SDG Invest

IMPACT REPORT
2022

Value for generations

A LETTER FROM OUR CHAIR OF THE BOARD

DEAR STAKEHOLDER

2022 has been an unforgettable year, for better or for worse. We have seen immense progress on actors coming together to solve important sustainability issues. Most notably, at the 2022 UN Biodiversity Conference (COP15) in Montreal, nations adopted specific goals and targets for 2030 in the UN Biodiversity agreement. The focus on issues of biodiversity and nature is also addressed in Science Based Targets for Nature, who expect to develop specific targets by 2023 for companies to measure their contribution to a nature-positive economy.

Additionally, we have seen development within the standards of sustainability reporting. The EU adopted a new law on corporate sustainability reporting for large and listed companies that helps investors, society and organisations evaluate the sustainability performance of a company. The law was put into effect January 2023, and shows a positive shift towards a sustainable future in a variety of areas.

However, while steps are being taken towards a better future, we have also been met with challenges. 2022 has been a year of rising inflation and interest rates, an energy crisis, and a war in Europe following Russia's invasion of Ukraine. At SDG Invest, we hope to see an end to the war soon and for the Ukrainian people to be able to thrive peacefully in their own land.

The financial markets also took a toll during 2022, affecting SDG Invest. For the first time since our inception, SDG Invest had a negative return of 15,7%, a performance which reflects the market. Topics of inflation and higher interest rates will remain prevalent in the coming year, but the strong financial statements of our portfolio companies during 2022, reassures us that our investment strategy is right for long-term returns. We expect to see a stronger financial performance for SDG Invest in 2023.

Sustainability remains paramount for our portfolio companies, despite financial challenges. Particular emphasis was placed on renewable energy, as the world rapidly shifted away from relying on Russian fossil fuels. The SDG Invest portfolio companies have adopted renewable energy at a large scale, with the average portfolio company using more than 40% renewable energy. Adopting renewable energy at scale is key in achieving the Paris Agreement goal of limiting global warming to 1,5 degree celsius, and avoiding the worst of the climate crisis.

SDG Invest portfolio companies are continuously evolving their efforts within advancing sustainable development, and our 2022 Impact Report will give investors extensive insight into performance on key sustainability parameters. We're thrilled to see progress among our portfolio, as they step up to the challenge of creating a sustainable future. Many are committing to net-zero targets and scaling initiatives in their supply chains to maximise positive impact on people and the environment. They are also strategically implementing the circular economy to a larger extent, while working together in strategic sustainability partnerships to advance sustainable development.

However, these sustainability efforts are just the beginning. The urgency of the situation demands that we act with purpose and determination to achieve real change. As active owners, we are pushing for even more ambitious action from companies to ensure that they are doing their part in the fight against climate change and inequality, working together so that no one is left behind.

We cannot afford to be complacent. The time for action is now. Let's work together to create a sustainable future that works for all.

BARBARA SCHEEL AGERSNAP
Chair of the Board

»We cannot afford to be complacent. The time for action is now. Let's work together to create a sustainable future that works for all.«

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2022
YEAR IN REVIEW

HIGHLIGHTS

+1,800
investors
(2022: +1800)

-15.72%
return in 2022
(2021: +27,94%)

+29%
CO_2 emissions
(2021: -31,6%)

ARTICLE 9 FUND

SDG Invest is classified as an Article 9 fund. Article 9 means that the fund *'has sustainable investment as its objective'*. The objective of SDG Invest is to contribute to the achievement of the Paris-Agreement target of limiting global warming to 1.5 degrees celsius, through an investment strategy that is founded on the UN Sustainable Development Goals.

ARTICLE 9

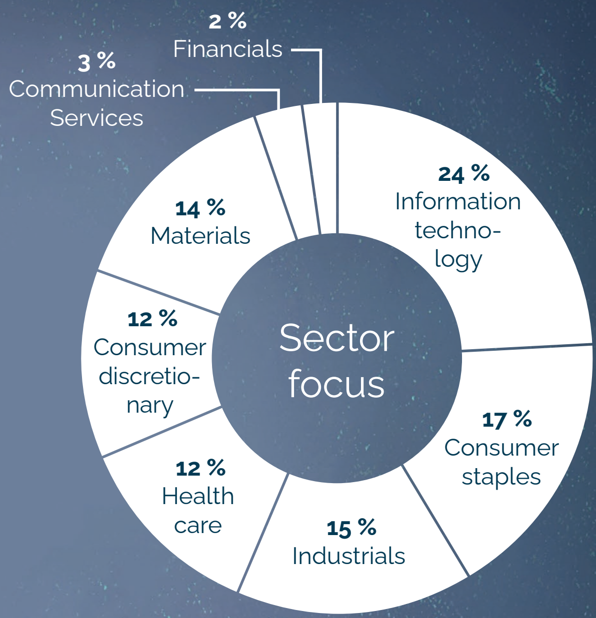
Investment funds that have sustainability as an integral objective of their investment strategy

PORTFOLIO OVERVIEW

59
portfolio companies

88,528
average number of employees per portfolio company

$29 bn
average annual revenue per portfolio company



IMPACT HIGHLIGHTS

SCIENCE-BASED TARGETS

73%

of portfolio companies have set Science-Based Targets.
(2021: 66% | 2018: 35%)

NET-ZERO TARGETS

66%

of portfolio companies have set net-zero targets for the entire value chain. That figure increases to 81%, when including companies that have set scope 1 and scope 2 net-zero targets.

CIRCULAR PRINCIPLES

80%

of portfolio companies have strategically implemented circular economy principles in their business operations, through specific targets.
(2021: 55%)

SUPPLY CHAIN DUE DILIGENCE

85%

of portfolio companies have extensive descriptions of their supply chain due diligence programmes, describing assessments, audits and remediation to ensure human rights and worker rights.

CONTRIBUTES TO SDGS

83%

of portfolio companies have developed products and/or solutions that directly contribute to the UN SDGs, integrating sustainable development in their business model.

INITIATIVES AND PARTNERSHIPS

98%

of portfolio companies are engaged in multi-stakeholder initiatives or strategic sustainability partnerships. Our companies recognise that sustainability challenges can only be solved when working together.

WOMEN IN EXECUTIVE MANAGEMENT

25%

is the average percentage of women in executive management positions in our portfolio companies.

THE FUTURE OF SUSTAINABILITY

Every year, SDG Invest publishes our perspective on the sustainability trends, which we believe will shape the sustainability agenda in the coming years.

In recent years, we have discussed biodiversity, senior management diversity, and sustainability reporting regulation as key trends that have developed, and which companies must take into account. Our predictions are based on our extensive experience within sustainability and sustainable investments, and the insight we gain from engaging with other actors within the field.

This year, we will explore the concept of avoided emissions, and the increased presence of political risk as a central factor in ESG analysis. We believe that these topics will play a larger role in the future, in order for the world to move toward a more prosperous future for people and the planet.

THE ROLE OF AVOIDED EMISSIONS IN IMPACT INVESTING

MEASURING EMISSIONS TO ACCELERATE ACTION

The world is facing an unprecedented challenge in the form of climate change. Already, climate change is causing dangerous and widespread disruption in the environment and affecting the lives of billions of people around the world. To avoid the worst consequences, ambitious, accelerated action is required to reduce greenhouse gas (GHG) emissions quickly and substantially.

The private sector can and must contribute to accelerated action on emissions reduction. On the one hand, their operations are a significant contributor to climate change, and on the other, companies have huge opportunities to make a difference. Awareness of their own GHG emissions are key for companies.

Since the GHG Protocol proposed standards and tools for measuring emissions in 2001, thousands of companies have adopted them, to the point where many global companies are now reporting reliable and comparable data on their GHG emissions.

Reporting on GHG emissions is now widespread and expected of any company claiming to have ambitions within the sustainability agenda. Scope 1, scope 2 and scope 3 emissions have become well-established terms for companies and within the investment community, when considering targets for reducing emissions. A new conversation is currently emerging, one that we, at SDG Invest, expect will only get more prominent in the coming years. A conversation on the role of avoided emissions, also called scope 4 emissions.

FOUR SCOPES OF EMISSIONS REPORTING

1. Direct emissions

Scope 1 emissions are direct emissions from owned or controlled sources.

2. Indirect emissions

Scope 2 emissions are indirect emissions from the generation of purchased energy.

3. Indirect emissions

Scope 3 emissions are all indirect emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions

4. Avoided emissions

Scope 4 emissions, or avoided emissions, are emission reductions that occur outside of a product's life cycle or value chain, but as a result of the use of that product.

AVOIDED EMISSIONS ENABLE IMPACT

Avoided emissions refer to the greenhouse gas emissions that are not emitted or reduced due to the adoption of climate friendly practices or technologies. Both electric and traditional cars, for instance, have similar emissions during the production phase, but if a company increases their sale of electric vehicles, they enable customers to avoid emissions when the car is in use.

One of the most significant benefits that measuring avoided emissions can bring, is the opportunity to advance innovations in low-carbon technologies.

As companies gain understanding of the footprint that each of their solutions have, they can begin to find ways to maximise their avoided emissions. Avoided emissions can then be a very effective way to guide sustainability and innovation efforts.

Investors also increasingly integrate avoided emissions as a metric for their portfolio. While scope 1, 2, and 3 emissions give investors a picture of the emissions associated with a company's input and operations, scope 4 emissions focus on the company output. Avoided emissions can offer a measurable way to track the environmental impact of their investments.

OUR APPROACH

At SDG Invest, we evaluate whether portfolio companies have products or solutions that directly contribute to achieving the SDG's, when that solution is in use. A part of that evaluation is whether the product or solution enables avoided emissions, but positive impact on other environmental or social areas under the SDG's is also included.

SDG Invest does not have a parameter directly related to avoided emissions. We believe that there is interesting information to be gained in terms of a company's contribution to achieving the Paris Agreement.

However, the methodology of calculating scope 4 emissions is not yet well-established. At this stage, with limited opportunity to ensure reliable and comparable data, we do not believe that it is advantageous to include avoided emissions in our Sustainability Scorecard.

Developments within standardising the measurement of scope 4 emissions are underway. SDG Invest will follow this work, and evaluate whether scope 4 emissions should play a larger role in analysing the sustainability performance of our portfolio companies in the future.

THE RISK OF INACCURATE DATA

While avoided emissions can provide companies with effective means to illustrate their climate efforts, there are several challenges associated with avoided emissions. Accurately measuring and validating avoided emissions is the main challenge, due to the lack of a standardised and reliable methodology.

The lack of a reliable methodology to calculate avoided emissions, means that companies risk exaggerating the climate benefits of their products. The companies are then exposed to accusations of greenwashing. In turn, the companies and their customers might believe that they are further along on their climate efforts than is actually the case. This may reduce the incentive to make further rapid and substantial investments into climate friendly technology, which the world sorely needs.

THE ROLE OF AVOIDED EMISSIONS IN THE FUTURE

Avoided emissions have significant benefits, chief among them the potential to accelerate effort to address the climate crisis.

But wide-spread use of avoided emissions can also lead to the opposite: a tool companies use to make them seem greener than they are, so that they can avoid further action. Correct use of avoided emissions depends on transparent and standardised reporting, where both negative and positive impacts of all products in the portfolio are considered.

At SDG Invest, we believe in the potential of the increased use of avoided emissions, with companies and asset managers already implementing scope 4 accounting in their practices. However, we acknowledge that there is still more to learn and understand about this topic to make it a useful tool in accelerating action towards reducing emissions. We want to avoid any misuse of scope 4 accounting, including using it for greenwashing to appear more environmentally friendly, or using it as an excuse not to deliver on scope 1-3. That's why we hope that learnings from previous efforts on the GHG protocol and similar frameworks will be part of further developing this area.

THE EMERGENCE OF POLITICAL RISK AS A CENTRAL SUSTAINABILITY CONCERN

A WORLD WITH INCREASED GEOPOLITICAL TENSION

When Russia invaded Ukraine in February 2022, it marked a transition toward increased tensions in the geopolitical realm. Beyond the vast humanitarian consequences of Russia's war on Ukraine, the invasion was also a wake-up call for investors. They are increasingly realising the importance of political risks as a central element in the analysis of any investment opportunity, both for ESG and sustainability concerns, but also for the potential impact on financial returns.

Political risk has always been a factor in company decision-making and for investors evaluating investment opportunities. But, the increasingly tense geopolitical environment has brought political risk from a peripheral emerging market concern to a core challenge across almost all of the global economy. Already, several sustainability rating agencies have revised their ESG risk assessment methodologies to place more emphasis on geopolitical criteria[1].

Ever since the Cold War, the world has been working towards more interdependence in the belief it would minimise the risk of conflict. In recent years, we have seen a trade-war between the US and China with ensuing increased tensions, strained supply chains during the COVID-pandemic, increasing nationalism in Europe, and Russia's invasion of Ukraine. These are all examples of political risks faced by companies and investors that will have an impact on decision-making and strategy. At SDG Invest we believe that sustainability is key in handling the external shocks of political risk.

»Political risk refers to the wide array of risks associated with conflict, instability, tension, or political changes in a state. It is the risk that political events will impact the global economy or financial markets.«

1) Source: reuters.com/business/how-russias-war-blindsided-world-esg-investing-2022-07-01

COMPANIES CAN USE SUSTAINABILITY TO NAVIGATE POLITICAL RISK

In light of the war in Ukraine and rising tensions in other parts of the world, companies are increasingly asking themselves critical questions about the nature of their business and how they will be affected by escalating geopolitical tensions. Current geopolitical risks are having an immediate impact on strategic company decisions, which can have wide-ranging implications.

Global companies that are trying to adjust to today's turbulent geopolitical environment can look toward their own sustainability strategy for guidance on how to navigate and mitigate political risks. Central elements of an effective sustainability strategy is a strongly defined purpose, a clear understanding of stakeholders and close partnerships throughout the value chain. Integrated in any sustainability strategy is also a forward looking perspective on where the company sees itself in relation to the surrounding society in the future. All these elements are great starting points for a discussion on the impact of political risks.

MITIGATING POLITICAL RISK AS A RESPONSIBLE INVESTOR

Investors are increasingly realising that political instability and geopolitical risks can have a negative impact on environmental, social and governance factors, which can, in turn, affect investment returns. Investors need to uncover their portfolio exposure to political risk, and encourage companies to adopt policies and practices on sustainability and responsibility that work to mitigate risk.

In the past year, SDG Invest has placed more emphasis on analysing how portfolio companies deal with political risk. Moving forward, we, along with other investors, must evaluate and improve upon our approach, as times of heightened uncertainty in the political landscape continue.

At SDG Invest, we believe that companies with robust sustainability strategies are better prepared to deal with geopolitical tension. A central element in uncovering exposure to political risk in the SDG Invest portfolio is therefore the strength of the sustainability efforts and the transparency in navigating sustainability risks and opportunities.

»Investors need to uncover their portfolio exposure to political risk, and encourage companies to adopt policies and practices on sustainability and responsibility that work to mitigate risk.«

OUR APPROACH

At SDG Invest, we evaluate geopolitical risk as part of our annual analysis of portfolio companies, and through our continuous monitoring of risks in the portfolio.

Our investment strategy has resulted in a portfolio with a majority of companies located in the US or in Europe, where geopolitical risks are generally considered low. However, many of these companies have global value chains. The risks that are present in the value chain, and especially in the supply chain, are a particular focus in the analysis of portfolio companies.

Following the war in Ukraine, SDG Invest conducted an in-depth analysis of our portfolio exposure to Russia. We found that, although there were no Russian companies in our portfolio, we did have a few companies with operations and sales in Russia.

We monitor these companies, as they are exiting the Russian market and implementing the imposed sanctions. As a result of Russia's war on Ukraine, we have decided to divest from one company, which had continued business in Russia.

SELECTION METHOD
THE SUSTAINABILITY SCORECARD

The SDG Invest portfolio consists of carefully selected companies with a strong financial and sustainable profile. Using our unique scoring model, we ensure that only top performers are considered for the portfolio.

A THREE-STEP MODEL FOR SELECTING COMPANIES

1

FINANCIAL SELECTION

The StockRate model

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

2

SECTORIAL SELECTION

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

Our three-step model combines our expertise in evaluating both financial and sustainability performance, to create a portfolio where we do not compromise on either. With this model, we have narrowed down an investment space of >75.000 companies to a portfolio of 59.

The first step of the selection process is ensuring that companies live up to requirements of financial strength, historical performance and stability. At SDG Invest we prioritise solid companies that are robust in a storm.

The second step of the process excludes companies that derive revenue from activities not aligned with the SDG Invest investment philosophy. We do not invest in the fossil fuel industry, nor in alcohol, gambling, pornography, weapons or tobacco.

The third step is how SDG Invest ensures a portfolio of the most sustainable companies around the world. Our proprietary screening tool, the SDG Invest Sustainability Scorecard, facilitates a scoring process based on our expert knowledge of sustainability.

THE SUSTAINABILITY SCORECARD MODEL

SDG Invest has developed the Sustainability Scorecard to identify companies that are leaders in advancing the sustainability agenda. We wish to only include companies on the forefront of sustainable development.

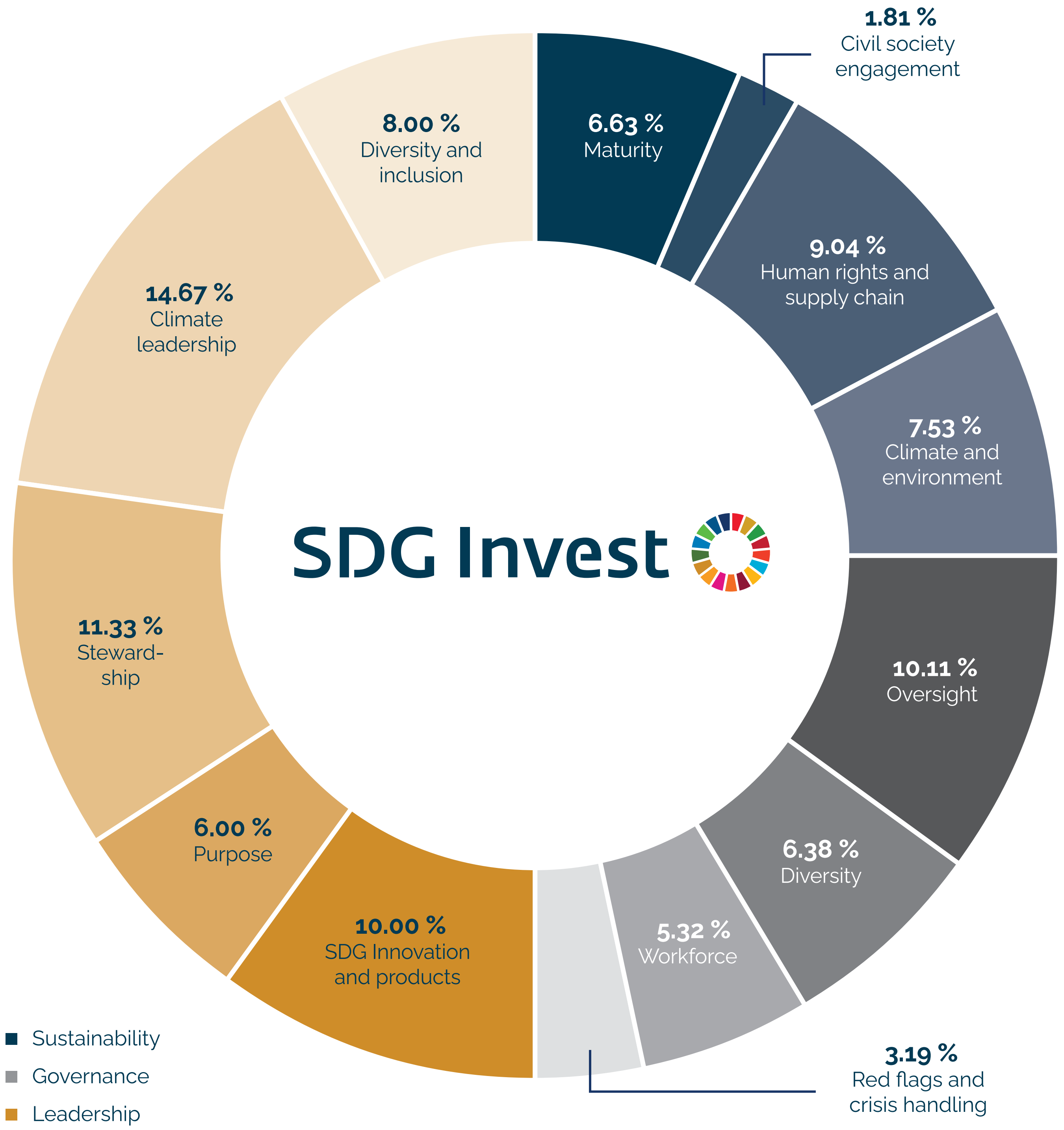
Our scoring is comprised of three categories:

- Sustainability is weighted **25 %**
- Governance is weighted **25 %**
- Leadership is weighted **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 2022, our Sustainability Scorecard consisted of 48 parameters and 167 scoring options, compared to 50 parameters and 167 scoring options in 2021.

The parameters in the scorecard are aligned with the UN Sustainable Development Goals (SDGs). The screening gives a clear depiction of how the company is positively contributing to the achievement of the 2030 goals.



ACTIVE OWNERSHIP
ENACTING IMPACT THROUGH ENGAGEMENT

Action points in 2022	Action points in 2021
298	262

OUR APPROACH

At SDG Invest, we send out specific recommendations to all our portfolio companies, based on our in-depth understanding and analysis of each companies' opportunities and challenges related to their sustainability performance. The three most common recommendations are:

1. Implement and enforce a global responsible tax policy. We recommend you integrate the B Team's Responsible Tax Principles in this work.
2. Integrate biodiversity as a strategic priority by mapping dependencies and impacts and further exploring opportunities for positive change.
3. Include sustainability targets in remuneration practices, to ensure strategic emphasis on your sustainability efforts from leadership.

The transition toward a more sustainable future is necessary, but it will not happen automatically. Investors are in a unique position to promote sustainability action, through direct engagement with portfolio companies and through collaborative engagement with like-minded investors. For SDG Invest, active ownership is an essential element of our investment strategy.

DIRECT DIALOGUE

In 2022, SDG Invest again sent active ownership letters to all portfolio companies, with recommendations for how they can advance their sustainability journey. Through this engagement, we invite the companies to a meeting for further discussion on their sustainability performance. Several companies accepted that invitation in 2022.

The direct dialogue between SDG Invest and our portfolio companies has been a valuable opportunity for us to gain deeper insight into the actions that our companies are undertaking, and to challenge certain areas where we believe further action is needed. We let our companies know that SDG Invest is on a path to net-zero, and that we expect our portfolio companies to follow suit. We also had interesting conversations about the increased data requirements brought on by EU regulation, and how companies are adapting to these new frameworks.

COLLABORATIVE ENGAGEMENT

While direct dialogue is an important tool for SDG Invest, we realise that our voice is amplified when we collaborate with other investors. We are active in several investor alliances and throughout the year we support multiple investor-led campaigns that are working toward a more sustainable future. In 2022, for instance, we were supporters of the CDP Science-Based Targets campaign, urging companies to set ambitious climate targets, and another campaign urging world governments to take action on the crisis of water scarcity.

PARTNERSHIPS AND ALLIANCES FOR CHANGE

Listed on NASDAQ Copenhagen	Member of	Investor Signatory	Signatory	Retail partnerships with
Nasdaq	Climate Action 100+ Investor Alliance for Human Rights – An initiative of ICCR	CDP Investor Signatory	PRI Principles for Responsible Investment KnowTheChain	Merkur Andelskasse

In 2022, SDG Invest also participated in the Digital Inclusion Collective Impact Coalition initiated by the World Benchmarking Alliance. Through this Coalition, investors came together to engage companies specifically on ethical Artificial Intelligence (AI). SDG Invest participated in direct engagement on three portfolio companies, Oracle, NVidia, and Infosys, pushing for and discussing issues related to responsible governance and use of AI.

OUR RESPONSE TO CURRENT ISSUES

SDG Invest continuously monitors news coverage of all portfolio companies, to stay informed on potential cases that may arise, that could indicate sustainability risks or adverse impacts on the environment or on people. In 2022, for instance, we conducted an in-depth analysis of our exposure to Russia.

While SDG Invest does not have Russian companies in our portfolios, we did have exposure through sales and subsidiaries.

The vast majority of portfolio companies suspended all activities in Russia following their war on Ukraine. However, we decided to divest from one company, as a result of their continued activities in Russia. The situation is complex, and while there are arguments for continued presence in Russia, we believe that divestment was the right decision for SDG Invest and for our investors.

We expect our portfolio companies to be transparent and proactive on issues and dilemmas related to sustainability risk. We will continue to take actions to address and mitigate negative impact, if it becomes necessary.

PORTFOLIO IMPACT

This section will present eight impact areas where we examine the progress in eight different areas of sustainability in the SDG Invest portfolio. We also highlight companies in our portfolio who are walking the extra mile in sustainable development. Each impact area will evaluate the progress of the SDGs of the companies in our portfolio and outline how we use our active ownership to push for further progress.

IMPACT 1
CLIMATE CHANGE AND ENVIRONMENT

THIS IMPACT AREA AIMS TO HIGHLIGHT the approach of SDG Invest portfolio companies to climate change and environment.

One of the most crucial tasks of our time is to take actions to mitigate climate change. The most recent report from the Intergovernmental Panel on Climate Change (IPCC) emphasises the urgency of taking action now. In the report, it is stated that Earth's climate is unequivocally warming and human activity is the main cause. Since the pre-industrial era (1850-1900), global surface temperature has risen by 1.1 degrees celsius. This rise has already led to changes in extreme weather conditions, sea-level rise, loss of arctic sea ice, and negative impacts on biodiversity, all of which will be worsened by further temperature increases.

If the Paris agreement is to be met, emissions should be decreasing now and be cut by almost half by 2030 (IPCC). IPCC also states that if appropriate actions are taken by humanity, we can reduce emissions and reach the goal of a sustainable world.

Some ways companies can help prevent climate change and reduce emissions is by transitioning to renewable energies, improving energy efficiency, implementing circular economy practices, using sustainable materials, and investing in research and development. We at SDG Invest want companies to take action on these topics, as climate change is the most important challenge we are facing in the world today.

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THE CARBON FOOTPRINT OF THE SDG INVEST PORTFOLIO

WEIGHTED AVERAGE CARBON INTENSITY

(tons of CO_2e/ $M revenue)

TOTAL CARBON EMISSIONS

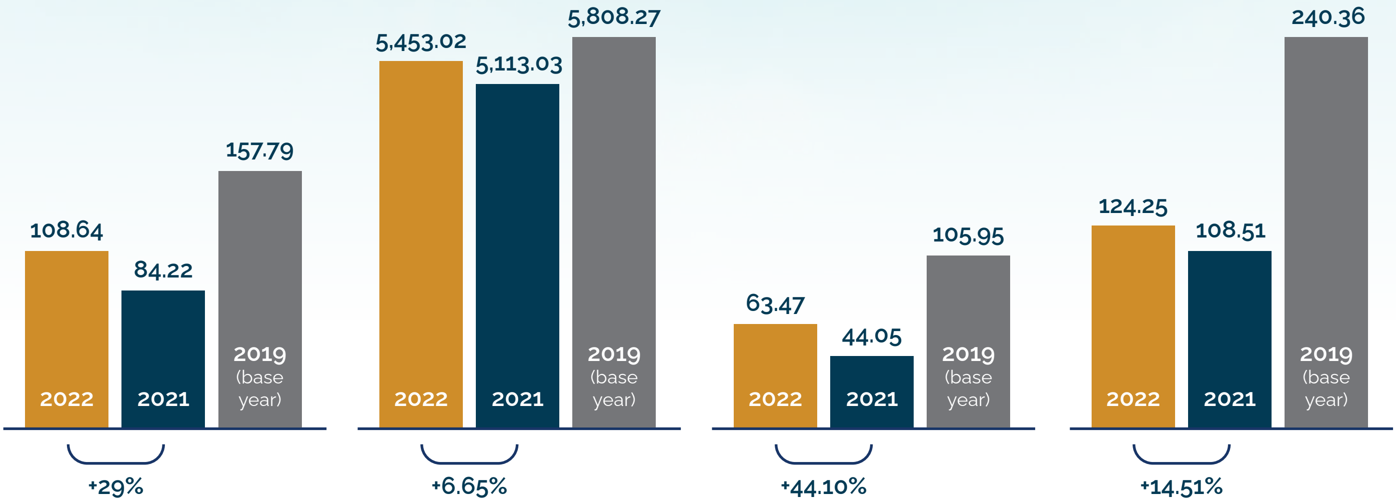
(tons CO_2e)

CARBON FOOTPRINT

(tons CO_2e/ $M invested)

CARBON INTENSITY

(tons of CO_2e/ $M revenue)



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. 98% of our companies submit their emissions data to CDP following the Greenhouse Gas Protocol.

*) Source: bit.ly/tcfd-methodology

The remaining 2% 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 the above market-based metrics, we have used location-based data for companies that do not report this information. Calculations cover scope 1 and scope 2 emissions.

»If the Paris agreement is to be met, emissions should be decreasing now and be cut by almost half by 2030.«

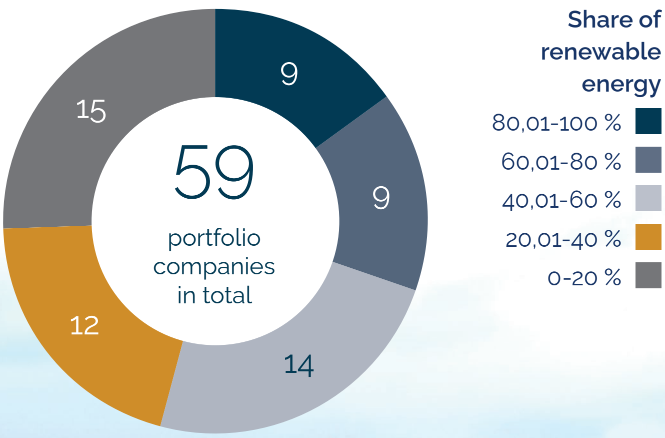
»While our portfolio emissions increased in the past year, we remain committed to our 2040 net-zero target, and we will take action in our portfolio to achieve an emissions reduction trajectory that is aligned with the Paris Agreement.«

In 2022, the average carbon emissions for the SDG Invest portfolio unfortunately rose by 29%. However, the weighted average carbon intensity is still 31.15% lower than the 2019 base year for SDG Invest. We believe that the vast reduction in carbon emissions in 2021 is due to the COVID-pandemic having a large impact on our portfolio companies. This past year therefore represents a normalisation as the main effects of the COVID-pandemic are behind us.

The sustainability objective of SDG Invest is to create a portfolio that contributes to the achievement of the Paris Agreement and is aligned with a net-zero transition. While our portfolio emissions increased in the past year, we remain committed to our 2040 net-zero target, and we will take action in our portfolio to achieve an emissions reduction trajectory that is aligned with the Paris Agreement. According to the latest climate science, this would require a 7% reduction in emissions annually.

RENEWABLE ENERGY

Among SDG Invest portfolio companies, renewable energy is an important focus. Several companies have targets for 100% renewable energy, and the average portfolio company has a share of renewable energy above 40%.



The average SDG Invest portfolio company has a share of renewable energy above

40%

SCIENCE-BASED TARGETS

85% of SDG Invest portfolio companies are involved with the Science-Based Targets Initiative, where they can set targets to reduce emissions in line with the Paris Agreement. We are well on track to achieve 100% involvement by the end of 2025. This is a target that we have set for the SDG Invest portfolio, as we believe that every company in our portfolio needs to have credible emissions reduction targets to be aligned with our investment philosophy.

Of the 85% of portfolio companies that are involved with the SBTi, 86% have already had their targets approved to be in line with the Paris Agreement. These targets are significant, because companies commit to publically report on their progress. This increases both transparency and accountability so that we, as investors, can demand action on climate initiatives.

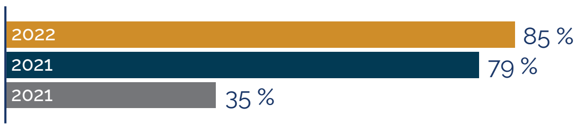
The average company that has set targets aligned with the Paris Agreement through the SBTi, is reducing emissions twice as fast as required by climate science. Setting targets then becomes a catalyst for action and change.

ABOUT THE SBTi

The Science Based Target initiative (SBTi) is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). SBTi provides a clear pathway toward a zero carbon economy, increased innovation and sustainable growth, by setting a clearly defined path for companies to reduce greenhouse gas emissions, so the worst consequences of climate change can be prevented. To be considered science-based, targets must align with what the most recent climate science deems necessary to meet the goals of the Paris Agreement.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

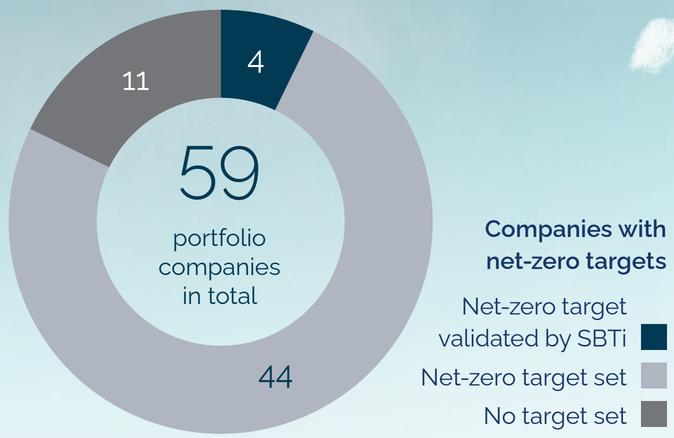
Involved with the Science Based Targets



»The goal of the Paris Agreement is to limit global warming well-below 2˚C and with ambitious efforts to limit warming to 1.5˚C.«

NET-ZERO TARGETS

SDG Invest portfolio companies are also setting net-zero targets at a high rate. 82% have already set these targets, which shows that they are considering both short-term and long-term impact on climate change and creating strategies accordingly.



CASE **ORKLA HAS AMBITIOUS NET-ZERO TARGETS FOR THE ENTIRE VALUE CHAIN**

The SBTi sets the standard for ambitious corporate climate action through allowing companies to set Paris Agreement aligned targets. In 2022, the SBTi expanded to allow companies to set net-zero targets as well. The Norwegian company Orkla, a leader in branded consumer goods, was one of the first companies globally to receive approval for its net-zero emissions target by SBTi. Orkla has set an ambitious net-zero by 2045 target covering the entire value chain.

Orkla's target for net-zero emissions is based on their longstanding commitment to reduce their direct and indirect environmental impact. The company has also set 2025 targets, for instance working toward a 65% emissions reduction target for scope 1 and 2 emissions, where they have already achieved 40%.

They are on track to achieving their targets, which shows that their commitment is fully implemented across the company.

Orkla's ambitious climate targets show that they aim to minimise negative climate impact at all stages in their value chain. Their targets for reducing carbon emissions are complemented by strategies for engaging the supply chain, protecting and restoring nature and biodiversity, and achieving efficient and circular resource management. All these efforts are key for Orkla to do their part in preventing the worst effects of climate change.

Orkla

IMPACT 2
CIRCULAR ECONOMY

THIS IMPACT AREA AIMS TO HIGHLIGHT the degree to which SDG Invest portfolio companies have integrated circular economy principles into their business practices.

Working towards a circular economy, where the resources of yesterday become the resources of tomorrow, is an important part of achieving several of the UN SDGs.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

LINEAR ECONOMY

Natural resources are extracted and used to create products. Then, discarded as waste at the end of the product's lifespan.

As the demand for natural resources is growing alongside human population and development, the demand is out-pacing the supply, which is no longer sustainable.

CIRCULAR ECONOMY

The Circular Economy model promotes the creation of closed-loop systems where waste from one product becomes a resource for another.

This takes the pressure off our planet's natural resources and allows the preservation for future generations.

A circular economy would slow down the use of natural resources, reduce landscape disruption, help limit loss of biodiversity and reduce emissions.

Earth Overshoot Day, the day each year in which humanity's demand for natural resources exceeds what the Earth can regenerate in said year, has come earlier and earlier each year, landing on July 28th in 2022, August 4th in 2012, December 14th in 1972. This gives us an indication of the state of our natural resources, and shows that there is a need to increase circularity to reduce the strain on nature's resources, so those resources do not run dry.

Companies can help in solving this problem by implementing circular business models that minimise waste and maximise resource efficiency.

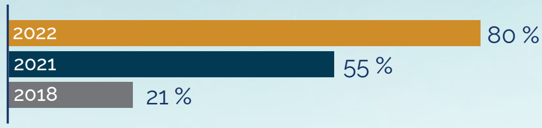
Some ways to achieve this can be with increasing closed-loop systems, designing products for durability and reusability, and investing in new technology and innovations that promote circular economy. A circular economy would decouple natural resources from economic development.

Climate change poses a tangible risk to the supply of natural resources, and circular economy principles are an excellent way to mitigate these risks. That is why SDG Invest believes that integrating circular economy principles is essential for any company wishing to have a positive impact on the environment, while also ensuring their supply of natural resources.

In the SDG Invest portfolio, 80% of companies are strategically working toward a circular economy, by fundamentally changing their approach to product design, production, and reuse. This represents a 45% increase from 2021, where a large part of the portfolio was committed to the circular economy, but had not yet set specific targets.

Companies working strategically with the circular economy have set specific targets to guide their efforts, which ensures measurable action on promoting the circular economy. In many cases, these efforts include improvements in the value chains, which contribute to the transformation of entire industries.

Circular economy principles are strategically integrated into business operations



CASE **KERING IS AIMING FOR A GREENER FUTURE IN THE FASHION INDUSTRY THROUGH A 100% CIRCULARITY GOAL**

Kering is a French luxury goods company that owns several high-end fashion and luxury brands, including Gucci, Saint Laurent, and Balenciaga. Today, Kering is one of the world's largest luxury goods companies and is known for its commitment to sustainability and social responsibility. Like Burberry in our previous case, Kering recognises the challenges facing the fashion industry with regard to climate impact. Kering has therefore taken a leading role in pushing for a circular economy with reduced waste.

Kering has been a leader in promoting and implementing circular economy practices within the luxury fashion industry. The company has developed a comprehensive strategy that focuses on reducing waste and increasing the use of sustainable materials throughout the supply chain. They have set a target to achieve 100% circularity by 2025, meaning that all of their products will be designed, produced, and marketed in a way that promotes circularity, using materials that are renewable, regenerative, or recyclable. As of 2022, they have achieved 71% circularity, and are on track for the 2025 target.

Kering has adopted a holistic approach to circular economy, where the transition towards regenerative agriculture is an important part of sustainable sourcing and responsible use of resources. With their Regenerative Fund for Nature, Kering has set a goal of changing 1,000,000 hectares of crop and rangeland into regenerative agriculture fields over the next five years. While agriculture is a major cause of biodiversity loss and climate change, a shift towards more regenerative land means working in harmony with natural systems, so that the quality of natural resources is improved while biodiversity and nature needs are prioritised.

By developing circular design principles, promoting circular business models, increasing the use of sustainable materials, reducing waste, and partnering with stakeholders, Kering has implemented several programs to increase circularity within its operations and the fashion industry as a whole. Through their approach to circularity, Kering's initiatives are designed to promote a more sustainable fashion industry that minimises environmental impact, promotes resource efficiency, and supports local responsibility.

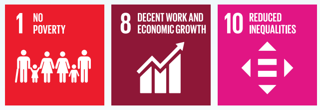
KERING

IMPACT 3

HUMAN RIGHTS, LABOUR RIGHTS AND SUPPLY CHAIN MANAGEMENT

THIS IMPACT AREA AIMS TO HIGHLIGHT
how companies in the SDG Invest portfolio are ensuring human rights and labour rights across value chains. This impact area also explores responsible supply chain management practices in the responsible sourcing of raw materials.

The companies in the SDG Invest portfolio have an impact far greater than their own operations. It is essential that sustainability initiatives, impacts, and risks are managed throughout the supply chain, for a positive effect on both people and the environment.



HUMAN RIGHTS IN THE SUPPLY CHAIN

The SDGs seek to realise human rights for all, regardless of race, gender, religion, nationality, or any other status. These universal principles and values align with the 2030 Agenda of peace and prosperity to the planet and all its people, and require a collaborative effort of individuals, governments, civil society organisations, and the private sector to succeed.

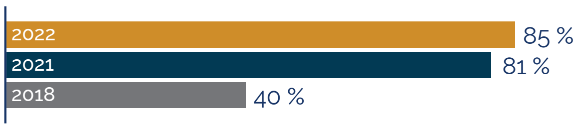
We conduct an annual analysis of the companies in our portfolio to ensure the companies are actively working to promote and uphold human rights in their operations as well as in their supply chain. The analysis is based on the quality of their due diligence procedures to ensure the improvement of human rights in all aspects of the value chain.

We are happy to see that 85% of the portfolio companies report extensively on their due diligence procedures. Since 2018, there has been a tremendous increase of 45% in the amount of companies with extensive due diligence procedures, and so we hope to see the trend continue for the remaining 15%.

At SDG Invest, we push our companies to improve their due diligence practices and engagements with suppliers, which can and will have a positive impact on millions of lives.

By focusing and prioritising due diligence practices, global companies contribute significantly to setting the standard in this field.

Human rights secured through established due diligence procedures



»At SDG Invest, we push our companies to improve their due diligence practices and engagements with suppliers, which can and will have a positive impact on millions of lives.«

LIVING WAGE

Low wages drive inequality and poverty around the world. When there exists a gap between a country's living wage and minimum wage, poverty and inequality increase. It is important to SDG Invest that our portfolio companies are addressing this wage gap in global supply chains, as lower inequality is essential for any company hoping to contribute to the SDGs

It is acknowledged as a fundamental human right for a worker to be able to earn a sufficient income to support their own basic necessities as well as those of their family. Companies have the opportunity to take a crucial role in promoting the realisation of a living wage in their supply chain by exceeding the minimum wage standards set by law, and thereby closing the gap in which poverty thrives.

Fragmented supply chains and no universal standard for a living wage pose challenges to ending poverty, but should not be an excuse for companies to be idle.

19%

of the companies in the SDG Invest portfolio describe their role in securing living wages in their supply chains through supplier engagement or collaborative approaches with civil society organisations. We will encourage the remaining portfolio companies to follow suit.

»Companies have the opportunity to take a crucial role in promoting the realisation of a living wage in their supply chain by exceeding the minimum wage standards set by law, and thereby closing the gap in which poverty thrives.«

RESPONSIBLE SUPPLY CHAIN MANAGEMENT OF RAW MATERIALS

Responsible supply chain management refers to the practices and commitments put forth by companies to ensure their supply chains operate in an ethical, sustainable, and socially responsible way. By implementing responsible supply chain practices, companies can improve supplier relations, improve reputation, comply with legal and regulatory requirements to operate in more countries, and most importantly, improve the quality of life of those impacted by business activities.

In the SDG Invest portfolio, all companies have policies in place for responsible supply chain management, and 73% have established due diligence procedures for the sourcing of raw materials.

The procedures ensure traceability through their supply chain and working with sustainable and sustainably sourced raw materials. This is an essential part of creating sustainable business practices and products.

The 16% fall from 2021 to 2022 is primarily because of changes to how we evaluate company approaches to raw materials sourcing. Where previously we looked more broadly at due diligence procedures, in 2022, we also looked for specific targets in terms of raw materials traceability. Nonetheless, we will push for more companies to increase their focus on this topic, as responsible supply chain management affects such a broad variety of sustainability issues.

Raw materials responsibly sourced through established due diligence procedures

CASE **AXFOOD PRIORITISES HUMAN RIGHTS IN THEIR SUPPLY CHAIN TO PROTECT AND EMPOWER ALL PEOPLE**

The food and agriculture sector is globally recognised as a high risk sector for human and labour rights abuses, as supply chains are often long and opaque. The food retailer Axfood is determined to ensure that food is produced in a socially sustainable way, so that no one is left behind.

To overcome the challenges in the food industry supply chains, Axfood has developed close ties with their suppliers, and are placing demands on suppliers with respect to safety, quality, the environment and social responsibility. They aim for impact throughout the supply chain to primary ingredient suppliers as well.

Axfood has established a comprehensive due diligence process, covering everything from risk assessments and audits to escalation procedures and remediation.

They are also committed to transparency, stating that in 2022 they discovered issues with three suppliers as a result of audits, where they worked together with two suppliers to correct the issues and ultimately terminated the contract with the third supplier.

Axfood has a close relationship with suppliers, and wishes to support their suppliers. They have entered into a partnership with Oxfam, an NGO which will help growers and farmers achieve sustainable living. A project in the basmati rice region in Punjab, Pakistan has helped raise the income of approximately 2,500 small farmers. The supply chain efforts of Axfood are aimed at not only ensuring human and labour rights, but also at improving livelihoods throughout the supply chain.

Axfood

IMPACT 4
INTEGRATING THE SDGS IN SOLUTIONS AND INNOVATION

THIS IMPACT AREA AIMS TO HIGHLIGHT
how the companies in the SDG Invest portfolio are making a positive contribution towards achieving the SDGs by leveraging their core business activities. The companies have impact built into their every day operations, and so they are key focus for SDG Invest and our sustainability aims.

The focus is on showcasing the beneficial impact that portfolio companies can have through their existing products and solutions, as well as through their research and development and innovation initiatives.

ALIGNING BUSINESS STRATEGY WITH SUSTAINABLE DEVELOPMENT

In order to accomplish the extensive and ambitious aims of the SDGs, global partnerships and international cooperation are crucial. The private sector plays a vital role as an essential collaborator in this endeavour, and the SDGs cannot be accomplished without the valuable input and participation of businesses.

The SDGs provide a framework for companies to synchronise their business strategies with worldwide priorities. This involves incorporating the impact of their investments, solutions, and business practices into the very heart of their operations. Taking consideration of SDGs during the research and development process, allows companies to reduce negative impacts while improving positively towards a more sustainable future.

Companies that integrate the SDGs into their operations and strategies are likely to be more competitive, innovative, and resilient. The SDGs present business opportunities in areas such as renewable energy, circular economy, and sustainable agriculture, which can help companies achieve long-term growth and sustainability.

In the SDG Invest portfolio, 83% of portfolio companies have already designed products or solutions that directly contribute to the achievement of the SDGs. These companies have created solutions to create value for themselves and for society.

Moreover, 98% of our portfolio companies engage in innovation activities that contribute to sustainable development. This means that they are in the process of developing new products or altering existing products, with sustainability as a key component, to increase their contribution to the SDGs.

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

Innovation activities that contribute directly to the SDGs

»Companies that integrate the SDGs into their operations and strategies are likely to be more competitive, innovative, and resilient.«

1) Data from 2018 not available

CASE **VISA AIMS TO EMPOWER SMALL AND MICRO BUSINESSES WITH DIGITAL SOLUTIONS**

The digital payment company Visa is committed to advancing inclusive, equitable, and sustainable economic growth for everyone everywhere. As small and micro businesses (SMBs) are extremely important to the world economy, making up 90% of businesses, 70% of employment, and 50% of GDP worldwide, according to the UN, Visa is continually developing products and solutions to digitally enable 50 million SMBs by the end of 2023.

Solutions include building online businesses, increasing the acceptance of digital payments, and incentivising neighbourhood support. As of May 2022, Visa has worked to digitally enable 30.7 million SMBs worldwide, making headway on their 2023 goal.

That is 30.7 million SMBs that have been empowered to create a difference in their local communities, reducing inequality and enhancing financial inclusion and freedom.

The solutions by Visa increase the economic livelihoods of people who are traditionally underserved, giving them access to resources for digital payments. One example of this is their Tap to Phone solution. Tap to Phone allows SMBs to accept digital payments without the need for additional hardware. Overall, Visa's innovations not only improve access to digital payments, but also connect these peoples to the global economy, promoting economic growth of countries, and driving innovation in the long-run.

»The solutions by Visa increase the economic livelihoods of people who are traditionally underserved, giving them access to resources for digital payments.«

IMPACT 5
DIVERSITY AND INCLUSION

THIS IMPACT AREA AIMS TO HIGHLIGHT the approach of SDG Invest portfolio companies to diversity and inclusion within their company. We aim to ensure that our companies have diversity and inclusion efforts for all present and future employees regardless of gender, ethnicity, religion, sexuality, physical capabilities and age.

GENDER PARITY IN SENIOR MANAGEMENT

Studies show that, while women make up around 48% of the workforce, they only make up about 20% of the executive leadership team. Among 1,677 major listed global companies, only 5% have a female CEO[1]. For women of colour, there is an even lower proportion of leadership positions[2].

Studies also show that women are better leaders, outperforming men on the key traits that have been shown to make leaders more effective, including self-awareness, self-control, and emotional intelligence[3]. High gender diversity on a senior management level has also been shown to boost financial performance and increase innovation[2]. In order to achieve both financial growth and the sustainable development goals, it is essential that women are part of the central decision-making processes of global corporations.

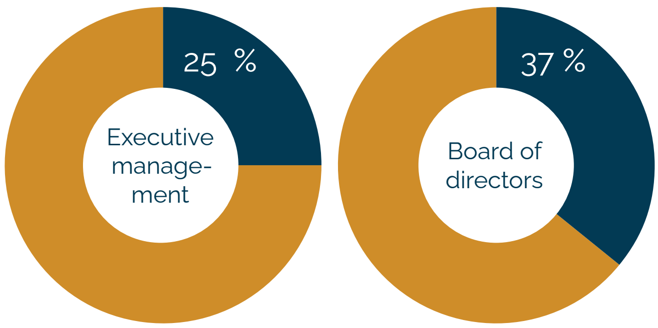
Change is necessary, but slow to materialise. The EU is recognising this challenge, and is taking action, with a directive aimed at achieving greater gender balance on corporate boards. According to the directive, the underrepresented sex must make up at least 40% of non-executive directors or 33% of all directors by 2026[4].

At SDG Invest, we welcome legislation that furthers gender parity. Business should reflect society, and increased inclusion is beneficial to all. We are committed to engage our portfolio companies in conversations about their diversity and inclusion efforts.

In the SDG Invest portfolio, women on average make up 25% of executive management positions. This is slightly lower than the 27% last year, however slightly higher than the 20% global average.

On the Board of Directors, women make up, on average, 37% of directors[5]. This is slightly higher than the 36% last year, and the 28% global average. The 40% gender balance is within reach, so we hope to see further improvement.

PERCENTAGE OF WOMEN IN SENIOR MANAGEMENT



SDG Invest portfolio companies

1) Source: Global Gender Diversity 2022, BoardEx
2) Source: mckinsey.com/featured-insights/diversity-and-inclusion/women-in-the-workplace#/
3) Source: forbes.com/sites/tomaspremuzic/2021/03/07/if-women-are-better-leaders-then-why-are-they-not-in-charge/
4) Source: ec.europa.eu/commission/presscorner/detail/en/statement_22_7074
5) Source: Employee representatives not included.

GENDER PAY GAP

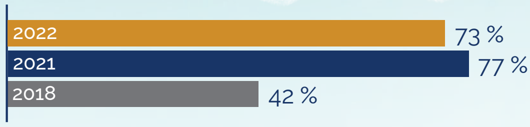
In the SDG Invest portfolio, 73% of companies are actively working to eradicate the gender pay gap. This marks a 5% decrease from last year.

The EU has introduced a new directive to ensure transparency in pay between men and women in the EU.

The directive states that employers must publish information about the gender pay gap, allowing for more transparency and effective enforcement of equal pay.

With new transparency laws such as the EU directive, we believe that equal pay is coming. In the meantime SDG Invest will continue to push for action on the gender pay gap, when we engage our companies in active ownership activities

Actively working to eradicate the gender pay gap



»In order to achieve both financial growth and the sustainable development goals, it is essential that women are part of the central decision-making processes of global corporations.«

73%

of the companies in the SDG Invest portfolio are actively working to eradicate the gender pay gap.

CASE **INTEL HAVE SUCCESSFULLY INCREASED THE NUMBER OF UNDERREPRESENTED MINORITY WOMEN IN LEADERSHIP POSITIONS**

As diversity and inclusion are essential in driving innovation and delivering strong business growth, Intel is committed to creating a better world through the power of their technology, their global scale, and the passion of their employees.

In their goals for 2030, Intel hopes to increase the number of women in technical roles to 40%, double the number of women and underrepresented minorities in senior leadership roles, advance accessibility, and increase the percentage of employees who self-identify as having a disability to 10% of their workforce, while ensuring that inclusive leadership practices are embedded in their global culture.

As of December 2021, underrepresented minority women (UMW) make up 3.8% of the U.S. Intel population. In this case, UMW describes diverse populations in the U.S., such as African-Americans, Hispanic/Latinx, and Native Americans. However, key insights include UMW making up 6% of senior leadership positions, 5.5% of directors, and 22.7% of senior positions. While UMW are underrepresented in the general Intel workforce, the company has had significant success in advancing these women to positions of leadership within the company.

Intel is transparent and openly shares data, believing it to be one of the first steps towards a more balanced workforce. Sharing pay data and company demographics works to promote fairness and equality, and gives them a competitive advantage in the market.

IMPACT 6
PARTNERSHIPS FOR SYSTEMATIC CHANGE

THIS IMPACT AREA AIMS TO HIGHLIGHT
how the companies in the SDG Invest portfolio engage in partnerships and thereby commit themselves to sustainability action on a larger scale.

The sustainability challenges we are facing today are too complex and far-reaching for any single organisation, company, or government to address alone.

17 PARTNERSHIPS FOR THE GOALS

ENGAGEMENT IN SUSTAINABILITY PARTNERSHIPS

Achieving sustainable development and solving pressing sustainability challenges are the most important endeavours of our time, but sustainability challenges are complex; often spanning multiple regions, sectors, economic systems and value chains. Achieving significant and long-term positive outcomes requires multiple different actors to work together, finding common solutions that balance competing interests.

Sustainability centred partnerships are a key way to leverage the strengths of different actors and scale sustainability initiatives. Companies that engage in multi-stakeholder initiatives, play an important role by mobilising and sharing knowledge, expertise, technology and financial resources.

At SDG Invest, we prioritise these companies, because their commitment to partnerships show that they are proactively working for a more sustainable future.

It is noteworthy to see almost all of the companies, 98%, in the SDG Invest portfolio engaged in multi-stakeholder initiatives which proactively work towards a sustainable future.

The SDG Invest portfolio companies have recognised that collaboration is an essential part of solving the problems the world is facing and only through working together can they achieve the sustainable development goals. The 8% increase from last year demonstrates increased focus on the urgency of working together towards a sustainable future.

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

»Sustainability centred partnerships are a key way to leverage the strengths of different actors and scale sustainability initiatives. Companies that engage in multi-stakeholder initiatives, play an important role by mobilising and sharing knowledge, expertise, technology and financial resources. «

CASE **S&P GLOBAL JOINS FORCES WITH GLOBAL INITIATIVE TO ACHIEVE AMBITIOUS GOALS FOR NATURE CONSERVATION AND SUSTAINABLE DEVELOPMENT**

A company that has realised the benefits of knowledge sharing is S&P Global, a leading provider of financial analysis and data. S&P Global has joined the Taskforce on Nature-related Financial Disclosures (TNFD) as one of 40 members in a pilot project aimed at supporting global efforts on shifting global financial flows toward nature-positive outcomes.

The objective of the TNFD is to integrate nature into decision making, because of the risks that nature loss poses to companies. The TNFD aims to develop and provide a risk management and disclosure framework for organisations to report on nature-related risks and opportunities. The framework seeks to enable companies to document their impact on nature and biodiversity in the same way that they can document their impact on climate.

To support this framework, S&P Global is participating in a knowledge sharing community where they consult on the development of data that could be useful to accurately evaluate risks related to nature. Specifically, S&P Global will assist with their knowledge of local business activities and financial flows on a pilot project for financial reporting.

Together, S&P Global and TNFD are creating solutions for nature. To reach the ambitious goals set by the UN, partnerships and knowledge sharing is crucial. Only by cooperating on an international, national, regional and local level and not leaving anyone behind, can we reach the SDGs.

S&P Global

TNFD Taskforce on Nature-related Financial Disclosures

98%

of the companies in the SDG Invest portfolio are engaged in multi-stakeholder initiatives which proactively work towards a sustainable future.

IMPACT 7
SUSTAINABILITY STRATEGY AND REPORTING

THIS IMPACT AREA AIMS TO HIGHLIGHT
the extent to which SDG Invest portfolio companies provide expansive, credible, and reliable reporting on their sustainability strategies. Reporting on sustainability forces companies to evaluate their own sustainability objectives. Investors are also dependent on the reporting to assess the ambitions of the companies.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

MATURITY OF SUSTAINABILITY STRATEGY AND REPORTING

Encouraging companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle is a central indicator of sustainable development, according to the UN. The number of companies publishing sustainability reports is an indicator of the degree to which companies are working towards a more sustainable future.

Sustainability reporting is valuable to the extent that it accurately reflects the company's efforts on sustainability, which is why several measures are being introduced to ensure standardised reporting, including the Corporate Sustainability Reporting Directive in the EU.

Global standards for reporting are increasing the credibility and validity of sustainability reports, while assurance of sustainability reporting is becoming slowly more common.

At SDG Invest, we have a policy that companies can only be included in the portfolio if there is sufficient information to complete our in-depth sustainability analysis. This means that all SDG Invest portfolio companies have a sustainability strategy that they report on.

Obtaining third-party assurance on sustainability data is a vital part of ensuring validity and credibility, because it means that external entities have verified the data and methods that are underlying sustainability reporting. We are pleased to see 69% of SDG Invest portfolio companies obtain third-party limited assurance on their sustainability reporting.

Limited assurance achieved for multiple sustainability KPIs[1]

»Encouraging companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle is a central indicator of sustainable development, according to the UN.«

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.

CASE **XYLEM USES TCFD SCENARIO ANALYSIS TO MANAGE CLIMATE-RELATED RISKS**

Xylem is a leader in developing innovative water solutions through smart technology, and climate sustainability is a core focus for the company. They are committed to do their part in fighting climate change, recognising the importance of transparency in their reporting and how crucial reporting is to taking action against climate change.

Xylem shows commitment to transparency by supporting the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). They understand that transparency regarding climate-related issues is key to managing climate-related risks. Xylem created their first scenario analysis following TCFD recommendations in 2021, analysing actual and potential impacts of climate-related risks and opportunities on several parameters.

The analysis shows that water stress, wildfire, floods and sea level rise are threats to Xylem facilities, and that those threats increase in scenarios with the highest temperature rise and the most climate change. This analysis helps Xylem manage and mitigate risks related to climate change and provides valuable insights for financial actors.

xylem
Let's Solve Water

ABOUT TCFD

The main goal of the Taskforce on Climate-related Financial Disclosures (TCFD) is to increase disclosure of climate-related risks and opportunities and their associated financial consequences.

The TCFD recommends conducting scenario analyses because they are a well-established method for strategic planning to navigate possible futures, and because they can be a great tool to assess potential climate-related risks and opportunities.

The aim of the TCFD is to develop consistent and transparent climate-related financial risk disclosures to be used by financial actors.

69%

of the companies in the SDG Invest portfolio obtain third-party limited assurance on their sustainability reporting.

IMPACT 8
GOOD GOVERNANCE PRINCIPLES AND ETHICAL BEHAVIOUR

THIS IMPACT AREA AIMS TO HIGHLIGHT
the importance of companies implementing good governance principles and engaging in ethical and responsible behaviour. Companies need to act in a way that supports the achievement of the SDGs.

We will explore two key ways that companies can show that their behaviour is aligned with sustainable development: adopting a responsible approach to tax, and integrating sustainability in remuneration.

RESPONSIBLE TAX BEHAVIOUR

A key to achieve sustainable development is effective deployment of financial resources, and corporate taxes are a vital resource. Eliminating tax avoidance, tax abuse, and tax competition could accelerate progress on the SDGs, yet researchers estimate that 40% of multinational profits are shifted to tax havens globally[1].

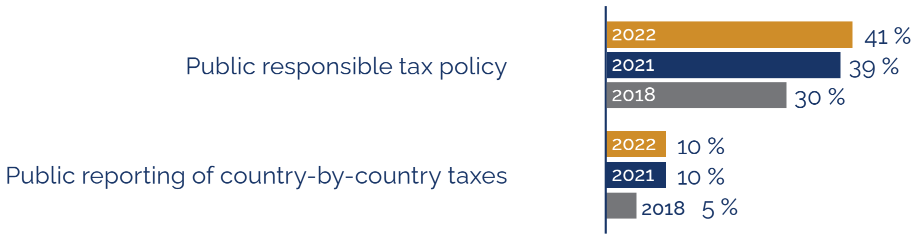
Corporate taxes are a powerful tool in financing efforts to alleviate poverty, reducing inequality and redistributing resources, yet 55 of the largest corporations in the US paid zero federal taxes on their 2020 profits[2].

SDG Invest believes that companies can send a powerful message about their commitment to sustainable development through adopting tax principles based on responsibility, fairness, and transparency.

We believe taxes are a key enabler of the SDGs, and we will always encourage our companies to make public their tax commitments.

In the SDG Invest portfolio, 41% of companies have made public their approach to tax through a dedicated tax policy. While this is an improvement year-on-year, we believe that all companies should make this commitment, and we make that belief known when we engage with the remaining 59%.

Public reporting of country-by-country taxes is the ultimate commitment to tax transparency. Few companies make this commitment, so we are proud to see 10% of our portfolio publishing their taxes on a country-by-country basis. However, at SDG Invest we are ambitious. We make clear to our portfolio companies that reporting country-by-country taxes is an example of great leadership.



»We believe taxes are a key enabler of the SDGs, and we will always encourage our companies to make public their tax commitments.«

1) Source: nber.org/system/files/working_papers/w24701/w24701.pdf
2) Source: itep.org/55-profitable-corporations-zero-corporate-tax/

REMUNERATION

An important part of any good governance framework is setting fair and transparent compensation policies, but, in addition to securing good governance, remuneration can also contribute to achieving corporate sustainability targets.

Executive remuneration is key to driving more sustainable business conduct, as companies are more likely to deliver on their sustainability objectives, if the reward of their senior leaders is directly linked to the achievement of those objectives. Examples of possible sustainability objectives include a reduction in carbon emissions, circular economy-related targets related to recyclable materials or waste reduction, or increasing the number of women in management positions.

Linking remuneration and sustainability objectives shows that companies are prioritising both financial performance and sustainability efforts as key elements of securing long-term sustainable growth. At SDG Invest, we believe that is a sign of exemplary leadership.

The sustainability agenda has gained increased importance for many companies and we are pleased to see more companies in our portfolio making sustainability a part of the determining factor of remuneration. This shows that senior leadership in the companies are taking ownership over sustainability progress. Over half of the companies in the SDG Invest portfolio have sustainability as a partially determining factor of remuneration in 2022. That is an increase of 16% since 2021 which we hope to see as a continuing trend moving forward.

Remuneration is partially determined by sustainability factors

CASE HOW ELISA OYJ IS FULFILLING THEIR GLOBAL TAX OBLIGATIONS WITH TRANSPARENCY AND INTEGRITY

A company worth highlighting in the SDG portfolio when it comes to responsible and transparent tax behaviour is Elisa OYJ, as the Finnish telecommunications company is committed to fulfilling their global tax obligations. Beyond operating in full compliance with all local and international tax law and following the OECD guidelines for multinational enterprises, the company is also committed to transparency, by publishing country-by-country taxes.

Elisa reports on their tax contribution both on a country level, but they also specify each of their tax contributions, such as value added tax, corporate tax, and income tax. This level of transparency is key to show that they are serious about their goal of having efficient tax processes while also contributing to the communities they are a part of.

Elisa states that: "by paying taxes and other public levies, we participate in the development of society in all our operating countries[3]." They set a stellar example of ethical tax behaviour, and we hope to see more companies follow their approach.

3) Source: elisa.com/corporate/investors/annual-report/

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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

KNOW THE CHAIN

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 2021 and FY 2022. Base year is 2018. If data from 2018 is not available, base year is 2019 instead.