



Earth Dividend™ Driving Impactful Returns

2018 Annual Sustainability Review

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Introductory Letter

Dear Reader,

This report is Earth Capital's first annual sustainability review since the launch of the Nobel Sustainability Fund (NSF)[®]. The sustainable finance and investment landscape is dynamic at present with leading companies increasingly looking at how they integrate issues such as climate change or the broader Sustainable Development Goals (SDGs) into their investment approach. This review highlights how we approach sustainable development and how we integrate sustainability thinking into all we do as a business. Sustainability drives our investment themes; is integrated in our investment decision making and is used to performance manage the businesses we invest in.

Our Earth Dividend[™] process provides us with a holistic understanding of the sustainability performance of those investee businesses and clearly demonstrates that NSF makes a net positive contribution to Sustainable Development. As a growing number of measures do, it reflects the positive aspects of a business such as energy or water savings, but it goes further in highlighting for example where supply chain, end-of-product life or other negative issues are evident. These can include negative environmental footprint issues, or where companies talk of their engagement with local communities and contribution to local economic development yet fail to measure and report this in any systematic way. We look to work with the management of those businesses to improve that performance further, where it leads to commercial gain. The review highlights how we are looking at these issues from an individual company as well as portfolio perspective. We are proud of the work we do to ensure that our Earth Dividend[™] process is implemented systematically and externally assured.

We highlight how we keep our thinking both current and forward looking through engagement with, amongst others, our Sustainability Council. This informs our thinking on emerging issues such as "just transition" or the continuing drive to implement the recommendations of the Taskforce for Climate Financial Disclosure (TCFD).

We hope you enjoy the review and find common ground around what we are trying to achieve. Never has there been a more obvious need to change the way we do finance and finance change.



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Why Sustainability?

Sustainable Development is meeting “the needs of the present without compromising the ability of future generations to meet their own needs” *Brundtland Report 1987*

As former Vice President Al Gore has stated, “We are in the early stages of a global Sustainability revolution that has the magnitude of the industrial revolution and the speed of the digital revolution.”

The investment opportunities of this Sustainability revolution are juxtaposed to Milton Friedman's view that: “There is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.”¹



At Earth Capital, we believe the rules of the game have fundamentally changed since Milton Friedman's days:

- Today, companies have a duty to improve the socio-environment context in which we live and to produce a profit.
- By selecting Sustainable Development (SD) as Earth Capital’s investment theme, we protect and enhance value, address societal and environmental challenges and aim to deliver superior financial returns to our investors.
- We are making a difference by fully integrating a performance-focused investment philosophy with Environment, Social and Governance (ESG) metrics into the investment process in all parts of the investment cycle.
- We believe that it is vital to measure the level of impact annually that each investment makes to Sustainable Development, whether positive or negative.
- We measure this impact through the Earth Dividend.™
- Sustainability leadership is critical as business as usual is no longer a viable option.

1. *Capitalism and Freedom* by Milton Friedman, University of Chicago Press 1962

Preface

Annual Sustainable Review

This report is Earth Capital's first annual sustainability review since the launch of the Nobel Sustainability Fund[®] (NSF). Earth Capital is a global private equity investment manager totally focused on Sustainable Development within the climate change nexus of energy, food and water security. We invest capital globally in the commercialisation and deployment of proven, sustainable technologies.

Earth Capital has fully integrated ESG factors, both positive and negative, into its investment process. The intention of this review is to report the work we have done to measure the sustainable impact of NSF and specifically on the Earth Dividend[™] process over the year. Through the Earth Dividend[™], we measure and assess each investment's level of impact and contribution to Sustainable Development and then aggregate this for the fund as a whole. This review contains the overall Earth Dividend[™] score for the fund and three individual case studies.

Background

The sustainable finance and investment landscape is a dynamic one at present with leading companies increasingly looking at how they integrate issues such as climate change or the broader Sustainable Development Goals (SDGs) into their investment approach and how they then understand, measure and report the impact of that.

Earth Capital's Earth Dividend[™] process goes beyond this and takes a three hundred and sixty-degree holistic view of each investment's level of impact and contribution to Sustainable Development. In addition, it is forward-looking, taking into account the needs of tomorrow and therefore is helpful to anticipate future developments.

The review includes highlights of the dialogue we have with our Sustainability Council to ensure that our thinking on these issues is leading edge. The review sets a benchmark for the performance management of these investments and covers the work done to ensure the integrity of that process. We believe that the integrity of the data used and the process as a whole is vital to its success.



To this end, Grant Thornton have completed an external assurance exercise to verify that the process was undertaken properly.

Given the dynamic context in which we are operating, we also highlight some of the issues which we expect to come onto our radar screen in 2019.

How we integrate sustainability into our investment process

Investment themes

Our approach is centred on a recognition that issues around energy, food and water will become increasingly critical and material in a world of growing population and demand, facing the challenges of climate change and resource scarcity. This informs our investment approach and our choice of investment themes.

Integration

We integrate ESG considerations into our due diligence and ongoing performance review process and then subject our investments to the Earth Dividend™ process which identifies potential areas of risk in the business's value chain which can be better managed or areas where we can innovate further the business model to create additional future value.

Influence

We look to take significant management stakes in the companies in which we invest to enable us to exert influence on Investee Company management to enhance performance on material sustainability issues and create future value at exit.

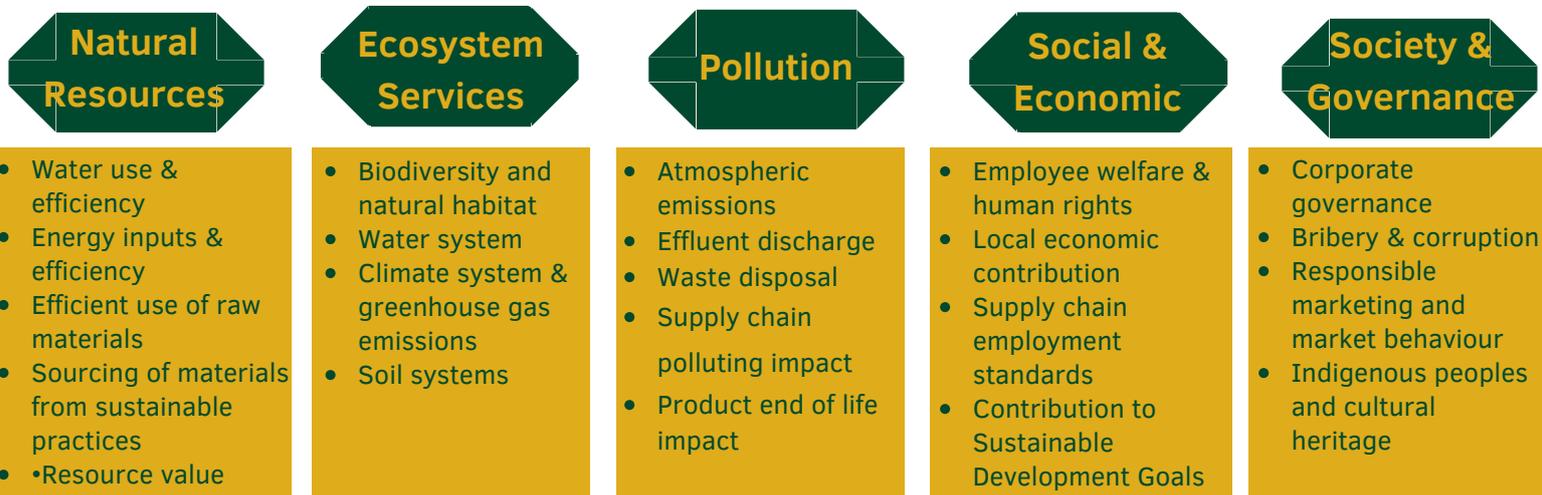
Outreach

We look to use our influence as an investor to improve the investing landscape. We are committed to contributing and sharing sustainable investment best practice. We work to mobilise capital for the sustainable, low carbon future by amplifying the investor's voice and collaborating with business, policymakers and investors.

What do we mean by sustainable investment?

Sustainable investment for Earth Capital is not only what we invest in but also how we invest.

The Earth Dividend™ system provides an annual measure of an investment's Sustainable Development impact. It comprises a scorecard, based upon net Environmental, Social and Governance impacts and benefits. The Earth Dividend™ is established for each company as part of the due diligence process and reported annually. Our Sustainability team works with every company to identify improvements in each area where they add value and make commercial sense. This results in a plan which targets annual improvements in the investment's contribution to sustainable development that enhance the underlying commercial performance of the asset and help to maximise value on exit.



Commercial Value Drivers



Sustainable investment governance

External Assurance in accordance with ISAE 3000 is carried out on the statements we make about the Earth Dividend™ process on our website and in our key investor information.

Earth Dividend™ assessments are approved by the Investment Committee prior to investment and annually thereafter. The CSO sits on the Investment Committee and has a right of veto for every investment.



The Sustainability Council's input brings leading external stakeholder perspectives to Earth Capital's approach on Sustainable Development.

The annual Earth Dividend™ process is completed by the investee company management/investment teams, internally audited by the Chief Sustainability Officer and presented to the Investment Committee.

The Earth Dividend™ Process

The following pages set out highlights of the Earth Dividend™ process within the Nobel Sustainability Fund.

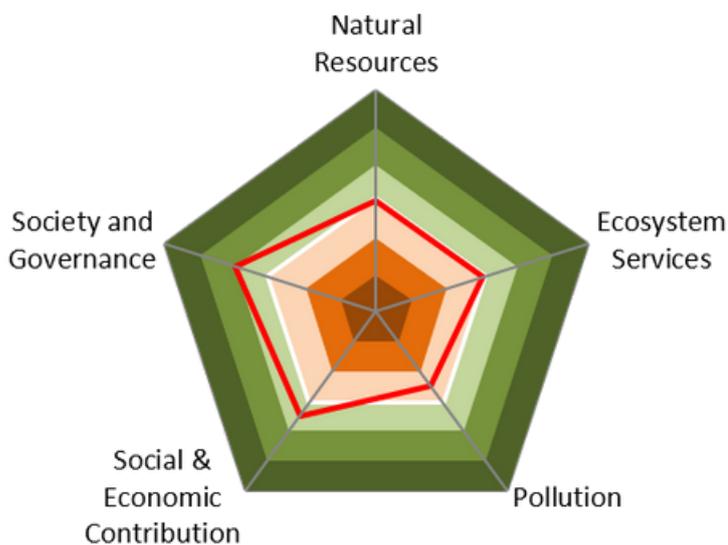
The scorecard uses 30 tests over 5 dimensions of Environmental, Social and Governance impact to understand the contribution of an investment asset or investee company to sustainable development.

Each test is rated +1 (positive), 0 (neutral) or -1 (negative). The individual scores are added and the aggregate score reflected on the axis for the relevant dimension of impact.

As a result, the potential aggregate score ranges from +30 to -30.

Earth Capital will only invest in businesses which will have an aggregate net positive impact i.e. +1 or greater and through our process seek to improve on that score whilst adding business value.

All investments display net positive impact scores.



- Extremely positive contribution to SD
- Highly positive contribution to SD
- Contributes to SD
- Neutral
- Negative contribution to SD
- Highly negative contribution to SD
- Extremely negative contribution to SD
- Earth Dividend™ 2018



The Earth Dividend™ Process

The Earth Dividend™ spans the UN Sustainable Development Goals (SDGs).

Whilst the development of the Earth Dividend™ predates the launch of the SDGs, it has a natural fit with the latter in impact terms. The figure shown maps the five dimensions of the Earth Dividend™ scorecard to their potential impact on the individual SDGs.

Some SDGs potentially span more than one Earth Dividend™ dimension.

The Earth Dividend™ scorecard shows both positive and negative impacts of the businesses we invest in and provides a holistic overview of the “footprint” of those investments.



Earth Dividend 2018 Nobel Sustainability Fund[®] Score

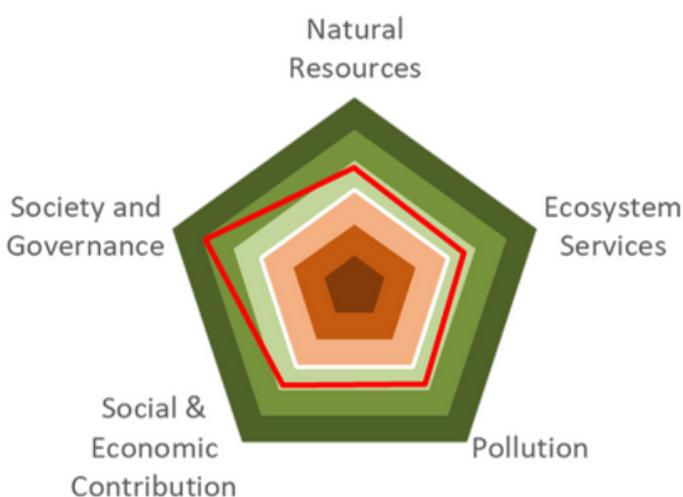
The overall results for the 2018 Earth Dividend™ process for NSF at the portfolio level are visible in the spider diagram opposite. They clearly demonstrate that NSF makes a net positive contribution to Sustainable Development. Whilst the results are often very specific to the company involved it is possible from deeper analysis to see some common issues across the portfolio and identify actions to remedy those issues.

The strong performance around Society and Governance is partly due to the UK weighting within the portfolio which results in positive general scoring on indicators around corporate governance, bribery and corruption etc.

Supply chain issues are evident in a number of cases. These often include negative environmental footprint issues. There is a tendency for companies whose USP focuses on product use (low energy, low water usage etc.) to pay less attention to their supply chain footprint (and in some cases to end of life disposal/recycling). A number of improvement plans are therefore targeting work in these areas looking at the whole value chain rather than just product use or output.

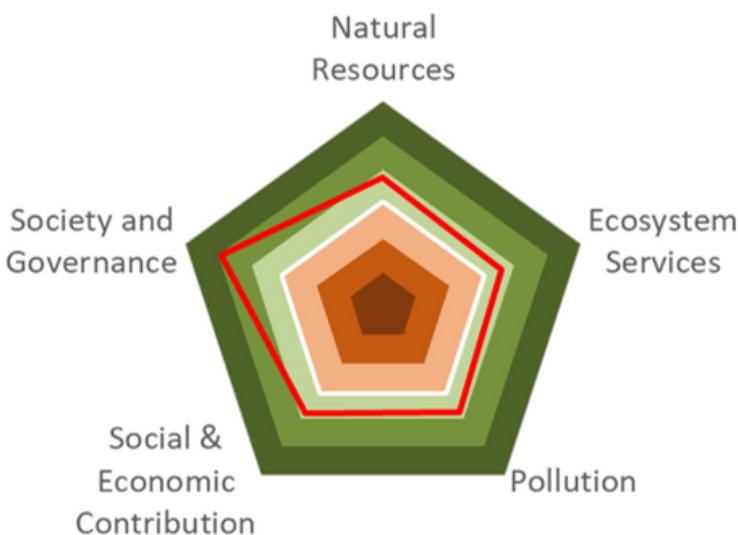
Secondly whilst companies often talk of their engagement with local communities and contribute to local economic development few measure and report this in any meaningful way. We believe that this is relatively easy to address and as a result, a number of the investee companies will attempt to document either their community engagement approach or quantify the local economic value added and distributed in their twelve-month improvement plans. In our view, this can assist their social license to operate (SLO). To protect and build SLO, companies are encouraged to evaluate and re-evaluate supply chains, waste management, human resource management and all aspects of a business with a critical eye. Companies often suffer from controversies in these areas when it is too late because the problem has already emerged.

NSF Earth Dividend™ - Asset Weight



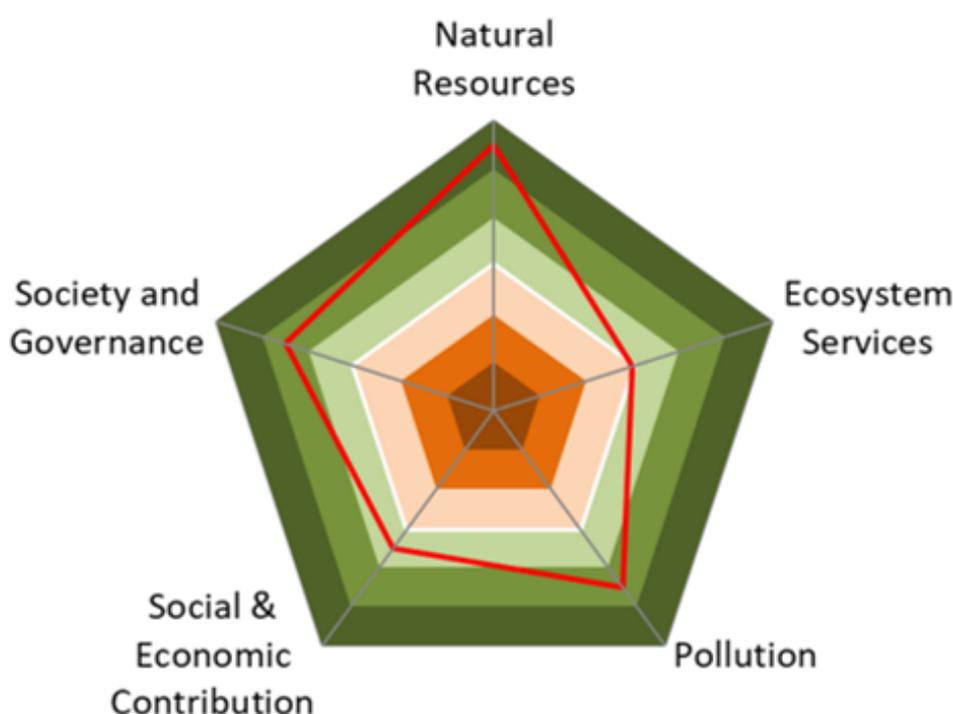
Portfolio Holding: Noka Farm

Dimensions	Comments
Earth Dividend™ Score	<div style="display: flex; justify-content: space-between; align-items: center;"> -30 ← +5 → +30 </div>
Positive impact	Highlights include water system management and land use productivity along with positive social and economic contribution. Good management and governance.
Negative impact	Agri-chemicals and supply chain transport are high impact polluting sectors. Raw materials supply and usage are also issues.
Key SDG contribution	GOAL 2: Zero Hunger GOAL 3: Good Health and Well-being GOAL 8: Decent Work and Economic Growth
12-month improvement plan	Includes work on a Sustainable Materials Efficiency plan; analysis of GHG emissions of trucks/tractors, producer packaging and waste recycling. Smarter use of soil analysis, seeds and fertilizers to achieve a reduction in the use of Agri-chemicals.



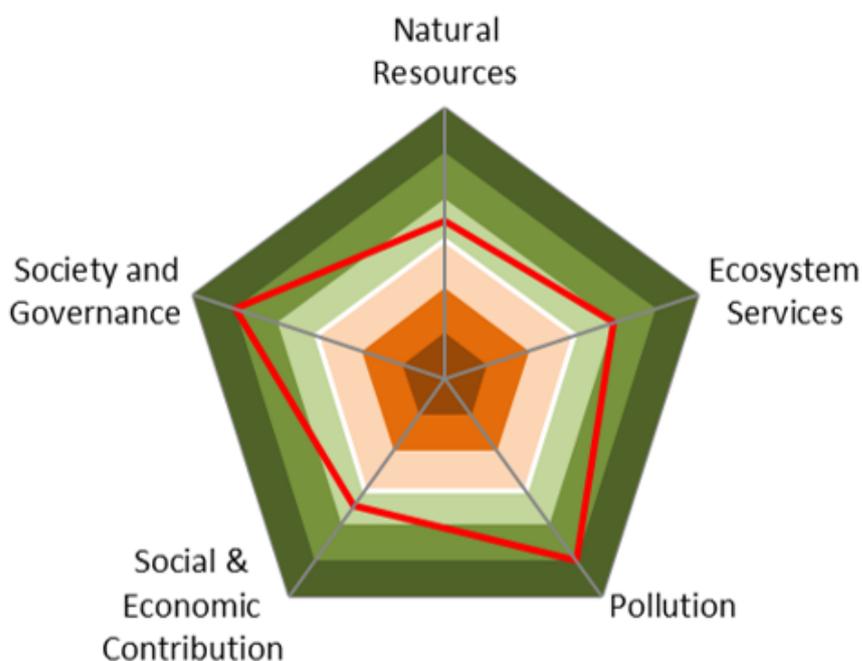
Portfolio Holding: Black Dog Biogas

Dimensions	Comments
Earth Dividend™ Score	-30 ← +12 → +30
Positive impact	Strong management of natural resources usage and impacts.
Negative impact	Ecosystem service impacts are neutral at best. Poor understanding of local economic value generated.
Key SDG contribution	GOAL 7: Affordable and Clean Energy GOAL 12: Responsible Production and Consumption
12-month improvement plan	Management could do more to understand Total Economic Value Generated and Local Economic Value Distributed. In addition review the potential to use the plant for recycling food waste.



Portfolio Holding: Propelair

Dimensions	Comments
Earth Dividend™ Score	-30 ← +12 → +30
Positive impact	Water usage reduction due to low flush technology. Energy saving on post-flush water management. Product design reduces risks of aerosol contamination.
Negative impact	Ceramic components have a high CO ₂ intensity manufacturing process. Raw materials usage is an issue. End of life disposal also has issues.
Key SDG contribution	GOAL 6: Clean Water and Sanitation
12-month improvement plan	Product re-design will look to reduce plastic component count and reduce end of life impact by changing the lead-acid battery. Management have also committed to reviewing the plastics and ceramics industry best practice on materials use/re-use.



2018 Sustainability review: Striving For Excellence

2018 Earth Assessment Cycle

The 2018 Earth Dividend™ assessment cycle commenced in the first quarter of 2019 and was completed in the second quarter. Letters of Assurance were received from all investments. The Earth Dividend™ process is subject to internal audit and external assurance. The internal audit was completed with no material issues identified.

Grant Thornton External Assurance

Earth Capital's sustainability review requires that we undertake an external assurance exercise of the Earth Dividend™ to verify the process. We went out to five firms to request proposals to provide external assurance over the Earth Dividend process. We went out to five external assurance firms to request proposals to provide external assurance over the Earth Dividend™ process. We appointed Grant Thornton to undertake the work.

Grant Thornton reviewed how we describe our Earth Dividend™ approach on our website, in key documentation including the Earth Dividend™ materials and the Information Memorandum for the Nobel Sustainability Fund.® Based on that analysis they then undertook a random detailed sampling of the process on a number of individual investments to verify that we had followed our procedures.

They have provided a Statement of Assurance in accordance with ISAE 3000 which is the standard for assurance over non-financial information. We are now assessing how we can maximise the benefit and impact of this exercise on our offering. Grant Thornton's report is available on request.



2018 Sustainability review: Striving For Excellence

PRI Assessment

As a signatory, we are required to report on responsible investment activities annually. The resulting PRI Assessment report aims to provide feedback to its signatories and support ongoing learning and development. The assessment scores are based on how a signatory has progressed year-on-year and relative to their peers.

The investment categories are evaluated using six performance categories, with A+ distinguishing the top scoring signatories who have achieved a score of 95% or above.

In the 2019 Assessment exercise Earth Capital was awarded:

Category	Earth Capital Score	Industry Peer Median Score
Investment (Strategy and Governance)	A+	A
Indirect Holdings	A+	A
Direct & Active Ownership (direct investments in private equity)	A	B

This places Earth Capital firmly as a leader within the PRI membership.

Earth Capital operates a culture of constant review and in 2019 we will expand our procedures on how we have integrated the six PRI principles into our business. In addition we will publish the details on our website to explain how the principles are applied.



Striving For Effective investment process

Integration of sustainability into the investment process

Earth Capital has fully integrated Sustainability into the investment process. One exercise completed during the year was to review the effectiveness of Sustainability factors in our Due Diligence (DD) process. We consulted across the Earth Capital Holdings Group to review DD approaches. As a result of this process, we extended the review to our wider investment process and made changes to increase its effectiveness. The resultant document was approved by the Investment Committee.

Sustainability Council

The Sustainability Council gives Earth Capital leading thinking on international best practice in Sustainability. The Sustainability Council met twice over the year. A number of key areas were discussed including a review of our paper on the integration of sustainability into the investment process; feedback on the 2018 Earth Dividend™ assessment exercise as well as the internal audit process. We are also reviewing the scope of the Earth Dividend™ scorecard indicator tests which is ongoing. The Sustainability Council's constructive challenge and feedback was welcomed and raised a number of issues which included the following:

- Whether 30 tests were the right number and should the size and the scope of the Earth Dividend™ be expanded?
- Whether it is possible to identify and quantify the commercial value added to the investee companies through the Earth Dividend™ process and the improvement plan implementation?
- A full review of the Earth Dividend™ process relative to other impact measurement and reporting tools in the market place.
- Whether commercialising the Earth Dividend™ was yet viable?
- Whether there is any scope to automate the process (which would assist potentially in its commercialisation)?



Providing Investment Rich Opportunities

Sustainability Council (continued)

We also used the Sustainability Council meetings to explore the external issues and drivers that would impact our investment landscape. A number of interesting themes emerged including the following:

- The impact of Brexit could result in environmental standards being reduced in the UK as much of this is currently driven from Brussels.
- Brexit has caused a reduction of European Investment Fund investment into early-stage companies and as a result, there is a potential opportunity for the UK fund business.
- Policy risk remains a significant concern, particularly on infrastructure assets. ROCs and Renewable Heat Incentive were mentioned as UK examples of this.
- It was also acknowledged that the growing concern on environmental issues is broadening from climate change into water, biodiversity degradation and more recently air/water pollution and plastic waste. It was difficult to predict what regulation might follow but the clear need for better risk management and an opportunity for product innovation were evident.
- The Council also discussed the growing demand from institutional investors for gender equality in terms of pay and representation at board level. This is an issue we are alive to and are starting to address (initially through our commitment to the Women in Finance Initiative).

What might the big issues be in 2019?

- The Council expects a continuing drive to implement the recommendations of the Taskforce for Climate Financial Disclosure (TCFD).
- Greater anger is expected against the Oil and Gas industry in general.
- We expect a greater focus on the linkage between the following issues: food, health and wellbeing; water security and pollution; digital disruption; Human Rights impacts and “Just Transition” issues. Thus providing a rich investment opportunity across the Earth Capital network.
- There is clearly increasing momentum for the whole spectrum of sustainable investing. In private equity the theme of positive impact investing has grown as the likes of TPG, KKR and Bain Capital have successfully launched their products.



Look Forward to 2019

We are conducting a market review of impact measurement and reporting tools to ensure that the Earth Dividend™ remains market leading. In addition to the recommendations from the Sustainability Council, there are other market-related events that we will need to take account of in 2019 & 2020 in order to ensure that Earth Capital remains at the forefront of Sustainable Investing.

The Taskforce for Climate-related Financial Disclosure (TCFD) implementation is also gathering pace. The recent announcement by PRI that it will make TCFD reporting mandatory for its members from 2020 as part of its own annual assessment exercise is evidence of that trend. We will, therefore, review our own approach to the assessment of climate change risk and opportunity in 2019 to prepare for TCFD reporting in 2020.

We have looked at the scope of our Earth Dividend™ scorecard over the year and have identified two indicator tests that will benefit from refinement. All our work in impact measurement and TCFD may also lead to further suggested amendments as may the External Assurance exercise with Grant Thornton.

The Global Reporting Initiative (GRI) has also launched a new iteration of its approach (G4 to GRI standards) which will necessitate changes to our Earth Dividend™ Instruction Manual.

We will, therefore, undertake a thorough review and updating exercise across the Earth Dividend™ and its supporting documentation in 2019 to be ready for the 2019 Earth Dividend™ assessment cycle. This will also consider how we can incorporate the SDG framework more explicitly into our measurement and reporting.

Another clear trend in the market is the attempt to use “big data” and digitalisation to enhance the analysis of ESG data and metrics. One of the strengths of the Earth Dividend™ process is the qualitative assessment of some of the ED indicator tests, but we will assess the extent to which we might automate it to facilitate better assessment and reporting.

Earth Capital and its investors are convinced that being focussed on increasing business sustainability through the Earth Dividend™ process creates meaningful businesses and higher returns for investors.



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