

Social Impact Report 2020

Den Sociale Kapitalfond Invest I K/S

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Foreword

Den Sociale Kapitalfond Invest I K/S is the first Scandinavian social impact private equity fund with the purpose of generating attractive financial returns with a positive social impact for marginalized persons and groups in society.

We invest in small and medium sized enterprises (SMEs) with both economic growth potential and positive social impact on people and society, that are established and have headquarter in Denmark or Southern Sweden. The Fund had its final closing in October 2018 with a total commitment of DKK 289.3 million. The Fund is owned by Danish and international professional investors. The investors have entered into a limited partnership agreement.

Den Sociale Kapitalfond Invest is part of Den Sociale Kapitalfond group – a specialized, value-driven and professional investment group focused on developing and scaling impact investment products with the potential to combine financial returns and social impact for the benefit of marginalized groups in society.

Since its establishment in 2011, the group has screened more than 2000 Scandinavian companies for our funds and accelerator programs and worked with more than 100 companies. In the group,

we have also worked continuously with developing ways to measure and manage the social impact of the companies we work with, while regularly sharing our experiences to help advance work in the field.

This 2020 social impact report for Den Sociale Kapitalfond Invest I K/S is part of that effort. Specifically, the report covers the Fund's investments in HITSA A/S (2018), Koatek (2019) and the new investments closed in 2020, including Refurb A/S and Danpal A/S.

The report follows from the adopted practice of the Fund, where further public information on the social impact performance of the Fund's portfolio will be released, when the Fund has owned at least three portfolio companies for 12 months or more.

This practice is adopted to overcome a dilemma of social impact measurement, namely the need for transparency weighed against the respect for potentially person-sensitive social impact target reporting on a portfolio company level. Accordingly, now that we have some "critical mass" in the portfolio, we report on the overall social impact performance and on company highlights of the Fund.



This report is written against the backdrop of an unusual year, indeed. The COVID-19 pandemic has presented serious challenges to all parts of society, not least vulnerable persons and groups. It has also presented challenges of varying degrees to the Fund's portfolio companies, especially in the first and second quarter of the year.

However, the portfolio companies have shown better social impact and financial results than what could be expected in 2020 given the pandemic, and while their performance has been affected, they have nonetheless maintained a strong and laudable focus on both the financial and social impact bottom-lines in times of turbulence.

To Den Sociale Kapitalfond Invest Management, the manager of the Fund, this demonstrates their importance to the overarching societal impact objective of the Fund: To help develop and demonstrate a new generation of role models for the tens of thousands of SMEs that every day have a crucial positive impact for vulnerable persons and local societies throughout Scandinavia.

Thank you,

Lars Jannick Johansen
Managing Partner

Torben Agerup
Partner

Mads Aaen
Partner

15 April 2021

2020 Impact of the fund is on target

99% of the intermediate social impact targets for the year have been met in spite of COVID-19 – and with an average of 1.7 month “to go” before set time for the intermediate targets (varying from 12 to 36 months after closing of the individual investments).

44% of the overall, 5-year social impact targets for the entire investments in the four companies have been met – with only an average of 1.5 years (30 %) out of 5-year period set for the overall social impact goals.

16% on average of the staff of the four portfolio companies were current or formerly marginalized persons. We expect the average among the four companies to be around 20 % after 5 years. For comparison, approx. 3% of employees in the private sector in Denmark are in subsidized employment, due to marginalization in the labor market (Statistics Denmark - 2018 figures).

41% net increase in the number of employees from the margins of the labour market in the four companies from investment start (27) until the end of 2020 (38)

HITSA
WE SUPPLY URBAN SPACES

In 2020, HITSA has intensified working systematically with environmental effects and goals, i.e. CO2 emissions, certified wood materials, etc. in the production and supply chain in general

KOATEK

In 2020, Koatek had 8 apprentices employed (10% of workforce) including 2 completed graduations

refurb

Refurb in 2020 reused 40,000 IT units. This corresponds to more than 10,000 tons of CO2 savings

danpal^{a/s}

Danpal handles and repairs around 1.5 million used pallets annually. 96% of the pallets Danpal receives are recycled. This saves millions of tons of CO2

The four investments in particular contribute to the following UN Sustainable Development Goals



Social impact and sustainability FOCUS

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Marginalization threatens social cohesion and economic sustainability

The primary social impact objective of Den Sociale Kapitalfond Invest is to empower marginalized persons and persons in marginalized areas through the creation of jobs, training-positions, education and other enabling services & products via the Fund's portfolio of investments.

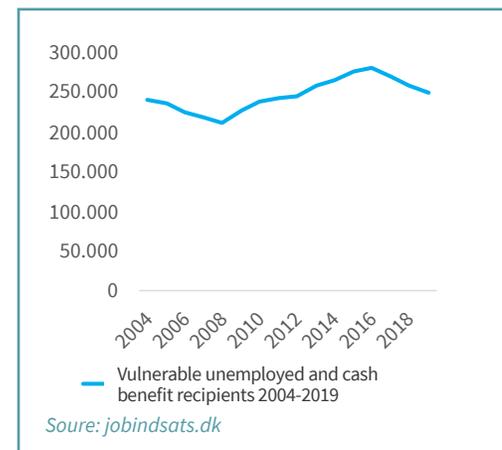
Unfortunately, in spite of decades of efforts, significant parts of the populations in the Scandinavian welfare societies still experience marginalization on the labor market, in the education system, and in society as a whole. This negatively affects individual well-being and personal opportunities, social cohesion and economic sustainability.

Accordingly, we focus on creating positive impact for marginalized individuals, which in our working definition include individuals with physical, psychological and/or social barriers with regard to employment, education and active participation in their community on ordinary terms.

When identifying and verifying individual marginalized persons in relation to measuring social impact in the portfolio companies,

the barriers can either be identified via the public labour market or social sector system or based on objectively verifiable information that can be assessed by a specialized third party.

On the group homepage of Den Sociale Kapitalfond, a working paper with additional data and information on our social impact target is available: [Download PDF](#)



Marginalization threatens well-being and social cohesion:

- 8-10% of the workforce in Denmark is on cash benefits, sick leave, and/or other special benefits – many with physical, psychological and/or social problems.
- 7-8% is on early retirement benefits for similar reasons
- 7-8% of a youth cohort neither get a job nor an education
- 22% of the population feel completely or partially "marginalized" in society

Marginalization affects individual well being and personal opportunities, social cohesion and economic sustainability.

Conversely, being part of a real workplace boosts self-respect, sense of belonging, and self-reliance for marginalized individuals.

Source: TrygFonden; jobindsats.dk

SMEs are key to address marginalization and achieve the SDGs

Small and medium-sized enterprises (SMEs) account for the most significant share of value added and employment in the private sector in Denmark. Their growth potentials are often high, but many could benefit from equity investments, competences and employee attractiveness to fully realize them.

In addition, SMEs are key contributors to the positive realization of the UN Sustainable Development Goals through their products and services, and many are socially run companies with positive local social impact - training, educating and employing marginalized persons, often in cooperation with local municipalities. For example:

- More than a third of all Danish SMEs employ marginalized persons
- Approx. 10% of all SMEs have at least 10% or minimum 5 persons as marginalized employees
- 70% of the marginalized individuals in private sector employment (re)enter the labor market through SMEs

Source: Statistics Denmark and VIVE – The Danish Centre for Social Science Research

Having products and services contributing to solving social and societal problems, and being socially inclusive and value driven, all strengthen the culture, identity and brand of a company – and can be competitive advantages in markets where employer attractiveness, branding and stakeholder support matter.

Furthermore, following the growth in recent years of the ESG- and impact investment markets, well-positioned and well-performing impact companies are increasingly attractive for the growing number of ESG- and impact seeking investors.



We invest in SMEs with significant potential for growth and positive social impact

Den Sociale Kapitalfond Invest I K/S is an investor in established, social SMEs (10-249 employees) in Denmark and Southern Sweden with significant potential for growth and for creating positive social impact – and becoming a role model in this regard for other companies to follow. Specifically, the Fund focuses on companies empowering marginalized persons and persons in marginalized areas through the creation of jobs, training-positions, education and other enabling services & products, according to one or more of the following social impact models:

- Companies training and employing with marginalized persons as a significant resource (“socially run companies“)
- Companies providing impactful products & services that resolve a recurring and sizeable social issue for marginalized persons (“social business models”)
- Companies focusing on creating local growth & opportunities in socially deprived areas (“geographically focused business models”)

The SMEs do not necessarily have to be outstanding in terms of their social impact at the time of investment – but they need a strong potential for “excellence” in terms of impact to become portfolio companies.

The investment strategy combines minority and majority equity investments with loans in a balanced portfolio of smaller and larger cases to generate an attractive, risk adjusted financial return combined with a social impact of empowering hundreds of marginalized persons and persons in marginalized areas through the creation of jobs, training positions, education and other enabling services & products.

The Fund expects a portfolio of 10-15 investments, and the specific social impact goal on a Fund level depends on the final portfolio composition – as explained further in the social impact methodology section below. Also, an objective of the Fund is to create a portfolio of role models for SMEs demonstrating how to combine successful financial and social impact performance.



Danpal is one of our investments. Danpal handles and repairs around 1.5 million used pallets annually. Danpal is a socially run company with a focus on training and employing people from the margins of the labor market.

We invest in SMEs with significant potential for growth and positive social impact

Continued

The Fund's management provide continuous, qualified support to the portfolio companies' management teams in implementing the growth plans via board participation and among others providing sparring on strategy, financial and operational management, organizational development, and branding & marketing, as well as market positioning and the attraction of the next generation of investors. Special focus is also given to the development of the company's social impact model, ensuring that it is optimally aligned and mutually reinforcing with its business model, and the ESG-performance in general.

The Fund's management also make active use of its strong network of competencies and contacts for the benefit of the portfolio companies.

Target companies: Social SMEs

- SMEs (10-249 employees) in Denmark and (opportunistically) Southern Sweden
- Quality niche products embracing / robust vis-à-vis megatrends
- Competent management team with positive social values
- Strong growth potential – aligned with social impact model, including potential for
 - Training/educating/employing marginalized persons, and/or
 - Providing impactful products & services for marginalized persons, and/or
 - Creating local opportunities in deprived areas
- Typical revenue range from DKK 25-250m
- Looking for investor, typically for growth capital, partial capitalization and/or generation change and MBI
- Match with Fund management team's value creation model & capabilities



Koatek is a specialized mechanical manufacturer of high quality turned and milled precision components. Koatek is also a socially run company with focus on educating and employing people from the margins of the labor market.

Social Impact and sustainability
METHODOLOGY

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We have a proven social impact measurement methodology

Den Sociale Kapitalfond group has since its establishment in 2011 developed and tested methods for analyzing and measuring social impact of our investments. This applies to both methods of investigating and forecasting or targeting social impact at company and portfolio levels, and to calculate social effects and their economic value at the societal level for use in e.g., municipalities and on a national government level. The work has been done in collaboration with experts from both Denmark and abroad, i.e., USA, UK and the others Nordic countries, and together with stakeholders in the field.

We always seek to base the development on both our own experience and others' experience in the form of international best practice - and with a view to the fact that measurements of social effect must be able to be applied in practice in a contributing process to create added value and improve efforts.

The social impact measurement methodology of Den Sociale Kapitalfond Invest I is based on this work and practice developed by Den Sociale Kapitalfond group since 2011 - and the standards

of the European Investment Fund's SIA (Social Impact Accelerator) program that fit very well with the methodology of Den Sociale Kapitalfond.

The development continues as we add more experience and see more opportunities and needs in the investment work. Among others, work in 2021 includes further developing our methods and tools for assisting portfolio companies in their environmental and climate sustainability work.



Methodology: Firm impact performance data - administrative “light” for SMEs

A significant potential for creating positive social impact – and becoming a role model in this regard for other companies to follow – is a prerequisite for investments by Den Sociale Kapitalfond Invest I.

The Fund’s management diligently assesses the past achievements as well as future potentials of the social impact of all investments as part of its due diligence process. However, taking into considerations that we cooperate with SME’s, we have no requirements for excessive prior documentation besides e.g., legally mandatory workplace assessment schemes, etc., when initiating dialogues about a potential partnership. Instead, we have developed tools for unbureaucratic social impact due diligence processes, which via desk research, questionnaires and interviews allow us to test the foundation and build the impact plan as an integrated part of an expedient transaction process.

Based on the impact plan and targets herein, we then work systematically but “light” bureaucratically with the portfolio companies on impact performance management.

In brief, key steps in the methodology include:

1. The Fund’s management initially assesses and performs a social impact due diligence based on an impact map for the company’s social impact model, stakeholder interviews, and desk research / data assessments. Please see model.
2. The Fund’s management on this basis identifies 1-5 KPIs and 1 unique quantifiable target per KPI for social impact for each portfolio company and weigh these according to their relative importance, together with the company’s owners and management.
3. Intermediate targets are defined for the first three years of holding in order to anticipate early exit scenarios.
4. In case of significant new information, change in the business environment beyond the control of the company management, or a necessary change of strategy or business model, unique targets may be changed.
5. The Fund’s Investor Advisory Board validates the KPIs and targets – and potential changes.

6. The Fund’s Management continuously monitor and report on the impact of the portfolio companies – and works with the portfolio company on managing positive and potential negative impacts.

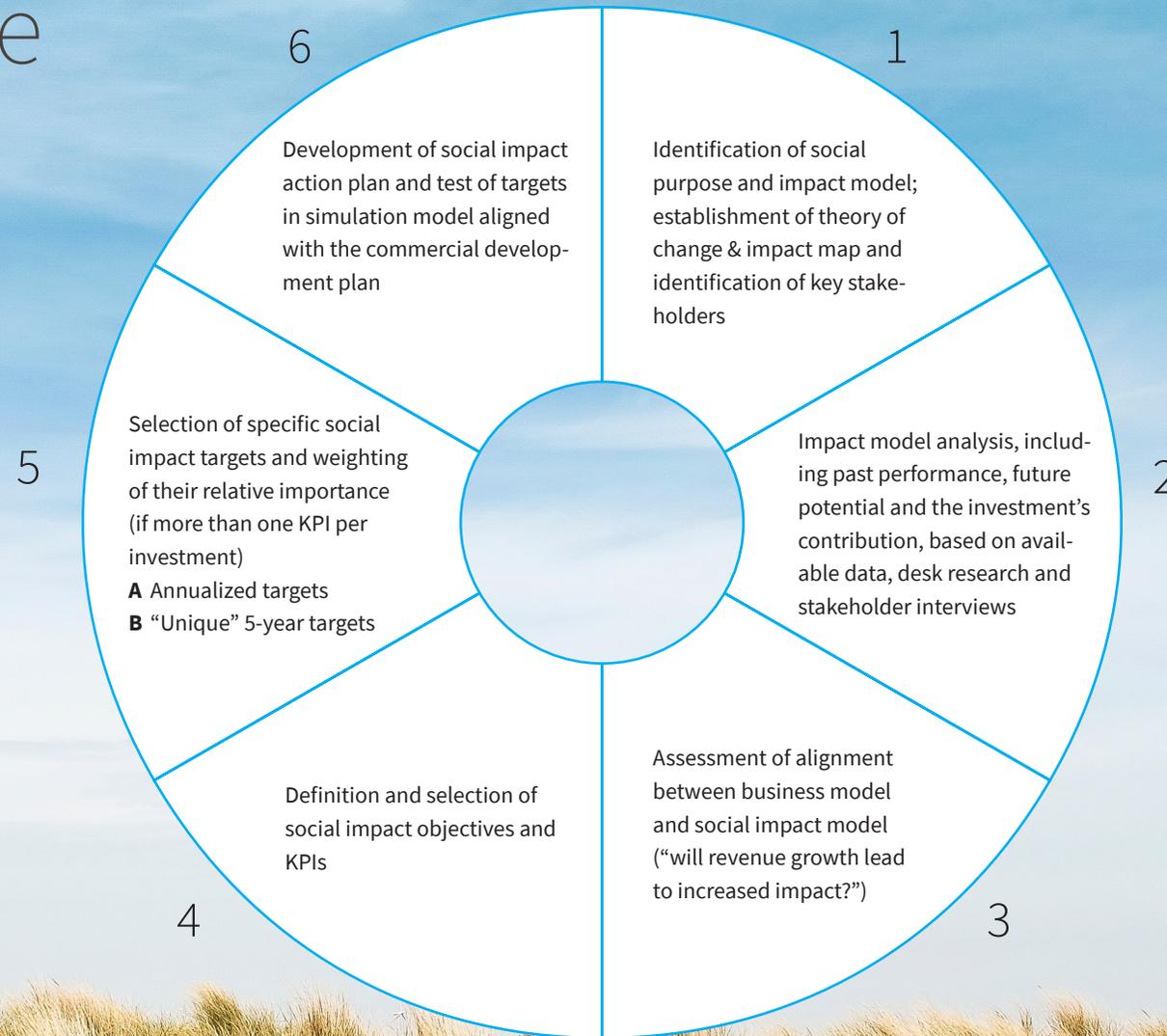
7. These are weighted by importance if there are more than one KPI per portfolio company and summarized to in a Social Impact Multiple (“SIM”) per company.

For the total portfolio, each portfolio company SIM is weighted by invested capital per company and summarized in a “Portfolio SIM”, representing the overall ratio of fulfilment of social impact goals on a portfolio level.

Each portfolio company makes an annual, audited report on its social impact according to these guidelines. Together, these annual impact reports form the basis of a consolidated, audited portfolio impact report available to the Fund’s investors.

Furthermore, sustained impact effects are included in exit considerations for portfolio companies.

Social impact due diligence: 6-step summary



Our sustainability policies support the targets of the Fund

In addition to seeking to create attractive financial returns with a positive social effect, Den Sociale Kapitalfond Invest I K/S also in the best possible way seeks to strengthen positive effects as well as reduce any negative impacts on sustainability in general that the Fund's investments may have.

Accordingly, the investment policy seeks to optimize the potential for positive social impact through the portfolio companies for the Fund and to integrate Environment, Social and Governance sustainability ("ESG") risks and potentials in general in its work and comply with international goals and guidelines.

The Fund's management includes ESG issues in due diligence processes and where relevant works for improvement of ESG policies and performance in portfolio companies, alongside the ongoing development of their social impact models. Among others, the companies' compliance with the UN Global Compact Initiative are assessed, and portfolio companies are required to comply with the 10 principles of the UN Global Compact.

Furthermore, the UN Sustainable Development Goals – SDGs – are important landmarks for the Fund, and the management accordingly works actively with the SDGs in the investment process and portfolio management. The positive and negative contributions of an investment opportunity to the fulfilment of the SDGs are included as a parameter in the management's initial investment screening and is a separate point of focus in the due diligence processes for the Fund. In addition, once an investment is completed, the Fund as an active owner seeks to ensure that there is a positive development in the portfolio companies' contributions to the SDGs and continuously assesses the development in environmental and governance factors as well as potential sustainability risks.

A negative list is used to ensure that the Fund avoids financing activities that are assessed to be unsustainable in the long term.

[Download PDF](#)

In addition, the Fund follows policies and guidelines to act responsibly and with respect for relevant guidelines and good practice, which include policies on e.g. risk management and



Refurb refurbishes and sells IT units. Refurb is also a socially run company with a focus on training and employing people from the margins of the labor market.

Our sustainability policies support the targets of the Fund

Continued

prevention of money laundering, insider trading and ensuring proper handling of confidential material and data; policies for conflicts of interest management and for related party cooperation..

For further information, please see socialkapitalfond.dk

Den Sociale Kapitalfond Invest I K/S also follows the guidelines for responsible ownership and good corporate governance for private equity funds from Brancheforeningen for Aktive Ejere I Danmark (formerly DVCA). Please see socialkapitalfond.dk for a compliance overview.

The Fund has started the implementation of the EU regulation on Sustainable Finance Disclosure in order to comply with the reporting requirements coming into effect in 2021 and in 2022.

The Fund actively supports positive ESG performance and SDG impact through its investment process and portfolio work. ESG performance and SDG impact potential are:

- Always a part of the (desk research and interview based) screening process for investment targets
- A key point of focus in the due diligence processes, including via questionnaires, desk research and interviews and where necessary external expert assessment
- A separate monitoring and development responsibility for the board of directors in the Funds portfolio companies

We continuously work on developing our general ESG and SDG due diligence and support tools to make them more comprehensive, less "bureaucratic" and easy to use, and more impactful for the benefit of portfolio companies. Among others, work in 2021 include further developing our methods and tools for assisting SMEs in their environmental and climate sustainability work.

The Fund follows and complies with several international sets of norms and conventions in its work, including, among others:

- UN Principles for Responsible Investment (PRI)
- UN Global Compact
- UN Declaration of Human Rights
- UN Global Goals for Sustainable Development.



Social Impact and sustainability RESULTS

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Social impact of the fund is on target

	Sector	Social Impact Model	SDG Impact	HQ	EBITDA (DKKm)	Number of employees	Fund data	
							Vintage	Ownership stake 2020
 WE SUPPLY URBAN SPACES	Development, manufacturing and sales of urban furniture that promotes (urban) quality of life	Socially run company with focus on educating and employing people from the margins of the labor market	4, 8, 9	Kolding	4.2	126	2018	40.4%
	Specialized mechanical manufacturer of high quality turned and milled precision components	Socially run company with focus on educating and employing people from the margins of the labor market	4, 8, 12	Jægerspris	12.8	82	2019	45.0%
	IT asset disposal, refurbishment and sales	Socially run company with a focus on training and employing people from the margins of the labor market	8, 12, 13, 17	Hornslet	3.0	40	2020	48.0%
	Manufacturer of new customized wood pallets and repair and recycling of used pallets	Socially run company with a focus on training and employing people from the margins of the labor market	8, 12, 17	Karlsunde	10.0	32	2020	40.0%

Our Social Impact Performance targets for 2020 are met

The social impact of Den Sociale Kapitalfond Invest I K/S in 2020 is based on data as of 31 December 2020. By this date, the portfolio comprised HITSA, Koatek, Refurb and Danpal.

As described above, KPI targets are defined for the first three years of holding (Intermediate Targets), and a long-term, 5-year target is set as well (Unique Target). These are weighted by importance if there are more than one KPI per portfolio company and summarized to in a Social Impact Multiple (“SIM”) per company and for the portfolio as a whole.

Examples of specific KPI definitions from selected portfolio companies:

- KPI example 1: Total number of marginalized persons who have completed a minimum of 3 months of special work assessment / training in the company during the reporting period
- KPI example 2: Number of currently or formerly marginalized persons who are at the company as employees or in education, qualification and training programs at time of measurement

Overall, the social impact performance of the four companies can be summarized as follows:

- 99% of the intermediate social impact targets (the portfolio SIM based on Intermediate Targets) for the year have been met in spite of COVID-19 – and with an average of approx. 3 months “to go” before set time for the intermediate targets (varying from 12 to 36 months after closing the individual investments).
- 44% of the overall, long term social impact targets (the 5-year portfolio SIM Unique Targets) for the entire investments in the four companies have been met – after an average of only 1.5 years (30%) out of 5-year period for the overall social impact goals.

All of the first four portfolio companies have training and employment of marginalized persons as the key, shared social impact objective. 16% on average of the staff in the portfolio companies are current or formerly marginalized persons. This leaves the portfolio companies in the very top of the most inclusive SMEs with 50-249 employees in Denmark, based on our analyses. We expect the average among the four companies to be around 20% after 5 years.



Examples of the wider sustainability impact of our portfolio

HITSA
WE SUPPLY URBAN SPACES

HITSA has in 2020 intensified working systematically with environmental effects and goals, i.e. CO2 emissions, certified wood materials etc. in the supply chain and production of urban furniture

refurb[®]

In 2020 Refurb reused 40.000 IT units. This corresponds to more than 10,000 tons of CO2 savings

KOATEK

In 2020, Koatek created 5 new jobs, and had 8 apprentices employed (10% of workforce) including 2 completed graduations

danpal^{a/s}

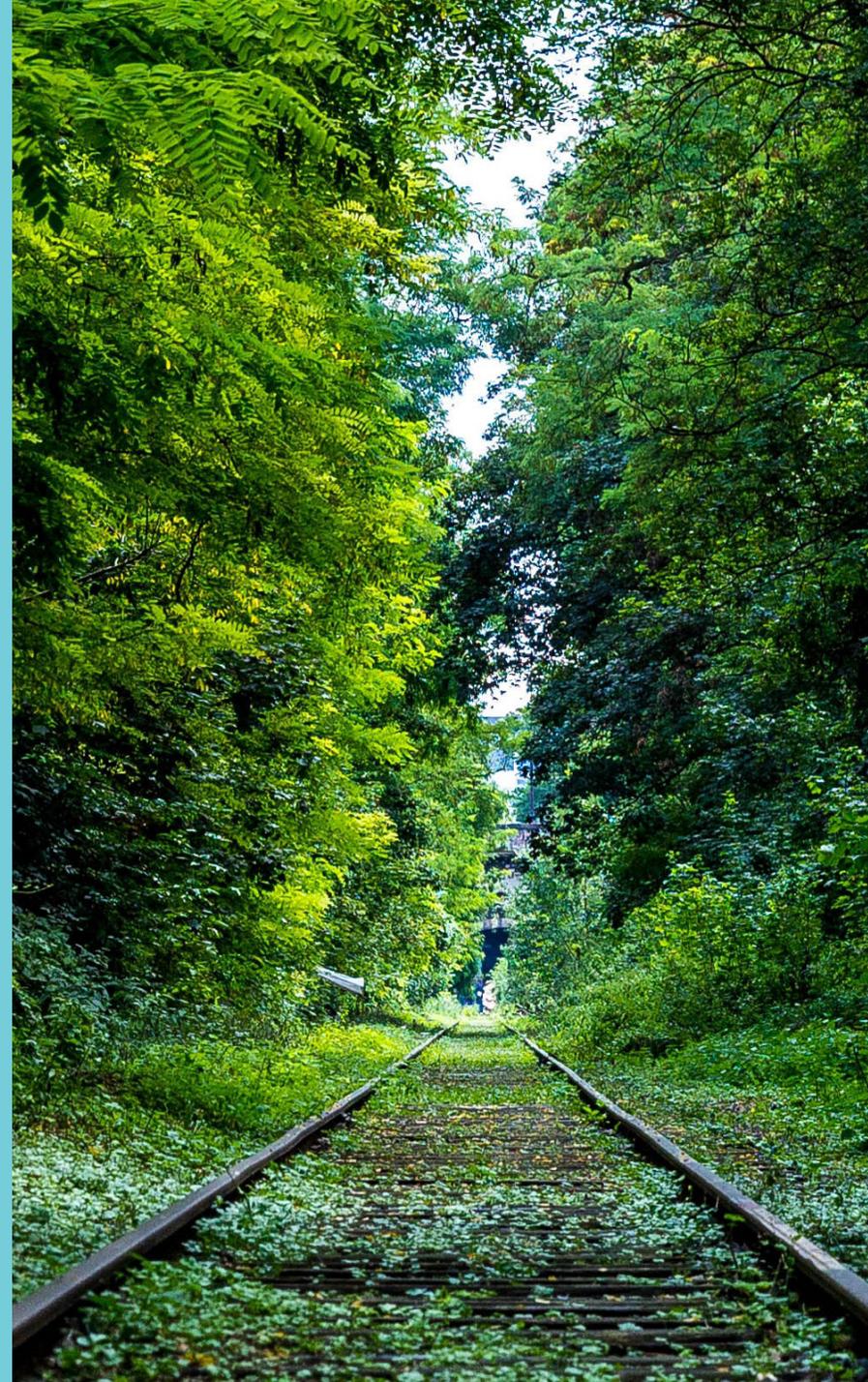
Danpal handles and repairs a total of around 1.5 million used pallets annually 96% of the pallets Danpal receives are recycled
This recycling of pallets saves millions of tons of CO2
Furthermore, Danpal only buys FSC certified wood for their production and only uses electricity from wind energy

The four investments in particular contribute to the following UN Sustainable Development Goals



Organization and contact

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Organization as a private equity fund with a double bottom line – profit and impact

Den Sociale Kapitalfond Invest Management ApS is the management company for Den Sociale Kapitalfond Invest I K/S.

Den Sociale Kapitalfond Invest Management ApS is led by the three partners Lars Jannick Johansen (Managing Partner), Torben Agerup (Partner) and Mads Aaen (Partner), who also form the management company's Board of Directors (together with Birgitte Frost Mathiesen from Den Sociale Kapitalfond Accelerator Aps), as well as the Investment Committee, which recommends investments to the General Partner of The Fund. The partners run the management company based on the core idea, mission and values of Den Sociale Kapitalfond's Partner Manifesto, available together with additional information on the management team on socialkapitalfond.dk

Den Sociale Kapitalfond Invest Management ApS (CVR number 38428047) is registered with the Danish Financial Supervisory Authority as manager of alternative investment funds pursuant to § 9 section 1, cf. § 4 section 1, in the Act on managers of alternative investment funds (the AIFM Act), etc. The company is only to a limited extent subject to the AIFM Act and has thus not been affiliated with a depository.

Den Sociale Kapitalfond Invest I K/S (CVR number 38968815) has as General Partner the Complementary company for Den Sociale Kapitalfond Invest I ApS (CVR number 38941585), which is led by a board with Simon Krogh (chairman), Tyge Korsgaard (director) and Sven Krogstrup.

The General Partner and its Board of Directors are responsible for the decisions on any investment in the Fund, based on the recommendations from the Investment Committee.

An Investor Advisory Board with representatives from the 7 largest investors among others validate the social impact targets of the fund's portfolio investments.

Den Sociale Kapitalfond Invest I K/S is owned by a number of Danish and international professional investors holding a total stake of c 98.9 %. The remaining stake is owned by the Partners of management company, Den Sociale Kapitalfond Management, the Fund's Senior Advisors, Jeppe Christiansen, Mads Øvlisen, Per Agger Nielsen and Peter Nørgaard.



Carried Interest

Den Sociale Kapitalfond Invest I K/S has been established with a management fee structure that resembles the normal standards in the private equity industry, with a fixed management fee and a carried interest dependent on the performance of the Fund. However, the Fund's carried interest is based on both financial and social performance with a "double hurdle" or threshold on a fund-as-a-whole basis, including both a financial hurdle and a social hurdle for fulfilment of social impact goals as approved by the Fund's Investor Advisory Board. If social impact at the time of exit does not meet the hurdle for realization of pre-approved social goals, carry is transferred to a charitable cause approved by the investors.

Investors:

The investors of Den Sociale Kapitalfond Invest include:

- The European Investment Fund
- The Danish Growth Fund
- TryghedsGruppen
- The Novo Nordisk Foundation
- Ferd
- Færchfonden
- The Hempel Foundation
- Sparekassen Sjælland-Fyn
- Østifterne
- Færch og Døtre
- Management team and Senior Advisors

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