Invest portfolio companies should always have a proactive approach to human rights, both in their own operations and in the supply chain.«

2) Lost Time Incident Rate

IMPACT 4
INTEGRATING THE SDGS IN SOLUTIONS AND INNOVATION

This impact area describes how SDG Invest portfolio companies contribute to the achievement of the SDGs through their core business activities. This impact area is thus focused on highlighting the positive impact that portfolio companies can have through their existing products and solutions or through their R&D and innovation activities.

Additionally, it is important that no product or solution with a positive impact on one SDG does significant harm to another. Our analysis of portfolio companies seeks to ensure that this is not the case.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

OFFERING SOLUTIONS THAT CONTRIBUTE TO THE ACHIEVEMENT OF THE SDGS

Global partnerships and international cooperation are prerequisites to achieving the scale and ambition of the SDGs. The private sector is an indispensable partner in this work, and the implementation of the 2030 Agenda is not possible without the contribution of business.

The SDGs enable companies to align business strategies with global priorities, integrating impact into the core of business, through the investments they make, the solutions they develop, and the business practices they adopt. In doing so, the goals encourage companies to reduce their negative impacts while enhancing their positive contribution to the sustainable development agenda.

84 % of the SDG invest portfolio companies have developed products or solutions that directly contribute to the achievement of the SDGs. Further, 98 % of our portfolio companies conduct innovation activities centred around advancing sustainable development. We always encourage our portfolio companies to integrate the SDGs in a strategic manner and to seek the business opportunities inherent in the global sustainability challenges.

Products and/or solutions in place that directly contribute to the achievement of the SDGs

Innovation activities that contribute directly to the SDGs

SOLUTIONS TAILORED FOR DEVELOPING MARKETS PARAMETER HIGHLIGHT

A central tenet of the SDGs is the recognition that certain countries and populations are especially vulnerable, and should receive special attention to ensure that they too achieve sustainable development. There is a need for solutions that are specifically tailored to the challenges prevalent in developing and underdeveloped markets. At SDG Invest, we are proud to see that 29 % of our companies have developed products or solutions tailored specifically for developing markets, recognising the actions required to empower those who are vulnerable.

29%

of portfolio companies have addressed development issues in developing markets through specific products and/or solutions

1) Data from 2018 not available

CASE **MASTERCARD WANTS TO BRING ANOTHER 500 MILLION PEOPLE INTO THE DIGITAL ECONOMY**

Access to simple financial services such as savings accounts, loans, credit, cashless payments and other traditional banking services might be the norm in industrial countries. But in many developing countries, the access to such services is very limited.

With an increasingly digital economy we risk creating even larger gaps between those who are included and those who are not. It was for this reason that Mastercard in 2015 committed to bringing 500 million financially excluded individuals into the digital economy –a massive task that was achieved in 2020 through 350 innovative programmes across 80 countries. As part of its COVID-19 response, Mastercard doubled down on its original commitment.

This means that Mastercard aims to include another 500 million financially excluded individuals into the digital economy by 2025, thereby totalling 1 billion individuals helped. The commitment also includes support for 50 million micro and small businesses that are not currently part of the digital economy, as well as support for 25 million female entrepreneurs to help them grow their businesses.

One of the projects was establishing credit opportunities for micro-merchants in Kenya, which are otherwise hard to achieve. In partnership with Unilever, Mastercard created a digital programme for micro-merchants, which provides credit eligibility recommendations to Kenya Commercial Bank, which can then assess a retailer's credit worthiness and extend formal credit.

»With an increasingly digital economy we risk creating even larger gaps between those who are included and those who are not.«

IMPACT 5
DIVERSITY AND INCLUSION

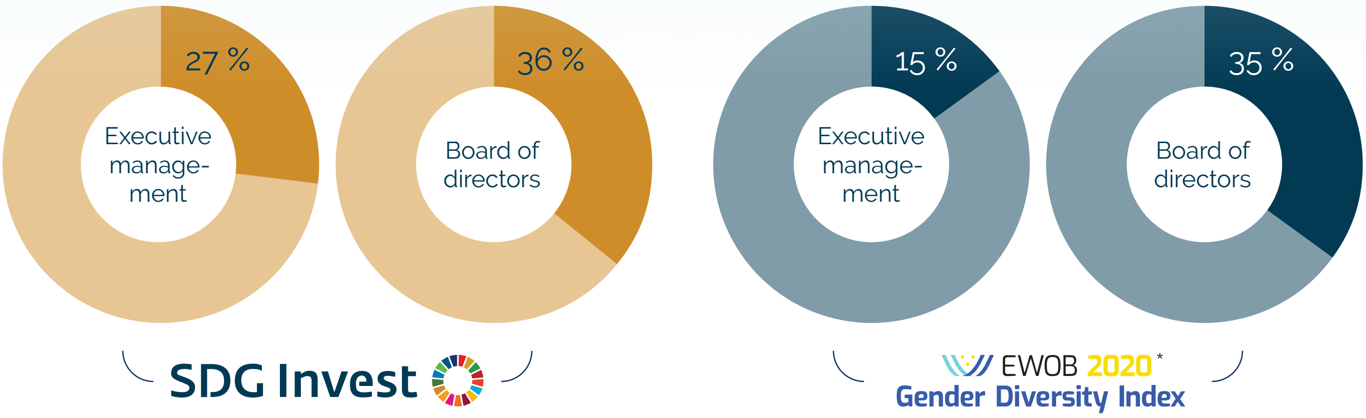
This impact area describes how SDG Invest portfolio companies approach diversity and inclusion. In our analysis of companies, we seek to ensure that diversity and inclusion efforts are centred around all present and potential employees, regardless of gender, ethnicity, religion, sexuality, disability, and age.

Further, SDG Invest monitors portfolio companies for stories or accusations of discrimination.

5 GENDER EQUALITY

10 REDUCED INEQUALITIES

PERCENTAGE OF WOMEN IN SENIOR MANAGEMENT



The empowerment of women and girls is a central topic in the 2030 Agenda, not just through SDG 5, Gender Equality, but also as a tool to realise every other Sustainable Development Goal and to fulfil the aim of "leave no one behind". The achievement of sustainable development is not possible if half of humanity continues to be denied full human rights and opportunities.

Increasing the share of women in senior management is an area where the private sector has a huge opportunity to create a positive impact for gender equality.

Studies have shown that companies with a more equal distribution across genders are more likely to be innovative and to achieve financial targets. There is no good excuse for inaction.

In the SDG Invest portfolio, we see that women are represented in senior management to a higher degree than in the Gender Diversity Index[1]. However, there is still work to be done before gender parity is achieved in these positions. On the bright side, there has been a positive development over the past year, with the share of women on the Board of Directors and Executive Management increased by 1 and 3 percentage points respectively.

»Studies have shown that companies with a more equal distribution across genders are more likely to be innovative and to achieve financial targets.«

1) Source: europeanwomenonboards.eu/wp-content/uploads/2022/01/2021-Gender-Diversity-Index.pdf

»The International Labour Organization (ILO) estimates that women, on average, are paid about 20 % less than men across the world[1].«

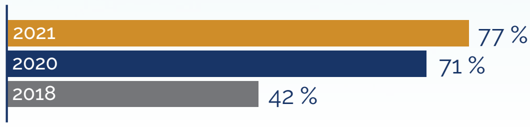
GENDER PAY GAP

The gender pay gap is a measurable indicator of inequality between women and men, which undermines wider efforts to increase gender equality. Companies seeking to enhance gender diversity across their organisation, should begin with taking stock of gender inequalities, including gender pay gaps. 77 % of SDG Invest portfolio companies are working to eliminate the gender pay gap, with established efforts to eliminate it.

However, only about half of those companies have published gender pay gap data for their global operations. We will continue to encourage portfolio companies to publish their data, as transparency is key to eliminating the gender pay gap.

The International Labour Organization (ILO) estimates that women, on average, are paid about 20 % less than men across the world[1].

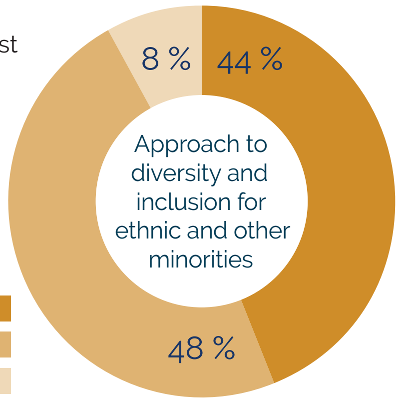
Acknowledges the importance of removing the gender pay gap



ETHNICITY/MINORITY NEW PARAMETER SPOTLIGHT

Companies know that a culture of diversity and inclusion can strengthen organisational adaptability, promote innovation and contribute to recruitment and retention of talented employees. Unfortunately, there is often a lacking emphasis on diversity and inclusion initiatives in relation to attracting and supporting LGBTQ+ minorities and black, indigenous and people of colour employees. One study shows that companies with a good mix of ethnic backgrounds are 36 % more likely to outperform their competitors, yet ethnic and other minority employees are less likely to be hired, developed and promoted than their white counterparts.

We are happy to see almost half of SDG Invest portfolio companies working strategically on diversity and inclusion in relation to ethnicity and other minorities.



Strategic approach
Basic initiatives
No specific initiatives

CASE **PROCTER & GAMBLE WANTS TO ENSURE DIVERSITY ACROSS ALL LEVELS**

For businesses, the ability to understand the needs of their customers is essential. Therefore, having a diverse workforce, which reflects the customer group, should have high priority for companies.

Procter & Gamble is an international company, which sells a wide range of brands within personal care and household products. Given the broad scope of products, Procter & Gamble serves a very diverse group of consumers, which spans across gender, ethnicity, and sexuality.

For Procter & Gamble, a diverse workforce is the natural choice. Therefore, the company has set a target to reach a 50/50 distribution of genders across all levels of the organisation. Already now, Procter & Gamble has achieved a distribution of 49 women and 51 % men at the management level.

Procter & Gamble also focuses on recruiting from a diverse pool of candidates and awards contracts to minority- and women-owned businesses in the supply chain.

1) Source: www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---act_emp/documents/publication/wcms_735949.pdf

IMPACT 6
PARTNERSHIPS FOR SYSTEMIC CHANGES

This impact area describes the partnerships that SDG Invest portfolio companies engage in. At SDG Invest, we value companies that enter multi-stakeholder initiatives or different forms of sustainability centred partnerships, because these companies are showing that they are committed to sustainability, not just for themselves, but for society as a whole.

Engaging in partnerships is an invaluable way to share knowledge and experiences and to learn in return. We therefore believe that companies engaged in partnerships are better positioned to mitigate sustainability risks and advance the SDG agenda.

ENGAGEMENT IN SUSTAINABILITY PARTNERSHIPS

The scale and ambition of the SDGs can only be realised with strong global partnerships and cooperation at the global, regional, national, and local levels built upon shared values. This has become especially evident in light of the global COVID-19 pandemic, where the ambition to 'Build Back Better' has emerged. The global challenges presented in the SDGs are interrelated and call for integrated solutions.

Governments, civil society, academia, and the private sector need to work together to solve these challenges, as no single actor has the resources to do so alone. It is impressive to see that 90 % of the SDG Invest portfolio companies are engaged in multi-stakeholder initiatives or sustainability partnerships with the purpose of achieving the SDGs. These companies are showing leadership in the sustainable transformation, by using their available resources to advance the sustainable agenda.

Engaged in multi-stakeholder initiatives, which proactively work for a sustainable future

CASE **WORKING TOWARDS A CIRCULAR ECONOMY WITH THE ELLEN MACARTHUR FOUNDATION**

Increasing amounts of waste from our consumer society threatens local communities, the environment, and contributes to climate change across the globe. To limit negative impact, a move away from a linear economy and towards a circular economy is needed. In a linear economy, products are produced, consumed, and disposed of, often in large quantities and without much focus on waste treatment. A move to a circular economy would mean an increased focus on reducing, reusing, and recycling products.

Having sailed solo around the world, Dame Ellen MacArthur knows all about scarcity of resources and wanted to implement this way of thinking in a broader perspective.

For this reason, she founded the Ellen MacArthur Foundation, which works with businesses, governments, and academia to develop an economy that is restorative and regenerative by design.

We are happy to recognise that almost one third of the companies in the SDG Invest portfolio are working with the Ellen MacArthur Foundation to develop a more circular approach. We are especially delighted to see that Danone and Unilever are among the strategic partners of the network. Through such partnerships, companies will engage on a multi-year journey to embed circular economy principles both inside and outside of the organisation. The Ellen MacArthur Foundation will advise and support participating members through education and training in circular economy practices.

1) Data from 2018 not available

IMPACT 7
SUSTAINABILITY STRATEGY AND REPORTING

This impact area describes the maturity level of sustainability reports and strategies of SDG Invest portfolio companies. SDG Invest prioritises companies that are transparent and credible in their sustainability reporting, living up to best practice in reporting standards. Companies that integrate sustainability standards into their reporting, have typically gone through processes of evaluating their environmental and social impact on their surroundings and creating governance structures to mitigate risk.

MATURITY OF SUSTAINABILITY STRATEGY AND REPORTING

Businesses today face heightened expectations for transparency about how they play their part in society and the world, with profit being only one of many criteria by which their contribution is measured. Stakeholders are looking for comprehensive sustainability reporting, which presents credible and trustworthy information on how the company is managing their impact on society and the environment. There are no universally mandated reporting standards or frameworks in place for sustainability reporting, although several initiatives are underway by governments and non-governmental actors alike. The absence of a global standard increases uncertainty about the validity of the information in sustainability reports. Obtaining third-party assurance on sustainability data is an essential way to ensure validity and credibility, which is why the EU is making the practice mandatory from 2023. Already now, 65 % of SDG Invest portfolio companies obtain third-party limited assurance on their sustainability data.

Limited assurance achieved for multiple sustainability KPIs[1]

APPROACH TO CLIMATE CHANGE RISK

The long-term impact of climate change is unpredictable and complex and will inevitably present companies with both severe risks and considerable opportunities. Companies need to understand the potential financial risks that climate change can entail and disclose their climate-related risks and opportunities in a comprehensive, reliable and consistent manner. Climate-related risks may have impacts across the entire structure of a company, affecting income and expenses, cash flows, assets and liabilities, and financing. It is therefore important that climate risk management is integrated into the overall enterprise risk management process. The majority of SDG Invest portfolio companies have developed governance structures, policies and strategies to mitigate and act on climate-related risks and opportunities. It is impressive to see these companies preparing for the far-reaching implications of climate change.

81%

of the companies in the SDG Invest portfolio have an established strategy and governance structure to mitigate climate change risks and explore opportunities

1) In 2018, the percentage is high as we included portfolio companies that had only conducted limited assurance on GHG emissions. From 2019 and on, we only include companies with assurance on all published ESG data.

SCENARIO ANALYSIS AFTER TCFD RECOMMENDATIONS NEW PARAMETER SPOTLIGHT

The Task Force on Climate-Related Financial Disclosures (TCFD) was created in 2015 to develop recommendations for consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.

A central aspect of the TCFD recommendations is based on the belief that scenario analysis is an important and useful tool for organisations to use, both for assessing potential business implications of climate-related risks and opportunities and for informing stakeholders about how the organisation is positioning itself in light of these risks and opportunities.

Although the TCFD recommendations were only finalised in 2017, already now, a substantial share of SDG Invest portfolio companies have published a scenario analysis, providing investors with insight into strategic plans that have been developed to facilitate adaptation to climate-related challenges.

42%

of the companies in the SDG Invest portfolio have completed a scenario analysis according to TCFD recommendations

CASE **PEPSICO AIMS TO CONDUCT BUSINESS WITHIN PLANETARY BOUNDARIES**

While PepsiCo is mostly known for Pepsi, it is in fact the World's third largest consumer goods company with brands including Lays, Lipton, Doritos, and Quaker. Naturally, a company of that size affects the surrounding climate, environment, and communities, both where products are sourced, produced and sold.

Fortunately, PepsiCo knows where to focus their efforts so negative impact is mitigated and positive impact is maximised and therefore announced a strategic end-to-end transformation in 2021. The strategy focuses on 3 pillars: positive agriculture, a positive value chain and positive choices by people – all of these to ensure that PepsiCo's future operations are within the planetary boundaries.

Within the first pillar, PepsiCo aims to spread regenerative agriculture across 238 million square kilometres. Regenerative practices give back more to the planet than is taken by improving soil health and fertility, reducing emissions, protecting water quality and increasing biodiversity.

Within the second pillar, PepsiCo aims to achieve net-zero emissions by 2040 and to cut emissions by 40 % across scope 1, 2 and 3 by 2030. PepsiCo also aims to reduce total water usage and to replenish back into local watersheds to become net water positive by 2030.

Within the third pillar, PepsiCo aims to inspire people to make positive choices. This is done by introducing products that are better for the planet and which deliver nutritional benefits. It also means that PepsiCo will accelerate a reduction in use of sugar and sodium.

IMPACT 8
GOOD GOVERNANCE PRINCIPLES AND ETHICAL BEHAVIOUR

This impact area describes how SDG Invest portfolio companies approach good governance and ethical behaviour in their operations. For SDG Invest, it is imperative that portfolio companies are responsible and ethical actors in society, and we do not tolerate illegal activities nor deliberately unethical behaviour.

We therefore have procedures in place to ensure that portfolio companies do not violate UN Global Compact principles or OECD Guidelines for Multinational Enterprises, including annual analysis, continuous monitoring, and direct engagement.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

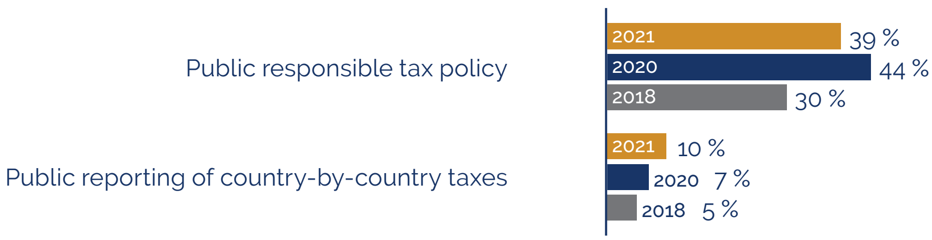
RESPONSIBLE TAX BEHAVIOUR

Taxation is intrinsically linked to sustainable development, as taxation provides the revenue that states need to mobilise resources and reinforce a country's infrastructure. Taxation has an integral role in facilitating the achievement of the SDGs as tax policies can support sustainable economic development, reduce inequality and promote inclusive growth.

Tax payments are an important part of companies' economic contribution to the countries in which they operate. SDG Invest expects our portfolio companies to not engage in aggressive tax planning or in tax avoidance.

We encourage all companies to publish tax policies which acknowledge the role of taxation in promoting economic development. Further, SDG Invest prioritises transparency, and we hope to see continuation of the positive trend in the share of portfolio companies publishing country-by-country reporting.

Responsible tax behaviour is an area where there is room for improvement for SDG Invest portfolio companies. Traditionally, taxation has not been integrated in sustainability efforts, which may provide some explanation as to why our companies could be performing better. We hope that developments such as the B Team's Responsible Tax Principles and the GRI 207 tax standard will push more companies toward tax transparency.

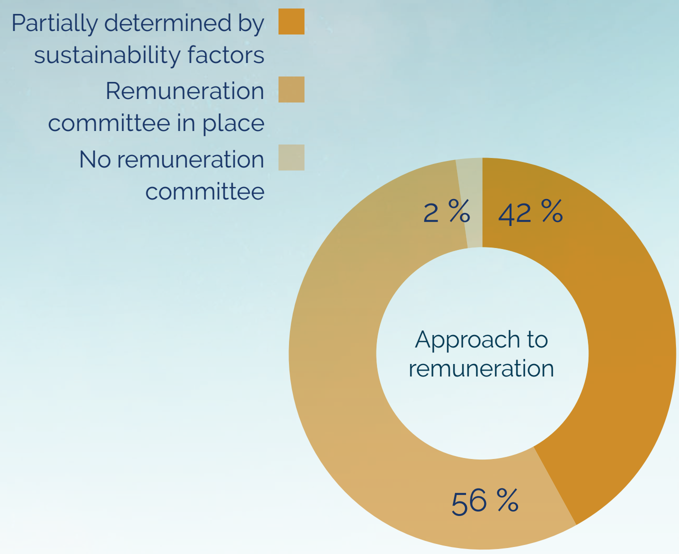


»Taxation is intrinsically linked to sustainable development, as taxation provides the revenue that states need to mobilise resources and reinforce a country's infrastructure.«

REMUNERATION PARAMETER HIGHLIGHT

Executive remuneration should always be aligned with performance and long-term strategy, but existing remuneration plans often do not include sustainability factors. Linking sustainability performance to executive pay can be an effective tool in ensuring a strategic focus on sustainability, incentivising pursuit of sustainable value creation and holding senior management accountable for the achievement of sustainability goals.

42 % of the SDG Invest portfolio companies are linking performance remuneration of executive management or board directors to sustainability factors. We believe that this is an important step in the sustainability journey of a company and will encourage more portfolio companies to update their remunerations plans to include sustainability.



CASE **COLOPLAST JOINS THE GROUP OF COMPANIES REPORTING ON TAXES ON A COUNTRY-BY-COUNTRY BASIS**

Companies play an important role in the communities where they produce and sell their products. Therefore, it only seems reasonable to expect companies to pay the taxes they owe. Regardless, the economic losses from tax evasion amount to USD 427 billion annually, with detrimental consequences for local communities across the globe.

With a growing focus on ESG, tax has emerged as an important focus area. Companies are expected to conduct tax affairs in a sustainable and transparent manner, to have good tax governance and to pay their fair share.

The most effective way to ensure this is through country-by-country reporting.

SDG Invest continuously urges portfolio companies to publish country-by-country reporting, and we are very pleased to see Coloplast introduce this practice in the financial year 2020-21. Coloplast now reports on the amount of taxes paid where business activities generate value, in accordance with internationally accepted standards, and contributing to a more transparent tax system.

Coloplast

SDG Invest

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

Sustainability manager
SDG Lead ApS
Ryvangs Allé 81
2900 Hellerup
Phone: +45 5051 7630
E-mail: info@sdglead.com
www.sdglead.com

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

FEEDBACK

We are looking forward to your feedback.
Please provide us with your feedback at info@sdginvest.dk.

PARTNERSHIPS FOR SUSTAINABILITY

INVESTOR ALLIANCE FOR HUMAN RIGHTS
AN INITIATIVE OF ICCR

PRI Principles for Responsible Investment

KNOWTHECHAIN

Climate Action 100+
Global Investors Driving Business Transition

CDP INVESTOR SIGNATORY

Methodology/disclaimer
Data is derived from the companies' publicly available material, unless otherwise specified. The analysis is based on company reports from FY 2020 and FY 2021. Base year is 2018. If data from 2018 is not available, base year is 2019 instead.