

Sustainability-related website product disclosures

– Den Sociale Kapitalfond Invest II K/S

April 2024

These sustainability-related disclosures have been prepared pursuant to Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (the "**Regulation**" or "**SFDR**").

This website product disclosure has been prepared and published based on the facts, information, and legislative guidance available on the date hereof. This statement may be subject to changes, updates, and general revision in connection with any regulatory developments and following the disclosure of any further legislation, guidance and recommendations concerning the Regulation (including any delegated acts thereto) by the Danish or EU legislators/supervisory authorities. A clear explanation will be published if any changes or amendments are made to the below.

The financial product to which the disclosures pursuant to Article 10 of the Regulation is applied, refers to is Den Sociale Kapitalfond Invest II K/S, **company registration number (CVR no.) 44503239** (the "**Fund**"), an alternative investment fund managed by Den Social Kapitalfond Invest Management ApS, company registration number (CVR no.) 38428047 ("**SKFIM**") registered as an alternative investment fund manager in Denmark.

Summary

- The Fund has sustainable investments as its objective and discloses as an article 9 product in accordance with SFDR.
- The Fund aims to contribute to these objectives by investing in companies with products or that aim to provide measurable positive social impact. This means:
 - provide employment and training for vulnerable people
 - create local growth and opportunities in vulnerable and deprives areas
 - create new opportunities for vulnerable people through social products and services and
 - prevent and rehabilitate people at-risk of becoming vulnerable or marginalized.
- The Fund's sustainable investments will be in economic activities with social objectives that qualify as social sustainable under Article 2(17) of the SFDR.
- The Fund will have a minimum proportion of 95% social sustainable investments (the remaining 2-5% is held purely for cash management purposes).
- The Fund is committed to ensuring that its investments do not cause significant harm to sustainable objectives in the pursuit of its social impact objectives.
- The Fund considers the indicators for Adverse Impacts of investment decisions when assessing the "do no significant harm" principles of the SFDR.
- SKFIM assess the sustainability risks likely to have an impact on the returns of the Fund, and SKFIM believe there is low risk to the financial returns due to these sustainability risks.

No significant harm to the sustainable investment objectives

The Fund is committed to ensuring that its investments do not cause significant harm to the sustainable objectives in the pursuit of its social impact objectives, and that good governance is duly upheld throughout the ownership period.

To this end, when considering investments for the Fund, SKFIM:

1. Has an Exclusion Policy, covering issues such as significant negative environmental and social impacts, illegal activities, oil & gas extraction, human cloning, controversial weapons, tobacco, alcohol, gambling, predatory lending, etc.
2. Incorporates Do-no-significant-harm (DNSH) considerations into internal due diligence process, as well as in its ongoing monitoring of the investment's performance. This is done internally by considering each investment's possible positive and negative impact on the social objectives of the Fund and the UN SDG 3: Good Health & Well-being, SDG 4: Quality Education, SDG 8: Decent Work & Economic Growth, SDG 10: Reduced inequalities and SDG 11: Sustainable Cities and Communities and the extent of that impact in conjunction with each investment's qualitative and quantitative reporting on its Social Impact Key Performance Indicators ("**Social Impact KPIs**").
3. Takes actions to mitigate sustainability risks identified in the impact and ESG due diligence process to integrate these in negotiations and pre- and post-closing action plans.
4. Reflects the sustainable investment objectives of the Fund in the contracts with all relevant counterparties to the extent possible.
5. Reports on the Fund's sustainable investment objectives and Social Impact KPI's across all investments.
6. Reviews the Fund's sustainable investment objectives and other relevant sustainability issues with the Fund's Limited Partner Advisory Committee ("**LPAC**").

The indicators for adverse impact in table 1 of annex I of Regulation 2022/1288 ("**SFDR level II**") are integrated into the internal due diligence process and annual review for assessing whether an investment caused significant harm.

The indicators for adverse impact are systematically considered and followed-up on by SKFIM. This is done in the following steps:

1. An assessment of potential material sustainability risks for all investments prior to investment decision.
2. All investments by the Fund are assessed against these indicators to ensure no significant harm is done.
3. Data on indicators for adverse impact is collected for all investments. Where data is not available or where data quality is assessed to be low a plan is developed for how relevant data can be obtained.
4. Monitoring of relevant potential adverse impacts of investee companies through mandatory reporting.
5. Mitigation and/or management plans for relevant potential adverse impacts at investee company level.
6. Responding to incidents relating to indicators for adverse impacts through SKFIM's position on the board and/or steering committee of the investee company.
7. Performance on indicators for adverse impact is an integrated part of the sustainability review on at LPAC meetings.

SKFIM's Responsible Investment Policy is aligned with the 6 principles of the UN Principles of Responsible Investments (UN PRI) of which Den Sociale Kapitalfond group is a signatory, and is aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labor Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights set of guidelines. The Fund's investments are thus expected to be compliant herewith.

Sustainable investment objective of the financial product

The sustainable investment objective of the Fund is to contribute to a social cohesive, inclusive, and sustainable society by empowering and creating new opportunities for vulnerable groups (including groups at risk of becoming vulnerable) via Fund's investment portfolio.

The Fund will seek to invest in economic activities that contribute to one or more the following social objectives:

- Socially run businesses (provide employment and training for vulnerable people)
- Social sustainable communities (create local growth and opportunities in vulnerable and deprived areas)

- Social products and services (create new opportunities for vulnerable people through social products and services and
- Social prevention and rehabilitation (prevent and rehabilitate people at-risk of becoming vulnerable or marginalized through products and services).

The objective of the Fund seek to be aligned with social objectives defined in the report by the Platform for Sustainable Finance, Feb. 2022 on a EU Social Taxonomy. These objectives are; Decent work (including value-chain workers); Adequate living standards and wellbeing for end-users; Inclusive and sustainable communities and societies.

Investment strategy

The Fund has sustainable investment as its core objective and aims to maximize positive impact on people and society with every investment, while delivering market returns to its investors.

The Fund aims to contribute to its sustainable investment objective by providing provide exposure to minority and majority investments in impact driven SMEs and smaller mid-cap companies in Denmark and, opportunistically, Sweden and Norway that create measurable social impact for vulnerable groups (or groups at risk of becoming vulnerable) such as citizens, workers, consumers, companies, communities, and society within:

- Education and upskilling;
- Preventive health and well-being;
- Sustainable communities;
- Inclusive financial services; and/or
- Inclusive work-life.

The Fund's aim is to create social impact role-models for others to follow; combined with market-level, risk-adjusted financial returns.

To the investment strategy, vulnerable groups are considered persons which either have or are at risk of having physical, mental, or social barriers to participate in society, e.g., the education system, the labor market or civil society, on ordinary or equal terms.

To the investment strategy, a portfolio company shall be deemed to be located in a given jurisdiction if the company is incorporated, has its corporate headquarters located, or conducts a material part of its business in, or otherwise has a material connection with, such jurisdiction.

SKFIM adheres to the pre-selected investment limitations set out in the Limited Partnership Agreement ("**LPA**"), which is the binding contractual document governing the Fund. The Fund is not required to apply any additionally defined selection strategy to attain the social objectives.

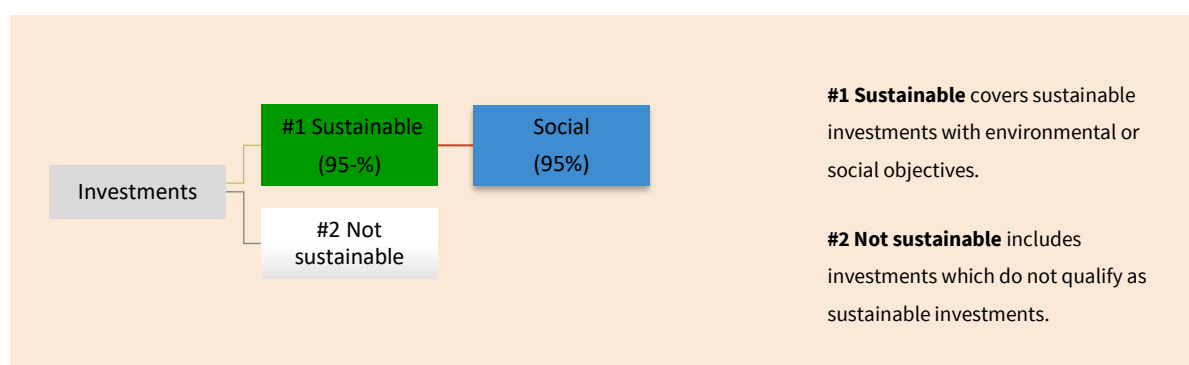
The investment strategy is implemented via a series of investment decision gates (three gates), one of which is the final investment decision. No investment will be presented to the Fund's investment committee for final investment decision unless it falls within the above-mentioned strategy.

The Fund collects quarterly information from all investee companies on Social Impact KPIs, and annual information on ESG risks, mitigation efforts, policy framework and additional information required to ensure that each investment continues to fulfil the requirements set out in the Regulation's definition of a sustainable investment.

Should an investee company cease to fulfil the definition of a sustainable investment during SKFIM's ownership period and instead start to generate negative impact, the Fund has a contractual put option that allows the Fund to exit.

The Fund's policy to ensure good governance practices in investee companies is to establish or confirm the governance structure/system whilst developing the asset. The Fund will ensure that governance practices in investee companies are in line with responsible business conduct and internationally recognized standards; notably the 6 principles of the UN PRI of which Den Sociale Kapitalfond group is a signatory, the UN Global Compact's 10 principles ("UNGC Principles") to which Den Sociale Kapitalfond groups is also a signatory, the OECD Guidelines for Multinational Enterprises ("OECD Guidelines") and the UN Guiding Principles for Business and Human Rights ("UNGPs") through active ownership securing policies for sound management structures, employee relations, remuneration and tax compliance.

Proportion of investments



A minimum proportion of 95% of the investments of the Fund are expected to meet the sustainable investment objectives in accordance with the binding elements of the investment strategy. The remaining proportion of the investments of the Fund (5%) will be cash held for cash management purposes only.

The Fund will not use derivatives to attain the sustainable investment objectives.

Monitoring of sustainable investment objective

The Fund will use the following sustainability indicators to measure the attainment of the sustainable investment objectives:

- I. Share of investments which are classified as 'sustainable investments', in line with the Regulation 2019/2088 Article 2(17) (with a target of 100%)
- II. Performance of Social Impact KPIs against targets for each investment
- III. Aggregation of the Fund's impact performance against aggregated portfolio targets.

SKFIM will continuously work to develop and improve the sustainability indicators and Social Impact KPIs to ensure that they are capturing the social impact and sustainability of the Fund objective. As of yet no reference benchmarks have been designated (or found available) for the purpose of attaining the sustainable investment objectives of Fund.

To measure and track progress against the investment companies' theory of change, SKFIM will support investee companies to define relevant Social Impact KPIs pre-investment, which they measure and report on to the Fund on a quarterly basis.

Since each investment preferably should demonstrate a 1:1 relationship between impact and financial gains, the Social Impact KPI will both be closely linked to the business performance and be clearly correlated with the social objectives and relevant SDG(s).

SKFIM uses reasonable efforts to quality check and pressure test the reported data. For continuous learning and iteration, the data is also reviewed by SKFIM/the Investment team to evaluate the effectiveness and impact of the investment strategy and methodology.

The Fund's impact performance is evaluated on a quarterly basis, by reviewing each investee company's social KPIs against target, and aggregating this for the full portfolio.

On an annual basis all investee companies will prepare a social impact report on the Social Impact KPIs which will be reviewed by a state authorized auditor. These social impact reports will form the basis of the Fund's consolidated social impact report which will also be reviewed by a state authorized auditor, and will also be included in the Fund's annual periodic reporting in accordance with the Regulation as well as any other investor and external reporting.

The Fund's remuneration of SKFIM through carried interest is closely linked Fund's impact performance to ensure that impact and sustainability is a key driver in all investment decisions.

Methodologies

The three sustainability indicators identified above are measured in different ways, as set out below. SKFIM's methods will be continuously developed and improved, to truly capture the impact and sustainability of the Fund's investments.

- I. Share of investments which are classified as 'sustainable investments', in line with the Regulation.
 - The Fund has a framework based on the social impact assessment practices and methodologies of Den Sociale Kapitalfond group for how to define and measure a 'sustainable investment', which aligns with SFDR's that sets out our interpretation of the Regulation and approach to achieve this.
 - This includes an initial screening of a potential investment case to assess the social impact potential. The initial screening is conducted "outside-in" and consists of a mapping of a company's activities against the social objective of the Fund to identify if the activities are covered.
 - Then the company activities are assessed whether it can constitute a sustainable investment within the definition of the Regulation.
 - Upon investment, these criteria should already be met, or investee companies should commit to a timeline for implementing anything outstanding. This is subsequently monitored in the annual periodic reporting in accordance with the Regulation, where information is gathered from investee each company to evaluate whether investee companies meet all the criteria, identify gaps, and then work with the companies to close these gaps.

- II. Performance of social KPIs against targets for each investment.
 - The methodology for measuring the impact generated by each investee company is established pre-investment, as based on impact management model of the European Investment Fund.
 - Based on the theory of change assessment and risks analysis relevant Social Impact KPIs are established to measure the progress of the individual investment during the Fund's ownership period. This includes:
 - Identification of social purpose, theory of change key stakeholders, and impact model.

- Analyze impact model (including ‘Do No Significant Harm’ and indicators for adverse impact), past performance, future potential, and the contribution of the investment.
- Assess alignment between business model and social impact model: Will revenue growth lead to increased impact?
- Select investment/company specific Social Impact KPIs and targets (1-5 per investment) and weight their relative importance, summarised in a Social Impact Multiple ("SIM") per company (/investment).
- Include both annual (intermediate) and four/five-year (unique) social impact targets.
- Social impact targets are part of investment decisions and integrated into investment terms and agreement with the company.
- The Fund’s LPAC validates the Social Impact KPIs and targets (and any potential later changes due to new information, etc.).
- Investee companies report against the ratio of actual social impact vis-à-vis annual (“intermediate”) and four/five-year (“unique”) social impact targets.

III. Aggregation of the Fund’s impact performance against aggregated portfolio targets

- Each investee company SIM is weighted by the invested capital per company and summarized in a “Portfolio SIM”. “Portfolio SIM” represents the overall ratio of fulfilment of social impact goals on a portfolio level.
- Management and reporting on portfolio impact – including the ratio of actual social impact vis-à-vis annual (“intermediate”) and four/five-year (“unique”) social impact targets.
- Subject to achieving at least 50% of the Fund’s impact targets, the Investment team is entitled to up to a maximum of 20% carried interest (if achieving 70% of the impact targets or more) above a preferred return, thereby linking financial remuneration to the fund’s total impact.

Data source and processing

The data sources used to monitor and attain the sustainable investment objective of the financial product is primarily based on data reporting from the investee companies as well as a Q&A process and dialogue during the ESG due diligence, investment, and management phase.

The Social Impact KPI data provided by the investee companies is subject to review by a specialized third-party consultant/auditor.

Limitations to methodologies and data

The primary limitation to assessing the sustainability performance of the Fund’s investments will be data availability from the investee companies and ensuring the quality of the data provided by the investee companies in all ESG areas. This is due to the nature of the Fund’s investment scope, i.e., mainly the social impact established methodologies and historical data for measuring positive impact are many times lacking.

SKFIM intends to address this limitation through an active dialogue with the investee companies and by including data reporting obligations in the individual investment agreements. Investments will be conditional upon access to sufficient data and insights to be able to conduct and conclude on the analysis described in the section “Methodologies”.

The data reported to SKFIM will be stored in a dedicated data management structure designed to facilitate correct and timely ESG reporting. Given these measures the limitations mentioned above will not affect the attainment of the sustainable investment objective.

Due diligence

SKFIM carries out thorough due diligence on every investment it makes, incl. impact and ESG due diligence. The ESG due diligence will focus on the Fund's social objectives. The ESG due diligence process will consist of data collection via questionnaires, Q&A with management as well as independent research.

- SKFIM evaluate impact potential and sustainability using our impact assessment framework and data provided by the company, including the sustainability questionnaire which defines ESG risks and opportunities, including indicators (SFDR) and SDG contribution,
- SKFIM test the company's impact hypothesis and conduct an ESG review of the industry by obtaining relevant second opinions from industry experts, users / beneficiaries etc. where relevant.
- SKFIM conduct an impact workshop with the company to define impact potential and adverse impact risks, and impact/outcome KPI's.

During the due diligence process SKFIM will consider the indicators for adverse impacts (table 1 in annex 1 of SFDR Level II) of its investment decision on sustainability factors.

The ESG due diligence is performed by the SKFIM investment team, assisted by external specialized consultants.

Engagement policies

SKFIM believes that the key to managing risk at a portfolio level is to develop a plan together with investee companies that is measurable and achievable. SKFIM typically has a board seat in investee companies. SKFIM maintains constant dialogue with management to ensure the plan is being implemented and amended when needed. SKFIM has a structured portfolio management monitoring process using issue tracking protocols, internal status reporting, key performance indicators ("KPIs") and monthly reporting meetings in addition to ordinary board meeting. This means that SKFIM can respond rapidly if any portfolio issues or opportunities arise.

Index designated as a reference benchmark

The Fund does not follow an index to meet the sustainable investment objectives of the Fund. The sustainable investment objective is achieved based on the investment strategy and the elements described in this disclosure.