



# Sustainability Progress or Greenwashing?

Sustainability & Impact Investment Trends Web  
Conference

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# Our Take On Sustainable Investments



## Sustainability is about

- Meeting the needs of the present **without compromising** the ability of **future generations** to meet their needs
- Recognizing that your **contribution to society** is instrumental in how you are assessed

## Sustainable investing is about

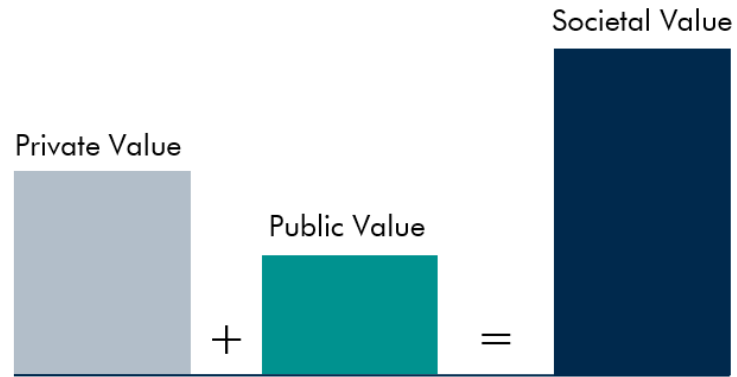
- Investing in **innovation** and progress
- Identifying and invest in the companies best positioned to solve the **world's biggest challenges**
- **Avoid** investing in the companies that are part of the problem, showing no signs of a fast transition

## We believe that

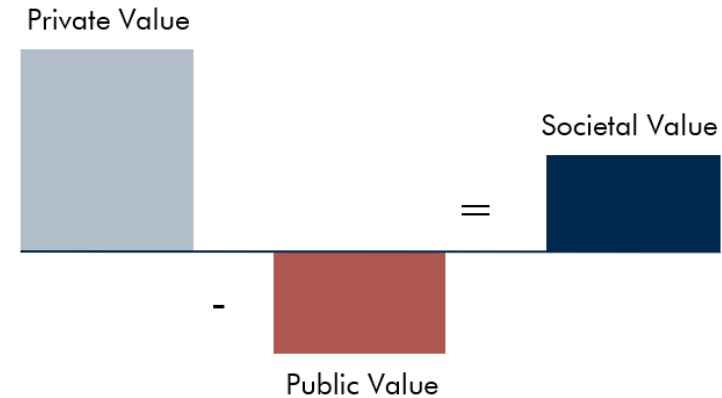
- Only strong and **profitable companies** can aspire to be **sustainable**
- Sustainability is one of the most **powerful trends** we have seen in investing, and it is going to accelerate in decades to come

# Societal Value Of Corporate Activities

Case A: Positive externalities



Case B: Negative externalities



- The public value of business activities will increasingly be included in company valuations
- Sustainable business models will be able to attract more capital at a lower cost of capital
- New innovative business models and stranded assets

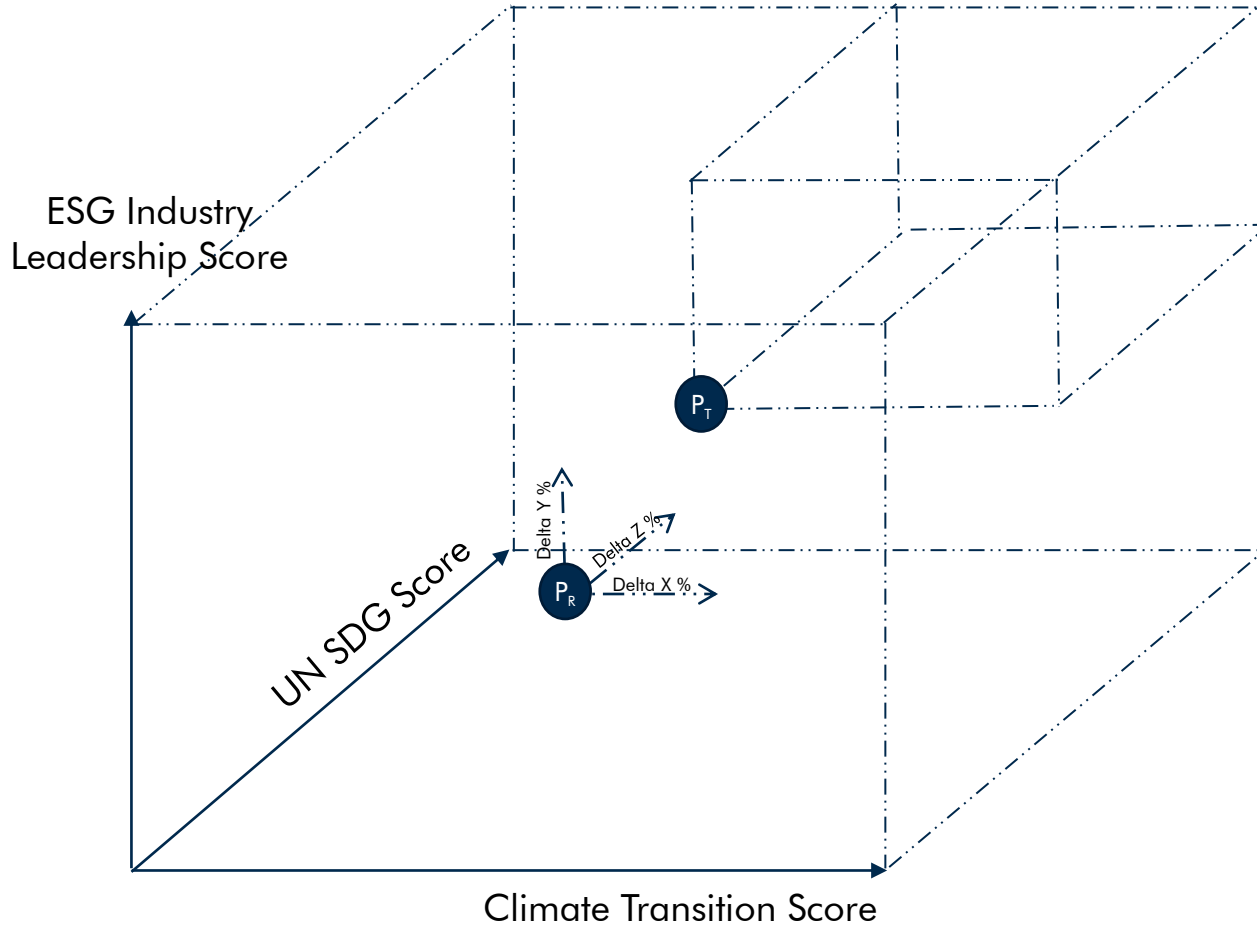
# How to achieve a robust and balanced sustainability measure?

- 01 Societal value and sustainability are **multi-dimensional**
- 02 Data are **short, incomplete** and **noisy**
- 03 Comparisons **between** as well as **within** industries matter
- 04 Sustainability definition has to be **dynamic and changes over time**
- 05 A company's **current position** and **forward looking trajectory** may very well **differ**
- 06 **Perceptions** and **sentiments** are important



The Sustainability Cube™ deals with all of the above

# The Sustainability Cube™



## The Sustainability Cube™

### X-axis: Climate Transition Score

Measures how well a company is positioned to deal with the current and future challenges imposed by climate changes. Current carbon footprint, carbon targets and decarbonization progress are considered. All companies are scored on an absolute scale between 0–10, where 10 is the best.

### Y-axis: ESG Industry Leadership Score

Measures how well a company is positioned to deal with the potential risks related to Environmental, Social and Governance issues. All companies are scored on an industry relative scale between 0–10, where 10 represents the leading company within an industry.

### Z-axis: UN SDG Score

Measures how aligned a company is with the 17 UN Sustainable Development Goals (SDG). Measured e.g. by identifying revenue and R&D that can be attributed to products and services that can help solve some of the world’s major social and environmental challenges. All companies are scored on an absolute scale between 0–10, where 10 is the best.

$P_{R,X,Y,Z}$   
The reference or benchmark portfolio.

$P_{T,X,Y,Z}$   
A hypothetical target portfolio.

# Adding it all up – The Sustainability Cube™ Score

- 01 The **inputs are the sub-scores** from each dimension (ESG, Climate and SDG)
- 02 Sub-scores are **equally weighted** in order to calculate the final Score
- 03 Companies can now be ranked **between** as well as **within** industries
- 04 **Continued improvements** in data and data quality
- 05 The Score can be used for **portfolio construction purposes as well as reporting**



The Sustainability Cube™ is integrated into everything we do

# Our Sustainable Investment Process

Our 2-step approach to sustainable investments

Engagement & Exclusions

Identify **problematic** companies



Identify **unwanted** product and/or industry exposure



Sustainability Cube™ screening & portfolio construction

We favour engagement over exclusion



Fact based assessments



We exclude companies that *intentionally* and *repeatedly* violate national/internationally endorsed standards

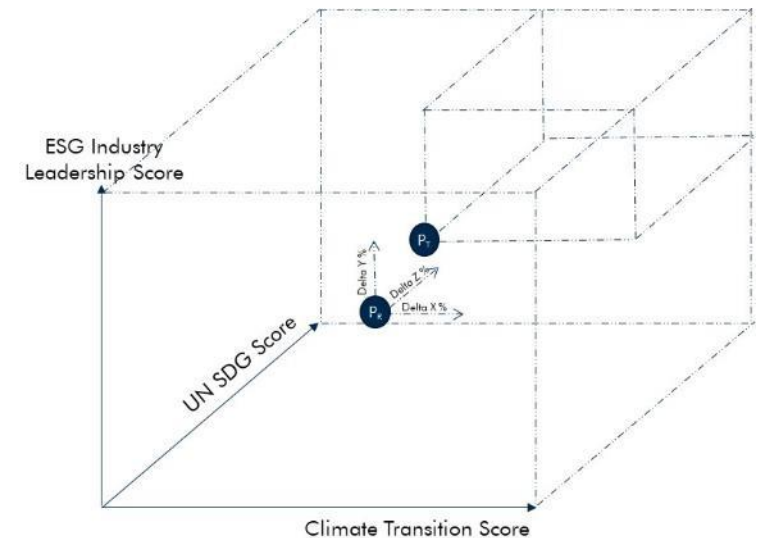
Harmful or inhumane products



Industries with unacceptable *negative externalities*



We exclude companies associated with production of controversial weapons, tobacco, thermal coal mining, nuclear weapons, oil sand extraction, arctic drilling, adult entertainment, gambling, alcohol and cannabis



# Progress or Greenwashing?

- 01 SFDR – Article 8 and 9 – and Taxonomy
- 02 Old wine in new bottles – negative screening and passive investments
- 03 [Marketing Rules](#) in retail – “Give them what they want”
- 04 [Sector tilts](#) – Health Care, Information Technology, Finance and Industrials
- 05 [Green Bonds](#) – a road to absolution?
- 06 [Carbon emission targets](#) as a [barrier](#) to progress – Fossil fuels and transportation

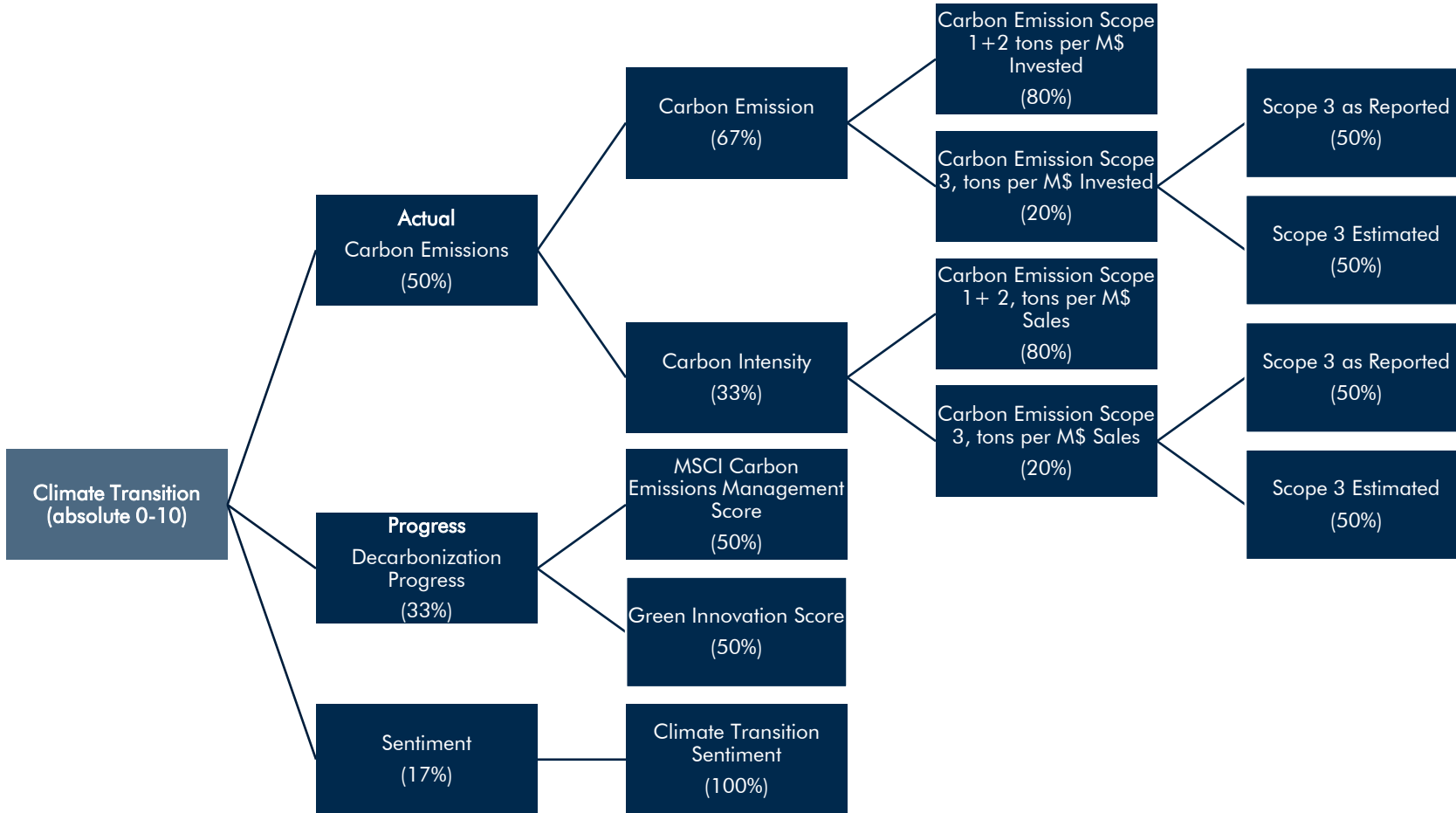


# Final Remark



- Multiple definitions of sustainability a fact of life
- The solution is not forced alignment but more transparency

# The Climate Transition Score



## Continuous Improvement

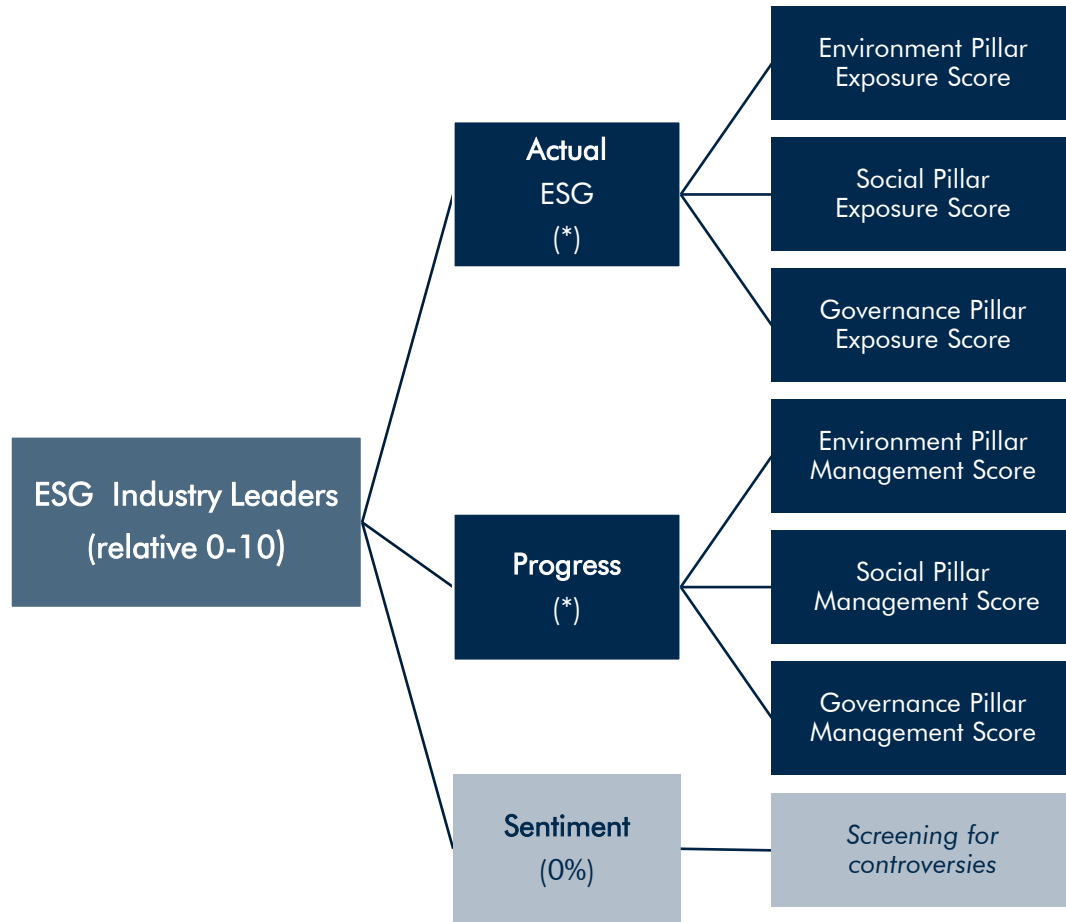
Since not all companies disclose carbon emissions, we continuously work on improving data quality by incorporating estimated values both from analysts and from own models.

It is our belief that it will become increasingly important how well a company is delivering on their carbon reduction promises and Paris agreement alignment. Therefore, we will include e.g. carbon target analysis, both on historical and future targets, and we have included patent data in measuring the decarbonization progress of a company.

Due to the lacking nature of reported values and to get a “public” opinion on how well a company is doing with respect to solving carbon related issues, we have recently included a market wide Climate Transition sentiment score using NLP methods.

*\*All emissions are measured in CO<sub>2</sub>e i.e., carbon dioxide equivalent*

# The ESG Industry Leadership Score



## Continuous Improvement

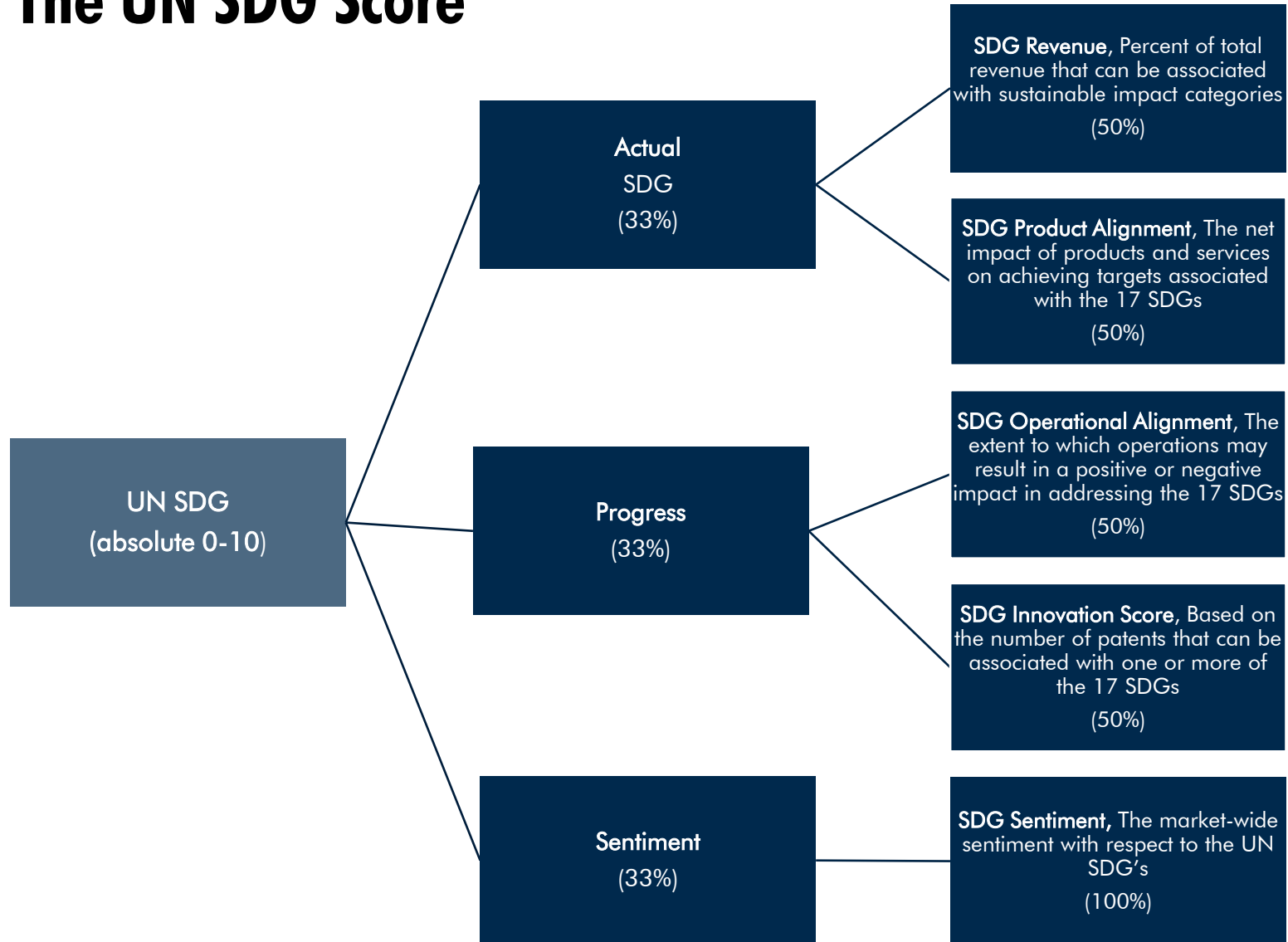
Even though ESG is well-known there is a lack on consensus on how to measure it. We will continue to incorporate ESG data from various sources to improve the robustness.

In addition, we are looking into the weightings of the different ESG scores. The research on the tax governance score is ongoing and the weight is expected to be increased.

Due to the lacking nature of reported values, we will include real-time controversies screening to ensure that we address potential issues early.

\* The weights vary between industries and companies in accordance with MSCI ESG Ratings Methodology

# The UN SDG Score



## Continuous Improvement

All revenue and R&D that can be attributed to the 17 UN SDG's are not equal. We will continue to work on ways to differentiate companies on their efforts to solve some of the world's major challenges. As an example, we will soon include issued SDG innovation patents as an indicator of progress.

To get a "public" opinion on how well a company is doing with respect to addressing UN SDG's we have recently included a market wide sentiment score using NLP methods.

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