SDG Invest

IMPACT REPORT
2023

Value for generations

A LETTER FROM OUR CHAIR OF THE BOARD

DEAR STAKEHOLDER

In 2023, we experienced both remarkable progress and challenges towards a sustainable future. Significant strides have been made as various stakeholders unite to address critical challenges, demonstrating the power of collective action and underscoring the urgency of continued dedication to sustainability efforts. Moving forward, we remain committed to fostering collaboration, innovation, and accountability to drive meaningful change for a more sustainable and resilient future. 2023 has been a year of both unforeseen challenges and renewed hope for the sustainable agenda. Amidst these complexities, a significant stride toward a greener future emerged during COP28, where a commitment to transition away from fossil fuels played a pivotal role. We remain optimistic about this progress and urge an urgent shift away from fossil fuels aligning with the ambitious 1.5°C target set by the Paris Agreement.

The daily reality of climate change continues to underscore its severe consequences—an existential threat. Heat records shattered, wildfires raged across unprecedented expanses, and floods and storms wreaked havoc, impacting thousands of lives. Our collective responsibility remains clear: to safeguard our planet and secure a sustainable future.

Artificial intelligence (AI) has transcended novelty, becoming a mainstream force. Its transformative power reshapes industries, propelling us toward efficiency, innovation, and sustainable practices. In the realm of politics, we observe an ongoing shift toward a green economy. Notably, there have been political efforts that instil hope for a transition to a more sustainable economy. However, the most significant development is the recent adoption of the Corporate Sustainability Due Diligence Directive (CSDDD), which establishes rigorous standards for due diligence reporting.

However, while steps are being taken towards a better future, we were also met with challenges. In 2023 the global economy faced difficulties, but there were signs of improvement.

We saw inflation decreasing in most major economies, but core inflationary drivers continue to play a role. The economy is slowly recovering after Covid-19 and the war in Ukraine and the following energy crisis. We see how the economy is regaining its footing, but consumer confidence remains hesitant. However, 2023 also presented a new conflict emerging after Hamas' attack on Israel. At SDG Invest, we are closely monitoring the distressing events in Gaza and Israel, expressing our earnest desire for a resolution that ensures the safety of civilians and fosters enduring peace in the region.

The companies in the SDG Invest portfolio are consistently enhancing their contributions to sustainable development. Our 2023 Impact Report will provide investors with a comprehensive understanding of how these companies are performing on crucial sustainability metrics. We are excited to witness the progress within our portfolio as these companies rise to the task of building a sustainable future. Our goal is to achieve a portfolio exclusively with companies with verified Science Based Targets. Currently, 90% of the portfolio companies are committed to the Science Based Targets initiative. They are also increasingly adopting the circular economy approach and collaborating in strategic sustainability partnerships to further sustainable development. We are also seeing an increased focus on biodiversity and companies employing several strategies to succeed in maintaining biodiversity.

The pressing nature of the climate crisis calls for us to act decisively and to bring about tangible change. As proactive stakeholders, we are advocating for even bolder steps from companies to guarantee their contribution in combating climate change and inequality, collaborating to ensure no one is left out. Complacency is a luxury we cannot afford. The moment for action is upon us. Let's join forces to shape a sustainable future that benefits everyone.

CHARLOTTE STOKKEBYE
Chair of the Board

»The pressing nature of the climate crisis calls for us to act decisively and to bring about tangible change.«

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2023
YEAR IN REVIEW

HIGHLIGHTS

+17.07%
return in 2023
(2022: -15,72%)

1,777
investors
(2022: +1800)

+42.6%
CO_2 reduction (Weighted Average Carbon Intensity)

ARTICLE 9 FUND

SDG Invest is 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 reducing global warming to 1.5 degrees celsius, through an investment strategy that is founded on the UN Sustainable Development Goals.

ARTICLE 9

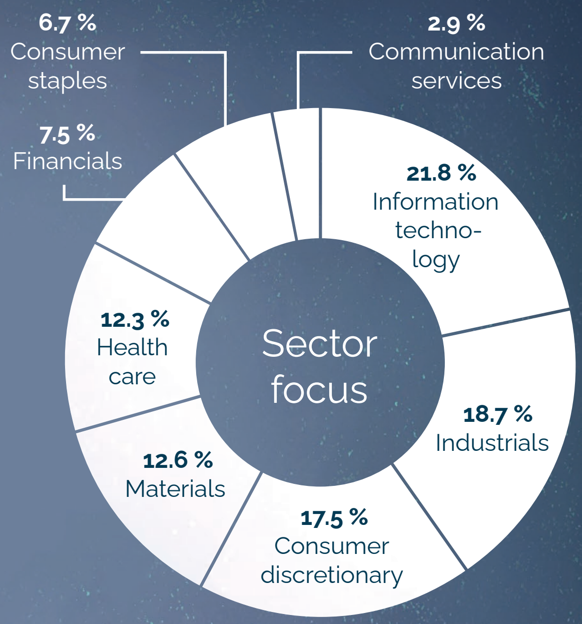
Investment funds that have sustainability as an integral objective of their investment strategy

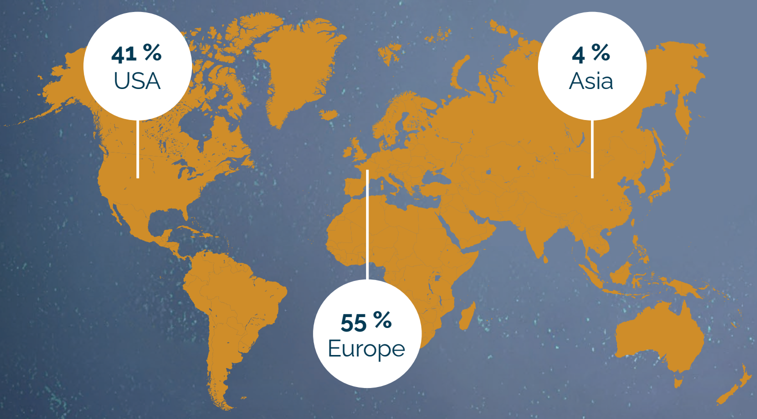
PORTFOLIO OVERVIEW

52
companies

95,542
average number of employees per company

$31 bn
average annual revenue per portfolio company





IMPACT HIGHLIGHTS

SCIENCE-BASED TARGETS

76.9%

of portfolio companies have set Science-Based Targets. (2022: 73% | 2018: 35%)

NET-ZERO TARGETS

65%

of portfolio companies have set net-zero targets for the entire value chain. That figure increases to 83%, when including companies that have set scope 1 and scope 2 net-zero targets.

CIRCULAR PRINCIPLES

75%

of portfolio companies have strategically implemented circular economy principles in their business operations, through specific targets. (2022: 80%)

SUPPLY CHAIN DUE DILIGENCE

100%

of portfolio companies have descriptions of their supply chain due diligence programmes to mitigate human- and labour rights risks including a policy, grievance mechanism, and risk assessment screenings. (2022: 85%)

Out of the 100%, **46,15%** have extensive description of their supply chain describing assessments of adverse impacts, audits and remediation and the results hereof to ensure human rights and worker rights.

CONTRIBUTES TO SDGS

73%

of portfolio companies have developed products and/or solutions that directly contribute to the UN SDGs, integrating sustainable development in their business model. (2022: 83%)

INITIATIVES AND PARTNERSHIPS

98%

of portfolio companies are engaged in multi-stakeholder initiatives or strategicsustainability partnerships. Our companies recognise that sustainability challenges can only be solved when working together. (2022: 98%)

WOMEN IN EXECUTIVE MANAGEMENT

24%

is the average percentage of women in executive management positions in our portfolio companies (2022: 25%)

OUR INVESTMENT OBJECTIVE

At SDG Invest, we are closely linked to the United Nations 17 SDGs, and each company we invest in is carefully screened to ensure they follow said goals. Through our scoring process described below, our objective is to invest in companies whose sustainability practices aim to achieve the SDGs.

All of our portfolio companies support the environmental, social, or sustainable investment objectives set forth. Eight main impact areas are described in this report in which we elaborate on which SDGs are connected. We firmly believe in the possibility of achieving these goals and our investment practices reflect these beliefs.

THE UN SUSTAINABLE DEVELOPMENT GOALS (SDGS) lie at the heart of everything we do at SDG Invest. They provide a call to action, recognising that sustainability challenges must be addressed as a collective, to ensure peace and prosperity for both people and the planet. These goals offer a unified framework to tackle pressing global challenges, recognising the interconnectedness of social, economic, and environmental issues. By prioritising sustainable practices, businesses not only mitigate risks and seize opportunities but also contribute to long-term prosperity while fulfilling ethical responsibilities.

»The UN Sustainable Development Goals offer a unified framework to tackle pressing global challenges, recognising the interconnectedness of social, economic, and environmental issues.«

OUR APPROACH TO PORTFOLIO RISK

At SDG Invest, our primary focus is to minimise sustainability risks by continuously monitoring for social or governance events that could potentially impact the value of an investment.

If a significant event arises, we initiate an investigation with the involved company. Should the investigation fail to provide satisfactory results, we place the company on an internal watchlist. Depending on the severity of the situation, we may choose to remove the company from our portfolio. Additionally, we conduct annual monitoring, analysis, and reporting of significant adverse sustainability indicators, encompassing factors such as greenhouse gases, biodiversity, water usage, waste management, and social and employee conditions.

There are essentially three types of sustainability risks, related to environmental, social or governance events or circumstances that may have a negative impact on the value of an investment. Our fund is exposed to all three types of sustainability risks as the fund's investment universe consists of large, global companies. However, sustainability risks are minimised as investments are strictly made in listed equities where it is possible to obtain sufficient company information and data to ensure that it will be possible to identify potential sustainability risks at an early stage and to ensure that it is possible to obtain sufficient data to perform the ongoing sustainability screening.

The global reach of companies in the fund influences the exposure to sustainability risks. Our fund primarily invests in American and European companies, while a significantly smaller proportion of the portfolio is in other markets. Sustainability risks, especially regarding social and governance factors, typically are relatively smaller in the US or EU. However, the majority of the portfolio companies have value chains that spread globally.

When we assess sustainability risks, we focus specifically on the risks that may arise in the value chain, encompassing climate and environmental, social, and governance factors.

The exposure to specific sustainability risks differs between the sectors in which SDG Invest invests. In SDG Invest's 'minimum sustainability standards', exclusions are set up for sectors that the fund may not invest in. Additionally, the fund's investment universe lacks a framework for determining which sectors to invest in, which is why we at SDG Invest are aware of sector-specific sustainability risks before making any investment decisions.

The annual analyses, ongoing monitoring, and the dialogue we engage portfolio companies in ensure that the fund's sustainability risks are minimised. However, environmental, social, or governance events or circumstances may arise that could potentially negatively impact the performance of the fund's investments. It is expected that the fund's return will deviate from general market returns and indices, but the fund also expects to at least follow the market development in the long term. These expectations are based on the following two factors:

1. **The trend towards sustainability is maturing very differently in individual markets around the world.** Our screening of companies for sustainability issues results in a portfolio whose composition may deviate from the general benchmark both in terms of the companies included in the portfolios and the geographical allocation.

2. **It is expected that companies that actively consider sustainability risks will be more aware of how these risks should be handled if they occur.** These companies are more likely to have conducted scenario analyses and established procedures to safeguard against sustainability risks.

THE FUTURE OF SUSTAINABILITY

Each year, SDG Invest offers insights into the evolving trends of sustainability that we anticipate will influence the future agenda.

We have previously highlighted the significance of biodiversity, diversity in senior management, and regulations for sustainability reporting as emerging trends that corporations need to consider.

Our forecasts stem from our rich background in sustainability and our commitment to sustainable investing, enriched by our interactions with various stakeholders in this domain.

This year, our focus is drawn to the sophisticated realm of sustainability mandates and the principled application of artificial intelligence. We delve into the evolving landscape of recent legislative advancements that have elevated the standards for environmental stewardship. We also explore the ethical dimensions of AI deployment, ensuring that our technological advancements harmonise with our commitment to a sustainable future. Last, but not least, we look into how sustainability can look and the future of carbon accounting.

REGULATIONS AND SUSTAINABILITY REPORTING
THE EXISTENTIAL POLITICS OF CLIMATE CHANGE

When climate change was first put on the international agenda in 1979 by the first World Climate Conference[1], it was advanced by intergovernmental organisations. As the issue gained global prominence, change was initiated through cooperation, with the primary concern of the era being the prevalence of free riders. Throughout the 2000's increasingly more experts sounded the alarm of the urgency of the climate crisis. With the urgency materialising into physical impacts such as rising sea level, frequent storms and unbearable heat waves, climate change policy became less about free riders and more about the conflict between winners and losers of climate change.

The conventional perspective often focuses on the concept of "freeriding," treating climate change as a static collective action problem among states. However, this viewpoint is increasingly being questioned. Evidence suggests that states take action on climate change even in the face of freeriding. Conversely, the traditional view tends to downplay distributional conflicts, especially within domestic politics. These conflicts are dynamic in nature and decisions made in one time period significantly impact the preferences, resources, and political power of actors in subsequent periods. As climate change and decarbonisation policies unfold, the struggle over asset valuation becomes critical. This battle for survival and influence, which is defined as "existential politics," goes beyond mere economic gains or losses.

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1) Data from 2018 not available

ASSET REVALUATION POLITICS

Climate change and decarbonisation policies are reshaping the value of various assets, leading to a distributional conflict with significant implications for society and politics.

Climate politics can be seen as a struggle between those who own assets contributing to climate change (like fossil fuel industries) and those who own assets vulnerable to climate impacts (such as coastal properties). Historically, the influence of "climate-forcing" asset holders has hindered effective climate policies. However, as climate change awareness grows and decarbonisation efforts advance, both climate-forcing and "climate-vulnerable" asset owners face the risk of losing their assets' value over time. This potential loss threatens the foundation of their political power. Companies can use one of three mechanisms to either flip their climate forcing assets (CFA) to climate vulnerable assets (CVA), realign with the shift in balance of power i polity, or lastly, employ strategic repositioning to reevaluate assets to gain an advantage in competition with other firms and benefit from stewardship in the industry in terms of standards and regulation.

As climate change awareness grows, governments worldwide are implementing regulations to address environmental challenges. The new requirements/ regulations put pressure on companies to flip, realign or strategically reposition themselves to maintain the value of their assets. The diverging interests between those who hold CFAs and CVAs highlights the importance of regulation.

Until recently it was up to each company to decide if and to what degree to incorporate sustainability in their operations. With increased regulation on reporting as well as mitigation/prevention companies are walking a narrow path. Companies now face requirements and expectations to an unprecedented level that expectantly will incentivise companies even further to reevaluate their assets and align, flip or reposition accordingly.

The most cost-effective way to transition towards green growth is by a fast transition. Future energy costs are estimated for three different scenarios. They are categorised as a fast transition, slow transition and no transition to clean energy. A fast transition is estimated to result in $12 trillion USD of net saving[2]. Compared to continuing with a fossil fuel-based system, a swift transition to green energy is projected to yield trillions of net savings, even without factoring in climate damages or benefits from climate policies. As a result, sustainability measures are urgent.

The potential savings underscore the economic feasibility of a rapid transition to green energy. Moreover, this transition is crucial for achieving the goals of the Paris Agreement and averting the worst impacts of the climate crisis. The time for action is now. We have the opportunity to lead the way in creating a sustainable future that is not only environmentally friendly but also economically advantageous. Let's seize this opportunity and work together to make this vision a reality.

2) Source: Way et al. 2022: cell.com/joule/pdf/S2542-4351(22)00410-X.pdf

CSDDD

In recent years, the landscape of sustainability and sustainability reporting has undergone significant transformation, marked by substantial advancements in regulatory requirements and initiatives to foster the green transition. The EU is moving at unprecedented speed in transitioning Europe to a green economy. A pivotal development is the newly approved Corporate Sustainability Due Diligence Directive (CSDDD) from March 2024, which aims to ensure that companies operating within the EU take responsibility for their impact on human rights and the environment, not just within their own operations but also throughout their entire value chain.

The CSDDD stems from the European Union's need for compulsory due diligence regarding human rights, climate change, and environmental protection, given that existing reports and voluntary measures fall short of being adequately impactful and non-binding initiatives are not sufficiently effective. A more cohesive set of directives is a step in the right direction of streamlining standards of reporting. The current trend of directives in the EU making reporting mandatory represent a standardisation we hope will expand, making reporting more transparent.

CSDDD will directly impact approximately 13,000 companies within the EU and around 4,000 companies outside the EU. Specifically, it affects approximately 9,400 EU companies with over 500 employees and an annual turnover exceeding €150 million globally. Additionally, the directive influences approximately 3,400 companies in "high impact" sectors with over 250 employees and an annual turnover exceeding €40 million globally, including operations in defined "high impact" sectors such as textiles, agriculture, and mineral extraction. For this group, the rules come into effect two years later than for the first group. The directives will also affect approximately 4,000 non-EU companies that have significant activity within the EU, comparable to the turnover of the aforementioned EU companies.

The directive requires executive management to set up and oversee due diligence processes that identify, prevent, mitigate, and account for negative human rights and environmental impacts within their operations and value chains. This includes integrating due diligence into the company's corporate strategy and considering the implications of their decisions on human rights, climate change, and the environment. By doing so, executive management must act in the best interest of the company while also taking into account the broader societal and environmental consequences of their actions. This approach aims to align the interests of companies with the EU's commitment to sustainability and the protection of fundamental rights. The CSDDD represents a shift in sustainability initiatives forcing large companies to be more proactive in their approach to sustainability by including preventative measures in their operations and value chains.

GREENWASHING

The European Union's Green Claims Directive[3] stands as a pivotal step in the realm of sustainability, aiming to furnish consumers with transparent and dependable insights into the environmental footprints of products. With the proliferation of greenwashing practices, wherein companies intertwine subpar environmental behaviours with rosy portrayals of their ecological commitments, there's an urgent need to rectify this misalignment between rhetoric and reality.

The essence of this directive lies in its bid to counter greenwashing, whereby companies deceptively market their offerings as environmentally sound. Mandating companies to substantiate their environmental assertions with empirical evidence and independent validation, the directive endeavours to shield consumers from misleading practices. Given the escalating incidence of greenwashing, there's a palpable risk of eroding trust among both consumers and investors in purportedly eco-friendly products. This challenge is further compounded by the scarcity and ambiguity of regulatory frameworks.

The transparency engendered by the Green Claims Directive is pivotal in empowering consumers to make informed choices and undertake product comparisons based on genuine environmental impacts. As a complementary measure to the proposed Directive on empowering consumers in the green transition, it underscores the EU's broader commitment to fostering a net-zero economy. The directive's resounding adoption with a substantial majority underscores the unwavering support for initiatives aimed at curbing greenwashing and advancing sustainability agendas.

The Green Claims Directive represents a pivotal step towards reshaping the landscape of corporate sustainability. Beyond mere regulatory compliance, it embodies a paradigm shift towards authenticity and accountability in environmental stewardship. By setting stringent standards for eco-labelling and green claims, this directive prompts businesses to confront the substance behind their sustainability narratives.

»Given the escalating incidence of greenwashing, there's a palpable risk of eroding trust among both consumers and investors in purportedly eco-friendly products.«

DEFORESTATION

The EU Regulation on Deforestation-free Products, coming into effect on December 30th, 2024, aims to ensure that key goods exported or placed on the EU market are deforestation-free, meaning they do not contribute to deforestation or forest degradation. The regulation targets commodities like cattle, wood, cocoa, soy, palm oil, coffee, rubber, and their derived products. Being a significant economic force and a consumer of goods associated with deforestation and forest deterioration, the EU acknowledges its share of accountability for these issues and is eager to spearhead efforts towards their resolution. Operators and traders must prove that these products do not originate from recently deforested land or contribute to forest degradation. This measure is expected to reduce greenhouse gas emissions and biodiversity loss significantly.

The deforestation regulation aims to avoid the relevant products Europeans consume to contribute to deforestation and forest degradation both in the EU and globally.

The new rules also target reduction of carbon emission caused by the consumption in the EU. The goal is to reduce carbon emissions by 32 million tonnes a year caused by the consumption and production of relevant commodities in the EU. The regulation's objective also encompasses tackling the entirety of deforestation caused by agricultural growth for the production of commodities covered under the regulation, in addition to combating forest degradation.

Essentially, the Deforestation Regulation showcases the EU's commitment to advancing sustainable trade practices and environmental stewardship. It not only demonstrates a resolute stance against the harmful impacts of deforestation but also sets a precedent for transformative shifts in how we manufacture, consume, and prioritise natural resources. As other regions and countries take note and potentially adopt similar measures, this regulation has the power to spark a worldwide movement towards a more sustainable and resilient future for our planet.

3) Source: bit.ly/greenclaimsdirective

PACKAGING

The EU Packaging and Packaging Waste Directive is designed to harmonise national measures concerning packaging and the management of packaging waste, ensuring a high level of environmental protection and the smooth functioning of the internal market. The Directive's approach encompasses the entire life cycle of packaging, from raw material sourcing to final disposal, emphasising environmental sustainability and labelling to facilitate market placement. It also includes the establishment of Extended Producer Responsibility (EPR) schemes, obligating producers to manage the collection, treatment, and recycling of packaging waste. This comprehensive strategy aims to reduce the environmental impact of packaging waste and support the EU's transition to a circular economy, where resources are used more efficiently and sustainably.

This directive sets out the EU's rules on managing packaging and packaging waste. Its main objectives are to harmonise national measures concerning the management of packaging and packaging waste and to improve the environmental quality by preventing and reducing the impact of packaging and packaging waste on the environment.

The regulation sets specific waste reduction targets for plastic packaging and requires the plastic part in packaging to contain minimum percentages of recycled content. It also encourages the reuse and refill options for consumers, such as allowing consumers to bring their own containers for take-away food and drinks. Additionally, the regulation seeks to ban "forever chemicals" in food packaging due to their adverse health effects. These new directives are a part of an accelerating trend in the EU towards a greener economy.

NEW GREEN ACCOUNTING

Policy makers face the critical task of setting ambitious goals and ensuring that companies do not procrastinate or obscure climate disclosures in their reporting on how climate risks impact financial performance, assets, and liabilities. These disclosures should transparently address how climate risks affect financial performance, assets, and liabilities. Existing financial accounting standards and practices often overlook the upcoming challenges linked to achieving carbon neutrality targets. Emerging research is exploring the possibilities of improved accounting for climate change challenges[4]. Researchers are therefore suggesting Sustainable Cost Accounting (SCA). Environmental and social costs have been additive rather than substantive in the reporting. SCA is based on existing accounting principles to require commercial organisations to report on how they will manage the costs of becoming net zero. If SCA was applied to be mandatory and comprehensive it would be a significant step in halting the climate crisis.

SCA is based on precautionary principle where a business plan should only rely on technologies that are proven to exist and work at the time of its creation. While a company can propose using other technologies and allocate a budget for their development, it cannot assume they will function unless there is evidence to support it. This cautious approach ensures that the risks associated with the company's processes are transparent to stakeholders.

Furthermore, as an extension of the precautionary principle, a SCA should not assume carbon offsetting is feasible unless the company can demonstrate ownership of the necessary means. For instance, if the company possesses land where trees could be planted for carbon offset purposes, then it can consider offsetting. This prevents businesses from claiming carbon neutrality based on offsetting when the required resources are unavailable.

Advocates for SCA also suggest that if a company is not able to prove they can afford the cost of transitioning to carbon neutral it could then be declared "carbon insolvent". As a result, companies would be forced to manage and account for the costs of how they will become carbon neutral.

Current financial disclosures do not take natural resources into account. The current financial systems have in part contributed to the climate crisis due to its inherent assumption of infinite natural resources. Therefore, it has been suggested current financial reporting of many of the world's major corporations is incomplete as they do not take their use of natural resources into account. The incomplete financial reporting might result in large misallocation of resources in the world's economies. It is estimated by the Bank of England that up to $20 trillion of assets[5] could be wiped out by the climate crisis if it is not effectively addressed.

We have already seen measures such as TCFD playing an increasingly important role in financial disclosures. In addition, directives such as CSRD and CSDDD require reporting on social and environmental impacts and efforts. However, SCA has the possibility of creating substantial requirements of companies that force them to account for becoming carbon net zero.

The research on SCA is still in its infancy, but ongoing research projects are investigating how accounting can encourage companies to become carbon neutral. SCA would be a radical step towards a green economy, but as we all know, the climate crisis is urgent, and we need new structures and technologies to mitigate the challenges as our current systems have not been sufficient in addressing the crisis and also in part caused it. At SDG Invest, we are following the development of the research and are excited to see new ideas emerge in the fight against the climate crisis[6].

»Incomplete financial reporting might result in large misallocation of resources in the world's economies. It is estimated by the Bank of England that up to $20 trillion of assets could be wiped out by the climate crisis if it is not effectively addressed.«

4) Source: cbs.dk/en/the-press/news/time-mirror-financial-accounting-the-green-transition
5) Source: theguardian.com/environment/2019/apr/17/mark-carney-tells-global-banks-they-cannot-ignore-climate-change-dangers
6) More on SCA: corporateaccountabilitynet.work/2019/06/27/sustainable-cost-accounting-a-new-conceptual-framework-for-accounting/

OUR APPROACH

At SDG Invest, we continuously monitor emerging regulations and consistently reevaluate our scoring criteria to align with new sustainability standards. The European Union has made significant strides toward fostering a sustainable economy in recent years, with initiatives like the New Green Deal, circular economy policies, and efforts to combat deforestation.

Our commitment to sustainability extends to our portfolio evaluation process. We have long assessed our holdings against various criteria, ensuring that our portfolio adheres to the highest standards of sustainability. We hold companies in our portfolio to elevated expectations, emphasising their environmental and social impact.

As the landscape evolves, so do our criteria and methodology. We proactively adapt to new legislation and industry standards, ensuring that our investment decisions remain aligned with sustainable practices. SDG Invest already has specific parameters directly tied to deforestation and supply chain due diligence, which our comprehensive scorecard reflects. We continuously evaluate indicators related to deforestation, sustainable packaging, and supply chain practices.

Moving forward, SDG Invest will closely monitor developments and assess whether these new directives should factor into our analysis of portfolio companies' sustainability performance.

»We proactively adapt to new legislation and industry standards, ensuring that our investment decisions remain aligned with sustainable practices.«

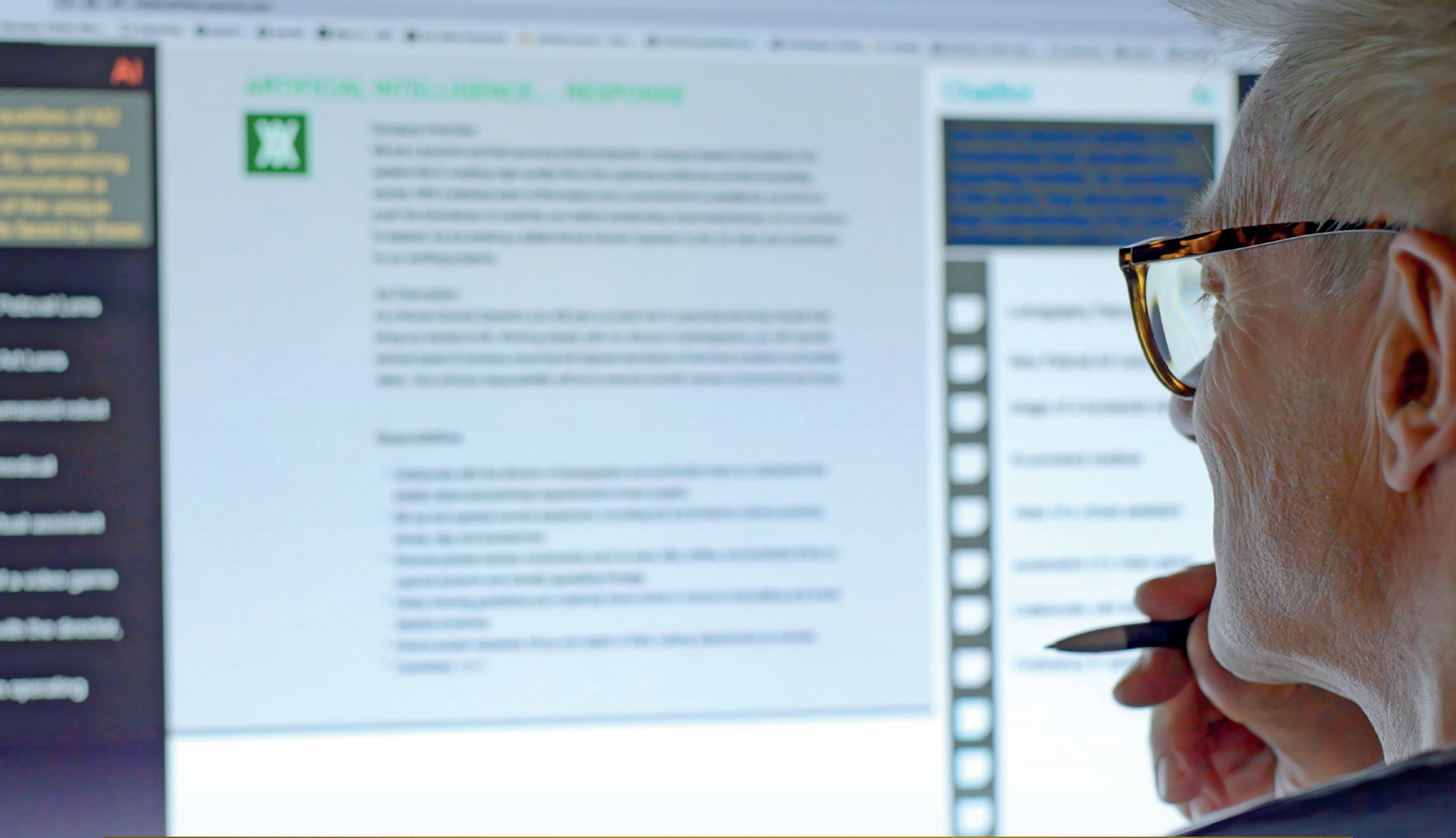
ARTIFICIAL INTELLIGENCE

2023 has been a year of significant technical advancements with the emergence of generative AI. This transformative technology has revolutionised content creation, leading to breakthroughs in natural language processing and creative applications. However, with such pivotal advancements, we are also faced with uncharted territory and new challenges. These include ethical considerations, quality control, and the need for a robust regulatory framework to guide the responsible development and deployment of AI technologies. As we continue to explore the vast potential of generative AI, it is imperative that we address these challenges with a collaborative and thoughtful approach.

The role of AI in the future is a topic of great interest and importance. AI is poised to become a transformative force across various sectors, offering numerous benefits while also presenting new challenges. AI has the potential to increase efficiency and productivity by automating routine tasks.

Moreover, we have seen how AI can assist in diagnosing health problems. However, with these possibilities we are also faced with a series of new questions. How will AI affect employment rates? What are the consequences of the biases and misinformation inherent in AI? There are several advantages to the new development of AI, but we must remain vigilant to the consequences and disadvantages of AI. We are closely observing the development and hope to see a productive and ethical use of AI going forward.

AI is expected to continue its rapid development, with generative AI playing a significant role in creating content and driving innovation. The collaboration between humans and AI is likely to enhance our capabilities and lead to new opportunities. However, it is crucial to approach the future of AI with a balanced perspective, considering both its potential and the challenges it presents. By doing so, we can harness AI as a great asset for the future.



OUR APPROACH

The launch of the first open AI platform was a pivotal moment, heralding a new epoch in technological progress. This innovation has seamlessly woven itself into the fabric of our daily existence, altering the way we live, work, and interact. At SDG Invest, we are acutely aware of the transformative power of generative AI. We are committed to meticulously monitoring its evolution, recognising the profound impact it has on the companies within our investment portfolio.

As we begin this new era of technology, we are aware of the myriad uncertainties that accompany such rapid advancement. The journey ahead is one of trial and error—a path defined by continuous learning and adaptation.

Our aspiration is to foster a society where AI is utilised effectively and responsibly. We advocate for the development of AI that serves the greater good, ensuring that it does not inflict harm but rather contributes positively to society.

SDG Invest is dedicated to evaluating the role of AI with a critical eye. We aim to ensure that the companies we invest in are not only harnessing the potential of AI but are also proactively managing the associated risks. It is our belief that through responsible stewardship, AI can be a force for good, driving innovation and progress while upholding the highest ethical standards.

»We are closely observing the development and hope to see a productive and ethical use of AI going forward.«

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 52 companies.

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. As we strive for 100% of our portfolio companies to participate in the SBTi by 2025, in this step we also implement a screening process to ensure their engagement.

The second step of the process excludes companies that derive revenue from activities not aligned with the SDG Invest investment philosophy. Demonstrating our ethical and sustainable investment philosophy, we unequivocally exclude investments in industries such as fossil fuel, alcohol, gambling, pornography, weapons, and tobacco. Our commitment is to ethical and sustainable investment practices.

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 in sustainability. The Scorecard is what ensures a portfolio of the most sustainable companies around the world.

THE SUSTAINABILITY SCORECARD MODEL

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

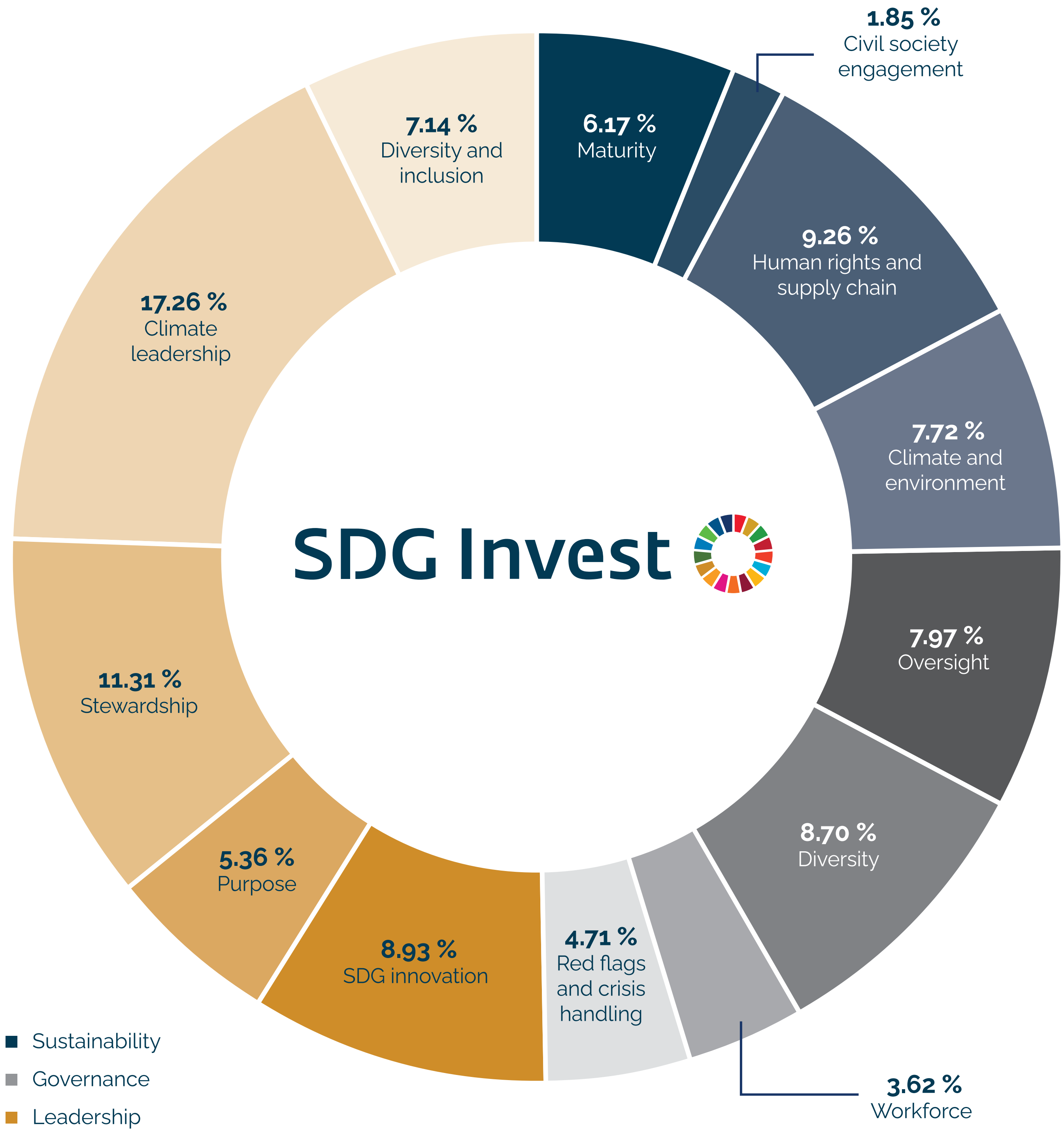
Our scoring is comprised of three categories:

- 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 2023, our Sustainability Scorecard consisted of 50 parameters and 179 scoring options, compared to 48 parameters and 167 scoring options in 2022.

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 2023	Action points in 2022
197[1]	298

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 most common recommendations are:

1. Add a focus on providing a living wage across your supply chain
2. Document data on the gender pay gap
3. Have emission reduction targets and net zero commitment verified by the Science Based Targets initiative
4. Implement a responsible tax policy and report country-by-country

The shift towards a sustainable future is vital, but it won't occur on its own. Investors hold a distinct advantage in driving sustainability by engaging directly with their portfolio companies and collaborating with other investors who share similar values. At SDG Invest, embracing active ownership is a fundamental aspect of our investment strategy.

DIRECT DIALOGUE

In 2023, SDG Invest once again dispatched active ownership correspondences to all portfolio companies, outlining recommendations for advancing their sustainability efforts.

Through this interaction, we extended invitations to the companies for a subsequent meeting to delve deeper into their sustainability endeavours. In 2023, several companies accepted this invitation.

The direct exchange between SDG Invest and our portfolio companies has proven invaluable in providing us with deeper insights into their ongoing initiatives and in identifying areas where further action may be warranted. We communicated to our companies that SDG Invest is committed to achieving net-zero emissions and that we anticipate our portfolio companies to align with this commitment. Additionally, engaging discussions took place regarding the heightened data requirements imposed by EU regulations and how companies are adapting to these evolving frameworks.

1) Action points have been reduced due to a smaller portfolio and a large number of companies having incorporated our last year's recommendations, such as integrating biodiversity as a strategic priority.

PARTNERSHIPS AND ALLIANCES FOR CHANGE

Listed on NASDAQ Copenhagen

Member of

Investor Signatory

Signatory

Retail partnerships with

COLLABORATIVE ENGAGEMENT

While engaging in direct dialogue remains crucial for SDG Invest, we recognise that our impact is magnified when we join forces with fellow investors. We actively participate in various investor alliances and throughout the year, we lend our support to multiple campaigns led by investors who are committed to creating a more sustainable future.

In 2023, SDG Invest participated in an investor alliance with Interfaith Center on Corporate Responsibility to call for a living wage in the US alongside 134 other investors representing USD 4.5 trillion in assets under management. At SDG Invest we believe and are actively working for a living wage for all. A living wage relates to several of the SDGs, in particular ending poverty and decent work for all.

OUR RESPONSE TO CURRENT ISSUES

SDG Invest continuously monitors news coverage of all portfolio companies to stay informed on potential issues that may arise, that could indicate sustainability risks or adverse impacts on the environment or on people. In 2023, we have analysed our exposure to the Uyghur region in China, as well as other conflict areas. SDG Invest is not involved in the weapon industry and is therefore not directly exposed to any conflict.

Since October 7, 2023, the escalating conflict between Israel and Hamas has resulted in a significant number of civilian casualties and injuries. We are extremely worried about the prospects of famine in Gaza. We hope for a sustained peace and the end to the killing of civilians.

While it has received little attention in the media, another crisis is ongoing in Sudan.

A power struggle between two rivalling forces erupted into war in April 2023. Since then, the people of Sudan lack basic necessities, and combined with violence and uncertainty, has resulted in more than 8,5 million people having been displaced since the conflict began a year ago. Humanitarian crises make women and children especially vulnerable. Sudan faces the largest displacement crisis in the world and acute food insecurities for 18 million people, with 5 million people on the brink of famine. We hope the international community will respond to the ongoing humanitarian crisis in Sudan to ensure peace and stability in the region. As we follow the UN SDGs, we aim for peace and prosperity for people and the planet, so while the conflict does not immediately impact our portfolio, some companies will be affected down the line and, so we will continuously monitor the conflict. We address ongoing issues to strive for a sustainable future for all.

GEOPOLITICAL TENSIONS

Since the Russian invasion in Ukraine we have conducted in-depth analysis of our exposure to Russia. Since the war broke out more than two years ago, the majority of our portfolio companies have exited Russia completely. However, we still see a few companies who have exposure through sales and subsidiaries. There are several dilemmas associated with exiting Russia completely. Some companies in our portfolio, such as Unilever, still operate in Russia as they continue to supply food and hygiene products to the Russian people. There are also risks associated with exiting Russia completely, such as the Russian state taking over plants or operations. Therefore it is not straightforward for companies to exit Russia completely overnight, but requires thorough planning and insight into the consequences and costs of exiting.

These are unprecedented times and therefore we expect our portfolio companies to be transparent and proactive on issues and dilemmas related to sustainability risks. We will continue to take action to address and mitigate negative impact, if it becomes necessary.

PORTFOLIO IMPACT

This section will characterise eight impact areas where we assess the advancements in sustainability across the SDG Invest portfolio. We will also spotlight companies within our portfolio that exemplify exceptional commitment to sustainable development.

Our impact areas comprise climate change and environmental stewardship, circular economy initiatives, human rights advocacy, labour rights and supply chain management, innovative solutions addressing the Sustainable Development Goals, diversity and inclusion practices, partnerships for systemic change, sustainability strategy and reporting, and finally, good governance and ethical conduct.

Each impact area will examine the progress of the SDGs within our portfolio companies and expound upon our active ownership strategies aimed at driving further advancements.

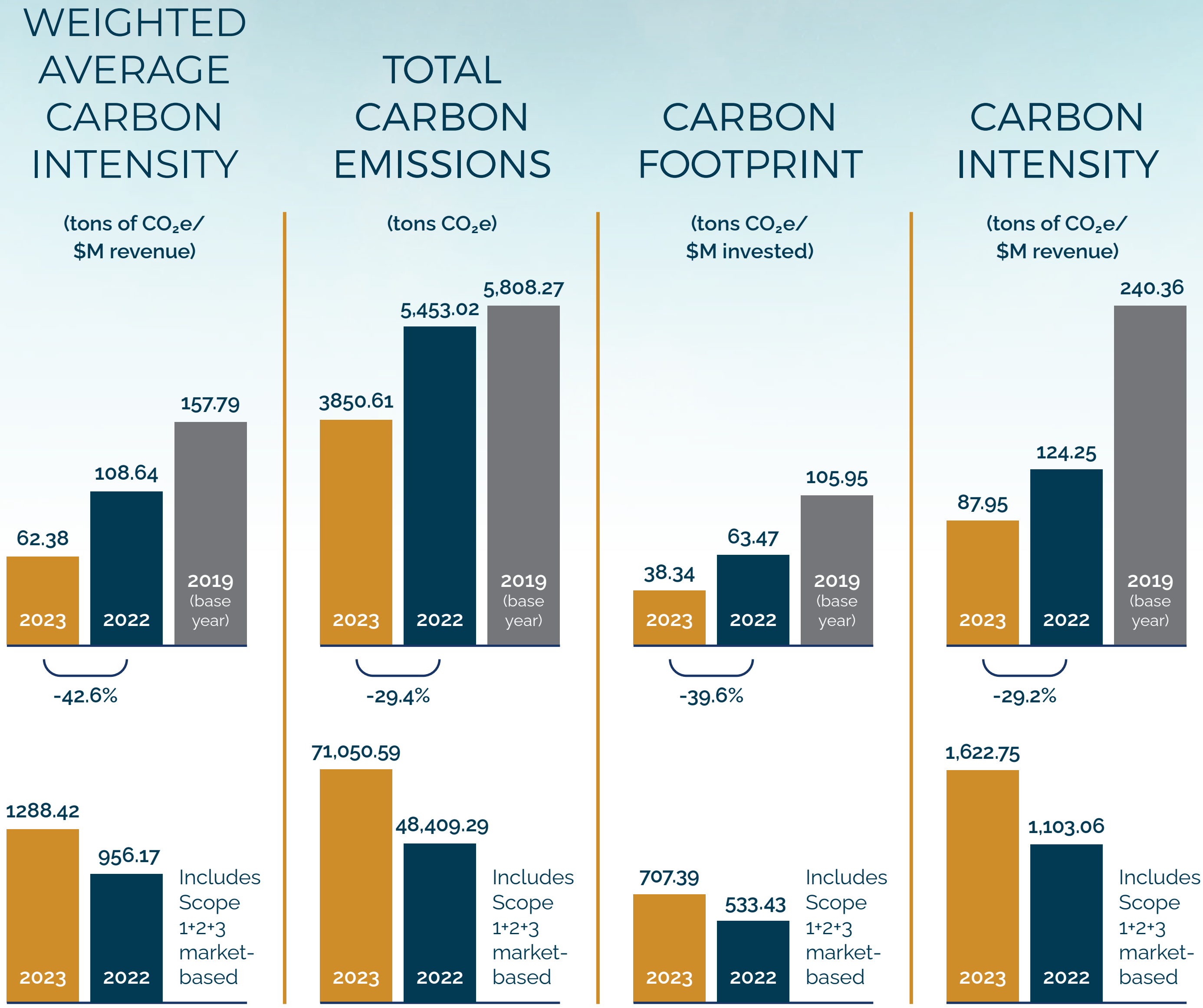
IMPACT 1
CLIMATE CHANGE AND ENVIRONMENT

THIS IMPACT AREA AIMS TO HIGHLIGHT
the approach of SDG Invest portfolio companies to climate change and environment, and covers SDGs: 7 – *Affordable and Clean Energy*, 13 – *Climate Action*, 14 – *Life Below Water*, 15 – *Life on Land*, and 17 – *Partnerships for the Goals*.

Addressing climate change is paramount in ensuring the sustainability of our planet and the well-being of future generations. The consequences of climate change are far-reaching, impacting ecosystems, economies, and communities worldwide. Therefore, it is crucial for organisations to acknowledge their role in mitigating climate change and take proactive steps towards reducing their environmental footprint.

In our annual impact report, we introduce a dedicated impact area called *"Climate Change and Environment."* This section focuses on our efforts and initiatives aimed at combating climate change, preserving biodiversity, and promoting environmental stewardship. Through this impact area, we highlight our commitment to sustainability and transparency while demonstrating our dedication to making a positive impact on the planet.

THE CARBON FOOTPRINT OF THE SDG INVEST PORTFOLIO



METHODOLOGY

Our carbon footprint metrics adhere to the methodology outlined by the TCFD*. Reliable data on the greenhouse gas (GHG) emissions of each company within our portfolio is essential for calculating these metrics. A significant portion, 98%, of our portfolio companies submit their emissions data to CDP in accordance with the Greenhouse Gas Protocol.

The remaining 2% disclose emissions data in their annual reports. While we operate under the assumption that this publicly available data is accurate, it's important to note that each company may employ varying methods to measure and report their emissions.

*) Source: bit.ly/tcfd-methodology

In 2023, there was a 29.4% reduction in the average carbon emissions of the SDG Invest portfolio. This encompasses scope 1, and 2 CO_2 emissions. The Weighted Average Carbon Intensity, market-based, considering only scope 1 and 2, stands at 62.38 (down from 108.64 in 2022), indicating that the majority of emissions in portfolio companies lie within scope 3. Despite a significant effort from companies to reduce scope 1 and 2 emissions by approximately 40%, there has been a notable increase in overall figures since the previous year. This surge is attributed to companies intensively collecting and measuring data for scope 3 emissions, where most companies have their largest emissions.

SDG Invest's sustainability objective remains focused on creating a portfolio that supports the Paris Agreement's goals and aligns with a net-zero transition, aiming for a net-zero target by 2040. In 2023, global temperatures hit new highs while the world failed to cut emissions. Greenhouse gas emissions must be reduced by 42% by 2030 to keep warming below 1.5°C[1]. While our overall emissions increased, we are dedicated to achieving this target.

RENEWABLE ENERGY

Renewable energy holds significant importance within the SDG Invest portfolio, with a strong emphasis on companies committed to achieving 100% renewable energy targets. On average, portfolio companies show a renewable energy share exceeding 40%. We aim for 100% of companies in the portfolio to use renewable energy by 2030.

ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY FOR ALL

SDG 7 focuses on universal access to affordable, reliable, and sustainable energy sources. It deals with efforts to provide clean and modern energy solutions to everyone, with one key objective being to create opportunities for decent work and economic growth within the renewable energy sector. This underscores the importance of fair working conditions while including the adoption of living wage principles to combat in-work poverty, which is when individuals or families are employed, but do not earn enough to meet the cost of living.

»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.«

1) Source: wedocs.unep.org/bitstream/handle/20.500.11822/44777/UNEP_Annual_Report_2023.pdf

SCIENCE-BASED TARGETS

90% of the companies in the SDG Invest portfolio actively participate in the Science-Based Targets Initiative, allowing them to establish emissions reduction goals aligned with the Paris Agreement. Our aim is to achieve full participation from all portfolio companies by the conclusion of 2025, and all companies to have targets set by 2030. This target reflects our belief that credible emissions reduction targets are essential for every company within our portfolio, aligning with our investment principles.

Out of the 90% of portfolio companies engaged with the SBTi, 77% have now received approval for their targets to align with the Paris Agreement, marking an increase from 73% last year. These established targets hold considerable importance as companies pledge to publicly report their progress. Such transparency and accountability enhancements empower us as investors to advocate for meaningful climate action.

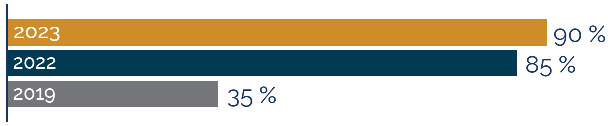
The average company that has set targets aligned with the Paris Agreement through the SBTi, is reducing emissions twice as fast as required by climate science. Setting targets then becomes a catalyst for action and change.

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



NET-ZERO TARGETS

A significant proportion of SDG Invest portfolio companies are swiftly establishing net-zero targets, with 83% having already done so. This indicates their commitment to addressing both immediate and long-term impacts of climate change, as they develop corresponding strategies.

83%

of the companies in the SDG Invest portfolio have established net-zero targets

BIODIVERSITY

We have set a target for all the companies in our portfolio to strategically integrate biodiversity by 2030.

»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.«

CASE **LEADING THE CHARGE: TRANE TECHNOLOGIES' INNOVATIVE COMMITMENTS TO CLIMATE ACTION AND SUSTAINABILITY**

Trane Technologies, a renowned leader in the heating, ventilation, and air conditioning sector, is deeply committed to driving sustainable solutions in the fight against climate change. This commitment is exemplified by their participation in H2ForNetZero, a global initiative dedicated to advancing hydrogen utilisation with minimal carbon intensity, aligning with the goals of the Paris Agreement. By joining this initiative, Trane Technologies underscores its dedication to exploring diverse clean energy solutions, including those leveraging low-carbon hydrogen, as part of its Sustainability Commitments for 2030.

In line with their broader sustainability vision, Trane Technologies has launched the Gigaton Challenge, a pioneering commitment in the business-to-business landscape. This groundbreaking initiative marks the first climate commitment directly linked to customer product usage. As part of their holistic approach to sustainability, the Gigaton Challenge encompasses all facets of Trane Technologies' value chain. The company actively fosters collaboration among internal teams and external partners to address climate change and transparently pave the way towards decarbonisation.

Central to Trane Technologies' Sustainability Commitments is a targeted reduction in emissions. They aim to decrease their absolute Scope 1 and 2 emissions by 50% by 2030, compared to a 2019 baseline, building on their commendable 31% reduction achieved by 2022. Additionally, the company targets a 55% reduction in the intensity of Scope 3 GHG emissions per cooling ton by 2030, having already achieved a 20% reduction by 2022. These ambitious targets, verified by the Science Based Targets initiative, underscore Trane Technologies' commitment to constant innovation and collaboration in evolving their sustainability strategy.

TRANE TECHNOLOGIES™

90%

of the companies in the SDG Invest portfolio actively participate in the Science-Based Targets Initiative

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. The impact area adheres to SDG 12 – *Responsible Production and Consumption.*

LINEAR ECONOMY

TAKE → MAKE → USE → DISPOSE

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.

Earth Overshoot Day, marking when humanity exhausts the Earth's annual ecological budget, has consistently occurred earlier each year, highlighting the urgent need for increased circularity to protect our planet's resources from depletion. In 2023, it fell on August 3rd, later than July 28th of 2022. This is the first time since 2020 where Earth Overshoot Day fell on a later date than the previous year, representing a year of positive change.

While we are optimistic about this positive outcome, it is essential to underscore the critical need for transitioning towards a circular economy, as it offers immense potential in tackling pressing environmental issues.

Moving away from linear consumption patterns, where resources are extracted, used, and disposed of, towards a model emphasising reuse, recycling, and regeneration can help mitigate the depletion of natural resources, minimise landscape disruption, mitigate biodiversity loss, and reduce emissions.

To counter this trend, companies can play a crucial role by adopting circular business models that prioritise waste reduction and resource efficiency. Implementing closed-loop systems, designing products for durability and reusability, and investing in innovative technologies all contribute to advancing the circular economy agenda. This not only prolongs the lifespan of natural resources but also promotes economic development and resilience in the face of climate change-induced resource scarcity.

Acknowledging the concrete risks posed by climate change to the availability of natural resources, integrating circular economy principles becomes imperative. SDG Invest firmly believes that companies committed to environmental stewardship must prioritise the adoption of circular economy practices. In doing so, they not only contribute to environmental sustainability but also ensure the longevity of their resource supply chains, thereby securing a more resilient and prosperous future for all.

ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS

SDG 12 centres on promoting sustainable consumption and production practices. IT advocates for reducing waste, improving resource efficiency, and fostering responsible consumption habits. Central to this goal is the promotion of sustainable supply chains and production methods that minimise environmental impact and enhance socio-economic wellbeing.

By encouraging more circular practices, this goal also supports inclusive economic growth and prosperity by working towards a future where everyone has access to meaningful employment opportunities within a sustainable and equitable economy.

»Implementing closed-loop systems not only prolongs the lifespan of natural resources but also promotes economic development and resilience in the face of climate change-induced resource scarcity.«

In the SDG Invest portfolio, 75% of companies are actively pursuing strategies aligned with the circular economy, undergoing significant shifts in their approaches to product design, manufacturing, and recycling. Regrettably, this marks a decrease of 5% compared to 2022.

Although there was a slight decrease, we still remain committed to increasing circularity throughout our portfolio. By 2030, our goal is for 100% of portfolio companies to have implemented circular economy principles that are strategically integrated into business operations.

Circular economy principles are strategically integrated into business operations

CASE **TRANSFORMING PACKAGING: MONDI'S COMMITMENT TO A SUSTAINABLE CIRCULAR ECONOMY**

Mondi, a leading packaging and paper group headquartered in the United Kingdom, places a strong emphasis on sustainability in its business design. Employing 22,000 people across 30 different countries, Mondi has key operations in Europe, North America, and Africa. Through their innovative approach to packaging and paper solutions, Mondi is recognised as an industry leader in sustainability and circular economy practices.

With the purpose of being sustainable by design, Mondi has made a variety of commitments that will improve circularity. These include a commitment to make their packaging and paper solutions reusable, recyclable, or compostable. To achieve this, Mondi has set a target for 100% of their packaging and paper products to be reusable, recyclable, or composable by 2025. Although they are behind on this target in 2023, they reached an impressive 85%, up from 74% from their 2020 baseline. Mondi's second commitment is to avoid waste by keeping materials in circulation. They are on track to eliminate waste to landfill from their manufacturing process and in 2023, the company achieved exceptional performance by reducing its total waste to landfill by approximately 50,600 tonnes, marking a notable decrease of 46% since 2020.

The last commitment was to work with others to eliminate unsustainable packaging, and have so far collaborated in cross-value chain initiatives, like FEFCO, 4evergreen and CEFLEX, on evolving legislation to improve the circularity of packaging and paper across the industry.

Through its steadfast commitment to sustainability, Mondi has embarked on a comprehensive journey towards enhancing circularity within its operations and the broader packaging and paper industry. By integrating circular design principles into its business strategies, advocating for circular business models, and prioritising the use of sustainable materials, Mondi is actively fostering a culture of sustainability. Furthermore, the company's initiatives are geared towards reducing waste generation and maximising material circulation, thereby minimising environmental footprint and promoting resource efficiency. Through collaborative efforts with stakeholders across various value chains, Mondi is driving positive change, advocating for policy evolution, and championing industry-wide initiatives aimed at advancing circularity in packaging and paper solutions.

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. It pertains to SDGs: 1 – *No Poverty*, 8 – *Decent Work and Economic Growth*, and 10 – *Reduced Inequalities*.

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.

1 NO POVERTY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

HUMAN RIGHTS IN THE SUPPLY CHAIN

The Sustainable Development Goals aim to achieve human rights for all individuals, regardless of race, gender, religion, nationality, or any other classification. These universal principles and values are in line with the 2030 Agenda's vision of peace and prosperity for the planet and its inhabitants. Achieving these goals requires co-operation among individuals, governments, civil society organisations, and the private sector.

Alongside the SDGs, the newly approved Corporate Sustainability Due Diligence Directive (CSDDD) which aims to ensure that companies operating in the EU take responsibility for their impact on human rights and the environment across their entire supply chain, are pushing companies to improve their sustainability reporting. The directive will not only influence companies to increase the standards of reporting, but also improve their operations in regards to human rights and the environment.

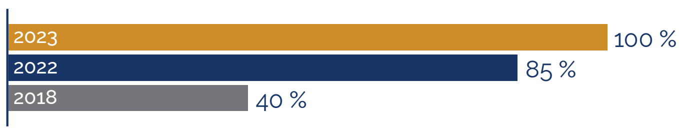
We conduct an annual assessment of the companies within our portfolio to verify that they are actively promoting and safeguarding human rights in their operations and supply chains.

This evaluation is based on the effectiveness of their due diligence procedures, ensuring continual enhancement of human rights across all facets of the value chain.

This year we have reached a new milestone where 100% of our portfolio companies now disclose their due diligence procedures, marking a completion of our 2030 goal of our entire portfolio having secured human and labour rights through policies and established due diligence procedures. This marks a significant improvement, reflecting a 15% increase from the previous year in the number of companies transparently reporting on their due diligence processes. We remain committed to maintaining and building on this success in the coming years.

At SDG Invest, we encourage our portfolio companies to enhance their due diligence practices and interactions with suppliers, ultimately leading to a positive impact on millions of lives. Through prioritising and concentrating on due diligence practices, global companies play a significant role in establishing the benchmark in this domain.

Human rights secured through established due diligence procedures



LIVING WAGE

Inequality and poverty persist globally due to inadequate wages, with the disparity between a country's living wage and minimum wage exacerbating these issues. SDG Invest prioritises portfolio companies that address this wage gap within global supply chains, recognising that reducing inequality is vital for contributing to the Sustainable Development Goals.

Ensuring workers earn a sufficient income to meet their basic needs, as well as those of their families, is recognized as a fundamental human right. Companies play a pivotal role in advancing the realisation of a living wage in their supply chains by surpassing minimum wage requirements established by law, thus narrowing the gap that creates poverty.

Fragmented supply chains and the absence of a universal standard for a living wage present hurdles in eradicating poverty, yet they must not serve as excuses for corporate inaction. Within the SDG Invest portfolio, 35% of companies outline their efforts toward ensuring living wages in their supply chains through supplier engagement or collaborative initiatives with civil society organisations. This marks a notable rise from the previous year's 19%, indicating a growing recognition among companies of the importance of addressing minimum wage challenges. SDG Invest is encouraged by this trend and remains committed to advocating for more companies to adopt living wage practices. We actively pursue this goal through investor coalitions, engaged ownership strategies, and participation in investor alliances, aiming to secure a living wage for all.

8 DECENT WORK AND ECONOMIC GROWTH

PROMOTE SUSTAINED, INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH, FULL AND PRODUCTIVE EMPLOYMENT AND DECENT WORK FOR ALL

One of the sustainable development goals is decent work for all. This includes amongst other things, that all women and men, including young individuals and those with disabilities, have full and meaningful employment. This includes decent working conditions and equal compensation for work of the same value.

In many areas minimum wage is not sufficient to support a family to achieve a decent standard of living, causing in-work poverty.

35%

of the companies in the SDG Invest portfolio outline their efforts toward ensuring living wages in their supply chains through supplier engagement or collaborative initiatives with civil society organisations.

RESPONSIBLE SUPPLY CHAIN MANAGEMENT OF RAW MATERIALS

Responsible supply chain management entails the adoption of practices and commitments by companies to ensure their supply chains operate ethically, sustainably, and with social responsibility. These practices aim to enhance supplier relations, bolster reputation, ensure compliance with legal and regulatory requirements across multiple jurisdictions, and importantly, elevate the well-being of all those impacted by business operations.

Within the SDG Invest portfolio, every company has instituted policies for responsible supply chain management, with 63% implementing due diligence procedures for raw material sourcing. These procedures prioritise traceability throughout the supply chain and promote the use of sustainable and responsibly sourced raw materials. By 2030, we aim for 100% of our portfolio companies to have transparency and accountability in the sourcing of raw materials through responsible procurement procedures. Such measures are integral to fostering sustainable business practices and products.

The slight decrease in adherence to these practices can be attributed to a shift in our evaluation criteria, where we now place greater emphasis on specific targets related to raw material traceability. Looking ahead, we remain committed to advocating for heightened focus on responsible supply chain management, recognising its profound impact on a wide array of sustainability challenges.

Raw materials responsibly sourced through established due diligence procedures

CASE **ELEVATING SUPPLY CHAIN ETHICS: NESTLÉ'S LEADERSHIP IN HUMAN RIGHTS AND ACCOUNTABILITY**

Recognising the complexity of global supply chains and sourcing processes, Nestlé prioritises human rights and supply chain management as an essential part of its operations.

From sourcing raw materials to distribution, Nestlé upholds ethical practices, understanding the profound social and environmental impact of food production. By championing transparency, accountability, and collaboration, Nestlé sets industry standards and drives positive change, highlighting the interconnectedness of business success and ethical responsibility.

In 2023 Nestlé released a set dedicated to Salient Human Rights Issue Action Plans. These action plans are a series of strategies that form part of Nestlé's Human Rights Framework and Roadmap. They address Nestlé's salient issues and guide their due diligence approach, enabling them to act as a force for good. These plans articulate Nestlé's strategy for embedding, assessing, addressing, and reporting on each salient issue. They define what Nestlé needs to do across their value chain, as well as what collective action can be taken.

Nestlé has harnessed the strengths and capacities of each department to define the action areas they will focus on in the years to come. Their transparency as well as action plan is a role model for the industry on how to tackle human rights issues in the supply chain.

Remediation is an important part of Nestlé's work in tackling child labour. Nestlé reports on cases of where remediation was employed and which measures were taken. They have employed remediation measures on child labour since 2012 and are therefore also able to evaluate their efforts. Education is an extensive part of Nestlé's remediation activities. Nestlé have partnered up with experts in the field of child labour and rely on their extensive educational background to deliver effective education. Nestlé also has several partnerships to invest in sanitation in West Africa, and together, have delivered clean water, sanitation facilities, and hygiene training to peoples in need.

As an industry leader, Nestlé's emphasis on transparency and accountability guides the way towards a more ethical and sustainable future. Through collective efforts, Nestlé continues to raise the bar for ethical responsibility, highlighting the indispensable link between business success and ethical accountability in fostering responsible supply chain management.

Nestlé Good food, Good life

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 everyday 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. This impact area encompasses SDGs: 9 – *Industry, Innovation, and Infrastructure,* and 12 – *Responsible Consumption and Production.*

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

ALIGNING BUSINESS STRATEGY WITH SUSTAINABLE DEVELOPMENT

Global partnerships and international cooperation are essential for achieving the extensive and ambitious aims of the Sustainable Development Goals (SDGs). The private sector plays a crucial role as a key collaborator in this endeavour, and without the valuable input and participation of businesses, the implementation of the 2030 Agenda would be challenging.

The SDGs offer a framework for companies to align their business strategies with global priorities. This entails integrating the impact of their investments, solutions, and business practices into the core of their operations. By considering the SDGs during the research and development process, companies can mitigate negative impacts while moving positively towards a more sustainable future.

Businesses that integrate the SDGs into their operations and strategies are likely to enhance their competitiveness, foster innovation, and bolster resilience. The SDGs present business opportunities in areas like renewable energy, circular economy, and sustainable agriculture, enabling companies to achieve sustainable long-term growth.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

BUILD RESILIENT INFRASTRUCTURE, PROMOTE INCLUSIVE AND SUSTAINABLE INDUSTRIALISATION AND FOSTER INNOVATION

The objective covers the establishment of infrastructure capable of withstanding environmental challenges and supporting sustainable growth. It also entails that industrialisation processes are inclusive, providing opportunities of all backgrounds to participate in and benefit from economic progress.

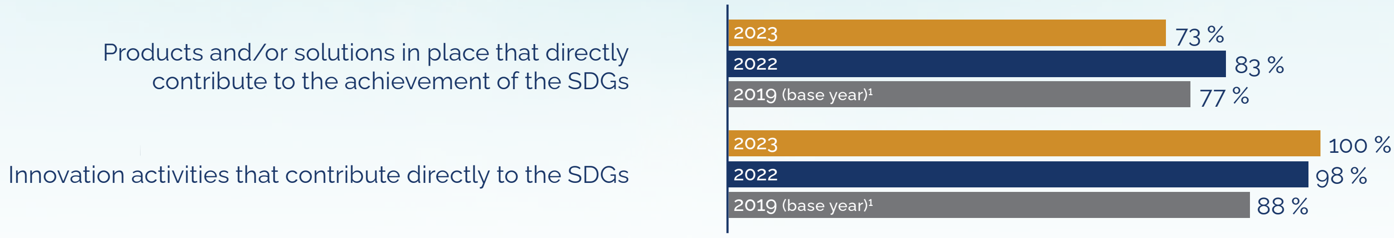
73%

of the companies in the SDG Invest portfolio have developed products or solutions directly aligned with advancing the SDGs.

»Businesses that integrate the SDGs into their operations and strategies are likely to enhance their competitiveness, foster innovation, and bolster resilience.«

In the SDG Invest portfolio, 73% of the companies within it have developed products or solutions directly aligned with advancing the SDGs. These endeavours not only benefit the companies themselves but also serve to generate value for society at large. Unfortunately, this marks a 10% decrease from last year. This decrease can be attributed to a slight change in our portfolio and a stronger focus on new products and solutions being developed by companies over the past year rather than existing products being altered. Our 2030 target is to have 100% of companies have products and or services that directly contribute to the achievement of the SDGs.

Furthermore, all companies in our portfolio are actively involved in innovation initiatives aimed at promoting sustainable development. Achieving our 2030 goal towards 100% of companies having innovation and development that directly contribute to the SDGs, and we are optimistic about consistently achieving this target in the coming years. This entails either the creation of new products or the modification of existing ones, with a central focus on sustainability, thereby enhancing their impact on the SDGs.



CASE **IBM IS STEPPING UP TO HELP VULNERABLE POPULATIONS**

There are millions of people pushed into poverty each year due to climate related disasters and International Business Machines (IBM) is stepping up to help these populations in need of technical, financial, and institutional resources. IBM launched their Sustainability Accelerator Program, a pro-bono social impact program which connects IBM technology and expertise to scale the initiatives of nonprofit and government organisations aiming to help these populations in need. Focusing on sustainable agriculture, clean energy, and water management, IBM annually selects around five new projects and organisations that use technology to combat the impacts of climate change, due to their belief that science, technology, and innovation can help tackle environmental issues while helping communities to address societal needs.

Last year, one project the IBM Accelerator Program selected was the nonprofit Net Zero Atlantic, with the goal for a just transition in implementing science and technology alongside Indigenous knowledge and community engagement.

Many vulnerable communities need support to participate in the energy transition. Due to Nova Scotia, Canada, becoming a promising site for the clean energy transition with some of the world's fastest offshore wind speeds and potential for hydrogen development, IBM, via the IBM Accelerator Program joined hands with Net Zero Atlantic to help enable informed climate decision-making and empower participation in the clean energy transition for Indigenous communities in Atlantic Canada. The IBM Accelerator Program continues to develop and promote solutions which integrate the SDGs and work towards a more sustainable future.

The variety of solutions created by IBM directly helps communities to address societal needs and shows their commitment to better both society and the organisation as a whole. Through developing the IBM Accelerator Program, they are able to harness the collective power of experts and technology to speed up and scale climate solutions. They believe that technology has the potential to transform lives when directed with purpose. The program has been designed to have a bigger, long-term sustainable societal impact with the power of science and technologies such as hybrid cloud and AI at the forefront.

1) Data from 2018 not available

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. This impact area relates to SDGs: 5 – *Gender Equality*, and 10 – *Reduced Inequalities*.

GENDER PARITY IN SENIOR MANAGEMENT

To achieve financial growth and meet sustainable development goals, it is imperative that women participate in key decision-making processes within global corporations. However, progress toward gender parity has been slow.

Research indicates that despite comprising approximately 48% of the workforce, women hold only around 20% of executive leadership positions, with a mere 5% serving as CEOs among 1,677 major listed global companies. Women of colour face an even greater disparity in attaining leadership roles[1].

Furthermore, a study[2] by Jack Zenger and Joseph Folkman in 2019 suggests that women exhibit superior leadership qualities compared to men, excelling in areas such as self-awareness, self-control, and emotional intelligence, which are crucial for effective leadership. Increased gender diversity in senior management has been linked to improved financial performance and greater innovation.

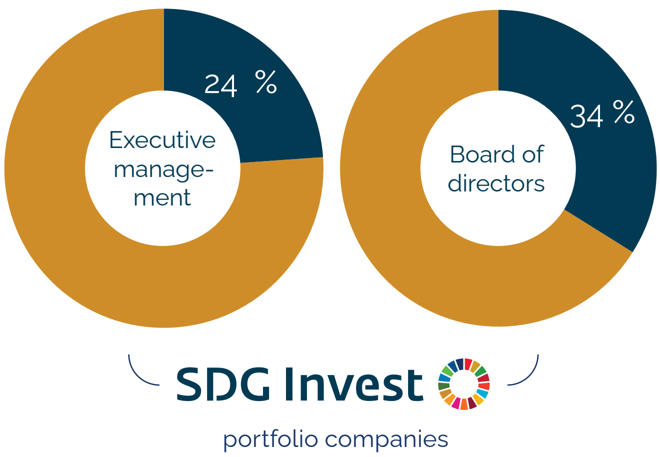
Recognising this challenge, the EU is taking action by implementing Directive 2022/2381[3] aimed at achieving greater gender balance on corporate boards. The directive mandates that the underrepresented gender constitute at least 40% of non-executive directors or 33% of all directors by 2026.

At SDG Invest, we embrace legislative efforts that promote gender equality. We believe that businesses should mirror the diversity of society, and inclusive practices benefit everyone. Therefore, we are committed to engaging our portfolio companies in discussions regarding their diversity and inclusion initiatives.

Within the SDG Invest portfolio, women comprise an average of 24% of executive management positions. While this figure represents a slight decrease from the previous year's 25%, it remains slightly above the global average of 20%. It's essential to acknowledge that fluctuations in these numbers can happen, but maintaining a focus on addressing gender diversity in leadership remains crucial.

Within the Board of Directors, women account for an average of 34% of directors. This represents a slight decrease from the 37% reported last year, yet it remains higher than the global average of 28%. Despite this, the prospect of achieving a 40% gender balance by 2030 is promising, and we eagerly anticipate further advancements in this regard. Alongside this, we aim for our entire portfolio to have gender diversity in the top management.

PERCENTAGE OF WOMEN IN SENIOR MANAGEMENT



1) Source: psycnet.apa.org/record/1992-16290-001
2) Source: hbr.org/2019/06/research-women-score-higher-than-men-in-most-leadership-skills
3) Source: bit.ly/genderbalancedirective

GENDER PAY GAP

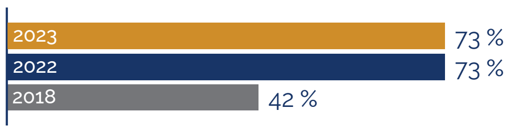
Within the SDG Invest portfolio, 73% of firms are engaged in efforts to eliminate the gender pay disparity, reflecting a consistent trend from the previous year. We are eager to observe an upward trend in this figure moving forward.

The EU has introduced the Pay Transparency Directive to ensure transparency in pay between men and women in the EU. The absence of pay transparency is recognised as a major barrier to narrowing the gender pay gap. The directive states that employers must publish information about the gender pay gap, allowing for more transparency and effective enforcement of equal pay.

The enduring wage disparity significantly affects women's life quality, increases their poverty risk, and contributes to the persistent pension pay gap, currently about 30% in the EU[4].

With transparency laws such as the EU directive that came into effect in June 2023, 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 through our active ownership, and aim to have our entire portfolio measuring the gender pay gap by 2030.

Actively working to eradicate the gender pay gap



ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS

This goal emphasises the promotion of gender equality and the empowerment of women and girls and encompasses efforts to ensure equal opportunities for women and men in all aspects of life, including education, employment, and decision-making processes. Central to this goal is the idea that all individuals, regardless of gender, should have the same rights, opportunities, and access to resources.

73%

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

4) Source: pwc.ie/services/workforce/insights/eu-pay-transparency-directive.html

CASE **L'ORÉAL RECOGNISED FOR THEIR STEWARDSHIP IN GENDER-EQUALITY**

In today's corporate landscape, fostering gender equality and inclusivity is not just a moral imperative but also a strategic advantage. L'Oréal Group, a global leader in the beauty industry, stands as a beacon of commitment to gender diversity and inclusivity in the workplace. For the sixth consecutive year, L'Oréal has been recognised by the Bloomberg Gender-Equality Index (GEI) 2023 for its exemplary efforts in creating an inclusive and equal work environment. L'Oréal is one of the 484 companies across 45 countries and regions to be part of the 2023 Gender-Equality Index. The Index is a modified market capitalisation-weighted index that aims to track the performance of public companies committed to transparency in gender data reporting.

The company's objective is to be the most inclusive beauty leader and contribute to a society in which everyone can live safely, peacefully, and equally. This includes everything from celebrating the infinite diversity of beauty in their advertising, promoting women in management, and closing the pay gap. The group reports that 59% of all managerial roles are women, and the ratio of women as members of the board is 50%, displaying a full diverse board.

Furthermore, since 2007, L'Oréal has initiated Economix Institute to group together renowned public research entities (INED, CNRS and Université Paris X), with the goal to conduct an annual gender pay gap analysis in France. These types of initiatives is an example of what we want to see more of; doing more than what is expected from you as a company. The analysis measures median, mean and adjusted mean pay gap between men and women. These results shows, as of 2022, a median pay gap of 0%, and an average pay gap of 10% including executives, interpreting that the pay gap is closing, but that there is some room for improvements within the L'Oréal Group. This initiative displays that L'Oréal wants to do more than the minimum, and sets an example for other large players.

The transparency and openness L'Oréal demonstrates is one of the reasons as to why they are one of the most prominent companies within the diversity and inclusion field. The company acts as an exemplary example of how we would like to see other companies navigate the playfield of diversity, equity, and inclusion.

The absence of pay transparency is recognised as a significant barrier to reducing the gender wage gap, which stood at an average of approximately 13% across the EU in 2020. L'Oréal exemplifies stewardship in pay gap transparency which the new EU directive on pay transparency is trying to target. The introduction of new pay transparency regulations is expected to combat wage discrimination in the workplace and aid in narrowing the gender wage disparity. These regulations are set to empower employees, enabling them to assert their right to equitable remuneration for work of the same or comparable value between genders, backed by enforceable actions.

L'ORÉAL

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 ESG challenges we are facing today are too complex and far-reaching for any single organisation, company, or government to address alone. This impact area deals with SDG 17 – *Partnerships for the Goals.*

ENGAGEMENT IN SUSTAINABILITY PARTNERSHIPS

Sustainable development is one of the most important notions of our time, but the challenges are often intricate and span across various regions, sectors, economic systems, and value chains. The challenges are oftentimes too complex for a single organisation to combat alone, so collaboration becomes necessary to identify and tackle solutions.

At SDG Invest, we prioritise companies that engage in multi-stakeholder initiatives and strategic partnerships that proactively work towards a sustainable future. All of the companies within our portfolio are actively engaged in multi-stakeholder initiatives, in which they have collaborated in one way or another towards a sustainable future, marking an achievement of our 2030 goal, and we remain dedicated to striving for this in the years ahead.

The 2% increase from last year is small, yet is a significant achievement for our portfolio.

STRENGTHEN THE MEANS OF IMPLEMENTATION AND REVITALISE THE GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT

SDG 17 centres around the importance of fostering global partnerships to support sustainable development efforts. It underscores the need for collaboration among governments, businesses, civil society organisations, and other stakeholders to address complex challenges such as poverty, inequality, and climate change. Central to this goal is the notion that no single actor or country can achieve sustainable development alone.

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

»All of the companies within our portfolio are actively engaged in multi-stakeholder initiatives, in which they have collaborated in one way or another towards a sustainable future, marking an achievement of our 2030 goal, and we remain dedicated to striving for this in the years ahead.«

CASE **FOSTERING SUSTAINABILITY THROUGH COLLABORATION: IMPAX ASSET MANAGEMENT'S LEADERSHIP IN THE TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES**

IImpax Asset Management, a prominent investment company specialising in sustainable and impact investing, illustrates the advantages of knowledge sharing through its engagement in collaborative efforts. As a key player in promoting environmental, social, and governance (ESG) principles in investment practices, Impax Asset Management became an early adopter of the Taskforce on Nature-related Financial Disclosures (TNFD), which are organisations which intend to start making disclosures aligned with the TNFD recommendations in their corporate reporting by the financial year 2024 (or earlier) or 2025, aligning them with 320 organisations spanning 46 countries.

The TNFD's primary objective is to integrate considerations of nature into decision-making processes, recognising the inherent risks that nature loss poses to companies worldwide. By developing a comprehensive risk management and disclosure framework, the TNFD aims to empower organisations to accurately assess and report on nature-related risks and opportunities, akin to their reporting on climate impact.

In support of this framework, Impax actively participates in a knowledge-sharing community, leveraging its expertise to contribute to the development of essential data for evaluating nature-related risks. Drawing on insights into local business activities and financial flows, Impax collaborates to provide more information on nature in their reporting.

Together, Impax and TNFD are committed to creating solutions for nature. Recognising the imperative of partnerships and knowledge-sharing in achieving the ambitious goals set by the UN, Impax is dedicated to cooperating on international, national, regional, and local levels to advance the Sustainable Development Goals. Through collaborative efforts, Impax strives to foster a more sustainable future, leaving no one behind in the pursuit of global sustainability.

T N F D Taskforce on Nature-related Financial Disclosures

IMPAX Asset Management

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 ESG strategies. Reporting on sustainability urges companies to evaluate their own objectives, and investors are also dependent on the reporting to assess the ambitions of the companies.
This impact area covers SDGs:
12 – *Responsible Consumption and Production,* and 13 – *Climate Action.*

CREDIBILITY AND ACCURACY OF SUSTAINABILITY STRATEGY AND REPORTING

Promoting the adoption of sustainable practices and the integration of this information into corporate reporting cycles stands as a pivotal indicator of sustainable development. The quality of sustainability reporting among companies serves as a measure of their commitment to fostering a more sustainable future.

The credibility and accuracy of sustainability reporting are paramount, necessitating the introduction of measures such as the Corporate Sustainability Reporting Directive (CSRD) in the EU to standardise reporting practices. Moreover, the implementation of global reporting standards enhances the reliability and authenticity of these reports, while the gradual rise in assurance of sustainability reporting further bolsters their credibility.

While the aim of the TCFD has been to develop consistent and transparent climate-related financial risk disclosures to be used by financial actors, as of October 23rd, 2023, they have fulfilled their remit and disbanded. While the TCFD disclosure recommendations will still be useful to companies in their climate-related risks, and some companies still being required to report on, the Financial Stability Board (FSB) has asked the International Financial Reporting Standards (IFRS) Foundation to take over the monitoring of the progress of companies' climate-related disclosures[1].

With the FSB announcing the work of the TCFD complete, the recommendations set forth by the TCFD will serve as a good entry point to the International Sustainability Standards Board's (ISSB) standards. The main goal of this shift is to create higher standards for climate-related disclosures; and is something we are optimistic about for the future of reporting. We are closely monitoring the ever-evolving reporting landscape and are developing our sustainability scorecard continuously.

At SDG Invest, our inclusion criteria for portfolio companies require thorough sustainability information to undergo comprehensive analysis. Adhering to reporting standards is the lowest requirement we look for in an organisation, and we are always monitoring upcoming industry leaders in the realm of reporting. While mandatory for companies reporting under CSRD[2], and companies in the EU, the Double Materiality Assessment has been one way for a company to exceed expectations, showing a company's commitment to improving their ESG performance. Additionally, we highly value companies that have had their emission target, water use, and waste generation KPIs assured by a third party.

Having sustainability reporting undergo this process shows a commitment to transparency and responsibility in ESG reporting. A comprehensive analysis ensures that all companies within the SDG Invest portfolio possess a documented sustainability strategy that is transparently reported on, aligning with our commitment to sustainable investment practices.

1) Source: fsb-tcfd.org
2) Source: pwc.com/mt/en/publications/sustainability/understanding-the-csrd-double-materiality-assessment-process.html

»A comprehensive analysis ensures that all companies within the SDG Invest portfolio possess a documented sustainability strategy that is transparently reported on.«

Securing third-party assurance on sustainability data is crucial for ensuring its validity and credibility. This assurance signifies that external entities have verified both the data and methods underpinning sustainability reporting.

We are encouraged by the fact that 69% of companies within the SDG Invest portfolio obtain third-party limited assurance on their sustainability reporting as we continue to work towards our 2030 goal for all portfolio companies to have received external verification of sustainability data.

13 CLIMATE ACTION

TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS
This goal urges immediate action to address climate change and its far reaching consequences. It highlights the need for collective effort to mitigate greenhouse gas emissions, adapt to the effects of climate change, and build resilience to its impacts and a key point of this goal is the recognition that climate change is a global challenge that requires coordinated action at all levels. Within the framework of this goal, there is a commitment to promoting sustainable practices such as implementing policies and regulations to discourage detrimental activities like deforestation while encouraging sustainable land use.

Limited assurance achieved for multiple sustainability KPIs[1]

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

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 LEADING THE WAY TO NET ZERO: CISCO'S CLIMATE SUSTAINABILITY COMMITMENT AND ACTIONABLE STRATEGIES

Cisco Systems, a global technology leader, has prioritised climate sustainability, recognizing its significance among stakeholders and as a long-term strategic imperative. In September 2021, Cisco announced an ambitious goal to achieve net zero emissions across its entire value chain by 2040, a commitment validated by the Science-Based Targets initiative. This milestone underscores Cisco's dedication to not only managing climate-related risks but also facilitating the transition to a low-carbon future.

In alignment with its commitment to transparency and accountability, Cisco actively supports the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. By embracing transparency, Cisco aims to provide stakeholders with comprehensive information on climate-related risks and opportunities.

Cisco's proactive approach to climate sustainability extends beyond reporting to actionable strategies for risk management and mitigation.

Through rigorous analysis of physical risks, including climate-related physical hazards facing Cisco assets worldwide, and quantitative assessments of transition risks and opportunities, Cisco gains valuable insights to enhance resilience and sustainability.

These efforts enable Cisco to identify potential impacts from climate-related hazards and stress-test its net zero goals against various scenarios, ensuring alignment with global transition pathways. By understanding its overall transition risk profile and financial implications, Cisco can adapt its strategies to navigate the transition to a low-carbon future effectively.

Cisco's commitment to sustainability strategy and reporting underscores its dedication to driving positive environmental impact and fostering a sustainable future. As Cisco continues its journey towards achieving net zero emissions by 2040, it remains steadfast in its mission to lead by example and inspire meaningful change within the technology industry and beyond.

»Cisco's commitment to sustainability strategy and reporting underscores its dedication to driving positive environmental impact and fostering a sustainable future.«

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. This impact area is related to SDG 16 – *Peace, Justice, and Strong Institutions.*

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

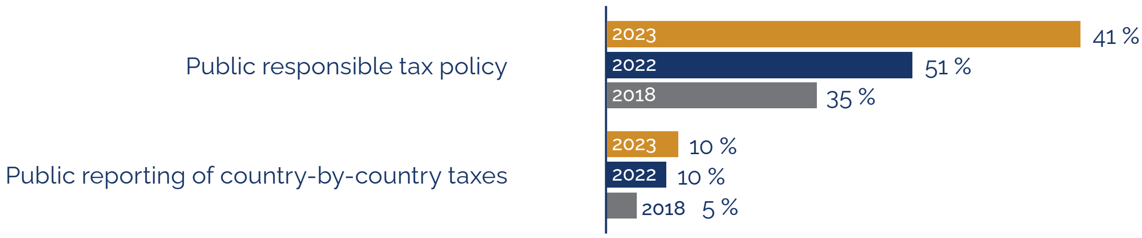
RESPONSIBLE TAX BEHAVIOUR

Effective allocation of financial resources is essential for achieving sustainable development, and corporate taxes represent a crucial resource in this regard. Addressing tax avoidance, abuse, and competition could significantly hasten progress towards the SDGs.

At SDG Invest, we advocate for companies to demonstrate their commitment to sustainable development by adopting tax principles centred on responsibility, fairness, and transparency. Commitments such as country-by-country reporting, i.e., the disclosure of tax in every country the company operates in, is a way to increase transparency and ensure money is not being hidden away in tax havens. It is estimated that $427 billion dollars is lost to tax havens each year[1]. We firmly believe that taxes serve as a vital facilitator of the SDGs, and we consistently encourage our portfolio companies to publicly disclose their tax commitments.

In the SDG Invest portfolio, 79% of companies have made public their approach to tax through a dedicated tax policy, up from 51% in 2022. 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 21%. By 2030, we hope for 100% of our portfolio companies to have published a tax policy.

Public disclosure of country-by-country taxes represents the pinnacle of commitment to tax transparency. While only a few companies embrace this commitment, we take pride in the fact that 12% of our portfolio companies publish their taxes on a country-by-country basis. At SDG Invest, we set ambitious standards for 100% of our portfolio companies to publish country-by-country taxes by 2030. We explicitly convey to our portfolio companies that reporting country-by-country taxes exemplifies outstanding leadership.



»We firmly believe that taxes serve as a vital facilitator of the SDGs, and we consistently encourage our portfolio companies to publicly disclose their tax commitments.«

1) Source: taxjustice.net/faq/how-much-money-is-in-tax-havens

79%

of the companies in the SDG Invest portfolio have made public their approach to tax through a dedicated tax policyg

PROMOTE PEACEFUL AND INCLUSIVE SOCIETIES FOR SUSTAINABLE DEVELOPMENT, PROVIDE ACCESS TO JUSTICE FOR ALL AND BUILD EFFECTIVE, ACCOUNTABLE AND INCLUSIVE INSTITUTIONS AT ALL LEVELS

This goal advocates for the promotion of peaceful, inclusive societies and the establishment of effective, accountable institutions for sustainable development. It addresses the importance of access to justice to all individuals and the need to strengthen institutions to promote the rule of law and protect human rights. One key point of this goal is to substantially reduce corruption and bribery in all their forms, where companies engaging in good governance principles and ethical behaviour is one way to solve this.

REMUNERATION

Establishing equitable and transparent compensation policies is a crucial aspect of effective governance. However, remuneration goes beyond governance and can significantly contribute to corporate sustainability goals.

Executive compensation acts as a catalyst for promoting sustainable business practices. When senior leadership's rewards are tied to sustainability targets, companies are more motivated to achieve them. These objectives include reducing carbon emissions, implementing circular economy initiatives, and enhancing gender diversity in managerial roles. Integrating remuneration with sustainability goals showcases a commitment to both financial performance and sustainability.

This approach fosters long-term, sustainable growth. At SDG Invest, we see this alignment as a mark of exceptional 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. 69% of companies now have integrated sustainability in remuneration efforts. 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 2023. That is an increase of 11% since 2022 which we hope to see as a continuing trend moving forward.

Remuneration is partially determined by sustainability factors

»Executive compensation acts as a catalyst for promoting sustainable business practices. When senior leadership's rewards are tied to sustainability targets, companies are more motivated to achieve them.«

CASE **ETHICAL EXCELLENCE: COLOPLAST'S COMMITMENT TO GOVERNANCE, COMPLIANCE, AND RESPONSIBLE CORPORATE CITIZENSHIP**

Coloplast, a leader in the medtech industry, upholds a steadfast commitment to ethical behaviour and good governance principles throughout its operations, particularly concerning its communication practices and interactions with healthcare professionals. Adhering to strict regulations governing the promotion of medical devices, the company ensures that all communication is factual, evidence-based, and compliant with applicable laws. Collaboration and scientific exchange with healthcare professionals are prioritised, fostering innovation and product improvement while providing accurate clinical data and training to ensure safe and effective product use.

In addition to its dedication to responsible advocacy, Coloplast places significant emphasis on respecting local cultures, regulations, and customs. By forging alliances with external stakeholders, including industry associations and patient advocacy groups, the company aims to enhance health outcomes collaboratively. Moreover, Coloplast actively contributes to local communities through donations and partnerships with non-governmental organisations, demonstrating its commitment to corporate social responsibility and community engagement.

Responsible tax management is a cornerstone of Coloplast's governance framework, aligning with internationally accepted standards and regulatory guidelines. The company prioritises transparency and compliance with tax laws, ensuring that all business structures and transactions have a legitimate commercial purpose. Coloplast avoids engaging in artificial or opaque tax structures for avoidance purposes, instead prioritising open and transparent communication with tax authorities and disclosing relevant information about its tax practices.

Furthermore, Coloplast remains committed to country-by-country tax reporting, demonstrating transparency and accountability in its tax affairs. By publishing detailed tax reports on its website in line with relevant EU directives, the company upholds its commitment to transparency and accountability, fostering trust among stakeholders and reinforcing its reputation as a responsible corporate citizen. Through these ethical behaviour and governance principles, Coloplast aims to uphold the highest standards of integrity and accountability across all aspects of its operations.

Coloplast

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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

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 2022 and FY 2023. Base year is 2018. If data from 2018 is not available, base year is 2019 instead.