SDG Invest

MINIMUM STANDARDS FOR SUSTAINABILITY

Integration of sustainability risks in our portfolios

February 2025

MINIMUM STANDARDS FOR SUSTAINABILITY

At SDG Invest, we believe that investments should drive meaningful change. That's why we focus exclusively on companies that lead the way in creating a better and more sustainable future. These are businesses that don't just meet standards – they set them through continuous innovation and solutions that address the United Nations Sustainable Development Goals (SDGs).

Our portfolio is built around organisations that prioritise sustainability at every level of their operations. From promoting diversity and inclusion within their workforce to actively reducing emissions and adopting circular economy principles, these companies prioritise accountability and sustainability at every stage of their value chains. They take active steps to prevent and remediate any potential harm, demonstrating a commitment to ethical practices and a long-term impact.

The following minimum standards compliment the SDG Invest 'guidelines and policy for sustainability and ethics,' elaborating on the integration of sustainability risks in the composition of our portfolios. This demonstrates our commitment as an Article 9 fund under the EU Sustainable Finance Disclosure Regulation (SFDR), showcasing how sustainability is at the core of everything we do.

»Our portfolio is built around organisations that prioritise sustainability at every level of their operations.«

EXCLUSIONS

At SDG Invest, all investments must actively contribute to the sustainable transition of society. To uphold this mission, we deliberately exclude from our portfolios certain sectors and activities that conflict with our investment philosophy and vision for the future. These exclusions minimise sustainability risks and reflect our commitment as an Article 9 fund under the EU Sustainable Finance Disclosure Regulation (SFDR).

We apply a zero-tolerance policy to activities posing significant environmental and social risks, such as pornography or alcohol production. However, we acknowledge the complexities of modern value chains and carefully evaluate grey zones. For instance, while we exclude companies directly producing alcoholic beverages, we may allow investments in businesses deriving limited revenue from ancillary activities, such as selling recipes or ingredients for alcohol production, provided they do not engage in manufacturing.

Our ethical approach also considers companies supplying non-essential products or services to excluded industries. For example, a company supplying herbs to an alcohol producer may be permitted, whereas one directly producing alcohol would not. This nuanced policy ensures that we maintain our ethical standards while supporting the broader transition to sustainability.

By clearly defining exclusions and transparently addressing grey zones, SDG Invest ensures all investments align with our values and contribute to a sustainable future.

AREAS WE DO NOT INVEST IN

SDG Invest does not invest in companies where revenues are derived from...

1. Tobacco
2. Pornography
3. Fossil Fuels
4. Weapons and Defense (including controversial weapons)
5. Gambling
6. Alcohol
7. Non-regulated animal testing
8. Unethical Financial Practices (e.g., predatory lending, corruption)
9. Companies breaking the sanctions lists

»By clearly defining exclusions and transparently addressing grey zones, SDG Invest ensures all investments align with our values and contribute to a sustainable future.«

DEFORESTATION

The world's forests are essential in mitigating climate change, protecting biodiversity, and supporting the livelihoods of countless farmers and local communities. Deforestation, however, poses a significant threat to the climate, local ecosystems, and indigenous communities. It is responsible for over 10% of global CO_2 emissions and is primarily driven by the production of raw materials used worldwide, such as palm oil, soy, cattle, and timber. As an Article 9 fund under the EU Sustainable Finance Disclosure Regulation (SFDR), SDG Invest recognises the critical need for companies to address deforestation risks in their operations and supply chains.

SDG Invest expects companies with significant deforestation-related risks to have implemented effective due diligence procedures and programs aimed at minimising these risks. This expectation is particularly emphasised for companies with direct exposure to deforestation through the production and sourcing of commodities like palm oil, soy, cattle, and timber. In line with the EU Deforestation Regulation (EUDR) and Company Law, SDG Invest requires that companies demonstrate clear, actionable steps to eliminate deforestation from their value chains.

To ensure a comprehensive understanding of deforestation risks, SDG Invest conducts an annual analysis of all portfolio companies, evaluating their progress in eliminating deforestation from their value chains. This analysis includes assessing their targets, monitoring mechanisms, and the quality of their reporting. Companies are expected to provide transparent and measurable progress toward reducing deforestation-related risks.

As part of our active ownership strategy, SDG Invest engages directly with portfolio companies, via our Active Ownership letters to discuss potential violations of their deforestation policies and practices. This dialogue is a central component of our expectations, which emphasises a commitment to eliminating deforestation and ensuring sustainability across their value chains. Our scoring system incorporates these expectations, ensuring companies' progress toward meeting deforestation-related goals aligns with our investment criteria and legal obligations under the EUDR.

BEST PRACTICE

A company that integrates targets for reducing the use of deforestation-linked materials, implements targets for regenerative actions, or demonstrates that these are not relevant to the industry, is what we consider best practice and achieves the highest scores on our scorecard.

BIODIVERSITY

Biodiversity is fundamental to life on Earth, providing essential ecosystem services that sustain the global economy and human well-being. More than half of the world's GDP depends on nature, with biodiversity loss identified as one of humanity's most significant risks. The private sector both relies on and contributes to biodiversity degradation. Companies must take responsibility by adopting policies that protect and restore ecosystems. In line with Article 9 under the EU Sustainable Finance Disclosure Regulation (SFDR) and frameworks like the Kunming-Montreal Global Biodiversity Framework, SDG Invest focuses on companies leading in biodiversity management across their operations and supply chains.

The global composition of SDG Invest's portfolio means that biodiversity risks are present, particularly in supply chains involving raw materials like palm oil, soy, timber, and animal products or in activities impacting protected areas. SDG Invest expects portfolio companies to integrate biodiversity into their policies and minimise harm across their value chains.

We conduct an annual analysis of the portfolio company's biodiversity efforts, guided by our scorecard. We base these efforts on the Science-Based Targets for Nature framework: avoid, reduce, restore & regenerate, and transform.

By incorporating biodiversity risks into our scoring methodology, SDG Invest ensures alignment with legal requirements and our commitment to driving a sustainable transition. We prioritise companies that go beyond harm reduction to actively enhance and regenerate ecosystems, supporting long-term environmental and economic resilience.

BEST PRACTICE

A company that integrates a strategic approach to biodiversity with set targets and an overall ambition to adapt material raw materials to incorporate biodiversity is what we consider best practice and achieves the highest scores on our scorecard.

ENERGY POLICY

The transition to sustainable energy systems is central to addressing climate change, one of the defining challenges of the 21st century. Energy generation and consumption are at the heart of this issue, with approximately two-thirds of global CO_2 emissions stemming from the burning of fossil fuels used in heating, electricity, transportation, and industrial activities. Achieving the targets set by the Paris Agreement and limiting global warming requires an urgent shift from fossil fuels to clean and renewable energy sources.

In alignment with the EU Sustainable Finance Disclosure Regulation (SFDR) for Article 9 funds and the European Green Deal's emphasis on decarbonisation, SDG Invest operates with a strict zero-tolerance policy for fossil fuels. This means we exclude companies with any activity tied to fossil fuel production, distribution, or reliance, regardless of whether they have long-term plans to phase out fossil fuels or align with Paris Agreement targets. Any economic activity related to fossil fuels is fundamentally incompatible with SDG Invest's commitment to a sustainable transition.

SDG Invest invests exclusively in companies leading the way in renewable energy solutions, energy efficiency, and innovation to accelerate the global energy transition. Our scoring system evaluates companies on their contributions to Sustainable Development Goal 7 (Affordable and Clean Energy) and their alignment with global decarbonisation goals.

This includes assessing their targets for renewable energy adoption, emission reductions, and investment in green technologies.

To ensure that companies remain committed to clean energy, SDG Invest has set clear thresholds. We expect companies to maintain or increase their share of renewable energy in their energy mix, ensuring that they do not reduce renewable energy by 10% or more in any given year. In addition, companies must demonstrate continuous progress in adopting renewable energy and achieving emission reduction goals, maintaining a clear focus on sustainability in all operational practices.

Through an annual analysis of portfolio companies, SDG Invest reviews energy-related policies, operational practices, and transparency in reporting. Companies are expected to demonstrate tangible progress in eliminating reliance on fossil fuels, adopting renewable energy across their operations, and supporting systemic energy transition efforts.

By excluding fossil fuel-related activities and focusing on clean energy leaders, SDG Invest ensures compliance with legal requirements while upholding its mission to drive meaningful change. This approach supports the shift to a low-carbon economy, aligning our portfolio with global climate goals and delivering long-term value for investors and society alike.

»SDG Invest invests exclusively in companies leading the way in renewable energy solutions, energy efficiency, and innovation to accelerate the global energy transition.«

BEST PRACTICE

A company that has 80.01–100% renewable energy and provides disclosure of a long-term goal, progress (KPIs), and scope 1, 2, and 3 emissions—along with a detailed description of efforts to reduce GHG emissions across the entire value chain, both upstream and downstream—is what we consider best practice and achieves the highest scores on our scorecard.

CLIMATE ACTION

Climate action is the global effort to combat climate change by reducing greenhouse gas emissions, enhancing climate resilience, and transitioning to sustainable economic systems. As a defining challenge of our time, climate change affects ecosystems, economies, and communities worldwide. Without immediate action to limit global warming to 1.5°C above pre-industrial levels, the risks of extreme weather events, resource scarcity, and irreversible damage to natural systems will increase significantly.

Under the Paris Agreement, signatory nations have committed to reducing emissions and achieving carbon neutrality by mid-century. In the European Union, these commitments are reinforced through binding regulations like the European Climate Law, which sets a legal obligation to achieve net-zero emissions by 2050, with an intermediate target of a 55% reduction by 2030. As an Article 9 fund under the EU Sustainable Finance Disclosure Regulation (SFDR), SDG Invest exclusively supports investments aligned with these climate goals.

SDG Invest takes a proactive approach to climate action by prioritising companies that lead in reducing emissions, adopting renewable energy, and innovating sustainable solutions. Our scoring methodology evaluates companies based on their contributions to Sustainable Development Goals 7 (Affordable and Clean Energy) and 13 (Climate Action), focusing on measurable progress toward emissions reductions, transparency in reporting, and alignment with science-based targets such as the Science Based Targets initiative (SBTi).

While significant progress has been made in reducing Scope 1 and Scope 2 emissions (direct and indirect emissions from owned or controlled sources), Scope 3 emissions (those resulting from the full value chain) remain a more complex challenge. This is because Scope 3 emissions are more difficult to control and measure, as they span across the entire supply chain, including activities from suppliers, customers, and other third parties. As a result, many companies have set ambitious targets for emission reductions, but their implied temperature rise based on current practices may still exceed the 1.5°C pathway by more than 10% of what they have committed to in their SBTi targets.

To ensure alignment with our mission, SDG Invest conducts an annual analysis of portfolio companies' climate strategies, policies, and performance (see score "SC4"). This includes evaluating their carbon footprints, decarbonisation roadmaps, and investments in technologies that mitigate climate risks. Companies are expected to set and pursue ambitious targets that align with global climate objectives, supported by transparent reporting and effective governance.

Through active ownership and engagement, SDG Invest fosters accountability and drives companies to accelerate their climate action efforts. By investing exclusively in leaders of the climate transition, SDG Invest aligns with legal requirements while driving meaningful impact toward a sustainable, low-carbon future.

BEST PRACTICE

A company with a net-zero target for 2040 or earlier, verified by the SBTi, that has set near-term and net-zero targets, and has completed a full scenario analysis (aligned with TCFD recommendations) with established governance structures in place—taking Scope 1, 2, and 3 emissions into account—is what we consider best practice and achieves the highest scores on our scorecard.

HUMAN RIGHTS POLICY

Respect for human rights is a cornerstone of sustainable development and a key principle guiding SDG Invest's operations. Human rights encompass the basic freedoms and protections inherent to all individuals, as outlined in the Universal Declaration of Human Rights (UDHR). These rights include, but are not limited to, the right to equality, freedom from discrimination, and fair treatment in all aspects of life. Protecting human rights is not only a moral imperative but also a legal requirement under the UN Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises, and lastly under the CSDDD requirements.

As an Article 9 fund under the EU Sustainable Finance Disclosure Regulation (SFDR), SDG Invest ensures that our investments align with these international frameworks. Our commitment to human rights is reflected in stringent exclusion policies, proactive engagement, and the integration of human rights considerations throughout our investment processes.

SDG Invest evaluates all portfolio companies on their efforts to safeguard human rights, with a focus on vulnerable groups such as women, children, indigenous peoples, and human rights defenders. Through our Sustainability Scorecard, we assess companies based on key criteria, including their due diligence processes, governance frameworks, supply chain monitoring, and transparency in reporting. Special emphasis is placed on companies' ability to identify, mitigate, and remedy potential human rights violations within their operations and value chains. This includes an expectation that companies publish publicly accessible information on their due diligence processes related to human and labor rights. Companies failing to meet this standard cannot be included in our portfolio.

Moreover, SDG Invest holds a zero-tolerance policy toward companies that violate the principles of the UN Global Compact or the OECD Guidelines for Multinational Enterprises. Companies found in breach of these principles are only considered if they have established a remediation plan that clearly outlines how they will halt, prevent, mitigate, and address violations. This ensures that our investments are aligned with the highest international standards for corporate responsibility and human rights protection.

To ensure compliance and accountability, SDG Invest conducts an annual analysis of human rights risks across our portfolio, guided by our scorecard. This analysis examines how companies address these risks, their level of transparency, and their responsiveness to potential breaches. We also have ongoing monitoring of public sources for reports highlighting potential human rights concerns involving our portfolio companies.

As part of our commitment to collective action, SDG Invest is an active member of the Investor Alliance for Human Rights, which fosters collaboration among investors to improve corporate approaches to human rights. Through this forum, we engage in coordinated efforts to strengthen the accountability of businesses in safeguarding human rights across industries.

SDG Invest expects all portfolio companies to proactively mitigate human rights risks, demonstrate transparency in addressing challenges, and publish the results of their due diligence processes. By holding companies to these rigorous standards and incorporating robust thresholds into our investment decisions, SDG Invest ensures that our portfolio contributes to a more equitable and just society while upholding both ethical and regulatory requirements.

BEST PRACTICE

A company that provides a full description of human rights due diligence in the supply chain, including the most common findings and actions taken to follow up, conducts regular, comprehensive, and credible due diligence to assess how its business impacts freedom of expression and privacy, mitigates risks posed by those impacts, and works proactively to advance these rights beyond its organisation, while also having not been held liable or found in breach of labour law or human rights in relevant court cases, is what we consider best practice and achieves the highest scores on our scorecard.

LABOUR RIGHTS POLICY

Labour rights are essential to fostering fair and sustainable workplaces. SDG Invest aligns with the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work, which addresses freedom from forced and child labour, non-discrimination, and the rights to freedom of association and collective bargaining. These principles are both ethical imperatives and internationally recognised legal standards.

SDG Invest expects all portfolio companies to respect labour rights across their operations and value chains. Particular focus is placed on risks related to:

- Eliminating child labour
- Eliminating forced labour
- Eliminating discrimination
- Ensuring freedom of association and collective bargaining

Our annual analysis evaluates company policies, due diligence, and governance regarding labour rights. Companies are expected to have robust risk management systems and to disclose how they address any violations, including remediation efforts.

SDG Invest also monitors public sources for evidence of potential labour rights breaches in our portfolio companies. This proactive approach strengthens our understanding of risks and informs our engagement with companies to improve their practices.

Labour rights are a key component of SDG Invest's Sustainability Scorecard, which evaluates company performance against internationally recognised standards. Through active ownership, SDG Invest encourages portfolio companies to adopt transparent and systematic approaches to managing labour rights, ensuring alignment with our commitment to ethical and sustainable investments.

BEST PRACTICE

A company with due diligence processes specifically focused on child labour, including independent descriptions of the program and its results, that has not been held liable or found to be in breach of labour law or human rights in relevant court cases, publishes data on the minimum/living wage ratio in its supply chain, and demonstrates strong diversity is what we consider best practice and achieves the highest scores on our scorecard.

SDG Invest

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

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

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

FURTHER INFORMATION

Our sustainability fund is founded on 100% transparency. All scoring information is readily accessible, and we invite you to contact us for full access to the details. This reflects our commitment to accountability and building trust in sustainable investing.