

The background of the entire page is a photograph of a wind farm. Several wind turbines are silhouetted against a bright, hazy sky at sunset or sunrise. The foreground is a golden field of crops, likely wheat, with a line of trees in the middle ground. The overall scene is peaceful and represents sustainable energy.

Sustainability Report

Stable Equities

Q2 2023



Sustainable Philosophy

Core Beliefs

Our active approach to the stewardship of investments ensures sustainability commitments

We emphasize active ownership to influence positive change and progress

The integration of sustainability factors is key to our long-term investment research process

Prioritising pro-active engagement rather than excluding and divesting

Investing responsibly is aligned with superior risk-adjusted long-term returns

Our actions

Engaging directly with and voting on investee companies

Researching sustainability factors is fully integrated into our overall investment approach

Materiality ensures that we prioritise what matters most

Extensive screening to ensure norm-based alignment

C WorldWide Stable Equities

Quarterly Comments

This quarter was again time for the annual Nordic SIF conference — the sustainability conference gathering investment professionals in the Nordic countries. Following on from last year's conference in Reykjavik, Iceland, this year's scene was set in Copenhagen, Denmark, and the central theme for the conference was "The Sky and The Land", with a particular focus on wind energy. Denmark is home to Ørsted focusing on offshore wind farms and to Vestas, a leading manufacturer of wind turbines. There was also focus on agriculture, as farming has been the backbone of Denmark for centuries. The focus was explicitly on regenerative agriculture and what the industry can do to decrease emissions, enhance biodiversity and continue to be a source of food safety.

Meanwhile, elsewhere in the world, the discussion on food safety remains tilted towards providing protein sources to a growing population with an increased interest in meat and dairy. One of the solutions discussed is alternative proteins.

Alternative proteins are produced from plants, animal cells, or through fermentation. These innovative foods are designed to taste the same as conventional animal products. However, compared to conventionally produced proteins, alternative proteins require fewer inputs, such as land and water, and generate far fewer negative externalities, such as greenhouse gas (GHG) emissions and pollution. According to the international science journal Nature, global food systems are responsible for 1/3 of global anthropogenic GHG emissions. As the world transitions to net-zero GHG emissions and the availability of land for food production becomes increasingly constrained by the demands of a growing population, the global agri-food system will need to evolve to produce more food for more people on less land using less energy.

Looking specifically at animal cells or cultured meat (including chicken, beef, and fish), one of the benefits compared to traditional meat is that it is free from growth hormones often injected into farm animals to make their meat better. However, the nutritional content of lab-grown meat can be altered to meet necessary requirements like reducing unhealthy fats and introducing healthy fats like Omega-3 fatty acids. Further, cultured meat does not require the use of fertilisers or antibiotics.

The development of cultured meat also has a social aspect. A survey from Barclays shows that despite religious dietary requirements, many of the population in India, China, and Israel are willing to consider cultured meat as a substitute for current diets, including vegetarians and vegans.

The development of cultured meat is mainly seen in Singapore, the first government to allow the sale of cultured meat in 2020. Other countries include China, Israel, and the USA. In early 2022, the US FDA, for the first time, cleared a meat product grown from animal cells for human consumption, whereas China, in its latest five-year plan, emphasised the need to develop alternative proteins especially cultured meat and synthetic proteins. Most recently, the Netherlands has become the first country within the EU to allow pre-approval tastings of cultured meat and seafood, a key milestone that could better educate consumers and investors in the EU.

Most cultured meat/protein producers are still private companies, although some are structured in listed holdings companies. However, some of the more established, well-



Investment Screenings

Sanctions Screenings

All investments are screened against Refinitiv World-Check sanctions-screening covering all known sanction bodies

Norms-Based Global Standards Screenings

Convention Breach screenings, compliance with UN Global Compact Principles, OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights

Investment Exclusions

None of the companies within the portfolio exceeds a certain level of involvement in the activities specified:

- 0% Controversial Weapons
- 5% Military Contracting
- 5% Small Arms

known companies within consumer goods, ingredients, agricultural machinery, and ag tech will be part of the developments within the alternative protein. Barclays estimates that the scalability of the underlying technology supports a projection of 20% market share for cultured meat in the global meat market by 2040. Companies like Nestlé and Thermo Fisher are seen investing in and partnering with private actors to develop cultured meat.

Portfolio Changes

We have made several adjustments to the portfolio in 2023 as new attractive opportunities arise and to manage the overall risk in the portfolio. We invest in companies with low cyclical exposure and where the one-year volatility in the share price is among the 50 pct of the global stock market with the lowest historical or expected price volatility. We diversify on sectors and regions to make the portfolio robust towards market volatility.

We have increased our investments in utilities, focusing on companies with high exposure to alternative energy. We bought SSE in Scotland and NextEra Energy Partners in the US, bringing our exposure towards utilities to more than 17 pct, the highest weight in the portfolio. We have a special focus on renewable energy because we think these companies combine a stable cash flow with large investment opportunities. Once a solar or wind park is erected, the variable costs are very low, and the cash flow is attractive. In the US, the Biden administration has passed the Inflation Reduction Act (IRA), which will stimulate investments in all kinds of alternative energy in the coming 10-15 years and make America very attractive for these investments. We think all four of our US investments (Brookfield Renewable Energy, Atlantica Infrastructure, NextEra Energy and NextEra Energy Partners) will benefit from the IRA.

We think there is a general underinvestment in the US electricity grid, which could potentially make electricity somewhat more expensive. Furthermore, investments in oil and gas are below what is needed from a long-term demand perspective which could further put upward pressure on energy prices.

NextEra Energy Partners decided during the 2nd quarter to dispose of their gas pipelines in the coming 1-2 years, making the company 100 pct renewable. We want to support the path towards net zero, but we will do it profitably for our investors and not with a philanthropic mindset.

Direct Engagements

We engaged with several companies during the quarter, including Novo Nordisk, TSMC, Nestlé, and LVMH.

Novo Nordisk

In March this year, we participated in an ESG meeting with Katrine DiBona, the Vice President of Global Public Affairs and Sustainability. During the meeting, we discussed various important topics, including the recent two-year suspension of the company from the Association of the British Pharmaceutical Industry. This suspension was due to the company sponsoring weight management courses for health professionals without clearly indicating that it was sponsoring them. We also discussed drug pricing and Novo's commitment to offering affordable medicines for diabetes and obesity to individuals in low-income countries and those who struggle to afford treatment in developed countries. Among the projects mentioned was Novo's collaboration with Walmart to offer affordable insulins under the ReliOn brand. Another key topic was the recycling programs for pens, which have achieved impressive return rates of over 20% in Denmark, with pilot programs now launching in additional countries. Overall, the meeting provided valuable insights into Novo's ongoing commitment to ESG and its efforts to improve access to affordable medicines while promoting sustainability.



Fiserv

We had a constructive meeting with the Head of CSR at Fiserv to understand the ESG journey of the company better. Fiserv has had board oversight of sustainability and CSR since 2021, anchored in the Nominating and Corporate Governance Committee. Additionally, the company appointed its Head of CSR, who has a legal background. He reports directly to the CEO. The key objective of the appointment is to develop strategic ESG goals.

However, explicit disclosure on targets within, e.g., environmental footprint and diversity, remains to be seen. Fiserv reports to the CDP and currently considers how to best act regarding climate change challenges. Especially key to any future ESG-related decision within Fiserv depends on the upcoming considerations and actions taken by the SEC.

Furthermore, we discussed Fiserv's challenges when considering commitment to international initiatives such as the UN Global Compact. Fiserv has challenges with the principle of freedom of association. Bearing in mind that unionized labor practices are not as common in the US as, e.g., in Europe, the company hesitates to commit to principles that they believe can negatively impact the company or management.

Finally, we followed up on last year's AGM shareholder proposal to implement Say-on-Pay for severance and termination arrangements. Following majority votes for the proposal, Fiserv has amended the CEO remuneration structure to include further governance enhancements and disclosures to be more aligned with market standards.

Nestlé

We met with Nestlé in Switzerland for an update on the strategy and current ESG initiatives. Specifically, we discussed the measures taken within its coffee business regarding recycling and how to align with local waste management requirements that continue to evolve these years. Nestlé has local teams to assess and understand the merits of local recycling systems to make a solution scalable, including considering smarter and lesser packaging where possible.

Further, we discussed the resources and innovation needed to adapt and meet changes in consumer demands. Specifically, the development of healthier choices and alternative protein products, including plant products. Nestlé's strategy is to premiumise its offerings of such and is currently spending 10% of its R&D budget on developing alternative protein products.

Finally, we discussed Nestlé's actions regarding child labour in cocoa and whether they believe this issue will ever disappear. As we have written about previously, Nestlé launched its Income Accelerator Program last year to help farmers reach a living income and limit child labour. The program, which rolled out to 10,000 cocoa families in Cote d'Ivoire, has been well received. Nestlé's target is to extend the program to Ghana and its global supply chain in 2024 and, by 2030, reach 160,000 cocoa farming families globally



LVMH

We discussed the 'LVMH Initiatives For the Environment' (LIFE) 360 sustainability program within environmental efforts and the most challenging aspects of the same. Plastic reduction and the change to biosource have proven more difficult than expected to get the same quality and characteristics as plastics. One example that has proven successful is the use of grape shells for the paper packaging that wraps Veuve Clicquot. LVMH is working with the NGO Canopy Planet to develop new lighter packaging, reducing transportation costs.

Further, we discussed LVMH's initiatives within transparency and traceability of its various supply chains among the Maisons. LVMH has a target of 100% of strategic supply chains to possess a reliable traceability system by 2030, including 9,500 products with their customer information system. Part of this target is establishing the sources of its animal raw materials, where the results are 89% of exotic leather, 89% of fur and 64% of wool.

Circularity is another key focus for the group, especially on using unused materials from production across the group. These are made available via Nona Source, an internal online resale platform for exceptional materials that are surplus to each maison. The platform has proven popular, and LVMH is experiencing quite a volume of trying to reuse the materials available. This includes using surplus materials to make a new thread for new clothes.

Finally, we discussed using alternative materials, such as cultivated fur or leather-like mushroom leather previously tested at the Stella McCartney Maison. Despite progress among peers, LVMH hesitates to switch to other materials until further testing and development has occurred. Currently, LVMH is researching how keratin can be used in this development. However, quality is key for any substitution to take place.

Proxy Voting

As always, Q2 is the peak proxy voting period. Most of our holdings held AGMs throughout the quarter.

Service Corp. International

Regarding Alan R. Buckwalter III's election, we believe he should not be deemed independent, given his familial ties to a group company and his lengthy tenure on the board of over 20 years. The nominating committee should consist of independent directors, as Glass Lewis advocates. Consequently, voting against Buckwalter's appointment and, thereby, against management was recommended.

Fiserv

We support proposals advocating for the separation of the chair and CEO roles, even though it remains common for companies to combine these positions. We consider separating roles as a good governance practice, as it enhances the board's independence from management and contributes to improved monitoring and oversight. Consequently, we have voted in favour of the Shareholder Proposal Regarding an Independent Chair, thereby voting against management.

LVMH Moët Hennessy Vuitton

We voted against the 2023 Remuneration Policy (Chair and CEO) proposal, opposing the management. Our main concerns were the lack of annual bonus deferral in the STIP, undisclosed performance metrics for the LTIP, undisclosed performance targets for both plans and the absence of recovery provisions for the STIP and LTIP awards.



NextEra Energy

We voted against Glass Lewis and in favour of the election of Naren K. Gursahaney. While we do not believe that a director should be voted against solely based on human rights policies not following a specific UN framework, there are concerns regarding NextEra Energy's sourcing practices. The company is obtaining solar wafers/solar panel components from JinkoSolar in China, which reportedly sources materials from the Xinjiang region known for forced labour. The US customs have previously detained solar panel imports from Jinko due to concerns related to forced labour, posing a risk to NextEra Energy's business. Although this is a critical issue, it may not warrant voting against the audit committee chair. Instead, we propose discussing human rights management with NextEra Energy Inc during our next meeting. The company's Code of Conduct and Supplier Code of Conduct partially address these concerns.

Elevance Health

We voted against Glass Lewis for three suggested proposals:

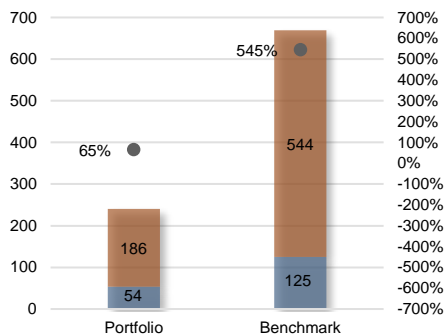
For the proposal of (1) shareholder proposal regarding third-party political expenditures reporting, we believe that disclosing this kind of information is neither practical nor suitable, as it would not offer shareholders a more comprehensive understanding of the risks associated with the company's political spending. Thus, we voted against the proposal and policy.

We voted against the (2) shareholder proposal regarding the right to call special meetings and voted against Glass Lewis' recommendations. Our decision was based on the argument that the company already has significant shareholders who could surpass the proposed 20% threshold if necessary. Implementing a lower threshold could lead to more frequent meetings and increased administrative costs for the company.

We voted in favour of the proposal of (3) auditor ratification and, thereby, against Glass Lewis' recommendation. Our decision was based on the argument that there were no significant accounting issues, and we have no concerns or lack of trust in the auditor.

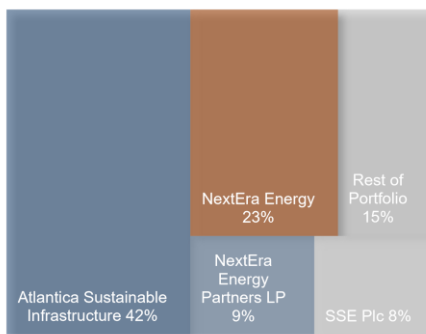
A full list of all meetings voted is available upon request or can be retrieved directly from the C WorldWide website.

Emissions Exposure & SDS (tCO₂e)

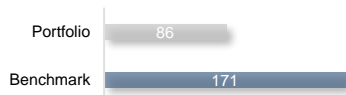


The above graph summarises the portfolio's carbon footprint compared with the benchmark. The Sustainability Development Scenario (SDS) pathway on the right-hand side of the graph is fully aligned with the Paris Agreement. The graph indicates whether the portfolio and benchmark are expected to over-/undershoot against the allocated carbon budget until 2050.

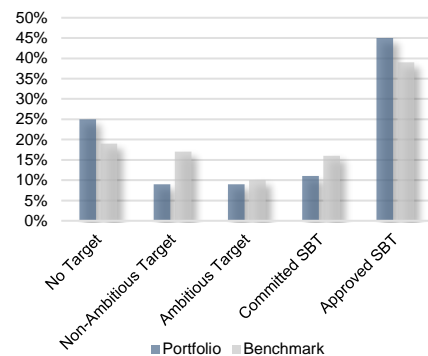
Top 4 Contributors to Portfolio Emissions



Carbon Intensity (tCO₂e/mill. USD revenue)



Climate Target Assessment

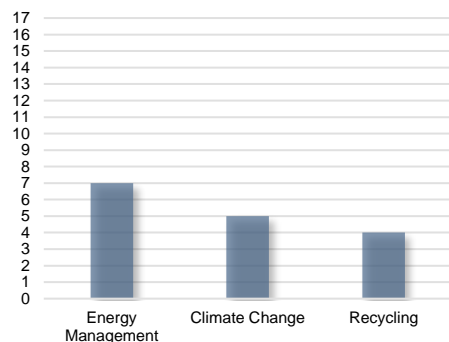


The above graph shows how many of the companies in the portfolio have set climate targets and how ambitious these are. Having ambitious targets, being committed to Science-Based Targets (SBT) or having approved SBT shows close alignment with the Paris Agreement.

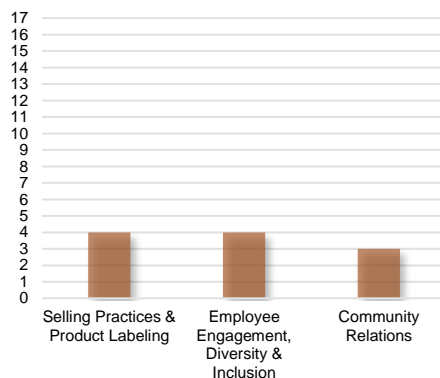
Source: ISS Data Desk (Climate Assessment). Based on a portfolio Value of 1,000,000 USD. Portfolio as of 30th of June 2023

Direct Engagement Topics

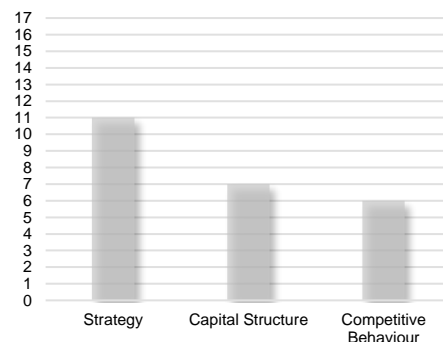
Environment



Social



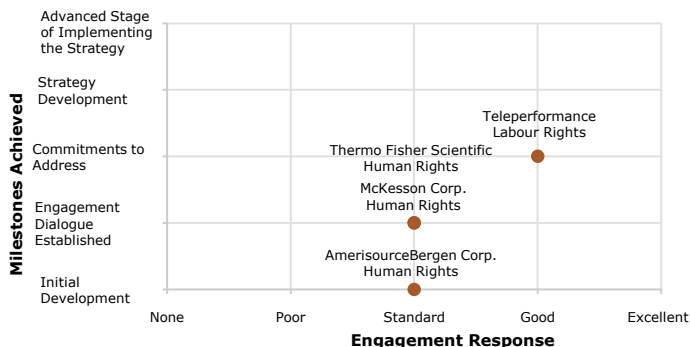
Governance



Total direct company engagements for the portfolio: 17

Throughout the quarter, we conducted several direct engagements with the portfolio companies. Our ESG engagements have most often incorporated an aspect of each subject E, S, and G. The above graphs show the top three engagement topics within environmental, social and governance aspects. There are several sub-topics within each category that can overlap within one engagement.

Collective Engagement



The above graph illustrates our collective engagements with Sustainalytics. The companies are shown within what milestone they have reached thus far and rated according to their communication in relation to the specific engagement topic.

Proxy Voting

Meetings Voted	100%	26
Proposals Voted	100%	385
Meetings with at least one vote against management	54%	
Proposal Categories (Top 3)	60%	Board Related
	14%	Compensation
	12%	Audit/Financials

We utilise proxy voting to emphasise the topics discussed with the investee companies in our ongoing engagement with them and to vote on key issues important to the governance of the investee companies. The table above shows key topics and how votes have been cast during the quarter.

Source: Sustainalytics. Portfolio as of 30th of June 2023

Source: Glass Lewis Proxy Voting. Portfolio as of 30th of June 2023

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