

KARNER BLUE CAPITAL

IMPACT REPORT

2020 - 2021





About

KARNER BLUE CAPITAL

Karner Blue Capital (KBC) is a woman-owned and led SEC-registered investment adviser that develops investment strategies centered around the conservation of nature, environmental stewardship, and the protection of biodiversity. As a signatory to the United Nation's Principles of Responsible Investing, KBC integrates environmental, social and governance standards into its investment products and operations.



Founded on the tenets of socially responsible investing, Karner Blue Capital believes that corporations play a meaningful role in society, which can be influenced through purposeful investment and engagement by investors.

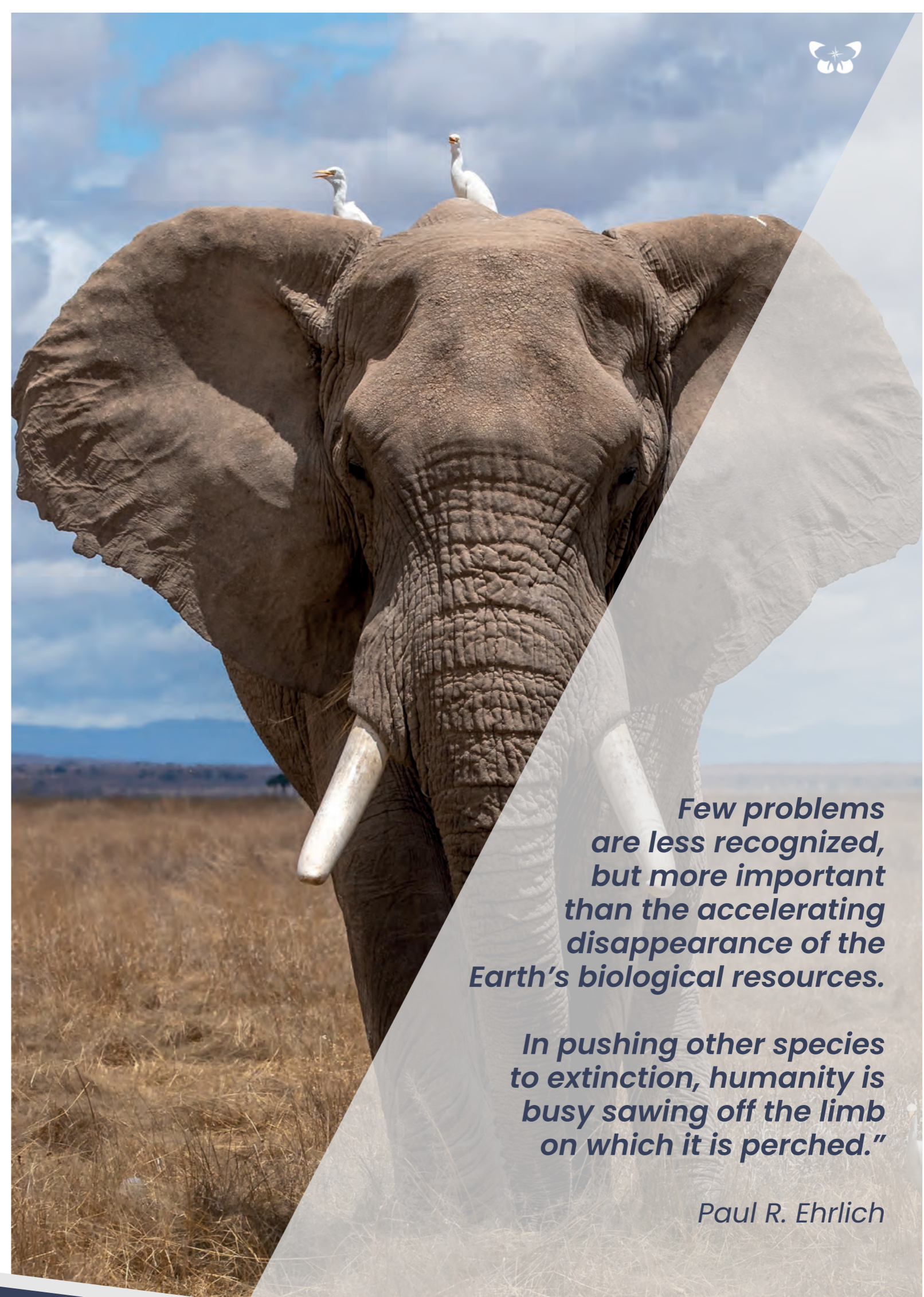
By identifying and investing in those companies that best mitigate and manage their environmental impacts, engaging with those that lag behind, and partnering with other mission-aligned organizations, *KBC strives to develop investment products that support the modification of industry business operating protocols -- for the better.* Our goal is to help drive progress in corporate behavior for the betterment of ecosystems while delivering market competitive returns for our investors.

B CORP

Karner Blue Capital is committed to building a more inclusive and sustainable economy, and is one of only a few registered investment advisers to achieve Certified B Corp status. In 2021, KBC was listed as a top performing B Corp in B Corp's Best for the World -- Customer Category by scoring in the top 10% of the Customer portion of the B Impact Assessment. Per B Corp's website, Best for the World -- Customer B Corps are those "setting the standard for serving their customers, offering products or services that support the greater good, often focusing on underserved populations." B Corp recognition was a significant milestone for Karner Blue Capital and during 2022 we will continue to strive for continued progress in our sustainability and inclusivity initiatives, recognizing our company's responsibility to all its stakeholders, including its employees, communities, and the environment.

NATURE AT RISK

Half of the world's total GDP representing approximately \$44 trillion is potentially at risk due to biodiversity and nature dependencies, and a recent Nature Conservancy report estimates a biodiversity funding gap of \$711 billion per year on average over the next ten years. The combined conservation efforts of all philanthropic, governmental, and nongovernmental agencies are simply not sufficient to sustain society's current rate of resource usage. Per the 2019 Global Assessment Report on Biodiversity and Ecosystem Services prepared by the Intergovernmental Science-Policy Platform on Biodiversity & Ecosystem Services, "human actions threaten more species with global extinction now than ever before. On average, 25% of species in assessed animal and plant groups are threatened, suggesting that upwards of 1 million species already face extinction, many within decades, unless action is taken to reduce the intensity of drivers of biodiversity loss.



Few problems are less recognized, but more important than the accelerating disappearance of the Earth's biological resources.

In pushing other species to extinction, humanity is busy sawing off the limb on which it is perched."

Paul R. Ehrlich



Without such action, there will be a further acceleration in the global rate of species extinction, which is already at least tens to hundreds of times higher than it has averaged over the past 10 million years.

Furthermore, a 2020 study by the World Economic Forum has estimated that capital expenditures totaling as much as \$2.7 trillion annually over the next decade will be needed to create transformational business opportunities across three key socio-economic systems with material biodiversity impacts. These three economic systems -- food, land, and ocean use; infrastructure and building; and energy and extractives -- are currently experiencing a myriad of direct threats that, when combined with climate change, are responsible for the endangerment of approximately 79% of threatened and near-threatened species. In order to address these threats, society must (i) avoid the expansion of land and ocean use; (ii) use sustainable fishing, forestry, and farming practices, (iii) establish nature-conscious utilities and sustainable supply chains; and (iv) protect and restore natural ecosystems in real estate and urban development. To ensure the regeneration and sustainability of nature for future generations, business enterprises must invest in the development and implementation of new nature-forward operating models based on business policies, practices, and procedures that work for all stakeholders.

The finance community, including constituents of the banking, investing and insurance industries, can be pivotal to the success of these business transformations, as they represent the capital lever through which change can be facilitated and implemented. Therefore, it is critical for the finance industry to encourage transparency from companies regarding their biodiversity dependencies and impacts so that related risks and opportunities may be properly incorporated into financing and investment decision-making and capital can be properly allocated to those institutions protecting and sustaining nature, on which all corporate operational success is so tenuously "perched".



A FORCE FOR NATURE

The loss of nature is driven by anthropogenic activity which can be divided into five primary drivers: land and sea-use change; climate change; natural resource exploitation; pollution; and invasive species introduction to non-native lands. Karner Blue Capital biodiversity research analysts incorporate the five drivers of nature loss when developing industry specific company benchmarking frameworks to use in evaluating corporate behavior. Industry frameworks have been constructed for 16 industries of impact, including those with direct effects on nature such as agriculture, metals and mining, and textiles as well as those with more indirect effects (often through supply chains) such as retail and household and personal products. Only companies that exceed certain minimum overall environmental, social and governance criteria are then benchmarked using their industry specific models. These KBC frameworks, or "models", are comprised of key performance indicators that represent significant environmental, social, and governmental risks specific to each industry. These risks are wide ranging and those attributed to "E" include resource dependency, deforestation, pollution, and invasive species mitigation. Risks specific to "S" include threats to human health, including pandemics, social license to operate, changing societal and consumer preferences, and changing demographics. Risks specific to "G" include legislative and tax regime changes, political lobbying, and anti-corruption measures. KBC also

evaluates industry and company-specific innovations and opportunities, focusing on those companies developing technologies to mitigate their environmental impacts and inventing alternative products and services that disrupt traditional status quo operating protocols, all in the name of biodiversity, animal welfare and environmental protection.

In September 2020, Iceberg Data Lab and I Care & Consult ("Iceberg") were selected by the Consortium for Biodiversity Footprint (CBF), a voluntary initiative of asset managers AXA IM, BNP Paribas AM, Mirova, and Sycomore AM to develop and expand a set of innovative and comprehensive biodiversity data solutions. Karner Blue Capital joined the CBF in 2021 as the first U.S.-based CBF member, to not only help financially support this initiative, but to also contribute to the expansion of its existing biodiversity and nature research process. Iceberg Data Lab's Corporate Biodiversity Footprint provides a consolidated measurement of companies' impacts through their land use, greenhouse gases emissions, and water and air pollution and is one of the first organizations to model corporate biodiversity impacts.

KBC is excited about working with Iceberg as we are always actively seeking additional sources of information to deepen our knowledge and supplement the extensive research process we have developed to identify those companies that are minimizing their nature-based risks, dependencies, and impacts and contributing to the rebuilding of our collective natural infrastructure for the benefit of future generations.

Karner Blue Capital identifies the companies of tomorrow for our clients to invest in today.

FIVE-STEP INDUSTRY LEADER IDENTIFICATION PROCESS



Identification

The identification of primary industries that have material biodiversity impacts & dependencies



KPI Development

The development of industry frameworks comprised of biodiversity KPI's that enable us to evaluate the peer-relative performance of companies



Research

Primary research on the companies in each industry that enable us to score each KPI to calculate a KBC Impact Score



Evaluation

The evaluations of companies operating outside of the primary industries that significantly impact biodiversity through the application of their products & services



Corporate Assessment

A corporate controversy & liquidity assessment

"Nature-based impacts represent significant operational, reputational & financial risk to corporations."

The KBC

LEADER IDENTIFICATION PROCESS

Nature-based impacts and dependencies represent significant operational, reputational, and financial risks to corporations, yet remain largely opaque to investors. Our research process intentionally begins with the identification of companies that are industry leaders with respect to the management of these impacts and dependencies. We incorporate these risks when building our investable universe through a rigorous 5-step research process that includes: (i) the identification of primary industries that have material biodiversity impacts and dependencies, (ii) the development of industry frameworks comprised of biodiversity key performance indicators ("KPIs") that enable us to evaluate the biodiversity performance of companies on a peer-relative basis, (iii) primary research on the companies in each industry that enables us to score each company on each



KPI to calculate a KBC Impact Score, (iv) the evaluation of companies operating outside of the primary industries that significantly impact biodiversity through the application of their products and services, and (v) a corporate controversy and liquidity assessment. After our investable universe has been established, we utilize bottom-up, fundamental financial analysis to select those companies that we believe have the greatest opportunity for outperformance over the next 18 to 24 months.

IMPACT MEASUREMENT

Based on data from ISS-oekom, KBC's ESG data partner, metrics of the biodiversity impact strategies' holdings are routinely compared to the constituents of the Morningstar Developed Markets Index with respect to material nature-relevant indicators, including fur exposure, coal reserves, biodiversity management, and sustainable forestry. As of December 31, 2021 the Biodiversity Impact Fund had 100% lower fur exposure and coal reserves, as well as superior biodiversity management and wood and fiber sourcing procedures, when compared to the index. Impact metric statistics ensure our investors that their portfolios are being managed in accordance with their values.

ENGAGEMENT & COLLABORATION

KBC's shareholder advocacy initiatives are accomplished through proxy voting using ISS's standards and corporate engagement in collaboration with one or more of our partners as further discussed below.

ISS has developed proxy voting guidelines that promote sustainable business practices and advocate for stewardship of the environment, fair labor practices, non-discrimination, and the protection of human rights. These guidelines build off internationally recognized sustainability-related initiatives such as the United Nations Principles for Responsible Investment (UNPRI), United Nations Global Compact, and the Global Reporting Initiative (GRI) to ensure that proxy voting is used as an effective active ownership tool for sustainability-minded investors. KBC's partnership network is central to its impact hypothesis. Through its participation with many other organizations, including non-governmental agencies, foundations, and other investment managers with similar missions, KBC is able to help participate in the development of a "hub" for biodiversity impact. This "hub" facilitates the sharing of ideas, the transmission of information, the elimination of redundancies, and the achievement of influence through collaboration and scale - with the ultimate goal of realizing more effective impact for all organizations involved.



Karner Blue Capital is also a member of the Friends for Action, an informal sub-committee of the Office of the Convention. It was organized to aid in mobilizing efforts to address the biodiversity crisis & to assist in the rollout of COP 15 across all stakeholder groups.

Convention On Biological Diversity (CBD): The Convention on Biological Diversity is a global effort to conserve "biological diversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources" and is the world's leading non-governmental body focused on biodiversity. In late 2021, Karner Blue Capital delivered a white paper, An Assessment of Industry Reporting Metrics to Advance the Achievement of the Post-2020 Global Biodiversity Framework, to the staff of the Secretariat. This Assessment of Industry Reporting Metrics (the "Assessment") was prepared at the request of the CBD to present a road map for businesses in certain high impact industries to measure and disclose key metrics regarding their biodiversity risk management. By detailing the lack of biodiversity impact transparency in corporate financial reporting across five industries, the Assessment ultimately seeks to facilitate the realization of the 2030 Action Targets.

Finance for Biodiversity Foundation: The mission for the Finance for Biodiversity Foundation is to support a call to action & collaboration among financial institutions & signatories of the Pledge via working groups centered around company engagement, impact assessment, & public policy advocacy. KBC's senior personnel actively participate in the work on the Foundation & the achievement of its objectives.

The Task Force for Nature-Related Financial Disclosures (TNFD): Companies do not currently disclose enough material information regarding their

nature-based impacts & dependencies for participants in the financial industry, including investors, to assess the long-term financial risks related to how organizations affect nature. TNFD's mission is to develop and deliver a risk management & disclosure framework for organizations to report on their nature-based risks. TNFD consists of various groups, including the Taskforce, a group of up to 35 members supported by the TNFD Forum, a consultative group of institutional supporters. KBC is a member of the Forum and looks forward to active engagement with the Forum in 2022, specifically regarding its disclosure framework.

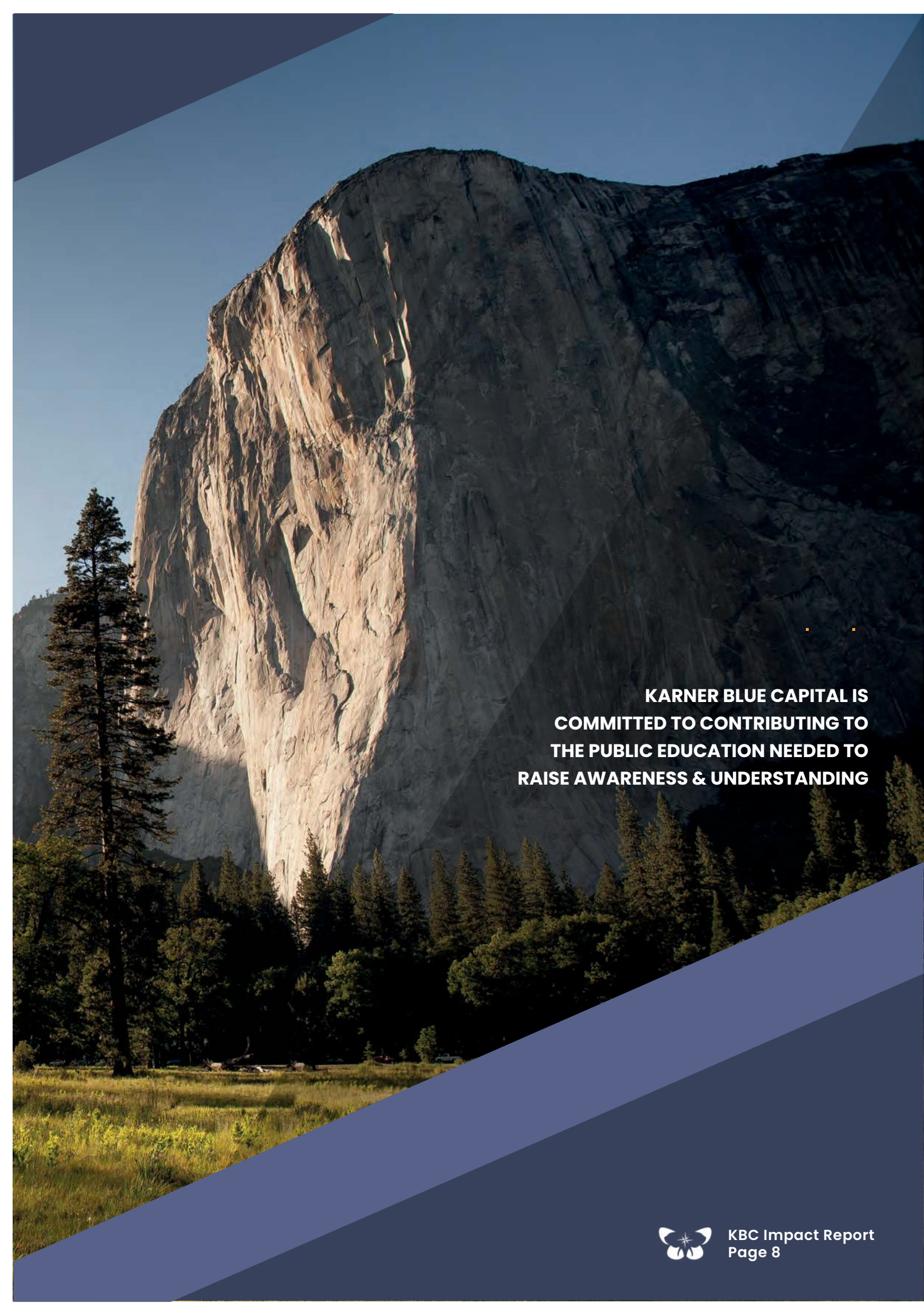
THE INTERFAITH CENTER ON CORPORATE RESPONSIBILITY (ICCR)

ICCR pioneered the use of shareholder advocacy to engage companies on environmental, social, and governance issues. The coalition of over 300 global institutional investors represents more than \$4 trillion in assets behind a shared mission of building a more just & sustainable world by integrating social values into corporate & investor actions. KBC participates in the ICCR Pesticide Strategy Working Group, encouraging retailers such as Kroger, Amazon & Walmart to recognize the impacts of pesticides on human & environmental health.

FINANCE FOR BIODIVERSITY PLEDGE

KBC is one of the 26 original founding members of the Finance for Biodiversity Pledge. Today, 84 financial institutions representing 18 countries & over \$14 trillion in assets have made the commitment to protect & restore biodiversity through their financial activities. Financial institutions have a crucial role to play in preventing further biodiversity loss & conserving nature. The role of banks, insurers, asset managers & investors will become increasingly important in the coming years. Through the pledge, KBC collaborates with other organizations to advocate for biodiversity consideration in business operations & supply chains.





**KARNER BLUE CAPITAL IS
COMMITTED TO CONTRIBUTING TO
THE PUBLIC EDUCATION NEEDED TO
RAISE AWARENESS & UNDERSTANDING**

Nature Action 100: Karner Blue Capital is one of the 12 financial institutions currently working to launch the Nature Action 100 (NA 100), a corollary to the Climate Action 100+. The NA 100 will be an investor-led initiative to ensure that companies with the most harmful biodiversity impacts and greatest biodiversity dependencies take necessary action to support nature in order to align company performance with the global goal of reversing nature loss by 2030. The NA 100 initiative will promote transparency with respect to business practices that negatively impact nature and advocate for changes that will result in the implementation of nature-positive business models. The NA 100 initiative will utilize a collaborative engagement approach similar to that of Climate Action 100+, with investors leading engagements (with corporations and policymakers) and escalations. Engagements will be based on best practices and the latest science as determined by a range of highly expert organizations.

UN PRI: Karner Blue Capital further demonstrates its commitment to corporate responsibility as a signatory to the United Nations-supported Principles for Responsible Investment. As a signatory, we pledge to incorporate the six Principles for Responsible Investment into our investment, due diligence, and portfolio management practices to work towards a more sustainable financial market.

- 01 We will incorporate ESG issues into investment analysis and decision-making processes.
- 02 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 03 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 04 We will promote acceptance and implementation of the Principles within the investment industry.
- 05 We will work together to enhance our effectiveness in implementing the Principles.
- 06 We will report on our activities and progress towards implementing the Principles.

KBC leverages the PRI Collaboration Platform to pool resources and share knowledge with like-minded investors to bolster our influence on ESG issues. For example, we worked with numerous investment managers to support the Deforestation-Free Procurement Acts in New York and California. The Act mandates policies, certification, and public disclosures regarding No Deforestation, No Peat, and No Exploitation commitments by specific state contractors and subcontractors, which help to provide investors with necessary information on material financial and climate-related risks related to companies potentially linked to deforestation.

Endangered Wildlife OU: Endangered Wildlife OU is a disruptive Tech4Good Fintech company specializing in the valuation of biodiversity. Karner Blue Capital is currently partnering with Endangered Wildlife OU on an expose regarding corporations in the palm oil industry and the environmental cost of the destruction of the Luesia ecosystem in Northern Sumatra, with a primary focus on the specific value of the red-listed Sumatra Orangutan population. This is an exciting project expected to be completed in the 3rd quarter of 2022 and will present an innovative new methodology for the valuation of ecosystem services.

Global Impact Investor Network (GIIN): GIIN is a global network of impact investors that seeks to facilitate knowledge and accelerate progress through leadership and collective action. During 2021, KBC participated on the biodiversity steering committee for GIIN's IRIS+ system which is designed to allow investors to better measure the impact of environmental issues by increasing data clarity and comparability. GIIN released proposed drafts for core metric sets relating to four biodiversity themes to be added to their IRIS+ system: terrestrial biodiversity, marine biodiversity, aquaculture and fisheries, and nature-based solutions. These drafts of proposed metric sets will provide investors with information that measures the impact of industrial operations on key environmental ecosystems. The four biodiversity themes were released to the public in September 2021.

EDUCATION

Biodiversity and nature-based investing is a fairly new concept, even in the world of socially responsible ESG investments. As such, KBC is committed to contributing to the public education needed to raise awareness and understanding of these vitally important issues. Toward that end, KBC personnel routinely participate in webinars, podcasts, and panels to educate investors and others as to the critical importance of biodiversity and the existential imperative of halting its loss.