

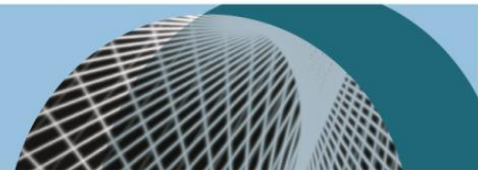


Heptagon European Focus Equity Fund Sustainability Report

H2 2020
Christian Diebitsch

Heptagon European Focus Equity Fund

Sustainability Report H2 2020



The **Heptagon European Focus Equity Fund (HEFEF)** was launched in August 2014 and is led by Portfolio Manager Christian Diebitsch. The Fund seeks to invest in companies in growth industries that show consistent earnings power and have sustainable business strategies that offer fit-and-proper ESG company profiles.

The objective of HEFEF is to identify great companies in good-and-sustainable industries which grow organically by 2-3x global GDP growth over time. We seek companies where the end-market is increasing in size by value and by volume.

- 1) **Companies should ideally have a global footprint;** they should have a diverse customer-base and be the #1 or #2 in the industry in which they are active.
- 2) Companies should be *'price-setters'* and not *'price-takers'* and they **should not operate in harmful industries as these are deemed to be detrimental to good and long-term business opportunities** and thus solid investment returns.

HEFEF's investments align with the United Nations Sustainable Development Goals and by integrating ESG factors into our investment process, we seek to be owners of businesses that also conform with these goals.

The Fund has a **high active share** (typically over 90%) and holds **top-tier ESG rankings**.

Environmental, Social and Governance (ESG) factors have always been part of HEFEF's in-house due diligence process when adding new companies to the universe. The Fund has historically not invested in harmful industries, such as coal-fired power generation; coal mining; controversial weapons; fracking; nuclear power generation; nuclear power plant operators and/or producers of essential components; oil sands and uranium mining.

We believe society's sea-change in attitude towards ESG-enhancing factors, such as climate change and the release of CO₂, will benefit these types of companies going forward, and we will explore how we approach our ESG due diligence in this report.



Executive Summary

Possibly the most debated topic over the past year, beside COVID-19, relates to climate change and carbon neutrality, which in technical (ESG) terms is frequently referred to as: SDG-13 (Sustainable Development Goal) about climate action. Essentially every developed country and their major constituent companies have already issued plans, or at least stated ambitions, to reduce and reach carbon neutrality over the next few decades. For this report, we use GHG (greenhouse gases) and CO₂ (carbon-dioxide) interchangeably and by those we mean carbon emissions.

This paper aims to map the progress of the Heptagon European Focus Fund's Portfolio companies' transition to carbon-neutrality. Our findings are that all our Portfolio holdings have CO₂ strategies in place. One, Tomra (a leading ambassador of the circular economy), is updating its old target/s but is yet to publicly announce new ones.

Based on our findings, 37% of the Portfolio holdings will attain carbon-neutrality by 2026 (Scope 1/2) and 39% will reach 'net-zero', i.e. complete carbon-neutrality by 2039 (Scope 1/2/3). Around 32% of the Portfolio holdings have ongoing targets, i.e. companies pursuing annual improvements, which are either tracked in absolute terms and/or relative to some benchmark (such as sales, costs or by employee). Some of these companies have also adopted SBTi (Science Based Target Initiatives), which aim to comply with the Paris Climate Agreement.

Background

Most EU countries have agreed and committed to reach carbon neutrality by 2050 and superpowers, like China and the US, recently issued similar statements. China, currently the world's largest polluter of CO₂ emissions, pledged in September 2020 to become net carbon neutral by 2060 and to halt the increase of GHG emissions by 2030. The US presently stands at a crossroad. While the former President, Donald Trump, opted to withdraw the US from the Paris Climate Agreement (December 2015), the incoming President, Joe Biden, has already signaled his intention to put the US in the centre of the fight against climate change as well as to [re-join the Paris Agreement as soon as possible](#). Comments already made by Joe Biden before he took office suggest that his administration wants the US to reach net carbon neutrality by 2050.



The Paris Climate Agreement (PCA)

The PCA was signed by 196 parties on 12 December 2015 and entered into force on 4 November 2017. The goal of the PCA is to limit global warming to well below 2 degrees Celsius, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

In order to reach this temperature goal, countries aim to reach the global peak of GHG gases as soon as possible and a climate-neutral environment by 2050. The PCA is widely considered to be a landmark of the world's effort to discontinue global warming, being the first time a multitude of nations signed a binding agreement for a common cause to combat climate change and its negative effects.

The Implementation of the PCA

The implementation of the PCA requires social as well as economic transformation, underpinned by the best-practice environmental science, where countries commit to agree on increasingly ambitious climate action on a five-year cycle. By 2020, countries had submitted their plans for controlling emissions of GHG, known as 'NDCs' (nationally determined contributors). In the NDCs, countries outlined what action they will take to reduce GHG emissions in order to comply with the PCA. While not mandatory, in their NDCs countries were encouraged to describe the efforts they will make to build resilience to adapt to the impact of rising temperatures. These plans are called 'LT-LEDS' (long-term low greenhouse gas emission development strategies).

Funding the PCA

The PCA states that developed countries should take the lead in providing financial support to less developed nations. While such assistance could be in the form of voluntary contributions, there could also be a need for mitigation since large investments will be required to make a meaningful impact in reducing GHG emissions as well as to limit the impact of global warming.

Technological support for the PCA

The PCA establishes a technological framework which aims to foster well-functioning technological development for monitoring the improving resilience to climate change as well as reducing CO₂ emissions. The objective is to: (i) accelerate environmental technology development and; (ii) transfer such advances amongst nations. Over time, the idea is that sufficient capacity has been built up so that it can enhance the support from developed to developing countries.



How Progress of the PCA is tracked

The members of the PCA have established ‘ETFs’ (enhanced transparency frameworks) for monitoring the progress they are making. Hence, from 2024, countries will start to report actual data and the progress they are making in terms of climate mitigation. The information from the ETFs will be compiled and fed into a ‘Global Stock-take’, where an assessment will be made on the collective progress amongst nations towards the long-term climate goals. The conclusions from these stock-takes will lay the ground for more ambitious plans in the next round.

The cost of inaction is possibly more costly than action

One of the investment tenets of European Focus is that *‘doing well and doing good is mutually dependent’*. In other words, successful investments should be compatible with what is good for society. Consequently, the investment strategy of European Focus is to never invest in what we consider to be environmentally harmful businesses, such as: fossil-based industries, mining and non-renewable energy.

With hindsight, this choice has paid off handsomely. Not only have the sectors we have avoided underperformed broader indices by a wide margin in the long run, but over the past few years we have also noticed considerably stronger opinion against these industries and this is forcing many companies to reinvent themselves. For example, many energy-based businesses in the fossil sector are trying to rebalance their exposures by pursuing new environmentally friendly core activities, such as renewable energy in wind and solar. Other examples are mining companies divesting particularly harmful activities, like coal extraction.

Unfortunately, accidents occasionally happen, such as in the cases of the dam disaster in Brazil by Vale (partly owned by BHP Billiton – 2015) and the BP-operated Macondo Prospect in the Mexican Gulf (2010). In those cases, society and media have been unforgiving, requiring exceptionally high penalties as well as compensation claims for the restoration of the environment. Moreover, there have also been substantial class-action lawsuits by individuals and institutions with the consequence that the affected businesses have been plagued by reputational damage for many years. This has been particularly obvious in those cases when evidence appeared showing that companies tried to cut (financial) corners in terms of safety and security.

In order to avoid the most contentious industries where we believe either environmental and/or reputational damage may appear to be most likely, European Focus has an exclusion list. This list includes what we refer to as ‘non-grata industries’ like: fossil fuel, weapons, nuclear, mining, tobacco, gambling and adult entertainment.



The Three Scopes of carbon neutrality

Companies' GHG emissions are classified in three scopes. Scopes 1 and 2 are mandatory to report, while Scope 3 is voluntary and by far the most difficult to monitor. In order to limit the CO₂ footprint and become carbon neutral (or 'net-zero' for short), companies must undertake a full '*GHG emission*' inventory (Scope 1, 2 and 3). Hence, the underlying difference between the various 'Scopes' are important to understand and are quite comprehensive.

Scope 1: are direct emissions from owned and controlled resources. In other words, these are emissions that are released into the atmosphere as a direct result of a set of activities. Scope 1 emissions are divided into four categories:

- **Stationary combustion:** all fuels that produce GHG emissions, such as to drive machinery and to heat up buildings.
- **Mobile combustion:** all vehicles owned or controlled by a company that burn fuel, i.e. cars, vans and trucks. However, the increased use of electric vehicles (EVs) means that some of companies' vehicle fleets could fall into Scope 2 emissions (see below).
- **Fugitive emissions:** leaks of GHG, such as from air-conditioning units and refrigeration systems. Since refrigerant gases are some 1000x more dangerous than CO₂ emissions, companies are encouraged to report these emissions.
- **Process emissions:** produced from industrial processes and from onsite manufacturing, such as factory fumes and chemicals.

Scope 2: are indirect emissions that derive from the generation of purchased energy, i.e. all GHG emissions released into the atmosphere from the consumption of purchased electricity, such as steam, heat and cooling. For most companies, electricity is the sole source of Scope 2 emissions.

Scope 3: are all indirect emissions not included in Scope 2. Scope 3 emissions bridge across companies' entire value chain – including their upstream and downstream emissions. Emissions along the entire value chain generally represent the most important GHG impact. In short, Scope 3 emissions are linked to companies' operations in a wider sense and are divided into 15 categories under two main activities – upstream and downstream:



Upstream activities

- **Travel:** business and employee commuting.
- **Waste:** waste sent to landfills and waste-water treatments (waste disposal emits methane (CH₄) and nitrous oxide (N₂O) which are more harmful than CO₂ emissions).
- **Purchased goods and services:** range across all upstream emissions ('cradle-to-gate') from the production of goods and services over one year. Companies are encouraged to differentiate between purchases of production-related goods (i.e. materials and components) and non-production related goods (i.e. IT support, offices supplies, office-furniture etc.).
- **Transport and distribution:** emissions generated in upstream (suppliers) and downstream (customers) parts of the value-chain. Emissions from transportation and emissions from third-party warehousing are considered.
- **Fuel and energy-related activities:** emissions deriving from the production of fuels and energy purchased/consumed by reporting companies not covered under Scopes 1 and 2.
- **Capital goods:** all fixed assets used to manufacture a product, provide a service or store/sell/deliver merchandise.

Downstream activities

- **Investments:** focused primarily on financial institutions but fall under four categories (equities/debt, project finance, managed investments and client services).
- **Franchises:** businesses operating under a license to sell/distribute other companies' goods/services. Franchisees should include emissions from operations under their control.
- **Leased assets:** leased up/downstream assets by the reporting company.
- **Use of sold products:** refers to 'in-use' products which are sold by companies. It measures emissions from product usage (i.e. the emissions the product emits).
- **End-of-life treatment:** refers to products sold to consumers and is reported similarly as 'waste generated during operations'. In other words, companies must assess how their products are disposed of (which can be difficult as it depends on the consumer); it encourages companies to design recyclable products that limit landfill disposals.

Carbon neutrality is not too far away for the Portfolio companies of European Focus

This paper aims to map the progress of our Portfolio companies as far as their pursuit of attaining carbon neutrality goes. While the companies have generally well-defined carbon policies in place, their base years for comparison vary and thus so do the years when their targets will be achieved.

Most of our Portfolio companies dedicate 1-3 pages of their annual reports to outlining what they do to reduce their carbon emissions and when they strive to be net carbon neutral. If they are manufacturers of goods, as opposed to software and/or service providers, they generally have a roadmap for when they will be net carbon neutral in terms of Scope 1 and Scope 2.

While essentially all our Portfolio holdings have specific GHG targets, there seems to be a trend for companies opting for ‘*Science Based Targets Initiatives*’ (SBTi), which are plans with clearly-defined paths to reduce emissions in line with the goals of the PCA (see above). In the years to come, we anticipate more and more companies choosing this avenue; working alongside society with the aid of technological advances in a transparent fashion in their pursuit of reaching carbon neutrality.

Analysis and Conclusions

The analysis below is a status report in respect of our Portfolio holdings’ aim to reach carbon neutrality. As a first port-of-call, we have analysed CO₂ neutrality by Scopes 1 and 2, i.e. companies’ controllable emission factors. As a second tier, we have looked at aspirations for Scope 3, i.e. upstream and downstream factors which are outside of companies’ immediate control, such as their suppliers and customers.

Below are some of the key findings of our analysis. We have used Bloomberg’s tickers for illustration purposes (the full company names are listed in the company section below).

- **Targeted CO₂ neutralities, Scope 1/2 and Scope 3 at different target years:** *four* of our Portfolio companies have different targets for attaining CO₂ neutrality in terms of Scope 1/2 and becoming net-zero contributors (Beiersdorf, Givaudan, Hermès and Nestlé). On the whole, we consider this to be a smart way to disclose corporate GHG improvement as it gives stakeholders a realistic way of assessing the ongoing progress the companies are making. Based on the Portfolio weightings as of year-end 2020 (16%), this specific group of companies is expected to reach their Scope 1/2 carbon neutrality target by 2031 on average and their net-zero target by 2050.
- **Targeted CO₂ neutrality target, Scope 1/2:** *nine* of our Portfolio companies have clearly established targets for attaining CO₂ neutrality for Scope 1/2 only (Beiersdorf, Coloplast, Diageo, Eurofins Scientific, Givaudan, Hermès, L’Oréal, Nestlé, SGS). Based on the Portfolio weightings as of year-end 2020 (37%), this group of companies is expected to reach their Scope 1/2 carbon neutrality target by 2026.



- **Targeted net-zero neutrality target, Scope 1/2/3:** *eight* of our Portfolio companies have a clearly established target for reaching net-zero emissions (Adidas, ASML, Beiersdorf, Givaudan, Hermès, Nestlé, Novo Nordisk, Zalando). Based on the Portfolio weightings as of year-end 2020 (39%), this group of companies is expected to reach net-zero carbon neutrality by 2039.
- **Ongoing CO₂ reduction targets:** *seven* of our Portfolio companies have ongoing CO₂ emission reduction targets (Atlas Copco, Dassault Systèmes, EssilorLuxottica, Intertek, Lindt & Sprüngli, Lonza, Tomra). At year-end 2020, this group of companies had a combined weighting of 32% in the Fund. Whilst we can see the logic in a gradual improvement disclosure, which we also consider to make sense when looking at GHG productivity improvement (one of our ongoing ESG-check metrics), it is more difficult to ascertain where these companies are in terms of their overall GHG emissions. Over time, we believe an element of “peer and societal pressures” will force these companies to become more transparent.

Company-specific commentaries

Having gone through each Portfolio company’s disclosure and trying to make heads-and-tails of where they stand and their approach in tackling GHG emission, the below is a synopsis of our findings on a company-by-company basis.

Adidas (ADS GY)



Adidas is committed to reduce absolute energy consumption and CO₂ emissions by transitioning to clean energy and by looking into other forms of energy-harvesting opportunities. Adidas is addressing the impacts of climate change through several initiatives – internally and externally – across its supply chain and through various partners. As a signatory to the UN Fashion Industry Charter for Climate Action, Adidas has committed to reduce its own and its suppliers’ GHG emissions by 30% compared to 2017 and it should have reached carbon neutrality by 2050.

ASML (ASML NA)



ASML is committed to minimizing the business’ impact on the environment. The strategy is to achieve net-zero carbon emissions. This includes using renewable electricity and reducing emissions across the entire value chain. ASML used 97% renewable electricity across its operations in 2019; the business is on track to have reached 100% by the end of 2020. ASML’s target is to reach net-zero emissions across its operations by 2025.

Atlas Copco (ATCOA SS)



Atlas Copco aims to reduce CO₂ emissions from energy in its operations and transportation of goods in relation to cost of sales by 50% by 2030 (base year 2018). There is no stated target to reach carbon neutrality.

Beiersdorf (BEI GY)



Beiersdorf committed to SBTi in June 2020. Beiersdorf aims to reduce energy-related GHG emissions by 30% in absolute terms (Scopes 1/2) by 2025 and cut supply-chain emissions by 10% (Scope 3). Moreover, the Consumer Division (circa 80% of group sales and EBIT) targets 30% reduction in Scope 3 emissions by 2025. Prior to its commitment to SBTi last year, Beiersdorf signed the ‘Business Ambition for 1.5°C’ at the UN Climate Change Conference in Madrid (December 2019). As part of the agreement Beiersdorf also signed a voluntary long-term objective to reach net-zero emissions by 2050 at the latest.

Coloplast (COLOB DC)



Coloplast’s largest emissions groups are: raw materials, energy, business travel and transportation of goods. Circa 60% of Coloplast’s total GHG emissions derive from raw materials, which thus carry Coloplast’s single-largest environmental impact. Coloplast is addressing this issue by incorporating eco-design principles when developing products. The objective is to use 100% renewable energy by 2025 (around 67% today) thereby making its production process carbon neutral. Coloplast will reduce business travel and convert its car fleet to electric vehicles (EVs) from 1% to 50% by 2025. Coloplast will also take its ambitions beyond its own operations and work with suppliers (Scope 3). The 2025 objective also encompasses reducing air freight from some 5% to less than 3%.

Dassault Systèmes (DSY FP)



In December 2020, Dassault Systèmes announced that it has committed to set a science-based target through the SBTi. Targets adopted by companies to reduce GHG emissions are considered ‘science-based’ if they are in line with what the latest climate science says is necessary to meet the goals of the PCA. According to the SBTi, Dassault Systèmes has committed to set a GHG target based on the SBTi criteria and, within 24 months, to reduce its GHG emissions.

Diageo (DGE LN)



Diageo has committed to halve its direct CO₂ emissions (Scopes 1/2) in absolute terms by 2020 (base year 2007) and achieve 30% reduction in CO₂ reduction across the entire supply chain. The approach focuses on four areas: (i) energy efficiency; (ii) generating renewable energy onsite as

alcohol production creates several by-products that can be used as sources of renewable energy; (iii) sourcing renewable or low-carbon energy from biomaterials, nuclear, wind, solar and hydro-electric sources (Diageo is committed to 100% procurement of renewable sources by 2030) and; (iv) to partner with key suppliers to manage and report their CO₂ emissions (including a commitment from July 2015 that all new refrigeration equipment in trade is free from hydrofluorocarbons – HFCs).

EssilorLuxottica (EL FP)



EssilorLuxottica is the merger of former Essilor (France) and Luxottica (Italy) in October 2018. The new joint business is committed to optimizing the use of resources to lower its environmental footprint across the value chain by reducing energy consumption and water use, limiting its carbon footprint and waste generation to address climate change. Both individual businesses are improving their reporting capacity on GHG emissions by strengthening the data collection process and by extending the reporting scope. Steps have been implemented to reduce CO₂ footprint emissions (Scope 1/2), such as the development of energy efficiency projects and the use of renewable energy. In respect of Scope 3, EssilorLuxottica has so far focused mainly on the downstream transportation/distribution, which is a large CO₂ emission source of the group. In 2019, EssilorLuxottica expanded the reporting in logistics in order to get a better overview of CO₂ emissions linked to different transportation activities and a more accurate analysis of the carbon footprint per mode of transportation. The improved reporting lines will help EssilorLuxottica to define and deploy action plans to further reduce the CO₂ footprint going forward.

Eurofins Scientific (ERF FP)



Eurofins Scientific acknowledges the need to limit the increase in global warming to well below 2 degrees Celsius as set out by the PCA. Eurofins Scientific is committed to measuring and reducing the CO₂ emissions. While efforts to compensate part of Eurofins Scientific's carbon footprint is unavoidable, they are considered a priority given the importance of reducing the speed of global warming. Based on preliminary analyses so far, Eurofins Scientific deems it feasible to achieve carbon emission neutrality by 2025 (Scope 1/2), through a combination of emission reductions and compensation initiatives.

Givaudan (GIVN SW)



Givaudan aims to become climate positive before 2050 (Scope 1/2 and 3). As part of this objective, Givaudan will reduce GHG emissions from operations by 70% by 2030 and work towards its operations becoming climate positive by 2040 (Scope 1/2). Givaudan has committed to replace all single-use plastics across its sites and operations with eco-friendly alternatives before 2030. Givaudan joined 150 other businesses by signing an open letter urging the EU to raise its GHG emission reduction target for

2030 to 55% when compared to 1990 levels. The initiative is led by the European Corporate Leaders Group (CLG Europe), a group of European businesses working towards delivering climate neutrality.

Hermès (RMS FP)



Hermès is taking practical measures to reduce its energy consumption and CO₂ footprint across all scopes. This includes a voluntary contribution to the Livelihoods Carbon Fund (130m trees have already been planted), which helps to partly offset Hermès' carbon emissions. Hermès has also signed the Fashion Pact, which commits to clear environmental goals, such as: 100% renewable energy by 2030 in direct operations (Scope 1/2) and 30% reduction in CO₂ emissions by 2030. As an investor in the Livelihoods Initiative (since 2012), Hermès receives annual carbon credits. In 2019, Hermès was eligible for carbon credits which offset all its Scope 1/2 emissions. Hermès' participation in the Livelihoods Initiative is a complement to its internal efforts for achieving carbon neutrality by 2050.

Intertek (ITRK LN)



Intertek aims to reduce GHG emissions by 5% per employee (base year 2018). As part of its environmental mission, Intertek is committed to reducing the carbon footprint of its direct operations (Scope 1/2). Intertek measures Scope 1/2 GHG emissions and certain Scope 3 emissions covering fuel and energy-related activities as well as employee commuting. While Scope 3 emissions are not mandatory, Intertek believes they provide valuable insights on the full emission profiles of businesses. Intertek does not have a specific target year to reach carbon neutrality. However, Intertek offers its customers a mechanism to jointly offset GHG emissions generated by Intertek when auditing services. Against this backdrop, Intertek has partnered with EcoSecurities, a leading carbon project and offset firm, to facilitate the offset delivery for Intertek in its own right as well as that of its customers.

Lindt & Sprüngli (LISP SW)



In terms of sustainable production Lindt & Sprüngli's aim is about becoming more efficient and credible as opposed to reaching a specific target. Consequently, Lindt & Sprüngli's goals are to reduce CO₂ emissions, energy and water consumption by an average of 2% a year (Scope 1/2). These are not absolute targets but apply to tonnage produced. Lindt & Sprüngli achieved these goals across the entire Lindt & Sprüngli group in comparison to 2015 and the company has reduced CO₂ emissions by a total of 7%; energy consumption by a total of 6% and water consumption by a total of 10%. In respect of Lindt & Sprüngli's sustainability of raw materials (particularly cocoa beans), the company has developed its own procurement system in accordance with the '*Lindt & Sprüngli Farming Program*', which is now implemented in five countries. By 2020, the entire supply chain of cocoa beans is fully traceable (and verified by external parties) for their regions of origin.



Lonza (LONN SW)



Lonza uses different technologies for air emission control that focus on GHG emissions and ‘VOC’ (volatile organic compounds). Other parameters that are monitored are nitrogen oxides, sulphur-dioxide and ‘particulate matter’ (the sum of all solid and liquid particles suspended in air, many of which are hazardous). Lonza has a CO₂ emission target based on the aspirations of the PCA, but more specifically to cut GHG emissions by more than 40% by 2030 (base year 1990). Energy consumption is Lonza’s largest contributor to GHG emissions and the company steadily implements more energy-efficient solutions (the most important is natural gas and thermal processing of internally generated waste products). Lonza reports that its CO₂ intensity (in relation to sales) has been steadily decreasing over the years.

L’Oréal (OR FP)



L’Oréal adopted new CO₂ commitments for 2030 in 2017. These targets aim to achieve carbon neutrality at all its sites by 2025 (Scope 1/2) and to reduce carbon emissions in absolute terms (Scopes 1/2 and 3) by 25% by 2030 (base year 2016). To reduce its carbon footprint, L’Oréal is taking a two-tiered approach. *First*, L’Oréal reduced GHG emissions at its industrial sites by 78% (base year 2005) by using renewable energy and by improving energy efficiency (while production volumes increased by 37%). In 2019, 69% of the energy requirement of L’Oréal’s production facilities and distribution centres were derived from renewable sources and at the end of 2019, 35 industrial sites had reach carbon neutrality, including 14 (total 42) factories. *Secondly*, L’Oréal cooperates with CDP (formerly Carbon Disclosure Project), which is an international not-for-profit organisation that helps companies and cities disclose their environmental impact. CDP aims to make environmental reporting and risk management become a business standard by driving disclosure and insight towards a sustainable economy.

Nestlé (NESN SW)



Nestlé’s objective is to reduce its GHG by 50% by 2030 (Scope 1/2) and reach net-zero carbon emissions by 2050 (Scope 1/2 and 3). Nestlé will focus on supporting some 500,000 farmers and 150,000 suppliers in pursuing regenerative agriculture (i.e. techniques that help to keep carbon and water in the ground). Some 20m trees will be planted annually over the next 10 years and Nestlé plans to convert its >800 sites in 187 countries to 100% renewable electricity by 2025. Moreover, Nestlé will increase the number of ‘carbon neutral’ brands. Nestlé is switching its global fleet of vehicle to lower emission alternatives and expects to offset business travel by 2022.


Novo Nordisk (NOVOB DC)




Novo Nordisk has already achieved a goal of using 100% renewable electricity across its global production platform (Scope 1/2) and the next step is to eliminate the environmental

footprint (i.e. GHG emissions) from its operations. Novo Nordisk aims to have reached carbon neutrality in all its operations and transport (Scope 1/2 and 3) by 2030. Novo Nordisk is pursuing this objective in three primary ways. *First*, by switching to renewable electricity (completed). *Secondly*, by redesigning existing and future products so they become more eco-friendly across the entire value chain; by reducing waste – from the raw materials to the way the products are put together - and by addressing how to solve the end-of-life challenge of the devices so that materials can be recovered and recycled into new products. *Thirdly*, by working with suppliers who share the same mindset as Novo Nordisk. In late Nov-2020, the company hosted an excellent investor conference when management outlined the group’s ESG ambitions.


Serco (SRP LN)

 Serco is committed to limit its environmental impact by pursuing sustainable business practices from the products and services it procures. However, two-thirds of its service delivery is conducted on customers’ premises where the activities are managed locally. Consequently, while Serco is not in direct control of environmental impacts, the company works collaboratively with its customers by supporting them with their own environmental management systems and objectives. Against this backdrop, Serco does not have a stated carbon neutrality target, but management is actively fostering a corporate culture that drives improvement in environmental stewardship by monitoring performance, such GHG emissions. Over time, we expect Serco to become clearer in respect of issuing a more quantitative CO₂ emission targets for the group.

SGS (SGSN SW)


 SGS has been a carbon neutral company since 2014. This was accomplished by following a three-tiered approach. *First*, by reducing energy consumption in its global network of circa 2,600 offices and laboratories, which account for around 60% of the firm’s energy requirement, and by using more sustainable transportation, where each newly acquired/leased vehicle needs to emit fewer average grams of CO₂ annually than in the previous year. *Secondly*, SGS uses renewable energy onsite or purchases renewable energy whenever possible. *Thirdly*, by offsetting any residual emissions. In this regard, SGS is a member of the ‘RE100 Program’ run by the Climate Group (a not-for-profit organization that works with businesses and governments around the world to address climate change), which works in partnership with CDP (see OR above).

Tomra (TOM NO)

 Tomra, whose core products (RVM-machines – Reverse Vending Machines) actively support a circular economy, is thus one of the most environmentally friendly businesses in our Portfolio. Tomra regularly comments that climate change is among the most important megatrends

affecting society and that the need for transition towards a resource-efficient, low-carbon and circular economy continuously opens new business opportunities. To illustrate its contribution to a positive climate impact, Tomra has traditionally reported ‘*avoided carbon emissions*’ which arise from the usage of its products. While Tomra’s vehicle fleet is the primary source of its current CO₂ emissions, it actively seeks to reduce those emissions by replacing diesel-driven vehicles in particular. Tomra temporarily does not have a formal carbon neutrality target for its operations. In respect of reaching carbon neutrality, Tomra is currently undergoing a process to update its sustainability strategy, including GHG emission reductions. As such, 2019 fell in-between corporate strategic efforts to manage operational climate impact. Tomra will launch a new operation CO₂ emission targets in 2021.

Zalando (ZAL GY)

 Zalando aims to reduce GHG emissions for the entire business. In 2020, the company set an official target to cut CO₂ emissions, according to the PCA. Although Zalando’s objective is to reduce GHG emissions across its own value chain (Scope 1/2), Scope 3 is more significant in terms of environmental damage for Zalando. However, management still believes this can be achieved by 2025. Zalando has already converted to renewable energy sourcing in all its offices and fulfilment centres in Germany and Poland (circa 90% of the group’s total energy requirement). Zalando is also working in cooperation with an Ethiopian organisation, Soddo, to offset any residual CO₂ footprint.

Concluding remarks

Although GHG emissions have been on society’s agenda for many years, we note that there is a clear difference in how companies are dealing with this issue today. Essentially all our Portfolio companies regularly refer to CO₂ mitigation as a priority in order to improve their status as strong corporate citizens. Since this group of companies have withstood the test of time (their average age of foundation dates back to the early 1940s), we would argue that they are in a strong position to reach their CO₂ targets on time. Not only do they help to sustain society in a positive way – with limited environmental impact – they also consider ‘*doing well and doing good to be mutually dependent*’. We believe this sets them apart from other sectors where companies sometimes have to reinvent themselves in order to avoid environmental impact. Against that backdrop, we don’t see their strive for carbon neutrality as a hindrance – rather – it is just an add-on in their ongoing pursuit of excellence.

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Signatory of:



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Risk Warnings

The Fund is subject to special risk considerations including geographic concentration risk, portfolio concentration risk and operational risk. The investment return and principal value of an investment will fluctuate so that the investor's shares, when redeemed, may be worth more or less than their original cost. Any investor should consider the investment objectives, risks and charges and expenses of the Fund carefully before investing. Where an investment is denominated in a currency other than the investor's currency, changes in rates of exchange may have an adverse effect on the value, price of, or income derived from the investment.

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