Our Responsible Investment Journey 2021

Danske Bank


Danske Bank

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A paradigm shift for sustainability

While sustainability has been high on society's agenda for many years, the outbreak of COVID-19 marked a new era, with sustainability taking a quantum leap forward as the cornerstone for creating resilient societies and healthy lives. Meanwhile, the first part of the Sustainable Finance Disclosure Regulation (SFDR), a central plank of the EU's Action Plan for financing sustainable growth, came into force in March 2021. SFDR ensures greater transparency on the degree of sustainability incorporated into financial products, and its objective is to ensure further transparency on sustainability risk considerations in the financial sector and investment products. COVID-19 and SFDR have been game changers for the financial industry, setting a clear course for our ambitions for responsible investments and our efforts to create value for our investors and society.

A catalyst for sustainable change

Sustainability has been a guiding star directing our investments for many years and shaping our actions as a responsible investor. We therefore welcome the new EU regulation, as it feeds into our ambition of fostering sustainable change. To further advance our efforts, we have set sustainability targets that lay down a clear path for our commitment to help investors invest in products that promote sustainability or have sustainability objectives. We have also set a target of having a net-zero greenhouse gas emissions investment portfolio by 2050 or sooner as part of our support for the Paris Agreement. These targets underpin our ambition to contribute to decarbonising the economy and to enable capital to work for sustainable change.

High-quality products with a robust sustainability foundation

In order to align with the objectives of SFDR, we have also adopted a new Responsible Investment Policy and categorised our products according to the disclosure requirements of the SFDR product framework. By leveraging our deep sustainability expertise and processes built up over the years and further improving our sustainability structure in the past 12 months, we are able to offer a wide range of high-quality ESG investment products. Among other initiatives, we have introduced a "Sustainability risk challenger" and enhanced our investment restrictions framework and voting guidelines to help promote the environmental and social characteristics of our products and to capture issues related to principal adverse sustainability impacts on society. Moreover, we have reinforced our proprietary ESG analytical tool mDASH®, so it supports product-specific sustainability characteristics. To ensure our products comply with the extensive regulatory requirements and honour the spirit of SFDR, we have chosen a conservative approach to labelling our product according to their sustainability-related characteristics.

The green transition is a top priority

Climate change poses one of the biggest financial risks and threats to the well-being of global society. We have subsequently tightened our investment restrictions on thermal coal, tar sands and peat-fired power generation by lowering our revenue threshold from 30 to 5 per cent, which is a further step towards phasing out investments in these fossil fuels by 2040 at the latest and being a net-zero asset manager by 2050. However, propelling society towards a greener future is not only about restricting companies. More importantly, it is about actively taking part in the change by influencing companies to shift from carbon-intensive activities to more energy-efficient and climate-friendly solutions. Climate was therefore at the top of our engagement agenda in 2020, when we through dialogue with company management pushed for greener business models and the acceptance of a greater share of responsibility for supporting the decarbonisation of society. Companies will not become green overnight, but we will continue to influence their climate strategies and thus support the sustainable transition. By remaining engaged, we maximise our contribution towards making societies more sustainable.

Collaborating to propel sustainability forward

The sustainable agenda is rapidly picking up speed, and with the rollout of the EU Action Plan and its various regulations, we are fully focused on constantly improving our sustainability efforts to stay ahead of the curve and be one of the best Nordics banks for responsible investments. In the coming year, we plan to, for example, significantly expand our product offering in ESG and sustainable investments, set fully tailored and binding sustainability targets for products, and develop a framework for measuring our products' contribution towards achieving the UN Sustainable Development Goals.

At Danske Bank, we are truly excited about the possibilities that lie ahead and look forward to collaborating with our investors, peers, policymakers and other stakeholders in shaping an investment industry that advances sustainability and benefits society. By joining forces with our investors and society, we can make it easier for investors to make sustainable choices.

Erik Eliasson
Head of Responsible Investments
Danske Bank Asset Management

See our Responsible Investment Policy here.

Our foundation for creating value for investors and society

Our new Responsible Investment Policy is based on five principles that support our ambition to create attractive return for our investors and contribute to positive and sustainable development.

Principle 1
We incorporate sustainability risks into investment analyses and investment decision-making processes.

Principle 2
We are active owners and incorporate environmental, social and governance criteria as well as sustainability issues into our ownership guidelines and practices.

Principle 3
We incorporate sustainability risk into advice on investment products, aim to identify our investment customers' sustainability preferences and seek to provide them with products that meet their ethical and sustainability needs.

Principle 4
We report on our activities and progress towards implementing Responsible Investments and disclose the impacts of our investments.

Principle 5
We promote the development of Responsible Investments across our industry.

A green reboot of the financial markets

Funding the transition to a low-carbon economy and the ambition of creating a sustainable Europe requires a mobilisation of capital. This puts the financial sector front and centre and subjects it to new regulation, with the goal of funnelling more capital into the green transition.

The European Commission has commenced the implementation of its extensive Action Plan intended to transform the financial markets in Europe. The objective is clear: to redirect capital flow into sustainable activities and so create a green and sustainable Europe. This regulatory push is the most ambitious in many years and aims to encourage investors to ramp up efforts to accelerate the low-carbon transition, according to Marjo Grandell, Head of Liquid Investments.

"The EU Action Plan on sustainable finance stems from the EU's commitment to channel private financial flows into investments that support the Paris Agreement's target of a carbon-neutral economy by 2050 and, more broadly, the United Nations Sustainable Development Goals. The Action Plan address aspects such as climate change, pollution reduction and biodiversity protection," explains Marjo Grandell.

In her view, the legislative programme defines a much-needed common language and increases transparency and standards with regard to sustainability.

Incentivising a green path

The Action Plan is part of a wider sustainable finance framework backed by a broad set of new and enhanced regulations. These include a new Sustainable Finance Disclosure Regulation, which aims to better classify the sustainability credentials of investment funds, and a new EU Taxonomy, which aims to define 'green' economic activities for the first time. The EU also plans to enhance the sustainability requirements of investment advisory.

"We welcome the ambition to create a uniform understanding and definition of sustainability and to set clear sustainability requirements for products if they are to be marketed on the basis of their sustainability credentials. As investor demand for products with sustainability characteristics is expected to grow substantially in the coming years, this incentivises the providers of investment products to step up their sustainability efforts in order to remain relevant," states Marjo Grandell.

Helping to close the funding-cap

The climate goals set for Europe are ambitious and call for prompt action from all financial players to successfully complete the energy transition of our economies, according to Marjo Grandell. However, moving the transition forward requires funding. Indeed, the European Commission estimates the investment deficit to be EUR 260bn annually, i.e. EUR 260bn more needs to be invested annually between now and 2030 if we are to meet the 2030 goal of reducing CO2 emissions by at least 40 per cent.

"The massive need for reallocating investments to sustainable activities underlines how important it is that asset managers take responsibility and help steer investment capital towards companies that make a real contribution to achieving carbon-neutrality. We at Danske Bank are committed to helping our investors invest in the sustainable transition. By employing sustainability targets, we have set a clear path for funnelling more capital into a green future," concludes Marjo Grandell.

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Marjo Grandell

The EU Action Plan explained

The Action Plan is the EU's roadmap for creating a sustainable economy. It comprises multiple actions and legislative tools designed to reorient Europe's capital towards sustainable investments, ensure that sustainability risks are integrated into the financial system and that long-term implications are considered. The various regulatory initiatives will be implemented over the next couple of years.

GOAL

Help achieve the Paris Agreement

Contribute to the UN Sustainable Development Goals

OBJECTIVES

Reorienting capital flow towards more sustainable investments

Mainstreaming sustainability in risk management

Fostering transparency and long-termism

KEY ACTIONS

- Establish a taxonomy of environmentally sustainable activities
- Create standards and labels for green financial products
- Foster investment in sustainable projects
- Incorporate sustainability into investment advisory
- Develop sustainability benchmarks

- Better integrate sustainability in ratings and market research
- Clarify institutional investors' and asset managers' duties
- Incorporate sustainability in prudential requirements

- Strengthen corporate sustainability disclosure
- Improve sustainable corporate governance; reduce short termism

SELECTED REGULATIONS

Taxonomy Regulation
To be implemented in 2022 and 2023

The EU taxonomy is a classification system defining minimum criteria that economic activities should comply with in order to be considered environmentally sustainable. The aim is to prevent "greenwashing" and help investors understand whether an economic activity is sustainable.

Low-Carbon Benchmarks
Implemented in 2020

This introduces two low-carbon benchmarks with predefined environmental, social and governance disclosure requirements. These are the "Climate Transition Benchmark" and the "Paris-Aligned Benchmark", which are intended to provide an investor-friendly tool for comparative analysis of carbon footprints.

MiFIDII Amendments
To be implemented in 2022

This obliges investment managers to take into account their clients' sustainability preferences when assessing their investment objectives and providing investment advice.

Disclosure Regulation
First part implemented 10 March 2021

Sustainable Finance Disclosure Regulation in a nutshell

The Sustainable Finance Disclosure Regulation (SFDR) introduces and defines transparency requirements for financial product characteristics such that they can be compared on the basis of their degree of sustainability. Its phased-in implementation started on 10 March 2021 and has two main objectives:

- To make it easier for investors to invest in products that support sustainable development
- To prevent products from seeming more sustainable than they actually are and thus hinder "greenwashing"

SFDR achieves these objectives by imposing new disclosure requirements on sustainability in investments – it applies to both financial entities and products. Requirements include:

- disclosing how sustainability risks are incorporated into decision-making
- disclosing whether the principal adverse impacts on sustainability factors that investment decisions may cause are considered (these are the negative effects on environmental, social or employee matters, as well as on respect for human rights, anti-corruption or anti-bribery that result from an investment decision)
- Categorising products according to their sustainability characteristics as set out in the SFDR product framework. The two categories are: article 8 products (promoting environmental and/or social characteristics) and article 9 products (sustainable investment as an objective). In addition, disclosing how these products attain their sustainability characteristics on websites, in pre-contractual agreements and in periodic reporting.

Raising the bar with new sustainability targets

We have set targets for investments in ESG and sustainable investment products and have committed to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner. This will support our investors in investing in the green transition.

To support society's sustainability goals and the low-carbon transition, we are raising the bar by launching concrete sustainability targets for our investment business. To advance our efforts as a facilitator of sustainable change, we have set specific sustainability targets that plot a clear direction for our commitment to help investors invest in products that promote sustainability or have sustainability objectives. These goals are set in accordance with the new Sustainable Financing Disclosure Regulation (SFDR) product framework.

Our short-term goal is that investors increase their investments in products promoting environmental or social characteristics to DKK 400bn by 2023, corresponding to around three quarters of the assets currently under our management. In addition, the goal is to funnel at least DKK 150bn into sustainable investment products by 2030.

"For our investors, sustainability

We will continue our efforts to strengthen and expand our ESG product shelf and innovate new sustainable investment products. This will advance our ambition of becoming a facilitator for sustainable change.

Marjo Grandell

continues to gain in importance; a trend that is advancing by the hour. They increasingly evaluate the companies and products into which they put their money according to how the companies contribute to combating climate change and other societal challenges. Our new targets reflect this – we want to make measurable efforts and progress in our offering, while at the same time aligning with the new SFDR regulation," says Christian Heiberg, Head of Danske Bank Asset Management.

Enabling investors to invest in the sustainable transition

To achieve our new sustainability targets, we will expand our product offering to cater to investor sustainability preferences, so they can choose investment products aligned with their ambitions and goals.

"Setting measurable and ambitious targets for our responsible investment efforts is a central pillar for delivering on investor expectations going forward. We will continue our efforts to strengthen and expand our ESG product shelf and innovate new sustainable investment products, which we expect to be able to offer in the near future. This will advance our ambition of becoming a facilitator for sustainable change,"states Marjo Grandell, Head of Liquid Investments at Danske Bank Asset Management.

Aspiring to help society reduce its negative impact

In the long term, we are stepping up efforts to support society's ambition of decarbonising the economy. Achieving the climate goals of the Paris Agreement requires corporates to shift their business model from polluting technologies and products to more energy-efficient and climate-friendly solutions. As investors, we can play a significant role in shaping tomorrow's companies and influencing them to reduce their climate footprint. This is why we became a signatory of the Net Zero Asset Manager Initiative, which represents a group of international asset managers committed to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner, in line with the Paris Agreement's target of limiting global warming to 1.5 degrees Celsius.

"As an investor and distributor of investment products, we have a vital role in driving the low-carbon transition, thereby helping society achieve its climate ambitions. By joining the Net Zero Asset Manager Initiative, we will bolster our climate efforts, and we will work in collaboration with our investment customers to set decarbonisation goals for all assets under our management," concludes Thomas Otbo, Chief Investment Officer at Danske Bank Asset Management.

We will set milestone targets for carbon reduction in late 2021 to ensure progress on our net-zero commitment.

As an investor and distributor of investment products, we have a vital role in driving the low-carbon transition, thereby helping society achieve its climate ambitions.

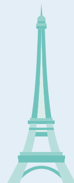
Thomas Otbo

Our investors increasingly evaluate the companies and products into which they put their money according to how the companies contribute to combating climate change and other societal challenges. Our new targets reflect this – we want to make measurable efforts and progress in our offering.

Christian Heiberg

DKK 400bn
in investment products that promote environmental or social characteristics by 2023

DKK 150bn
in investment products that have sustainability objectives by 2030.



Investments aligned with
net-zero emissions
by 2050 or sooner.

Our blueprint for delivering investment value and sustainable progress

Sustainability is becoming more important for companies and for the investment community due to stricter sustainability-related regulations and increased investor demands for sustainable products. This brings new risks and opportunities for companies, making it important for us to analyse and assess how companies navigate the sustainable transition in order to choose the best possible investments for our investors.

International societies have embarked on a journey to make economies more sustainable. Stricter regulation on companies, the Paris Agreement, the UN Sustainable Development Goals and consumers' increased demand for sustainable solutions and products are megatrends that influence companies and thereby our investors. This development is disrupting business models and altering the risks and opportunities that businesses and the financial sector face, making sustainability a key strategic business priority.

We believe it is paramount to capture these sustainability risks and opportunities fuelled by the sustainable transition, as this supports our ambition of protecting and growing our investors' assets. Incorporating sustainability risks has been part of our investment teams' investment processes for many years, and we continuously develop and enhance our sustainability analysis tools and infrastructures, so our investment teams are able to assess risks and opportunities holistically and make the best possible investment decisions.

Addressing sustainability through a materiality lens
Sustainability risks are systematically incorporated into the investment process of our entire product range. Investment teams identify and assess those sustainability factors that pose risks and could have a negative impact on the return potential of investments, i.e. factors that are financially material. As part of that process, companies and countries are analysed to evaluate if they meet international norms and standards for corporate social responsibility, such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises (learn more on page 44). In addition to incorporating sustainability risks into the investment analysis, investment teams use active ownership, screening and restrictions to address and mitigate sustainability risks (learn more on pages 30 and 42).

Utilising data to make better investments

Having a robust process for incorporating sustainability risks and quality investment products requires ESG data. We have therefore built a data platform consisting of more than 8,000 high-quality sustainability data points listing those sustainability aspects that are relevant and critical for businesses and their financial performance. The data platform currently comprises 11 different ESG data sources, which are used by our investment teams to assess how companies are addressing and performing on sustainability matters. These include a company's labour and human rights practices, a company's carbon footprint from their own operations, products and supply chains, board diversity, anti-bribery, biodiversity and deforestation policies, product safety, gender pay gap, animal welfare and waste management processes.

Learn more about the data platform here.

Identifying material sustainability aspects with mDASH®

Central to making sound investments is our investment teams' focus on sustainability issues that are likely to affect a company's business and ability to deliver attractive returns to our investors. This is called financial materiality and is the focal point when investment teams analyse which sustainability aspects are important for individual companies from a financial standpoint. To ensure a systematic approach, we have developed our proprietary analytical tool called mDASH (short for materiality dashboard). The tool organises and categorises data from companies and external data providers, so that our investment teams can cut through 'information noise' and identify material sustainability aspects and assess how individual companies address and manage those aspects. This enables our teams to make better-informed investment decisions that can benefit our investors.

Learn more about mDASH® on page 16 and in our white paper here.

Sustainability analysis built on a robust foundation

Adding new features to our infrastructure ensures investment teams capture relevant and material sustainability aspects. This reinforces the environmental and social characteristics of our products and enables us to accommodate our investors' current and future sustainability preferences and values. For example, our investment teams leverage our ESG data platform and proprietary ESG analysis tool mDASH® to identify and analyse those sustainability factors that are likely to be business-critical for specific companies. In addition, our Responsible Investment team, consisting of ESG specialists and analysts, supports our investment teams across the Nordics in deploying a systematic incorporation of sustainability factors. Moreover, investment teams regularly undertake training programmes to raise their sustainability competencies, so they can constantly improve and strengthen their ability to incorporate sustainability into the selection of investments. Many of our investment teams have recently completed the European Federation of Financial Analysts Societies ESG Analysis training programme.

By building robust sustainability processes, expanding ESG data and developing analytical tools, we continue to enable teams to systematically manage and mitigate the potential sustainability risks of investments – and unlock investment opportunities spurred by, for example, a company's ability to leverage the low-carbon transition to grow their business and achieve a competitive advantage.

Double materiality

It is in our DNA to take responsibility and contribute to making societies more sustainable while creating prosperous and healthy lives. We are therefore mindful of not only how investment performance is affected by sustainability factors, but also the material principal adverse impact on society that our investment decisions may cause. Applying this so-called double materiality assessment across our investment products – meaning the financially material topics that influence enterprise value as well as topics mate-

Companies that fully integrate sustainability into their businesses can to a greater extent use it as a business enabler and be better positioned than competitors to create growth and development.

Joel Backesten, Portfolio Manager

Consumer preferences, company operations and regulations are rapidly changing, spurred by increased awareness of the impact of climate change and global ambitions to push society in a more sustainable direction. These changes will most likely accelerate even more going forward, which is why we have a rigorous process for identifying climate-related risks and opportunities.

Cecilie Hoffmeyer, Senior Portfolio Manager

We consider principal adverse impacts on sustainability factors

We consider the principal adverse impacts that our investment decisions may have on the sustainability of society. In other words, investment decisions that have negative effects on sustainability aspects, such as environmental, social or employee matters, or human rights, anti-corruption or anti-bribery issues. Adverse impacts are currently measured via these indicators, which we seek to continuously expand:

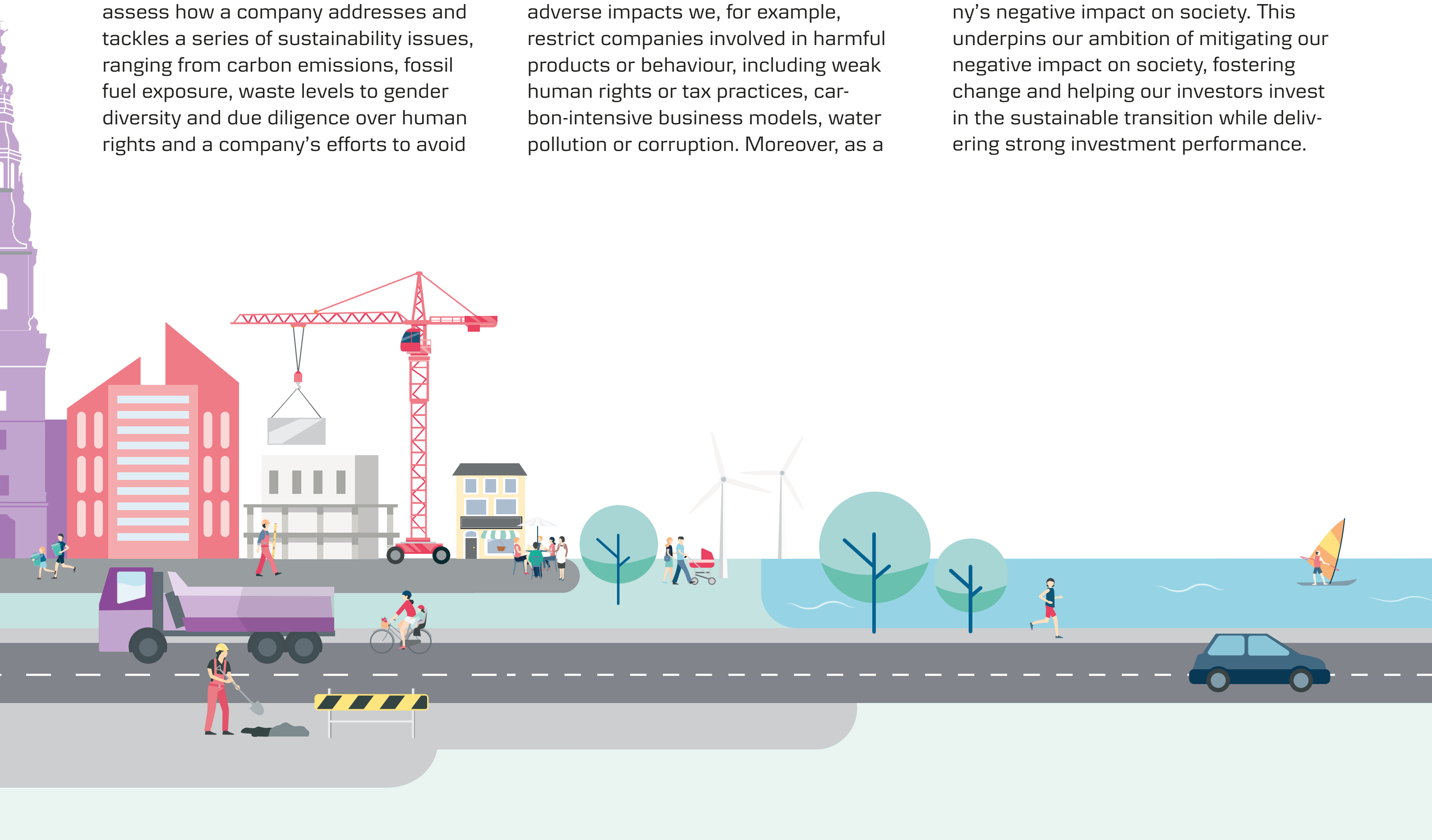
- Greenhouse gas emissions
- Carbon footprint
- Greenhouse gas intensity
- Exposure to companies active in the fossil fuel sector
- Share of non-renewable energy
- Violations of UN Global Compact principles or OECD Guidelines for Multinational Enterprises

We use a wide range of tools, frameworks and data to identify the principal adverse impacts on sustainability factors. These are also addressed through active ownership and we have, for example, incorporated the indicators into our voting guidelines. In addition, we may exclude companies due to principal adverse impacts, and we have, for instance, excluded certain companies that contribute significantly to climate change, damage biodiversity, violate human rights, have insufficient labour rights or are involved in corruption.

Learn more about our processes for identifying and addressing principal adverse impacts on sustainability factors in our full statement at danskebank.com.

rial to the economy, environment and people – is as an integral element of our investment business. We analyse and assess how a company addresses and tackles a series of sustainability issues, ranging from carbon emissions, fossil fuel exposure, waste levels to gender diversity and due diligence over human rights and a company's efforts to avoid corruption, bribery and other practices harmful to sustainability.

To address and reduce principal adverse impacts we, for example, restrict companies involved in harmful products or behaviour, including weak human rights or tax practices, carbon-intensive business models, water pollution or corruption. Moreover, as a responsible investor, we engage with companies with the goal of solving the matter and thus mitigating a company's negative impact on society. This underpins our ambition of mitigating our negative impact on society, fostering change and helping our investors invest in the sustainable transition while delivering strong investment performance.



Taking sustainability in solutions investment products to the next level

Danske Bank Asset Management has a wide selection of so-called solutions investment products that cater to the different needs of investors. These are multi-asset products comprising actively and passively managed components, such as equity or bond funds, and range from retail-friendly investment solutions like Flexinvest or Horisont to Global Portfolio Solutions for investors with more sophisticated needs. We have asked Thomas Otbo, Chief Investment Officer at Danske Bank Asset Management and Head of Solutions, to elaborate on why and how sustainability and responsible investment practices are rooted in these solutions products.

What is important from a sustainability perspective when it comes to our solutions investment products?
Our sustainability approach is founded on materiality and having a robust process for integrating sustainability matters into all aspects of our solutions products. This requires a well-developed foundation of ESG data, tools and expertise – all of which we have developed in recent years and which enables us to derive investment value from sustainability. As Chief Investment Officer, I am focused on utilising our infrastructure to ensure that sustainability is considered throughout the entire investment process of our solutions products, from asset allocation, selection of components or investments, to portfolio construction and risk management . In my view, it is paramount that every step of our process works to promote the same environmental or social characteristics or achieve the desired sustainability outcome while delivering strong investment performance.

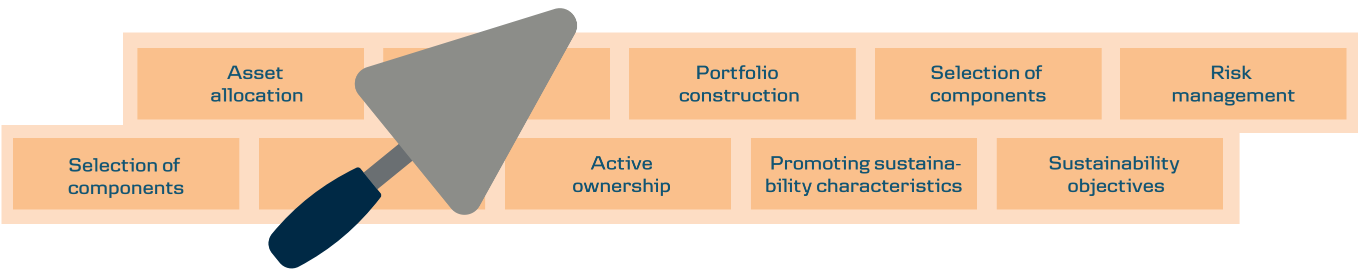
Why is sustainability important for these products
On the one hand, sustainability aspects have, like conventional financial factors, an impact on the potential returns that we can deliver to our investors. This makes integrating sustainability into our investment processes important, as it helps us make better-informed investment decisions and provide our investors with investment solutions capable of delivering competitive, long-term performance. On the other hand, we also have a responsibility as an asset manager to address the principal adverse impacts that our investments may cause. By having sustainability considerations ingrained in our solutions products we can promote sustainable development and make a positive impact.

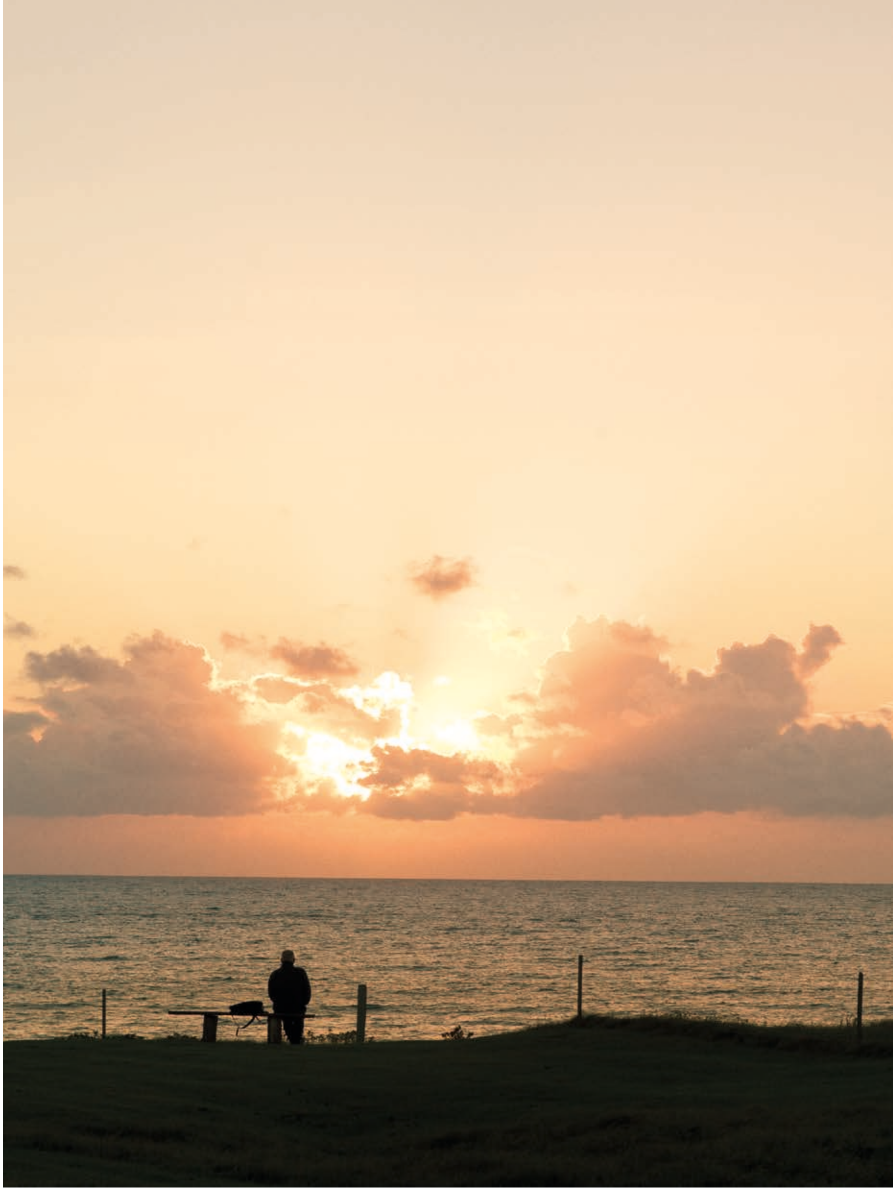
How will the new EU regulation change our solutions products?
Coming EU regulations integrating sustainability aspects in investment advisory mandate that as part of the advisory process we will have to match our investors' sustainability preferences with the ESG characteristics or sustainability objectives of our products. This will necessitate the development of products with explicit ESG characteristics or objectives. We have started to design these products, so we are ready to meet the needs of investors with an appetite for specific sustainability themes. We believe that

As Chief Investment Officer, I am focused on utilising our infrastructure to ensure that sustainability is considered throughout the entire investment process of our solutions products, from asset allocation, selection of components or investments, to portfolio construction and risk management.

Thomas Otbo

investors' desire to invest sustainable is set to amplify in the coming years, and we are keen to develop a product shelf





that caters to the various sustainability objectives of investors.

How will this be done in practice?
Incorporating ESG and sustainability aspects into solutions products involves many different layers and processes that are much more complex compared to integrating sustainability considerations into a single actively managed equity product. We are therefore factoring tailor-made sustainability considerations into the entire investment process – from the allocation of assets, construction of the portfolio and management of risk to active ownership activities.

Can you detail how sustainability considerations are integrated into the asset allocation process?
The asset allocation process is a vital part of the investment process. Depending on the investment strategy, it determines how a product is exposed to, for example, asset classes, regions, sectors, themes and factors. We consider material sustainability risks, opportunities and the negative and positive impacts of these processes, which should support our ambition of creating attractive risk-adjusted returns for investors. Sustainability considerations often relate to long-term time horizons, so we focus on including sustainability aspects in the strategic asset allocation as opposed to the tactical asset allocation process. Consequently, we are currently working on a number of initiatives aimed at further strengthening the asset allocation process from a sustainability perspective. This includes developing an analytical framework that makes it possible to include sustainability factors in long-term capital market assumptions across asset classes, and developing a scenario analysis framework and tools to identify those sustainability risks and opportunities that can impact strategic asset allocation targets and the investment universe. Furthermore, we are also defining a process that will improve our ability to capture sustainability characteristics or objectives in our allocation of regional exposures and sectors.

Do all underlying components have the same sustainability approach?
Solutions products often contain multiple components or multiple layers of investment analysis and decision-making. This is because a solutions product commonly invests in portfolios or funds (components) that are managed by separate investment teams with separate investment processes and objectives. This also means that the investment analysis and investment decisions in a solutions product are made from a top-down perspective, where we assess the investment strategy and sustainability integration of the underlying components, which might differ. Over the coming year, we will include sustainability-related metrics or indicators in the portfolio construction process in order to have solutions products that clearly promote specific environmental or social characteristics or have tangible sustainability objectives. This includes, for instance, our proprietary mSCORE® or carbon risk rating indicators. We will also include pre-defined filters in the selection of underlying components to augment the selection process and ensure sustainability-related aspects are taken sufficiently into account in the decision-making process.

Does active ownership play a role in solutions products?
Active ownership is an essential part of our products and is applied to manage investment risks, maximise returns and contribute to a positive impact on the environment and society in general. We subsequently ensure that challenging sustainability issues are addressed through dialogue and voting in the underlying companies as a means of advancing sustainability standards. We exercise active ownership in solutions products at different levels and ensure that our activities work towards the same objective. As a result, relevant active ownership efforts are in place in the underlying components and are always logged, so we can monitor the activities and their impact on improving sustainability performance. Moreover, we have developed voting processes and voting guidelines that ensure we use our power to influence as an investor and vote on relevant and material sustainability proposals at the general meetings of companies in the underlying components.

Developing analytical tools to capture value

Our analytical tool, mDASH®, is an important key enabler for us to meet the requirements of the EU's new sustainability regulation for financial products' sustainability-related disclosures.

The Sustainable Finance Disclosure Regulation (SFDR) is all about increasing transparency on the sustainability-related aspects of financial products. It places a great deal of emphasis on describing our processes for managing various sustainability characteristics in our investment decision-making.

"At Danske Bank, mDASH® is our proprietary sustainability research platform that enables investment teams to form a holistic view of companies' sustainability performance. mDASH® is therefore a key tool for complying with the requirements of the new SFDR regulation in terms of our investment decisions," says Antti Malava, Head of Sustainability Insights & Analytics at Danske Bank.

In particular, mDASH® supports our efforts to comply with the new regulation in three specific areas:

1. Management of sustainability risks

The regulation requires sustainability risks to be managed and disclosed at product level. mDASH® explicitly identifies those industry-specific sustainability risks that are most likely to impact the financial or operational performance of companies, and scores how each individual company manages those risk exposures.

"mDASH® thus helps investment teams describe the manner in which sustainability risks are integrated into the investment decision-making process by assessing the likely impact of sustainability risks on financial return and explaining the reasoning for whether sustainability risk is deemed to be material or not," explains Antti Malava.

2. Promotion of sustainability principles and practices

SFDR contains a disclosure requirement relevant to the promotion of environmental and social characteristics for article 8 products and demonstration of

All companies must have a viable business plan for embedding sustainability into their operations, otherwise they risk a lack of refinancing opportunities for their bonds. Simply put, a company's sustainability strategy is a decisive component in my selection of companies that I believe are positioned for long-term growth and can deliver an attractive return.

Rikke Zink Secher, Senior Portfolio Manager sustainable investment objectives for article 9 products.

“We have developed robust screening processes that enable investment strategies to ensure low exposure towards investments with a negative impact on the climate or society as a whole and to ensure good governance in investee companies. This means we address standards of corporate governance and sustainability within areas such as emissions, energy use, biodiversity, water, waste, social and employee matters, human rights as well as anti-corruption. mDASH® displays, for example, which restrictions apply to specific companies and the reasoning behind those restrictions,” points out Antti Malava.

Furthermore, our portfolio managers can identify company-specific sustainability issues of interest and concern that they might want to address in their ongoing dialogue with investee companies. mDASH® embeds this information, including a portfolio manager evaluation of how a company has addressed a particular issue, and hence allows us to track progress within areas of interest and concern.

3. Management and disclosure of adverse sustainability impacts

SFDR requires management and periodic disclosure of the adverse sustainability impacts of our investment decisions. An important concept here is principal adverse impacts (PAI).

“PAIs aim to capture the negative, material effects of our investments on sustainability factors. We are in the process of integrating PAIs into mDASH®, so investment teams can identify principal adverse impacts in the investment decision-making process,” says Antti Malava.

Article 9 products have sustainable investment as their objective. Meeting this requirement necessitates a framework that defines how economic activities contribute to an environmental or social objective. Furthermore, article 9 products must ensure that such sustainable investments do not significantly harm any other environmental or social objectives in the framework and meet minimum social safeguards. We are now developing a robust article 9 framework, and mDASH® will incorporate relevant data to describe and measure such sustainable investment objectives.

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mDASH® thus helps investment teams describe the manner in which sustainability risks are integrated into the investment decision-making process by assessing the likely impact of sustainability risks on financial return and explaining the reasoning for whether sustainability risk is deemed to be material or not.

Antti Malava

mDASH® in brief

- To support our ambition of truly integrating sustainability into our investment decision-making, we have developed our own analytical tool mDASH®.
- mDASH® is a materiality dashboard that sources the best available raw ESG data from company disclosures and a number of third-party data and ratings providers to form the basis for assessing what is material to the companies we invest in.
- We can also transform scope and data inputs into a material sustainability risk score for each company in our universe – this we term an mSCORE®, which we have developed as one output from mDASH®.
- mDASH® helps us identify investment value in ESG data, make holistic assessments and take ownership of our sustainability integration, thus supporting better-informed investment decision-making.

We were keen to develop a more structured approach to monitoring existing managers and selecting new investment managers, so we could attain a greater understanding of their sustainability-related processes, activities and resources.

Mads Steinmüller

Rigorous sustainability assessment of external managers

We collaborate with external investment managers around the world, and the EU's new Sustainable Finance Disclosure Regulation has created a need to strengthen these partnerships. A new assessment framework has been developed that includes a review of how external managers promote environmental or social characteristics or have sustainable objectives for their funds.

Danske Bank's ambition is to take a leading position and become one of the best banks in the Nordics in terms of responsible investments. The EU's recently adopted Sustainable Finance Disclosure Regulation (SFDR) has defined a new regulatory framework for investment funds, which must now comply with a number of disclosure principles in order to be marketed as an ESG fund or a sustainable fund.

This also applies to externally managed funds in the Danske Invest fund universe. These are funds not managed by Danske Bank Asset Management but other managers like Fidelity, Aberdeen and NN Investment Partners. External managers are often used for asset classes or geographies where they have specialist competences or are closer to the investment universe than Danske Bank Asset Management.

"Across the Nordic region, we service numerous investors, large and small, retail and business, who have a diverse set of values, preferences and needs. We have to ensure we are able to serve our investors' diverse needs with an attractive product range of responsible investments, regardless of whether they are investing in American high yield bonds or Chinese equities," says Mads Steinmüller, who is Senior ESG Specialist and part of Danske Bank's Responsible Investment team.

He adds that the general level of awareness about responsible investments in the Nordics is high, and that investors are increasingly requesting exposure to sustainability themes and objectives.

Assessing sustainability processes

In spring 2020, the Responsible Investments team developed a new assessment framework for all external managers. As well as regular monitoring by the Manager Selection team, all external managers are sustainability-assessed annually to monitor and evaluate their progress in working with responsible investments.

"We were keen to develop a more structured approach to monitoring existing managers and selecting new investment managers, so we could attain a greater understanding of their sustainability-related processes, activities and resources," explains Mads Steinmüller.

The assessment is rooted in the Danske Bank Responsible Investment strategy, which focuses on sustainability Integration, Active Ownership and Report & Disclose. However, the assessment was updated after the SFDR regulation came into force and now includes a review of how external managers promote environmental or social characteristics or have sustainable objectives for their funds.

"We spoke to all external managers about SFDR in the autumn, and even though the majority of the external managers we collaborate with have strong sustainability processes, we decided to classify the funds as article 6 as of 10 March 2021 (non-sustainable). However, all external managers are very positive about the SFDR requirements and we are currently working with many of them so we can market their funds as ESG or Sustainable investment funds (article 8 or article 9 funds)," says Mads Steinmüller.

Danske Bank's ambition is that all externally managed funds should become ESG or Sustainable funds. That ambition is aligned with our long-term goal of having at least DKK 400bn invested in funds that promote environmental or social characteristic by 2023 and at least DKK 150bn in sustainable investment products by 2030.

All external managers are very positive about the SFDR requirements and we are currently working with many of them so we can market their funds as ESG or Sustainable investment funds (article 8 or article 9 funds.

Mads Steinmüller

Sustainability assessment of external managers

We assess how external managers integrate sustainability into investment decisions and continuously discuss how their processes can be improved.

Sustainability Integration

- ESG education, data & resources
- Material ESG risk/opportunities in the investment analysis
- Environmental/social characteristics or sustainable investment objectives
- Climate change risk mitigation

Active Ownership

- Engagement approach
- Themes and topics
- Investor initiatives & collaborations

Report & Disclose

- Strategy level reporting
- Firm-wide level reporting

Supporting the sustainable transition through index investments

Two new climate benchmarks have been introduced as part of the EU Action Plan on Sustainable Finance. These serve as tools for investors to actively align their decarbonisation efforts in index investments with the climate targets of the Paris Agreement. We have already started to help investors use these benchmarks as a means to strengthen their climate profile while maintaining broad market exposure at a low cost.

Index investments are a central pillar in the investment strategy of many institutional investors in particular, and many of these investors have high ambitions when it comes to contributing to the low-carbon transition and making societies more sustainable. So how can investors successfully combine investing in low-cost indexes with attractive market exposures while contributing to the climate goals of the Paris Agreement? According to Jasper Riis, Head of Quant & Overlay at Danske Bank, the two new climate benchmarks provide an effective means of combining climate ambitions with an attractive risk/return profile. The EU's "Paris-Aligned Benchmark" and the "Climate Transition Benchmark" can be leveraged by investors to emphasise their climate action and create climate-resilient index portfolios.

"Using the two benchmarks is a forceful way to actively express your climate ambitions in index investments, which are passive by nature. Many investors, especially large institutional investors, have committed to having a net-zero investment portfolio by 2050, and this allows them to carry on investing in cost-effective index portfolios, have a diversified investment strategy with attractive return potential and at the same time deliver on their sustainability targets and promises to their boards and customers," explains Jasper.

He adds that Danske Bank has already assisted an institutional investor in implementing the "EU Paris-aligned Benchmark" in their global equity index portfolio, thus lowering their carbon emissions by 50 per cent compared to the broad market index and significantly reducing their annual carbon emission levels going forward. Jasper believes this trend will amplify in the coming years, as many investors are seeking to reinforce and extend their sustainability profile.

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The quantitative overlay ensures that investors are in the vanguard of supporting society's climate agenda. In my view, using the benchmarks clearly signals an investor's commitment to redirecting its investments towards opportunities in the energy transition.

Jasper Riis.

Advisory that moves sustainability ambitions forward

Our ability to successfully help investors transition their index investments to the climate benchmarks is rooted in our own high sustainability ambitions, insights, tools and know-how that we have built up in recent years.

"Our interests and sustainability ambitions are aligned with our investor clients, and being a sparring partner and engaging in strategic discussions are ingrained in our advisory. We have capabilities and access to extensive ESG data and quantitative analytical tools that many of our investors do not, and we closely collaborate with them from the initial planning and assessment phase to concrete recommendations for the portfolio construction and execution phase. In essence, we leverage our deep sustainability expertise to tailor and boost our investors' climate profiles in their index portfolios, exemplified by us being able to help early-movers, such as the institutional investor wanting to be at the forefront of the climate agenda," says Jasper, who adds:

"We want to be a leading bank in the Nordics on sustainability, and to drive the transition to net-zero carbon emission investments that is necessary to fulfil the climate targets of the Paris

Agreement. To achieve this ambition, we are building stellar investment advisory services, enhancing and expanding our ESG data architecture and analytical tools and are fully focused on engineering investment solutions that help our investors funnel capital to fund the sustainable transition.

> *In essence, we leverage our deep sustainability expertise to tailor and boost our investors' climate profiles in their index portfolios*
>
> *Jasper Riis.*

Investments aligned with EU's sustainability targets

From Jasper's perspective, using the EU's climate benchmarks is a gateway to aligning index portfolios with the EU Action Plan and its support of the Paris Agreement climate goals as well as complying with EU sustainability regulations.

"By implementing these benchmarks, the index portfolio is aligned with the Sustainable Finance Disclosure Regulation, and we automatically adjust the portfolio if regulators adjust the benchmark requirements. The quantitative overlay ensures that investors are in the vanguard of supporting society's climate agenda. In my view, using the benchmarks clearly signals an investor's commitment to redirecting its investments towards opportunities in the energy transition, broadly encompassing products and services related to renewable energy and energy efficiency," explains Jasper Riis.

To make it possible for investors of all types to invest in the low-carbon transition, Danske Bank is currently exploring the possibility of using these climate benchmarks in index products. This will enable us to offer index products that meet the sustainability requirements set out for article 8 and 9 products in the Sustainable Finance Disclosure Regulation.

What are the EU's climate benchmarks?

The two benchmarks provide a robust and consistent framework for investors to incorporate specific objectives related to greenhouse gas emission reductions and the transition to a low-carbon economy through the selection and weighting of underlying investments. The benchmarks are predicated on the Paris Agreement target of limiting global warming to ideally below 1.5°C by the end of the century, and the goal is to help further mobilise and move investor capital towards activities that contribute to fighting climate change.

	EU Climate Transition Benchmark	EU Paris-Aligned Benchmark
Minimum carbon intensity reduction compared to investable universe	30%	50%
Baseline exclusions	Excludes companies involved in: • Controversial weapons • Violating social norms	
Activity exclusions	None	Excludes companies with: • Coal revenue of more than 1% • Oil revenue of more than 10% • Natural gas revenue of more than 50% • High carbon-intensity electricity producers with more than 50% revenue from production emitting more than 100g CO_2 e/kWh
Year-on-year self-decarbonisation of the benchmark	At least 7% on average per annum: in line with or beyond the decarbonisation trajectory from the UN's Intergovernmental Panel on Climate Change 1.5°C scenario.	
Exposure constraints	Minimum exposure to sectors highly exposed to climate change issues is at least equal to equity market benchmark value.	

Funnelling investments into the sustainable transition

We offer a wide range of ESG investment products so our investors can invest in the sustainable transition while gaining attractive returns. To advance our efforts as a facilitator of sustainable change, we will continue to innovate and expand our ESG product shelf to meet the changing sustainability preferences of our investors.

All our investment products adhere to our responsible investment policy and incorporate sustainability risks, exercise active ownership and apply our investment restrictions. The EU's Sustainable Finance Disclosure Regulation (SFDR) has clearly defined the requirements that products must meet in order to be marketed as an ESG or sustainable investment product – corresponding to article 8 and 9 under SFDR. (You can learn more about our labelling and communication on these products on page 52).

Innovating to support investors' and society's sustainability ambitions
We currently offer 89 funds and sub-funds that promote environmental or social characteristics (article 8), and we expect to be able to offer sustainable investment products (article 9) in the near future. We have chosen a conservative approach to labelling our products as article 8 or article 9, as we want to ensure that we live up to the extensive regulatory requirements and thus honour the spirit of SFDR. However, we are ambitious about expanding our offering of products with sustainability characteristics, so innovating new ESG and sustainability products is a high priority. We are keen to take a leading position and become the preferred investment partner when it comes to investment solutions that support the sustainable transition and create return. We firmly believe that being an agent of change and a facilitator of sustainable development will benefit our investors and enable them to take action on sustainability and support society's ambitions.

How can investment products promote environmental or social characteristics?

Depending on the ESG investment product's asset class, investment strategy or geographical focus, products can use different tools and approaches to promote environmental and/or social characteristics and ensure good governance practices. Here are examples of how investment teams managing ESG investment products utilise the selection process, active ownership and restrictions to align with the products' specific sustainability characteristics.

Through investment selection

Products can promote various environmental and/or social characteristics when they select investments. They can do this by investing in companies that have:

- low CO_2 emissions, or companies in the process of reducing their carbon footprint
- a high degree of diversity in their board
- products that ensure biodiversity, clean drinking water or the recycling of materials
- a high ESG rating
- good labour conditions

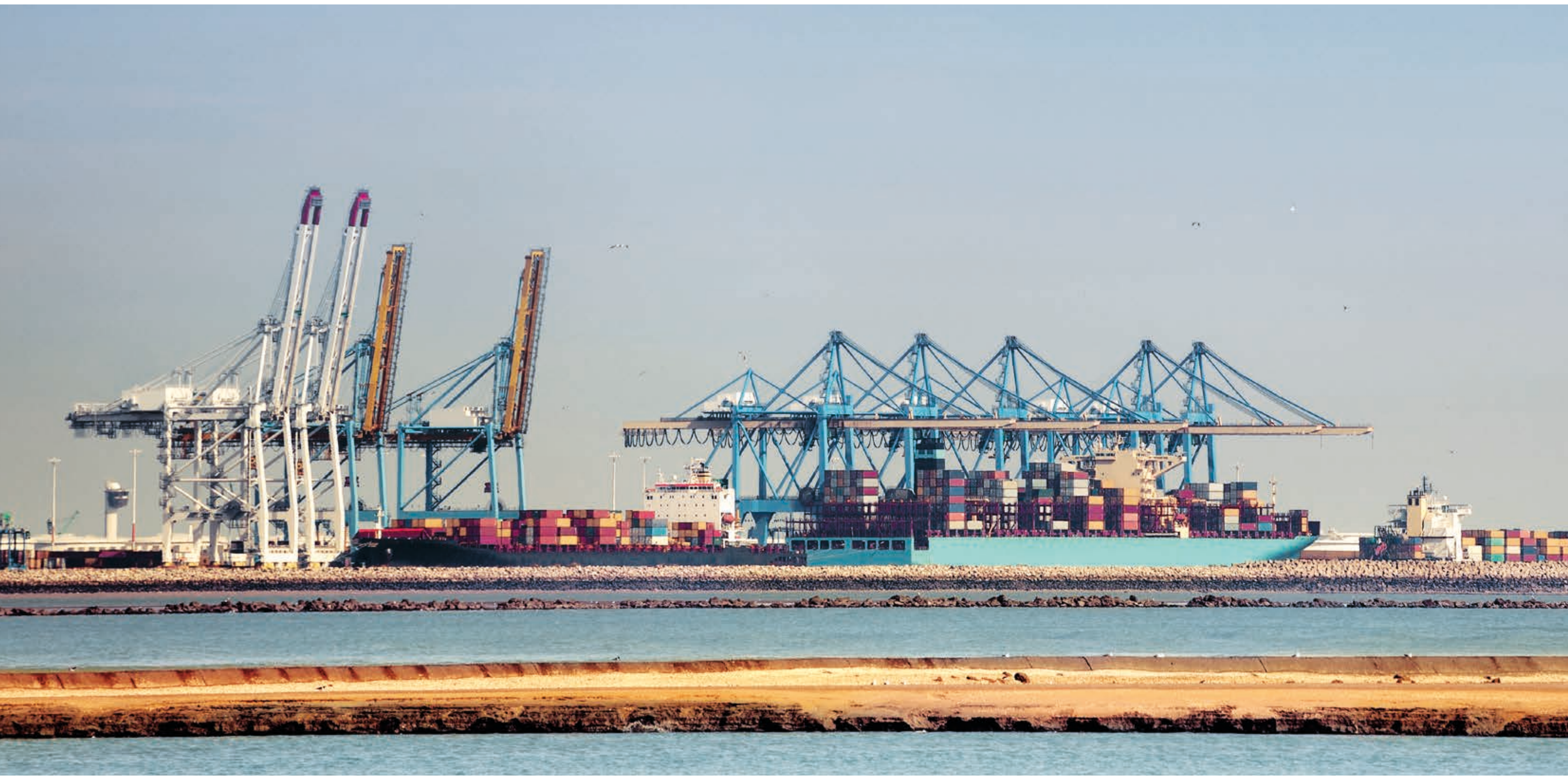
By influencing companies

The product can focus on influencing and improving corporate conduct and thus further promote environmental and/or social characteristics. Investment teams can do this by engaging in direct dialogue with the company management, voting at company AGMs or by forming alliances with other investors. Products might focus on, for example, improving a company's efforts to:

- combat corruption and bribery
- minimise its carbon footprint and negative impact on the environment
- comply with the principles of the UN Global Compact and respect human and labour rights
- create a more reasonable remuneration structure for executive management
- promote greater gender diversity among its leadership

By refraining from specific investments

Products restrict a pre-defined list of companies to ensure a low exposure to investments which have a negative impact on the climate or society as a whole and to ensure good governance in investee companies. These restrictions support the promotion of environmental and social characteristics along with good governance, more specifically addressing enhanced sustainability standards, reduction of involvement in non-ethical or controversial activities and sectors, and a reduction in activities that have a significant negative impact on the climate. For certain products, restrictions are expanded to cover other types of non-ethical or controversial exposures, such as alcohol, fossil fuels or military equipment. You can read more about the restriction criteria on page 43).



CASE – PROMOTING ENVIRONMENTAL OR SOCIAL CHARACTERISTICS AND ENSURING GOOD GOVERNANCE

Companies must adapt to climate trends

ESG scores among Danish companies tend to be considered as quite high, but some companies face challenges in the sustainability race. Our Danish Equities team use their close relationship with Danish management teams to leverage more sustainability.

As with all other investment teams at Danske Bank Asset Management, Jacob Schmidt Johansen and Jesper Neergaard Poll from the Danish Equities team use our proprietary mDASH tool when conducting their sustainability analyses. mDASH provides all investments with an ESG score and gives Jacob Schmidt Johansen and Jesper Neergaard Poll an insight into to how a company can be perceived from a sustainability perspective by the financial markets. However, as the team has a very close relationship with many Danish companies and has been following them for many years, mDASH rarely provides them with completely new information.

"We know our companies very well and are on first-name terms with management teams. The data in mDASH is typically based on a standard analysis done from afar, while our analysis is performed in close proximity to the companies. Nevertheless, if the market has concerns, it is important to address any misconceptions, as they can affect the share price negatively. We make the companies aware of how they are perceived," says Jesper Neergaard Poll.

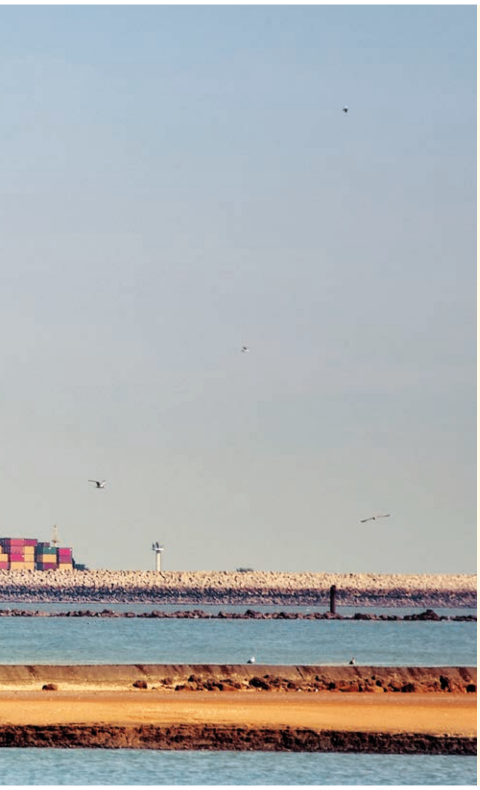
Environmental issues in transportation

The Danish equities fund, 'Danske Invest Danmark', is classified as an ESG investment fund (article 8 under SFDR), meaning that the fund promotes environmental and social characteristics and ensures good governance practices. Jacob Schmidt Johansen and Jesper Neergaard Poll spend quite a lot of time actively influencing the companies to become more sustainable. Environmental issues have dominated their discussions with the companies in 2020.

One currently ongoing dialogue Jacob Schmidt Johansen mentions is with the Danish shipping company, Maersk. Shipping accounts for a large share of CO_2 emissions, but Maersk has set a target of zero CO_2 emissions by 2050.

"2050 may seem far away, but a container ship has a lifespan of 20 to 25 years, which means the entire fleet has to be replaced with new ships that emit less or use new fuel types. Maersk has to buy these ships somewhere, so they are very dependent on their suppliers. It's a pretty ambitious target," says Jacob Schmidt Johansen.

He adds that several Danish transportation companies face challenges



Key environmental discussion points

To ensure Maersk and Rockwool continue to adjust their businesses to a low-carbon economy and maintain financial performance, the Danish Equities team is focusing their dialogue on:

Maersk
- New ships and fuel types
- Potential emissions regulations
- Maersk's global market-leading position

Rockwool
- Production CO_2 footprint
- Demand for sustainable insulation products
- Fire resistance of products

if they do not comply with the need for sustainable solutions.

"We believe that if you are not able to offer environmentally friendly transportation, future customers will not use you as a carrier. A retail clothing company that produces sustainable clothes in China would also want a sustainable logistics solution," adds Jesper Neergaard Poll.

We believe that if you are not able to offer environmentally friendly transportation, future customers will not use you as a carrier. A retail clothing company that produces sustainable clothes in China would also want a sustainable logistics solution.

Jesper Neergaard Poll

Another example of an environmental issue is the dialogue they have with Rockwool, a company that produces insulation products for the construction industry. The product itself is sustainable, as it reduces emissions by improving the insulation in buildings; it is a natural product, and it is fireproof. However, the production process uses enormous amounts of energy, as stones are melted into stone wool.

"Rockwool is currently investing heavily to make their production more sustainable. These investments will not provide an immediate return, but we believe they are in the interests of shareholders, as they strengthen Rockwool's long-term position," says Jesper Neergaard Poll.

High ESG score among Danish companies

Although a few companies have serious sustainability challenges, Jacob Schmidt Johansen generally sees ESG scores as being quite high among Danish companies compared to other investment universes. In his view, Danish corporate culture has an advantage in the sustainability race.

"In my opinion, Danish companies have an advantage when adapting to a new world with a strong focus on ESG. The 'E' has become increasingly important in the last 5 years, the 'S' is ingrained in our cultural DNA, and I believe the focus on 'G' started with the Nørby report in 2002, when the term 'corporate governance' suddenly appeared on the agenda of most Danish companies," explains Jacob Schmidt Johansen.

The report Jacob Schmidt Johansen is referring to was an initiative undertaken by the Danish government in order to make recommendations for good corporate governance. The committee consisted of four Danish CEOs and the report looked into remuneration plans and independent boards, among other things. The recommendations were based on Danish and EU company law and on the OECD's Principles of Corporate Governance and were subsequently incorporated into many Danish companies.

CASE – PROMOTING ENVIRONMENTAL OR SOCIAL CHARACTERISTICS AND ENSURING GOOD GOVERNANCE

Companies expected to take social responsibility

Sustainability discussions with European companies are part of everyday life for the International Equities team at Danske Bank Asset Management. However, the corona pandemic has changed the European sustainability agenda, with companies and investors turning their attention to social issues.

Along with a team of 10 investment professionals, chief portfolio manager Kasper Brix-Andersen manages the Danske Invest Europe fund. To promote environmental and social characteristics and ensure good governance, the fund's portfolio managers use dialogue, etc., with companies to challenge their sustainability performance and encourage them to raise the bar.

Kasper Brix-Andersen considers 2020 a watershed in sustainability terms. Most of the companies in his investment universe were affected by the uncertainty of the COVID-19 outbreak and its economic aftermath. In the financial markets, one of the consequences of this unexpected turn of events was that social issues became a hot topic.

"The pandemic came as a huge exogenous shock – almost like a natural disaster – that severely tested the resilience of European companies. Environmental and governance issues have been on the sustainability agenda for many years, pushing social issues into the background, but COVID-19 prompted a discussion on how to ensure the health of your employees and how to keep factories open and secure jobs. The 'S' suddenly emerged into the light," says Kasper Brix-Andersen.

Adidas in media storm

One of the dialogues about social

issues they had was with German sporting goods manufacturer Adidas. In March 2020, when most of Europe went into a lockdown, Adidas held back rent payments on their shops. The decision sparked outrage in Germany and several German government ministers were quoted in the media, saying they were appalled.

"We had a lot of calls with companies during the first months of the pandemic, including several with Adidas. These were very uncertain times and it is fair to say that some companies needed a few iterations before they found their way," Kasper Brix-Andersen points out.

A media storm broke out in Germany and Adidas changed its tune. In April and May, Kasper Brix-Andersen spoke to Adidas again and the company assured him they had changed strategy, so Kasper kept the stock.

Kasper Brix-Andersen says that the Adidas case really highlights the fund's focus on promoting environmental and social characteristics.

"Adidas is actively working on making positive contributions to the UN Sustainable Development Goals via their products, and they are generally doing a good job – but it's not all positive. Topics like the environmental impact of the supply chain, management of chemicals in products, raw material sourcing and efficiency are at the top of our agenda when we look at Adidas," says Kasper Brix-Andersen.

Supporting a company's sustainability journey

Another example of an ESG dialogue, starting a few years back, is with Hexagon, a mid-sized Swedish industrial software company. According to our internal proprietary ESG analysis tool, mDASH®, Hexagon had a poor ESG score, but Kasper Brix-Andersen and his team were not fully convinced this was a fair analysis and they were expecting the company to improve. In Kasper's experience, some companies do not invest the time and capital to collect and report sufficient ESG data for the data providers. This often results in an ESG score that does not reflect the true profile of the company. This is why the International Equities team always perform their own analysis in addition to the mDASH® output.

Kasper and his co-manager, Tobias Siemenge, met with Hexagon and told them how their sustainability profile appeared when looking purely at the ESG data.

"We told the management team that we knew they were doing fine, but if investors who do not know the company as well as we do looked at them only through an ESG lens, the company seemed unimpressive. We recommended that they invest time and

> *We told the management team that we knew they were doing fine, but if investors who do not know the company as well as we do looked at them only through an ESG lens, the company seemed unimpressive.*
>
> Kasper Brix-Andersen

> *Environmental and governance issues have been on the sustainability agenda for many years, pushing social issues into the background, but COVID-19 prompted a discussion on how to ensure the health of your employees and how to keep factories open and secure jobs. The 'S' suddenly emerged into the light.*
>
> Kasper Brix-Andersen

effort in collecting and consolidating data from their numerous subsidiaries around the world to improve their ESG data quality and ESG reporting, which we were convinced would ultimately improve their sustainability ranking," says Kasper Brix-Andersen.

Although they seemed taken aback and not very receptive at the meeting, the company has come a long way since the team initially invested in summer 2019. Kasper Brix-Andersen thinks that other investors must have given them the same feedback.

Last year the company hired a Head of Sustainability and this year Hexagon announced emission targets for the first time. According to Kasper Brix-Andersen, this kind of 'sustainability journey' in a company is not unusual, and they have become used to giving sustainability profile feedback to existing and potential investment cases.

"We engage and discuss sustainability topics with all our companies, including how to improve their journey and contribute to a more sustainable future," Kasper Brix-Andersen concludes.

CASE – PROMOTING ENVIRONMENTAL OR SOCIAL CHARACTERISTICS AND ENSURING GOOD GOVERNANCE

Governance is a key issue when investing in developing countries

Addressing sustainability issues in developing countries that sometimes struggle with various fundamental challenges is not an easy task – especially when you invest in government bonds. Nevertheless, sustainability is an important part of the investment process for the Emerging Markets Debt Hard Currency team.

The team behind the fund invests in government bonds in emerging markets – countries like Mexico, Ivory Coast, Mongolia and Jamaica. When asked if it makes sense to talk about sustainability in developing countries, portfolio managers Bent Lystbæk and Jacob Ellinge Nielsen are quite clear.

“Sustainability is extremely important when we assess credit risk. Good governance is an essential starting point to achieving sustainable economic growth, as it is highly correlated with specific market-friendly policy frameworks, private property rights and a competent legal system. At the same time, sustainability is increasingly relevant because it is becoming an important factor in influencing market access to capital from the developed world,” says portfolio manager Bent Lystbæk from the Emerging Markets Debt team.

Since the inception of the fund in 2013, the portfolio managers, along with research analysts Thomas Haugaard and Sorin Pirau, have been working with various parameters that bear a strong resemblance to sustainability. Back then, the term sustainability was not as topical as it is now in their investment universe, but governance was and still is of utmost importance to their investment approach.

“When we started developing our analytical tools in 2013-14, we quickly discovered that the broader concept of governance is crucial for credit risk, as it correlates positively with economic policy quality. Furthermore, we were convinced that from a risk-management perspective a country’s institutions and policies were important in anchoring credit risk,” says analyst Thomas Haugaard.

World Bank governance indicators

During the past seven years, the investment strategy has grown from $2bn in AuM in 2013 to around $6bn at present, and while communication around sustainability has intensified in recent years, sustainability has been a structured and fully integrated part of the investment process throughout this time.

Three of the six World Bank governance indicators form a core element of their credit risk assessment. The three indicators are rule of law, regulatory quality and political stability and absence of violence.

“What characterises different governance indicators is that they are often highly correlated, so a proper statistical treatment of these indicators is necessary when integrating them into a credit risk assessment,” says Bent Lystbæk.

In the Emerging Markets Debt team's analysis, the second-most important variable is regulatory quality. This is the World Bank's perception of a government's ability to formulate and implement sound policies and regulations that permit and promote private sector development – a development that is crucial for long-term sustainable economic growth. The most important variable is the traditional credit risk indicator: a country's debt-to-GDP ratio.

"We have always focused on having empirical evidence throughout the investment process. The main component of our bottom-up country credit-risk analysis is built on an econometric analysis, which means we are very conscious about what kind of ESG data we use," explains Bent Lystbæk.

One of the biggest challenges is that ESG data is often published with a significant time lag. The World Bank governance indicators, for instance, are updated with a 12-18-month delay.

"Most of the data we receive is rather old, and we cannot make sound investment decisions if we only look at historical numbers. Instead, we have to conduct our own analysis to form a more forward-looking view on the drivers of credit risk, especially when it comes to governance indicators," says Thomas Haugaard.

> *Sustainability is extremely important when we assess credit risk. Good governance is an essential starting point to achieving sustainable economic growth, as it is highly correlated with specific market-friendly policy frameworks, private property rights and a competent legal system.*
>
> *Bent Lystbæk*

Where does the investment team invest?

The Emerging Markets Debt investment universe spans more than 70 emerging market countries and is the most country-diverse asset class globally. More than 400 bonds are included in the fund. They are classified as either pure sovereigns (government bonds), quasi-sovereigns (companies that are 100% owned by the state), majority-owned companies (where the government owns the majority of the company) or pure corporates (where the state does not have a controlling stake in the company). The focus of the strategy is sovereign risk, so depending on current market conditions the fund is usually around 90% invested in either sovereigns or quasi-sovereigns.

THE WORLD BANK

What are the World Bank governance indicators?

The Worldwide Governance Indicators project reported aggregate and individual governance indicators for over 200 countries and territories over the period 1996–2019 for six dimensions of governance. These indicators combine the views of a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. They are based on more than 30 individual data sources produced by a variety of survey institutes, think tanks, non-governmental organisations, international organisations and private sector firms. The six indicators are:

- Voice and Accountability
- Political Stability and Absence of Violence
- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Control of Corruption

Source: World Bank

A challenging year and a turning point for sustainability

Pushing companies to adapt to a changing world and transition to more sustainable business practices is a natural part of our approach to active ownership. In the past year, we have focused on the social aspects and climate efforts of companies as well as expanding our ability to influence the sustainability strategies of more companies through our voting activities.

The outbreak of COVID-19 was a portentous event that changed the sustainability agenda for people, companies and the investment world. The unprecedented pandemic underlined that creating prosperous and resilient societies rests upon decisive sustainability actions from all parts of society, as the interconnectivity of the global community means that all business sectors across geographies and levels of wealth are affected.

As a global investor, we have a responsibility to push for better sustainability practices among companies. We embrace that task in the firm belief that increased sustainability leads to better and more robust companies, which in turn helps us protect and grow our investors' assets while propelling society in a more responsible and sustainable direction.

Sustainability is a business priority

In 2020, we engaged with more than 500 companies around the world on more than 100 ESG topics, ranging from employee health and safety, business ethics and the circular economy to energy efficiency, product quality and digitalisation. This illustrates how sustainability revolves not only around the climate agenda but concerns a wide range of issues that are important for companies to address, so they can take a holistic approach to creating a sustainable business that delivers long-term value for its investors and adds value to society.

In our view, it is vital that companies continue to improve their sustainability performance, while being mindful of how their operations and practices influence society and could potentially cause adverse sustainability impacts. The sustainability path for the various sectors, geographies and specific companies is nuanced, but let there be no doubt – we are committed to being an active and responsible investor who supports and influences companies, and we are in it for the long haul. We believe this is the most effective roadmap for bringing about lasting sustainable change.

Spotlight on social issues

The EU agreeing a green recovery plan to repair the damage caused by the coronavirus and lay the foundation for a more sustainable Europe meant the crisis accelerated the green transition. Along with other climate initiatives adopted by policymakers around the world, it is now more important than ever to discuss the readiness of companies for the green transition and how they can adapt their businesses to a world that is rapidly moving in a sustainable direction (learn more on page 34).

In the wake of COVID-19, the social dimensions and corporate citizenship aspects of companies have surfaced as weighty business-critical issues and taken up a larger portion of our company dialogues in 2020 compared to 2019. The crisis has heavily underlined society's expectation that companies should not only be profit-driven – they also have a broader social responsibility and should contribute to mitigating the consequences of the corona crisis. How companies handle health and safety has been an important aspect of our dialogues, with our focus being on companies not prioritising earnings higher than employee health, for example.

On the contrary, we have advocated that companies should demonstrate social responsibility and help mitigate the economic and health-related fallout of the crisis. Many companies are more tentative in their approach to social

We exercise active ownership in three ways

Our investment teams engage in direct dialogue with the companies in which they invest with the aim of influencing the companies' behaviour, strategies and performance in relation to business-critical sustainability aspects and principal adverse impacts. Investment teams use their in-depth knowledge of the companies to, for example, influence them to reduce their CO_2 emissions, increase diversity on the board of directors, strengthen waste management processes, create safe and healthy working conditions for employees, or fight corruption. At the same time, investment teams focus on supporting companies' long-term value creation.

The dialogue also provides our investment teams with greater insight into companies – insights that the teams then use to make better-informed investment decisions that can benefit the potential return for our investors.

We use our voting rights at companies' annual general meetings to voice our opinion on key business issues. It is an important part of our efforts to support and influence companies to address business-critical aspects. We vote on a wide array of topics, including remuneration policies, capital structure and shareholders' rights, CO_2 emissions, energy efficiency, gender diversity, biodiversity, human rights and anti-corruption. Through voting, we seek to support a company's long-term growth potential, mitigate its sustainability risks and minimise companies' adverse impacts on society.

We are a member of several investor organisations and investor initiatives, and we collaborate with a range of other relevant stakeholders. By doing this, we aim to contribute to the development of responsible investments and to promote transparency and sustainability standards in companies and in the financial markets.

We work with other investors and stakeholders to exert active ownership and engage in joint dialogue with companies to contribute to positive change. By working together, we and the investment industry gain a stronger voice, and this enables us to put additional pressure on companies to address and improve on sustainability-related issues and have responsible business practices.

aspects, new ways of working and supporting the well-being of local communities. We do not expect the importance of social issues to fade during the coming years, and we will continue to support and push companies to improve on social matters, including diversity and inclusion, community out-reach, health and safety practices and human rights issues.

wInfluencing more companies through voting

To maximise our ability to influence companies through voting at annual general meetings, we strengthened our voting infrastructure in 2020 and are now voting more extensively. As well creating our voting guidelines, we are now voting on passively managed assets. As a result of our more robust voting structure, we exercised our voting rights as a shareholder at more than 5,200 company meetings in 2020, which is a significant increase on 2019. We have also expanded our voting guidelines, so we have a clear position on topics related to principal adverse sustainability impacts, carbon emissions, biodiversity, water issues, employee safety, anti-corruption, etc. You can read more about our enhanced voting guidelines on page 40.

Company engagements in 2020

The corona pandemic underlined society's expectation that companies should take a broader social responsibility and, in this case, contribute to mitigating the consequences of the corona crisis. This prompted us to focus on discussing how companies ensured the health and safety of employees as part of protecting the business and contributing to stopping the spread of the virus. In addition, it was vital to discuss the resilience of a company's business models in order to assess whether they could get through the crisis. Another important aspect of our company dialogues in 2020 was to analyse and discuss the potential behavioural changes prompted by the crisis, including a shift in demand for e-commerce, payment services or IT solutions that could significantly impact the growth potential of many companies.

Companies	Country domiciles	ESG engagement topics	Interactions
525	**42**	**103**	**845**

Most frequently discussed topics across ESG themes

E

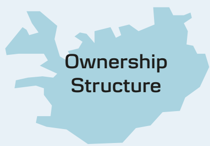
Rank	Topic	Count
1	GHG Emissions	128
2	Energy Efficiency	72
3	Energy Transformation	71
4	Circular Economy	63
5	Green Financing	56
6	Sustainable Products	42
7	Digitalisation	36

S

Rank	Topic	Count
1	Employee Health & Safety	88
2	Access & Affordability	56
3	Business Model Resilience	53
4	Customer Welfare	46
5	Supply Chain Management	42
6	Product Quality & Safety	37
7	Product Design & Lifecycle Management	37

G

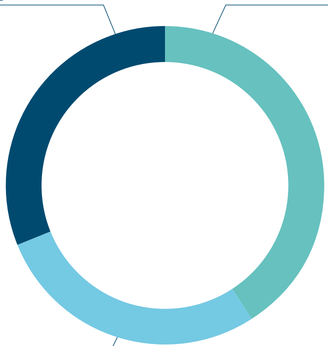
Rank	Topic	Count
1	Dividends	68
2	Capital Structure	66
3	M&A	57
4	ESG Integration	56
5	Restructuring	32
6	Sustainability Integration & Reporting	31
7	Business Ethics	24



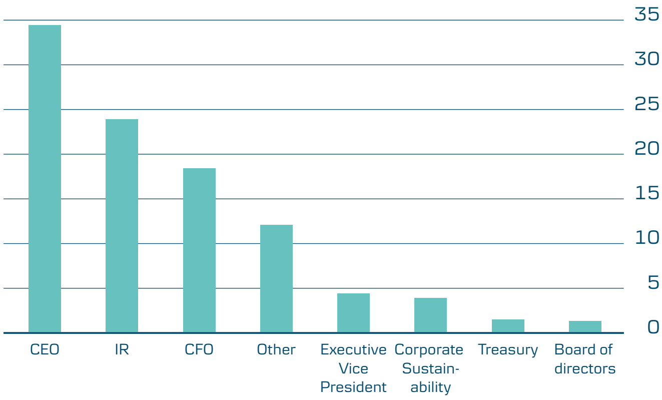
ESG integration

We discuss sustainability matters with companies all over the world. Here are our most frequently discussed ESG topics with companies by country.

Split between engagement themes



Share of participants of our company meetings



Learn more about our engagement activities in our Active Ownership Report at danskebank.com.

Corona crisis amplified focus on the green transition

A series of political initiatives helped add additional momentum to the green transition during the corona pandemic. The climate agenda was also the theme our investment teams most often discussed with companies in 2020 and, more specifically, how they can capitalise on green growth opportunities and contribute to driving the green transition.

While global society, companies and the financial markets were very negatively affected by the corona pandemic, the crisis also intensified focus on the green transition. Danske Bank's new active ownership report for 2020 shows that the climate agenda was the topic most often discussed with the companies we invest in on behalf of our investors.

Although the green transition has been an important topic of discussion for several years, a series of political initiatives has added momentum to the shift, says Jacob Schmidt Johansen, senior portfolio manager with the team that invests in Danish companies.

"The EU's so-called European Green Deal, which is the roadmap for the green transition of the EU countries' economies, has helped further speed up the shift towards a more climate-friendly society. At the same time, the EU has also enhanced its CO_2 reduction target to 55% by 2030 and passed relief packages with an undeniably green focus to help restore economies after COVID-19. The US, meanwhile, has rejoined the Paris Agreement and will ramp up green investments going forward. These initiatives will help drive investment and demand in a green direction and provide commercial support for those companies that have the solutions and products needed to implement a green transition," explains Jacob Schmidt Johansen.

Future growth in a surging green market

Danish companies with solid ESG ratings generally performed well in

2020, says Jacob Schmidt Johansen. He points out that green companies like Vestas, Ørsted and Rockwool had a particularly strong tailwind and he expects the green wave will create increased demand for their climate solutions in the coming years.

“We have several Danish companies who are world leaders in their field, which gives them significant advantages that can boost top and bottom lines. The question now is how they can best grasp these global opportunities, and we have been discussing that with the management of a great many companies,” says Jacob Schmidt Johansen.

Many traditional oil companies, for example, have developed an appetite for moving into the renewable energy market and are willing to pay a high price for projects. That presents a company like Ørsted with a number of strategic considerations, which Jacob Schmidt Johansen has been debating with them.

“Growth should not come at any price, and it must make sense financially. Ørsted has been highly successful at developing the offshore wind power industry in many countries and these projects have been a driving force for the company’s growth. However, the many new players in the offshore wind turbine market have lowered the price of electricity, which has put pressure on Ørsted’s earnings and could result in their investments no longer being profitable. We are therefore in an ongoing dialogue with Ørsted about their considerations regarding the growth markets of the future. Among other things, we discuss how they could use their experience to develop offshore wind infrastructure in new markets, which could help create profitable growth.”

We have several Danish companies who are world leaders in their field, which gives them significant advantages that can boost top and bottom lines. The question now is how they can best grasp these global opportunities, and we have been discussing that with the management of a great many companies.

Jacob Schmidt Johansen

New renewable energy technologies
Green electricity does not cover the energy needs of, for example, shipping or heavy industries, which need other renewable energy technologies to be able to reduce their climate footprint.

“On the one hand, there is a need for energy companies to develop an alternative to fossil fuels. On the other, the transport sector, which consumes the energy, has to help develop technologies that can use the new, green fuel types. There is a mutual dependency between the two sectors, and we are discussing the green energy mix of the future with a number of players across both sectors, such as Maersk, DSV, DFDS and Ørsted,” says Jacob Schmidt Johansen, who adds:

“Green hydrogen plays a key role in this discussion, and we are focused on how companies can develop hydrogen technologies that are profitable. Maersk, for example, has an ambition of being CO_2-neutral by 2050, which means their fleet will have to be green energy-propelled by as early as 2030 if they are to achieve their goal. This requires Maersk to work alongside both the suppliers of marine engines and energy companies, so they can, for example, transform green hydrogen into methanol or ammonia, and use that to fuel their ships.”

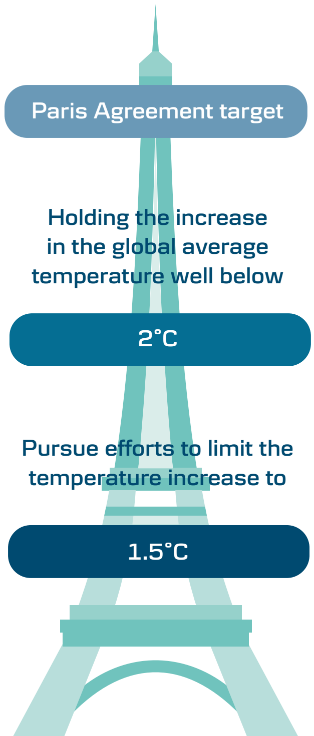
Going forward, Jacob Schmidt Johansen will increasingly be leveraging dialogue to discuss how companies can make profitable green investments and so remain relevant in a society where the green transition will only gain momentum.

On the one hand, there is a need for energy companies to develop an alternative to fossil fuels. On the other, the transport sector, which consumes the energy, has to help develop technologies that can use the new, green fuel types. There is a mutual dependency between the two sectors, and we are discussing the green energy mix of the future with a number of players across both sectors, such as Maersk, DSV, DFDS and Ørsted.

Jacob Schmidt Johansen

Supporting the Paris Agreement

By actively engaging with companies on climate issues, we seek to influence companies to curb their climate footprint. The ultimate goal is to facilitate change and foster improvement, and support companies in future-proofing their business in a world that is on a green path. We believe this is the most effective way to make a difference and help society achieve the climate goals set out in the Paris Agreement.



Voting in 2020

As a result of our strengthened voting infrastructure and the development of our voting guidelines, we exercised our voting rights at 5,289 annual meetings in 2020, which is a significant increase compared to 2019, when we voted at 406 meetings. This resulted in increased voting activity on environmental and social proposals, and we voted 'for' these proposals at the general meetings of 124 companies in 2020. Proposals included better disclosure of political contributions, lobbying activities, climate change impact, GHG emissions and human rights policies.

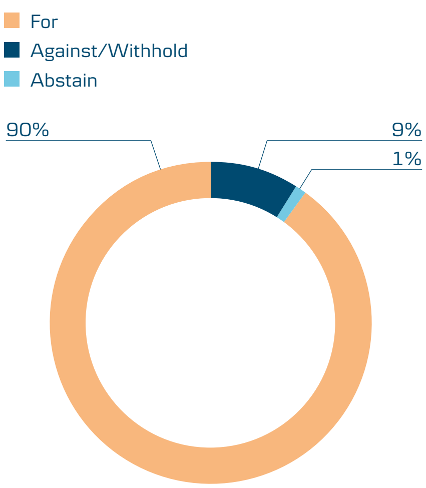
Meetings
5,289

Country domiciles
65

Proposals
56,784

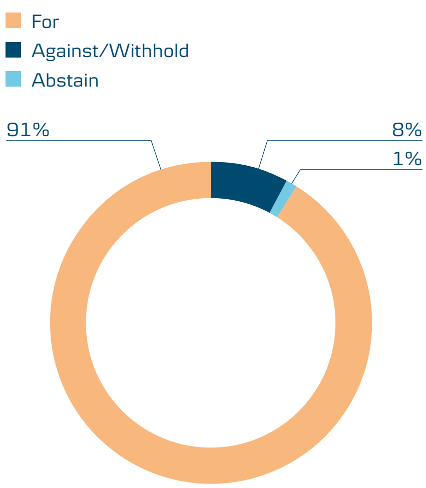
How we voted on proposals from company management and shareholders

All voted proposals



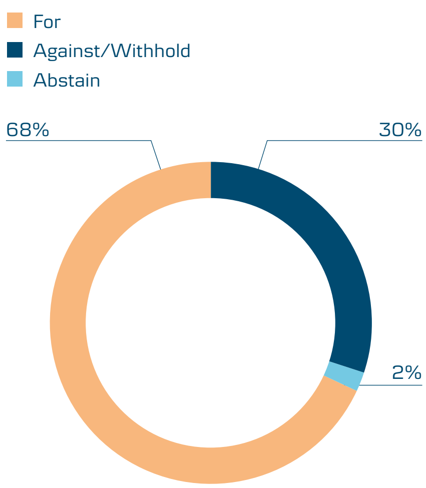
For	51,171
Against/Withhold	5,012
Abstain	482
Total	**56,784**

Management proposals



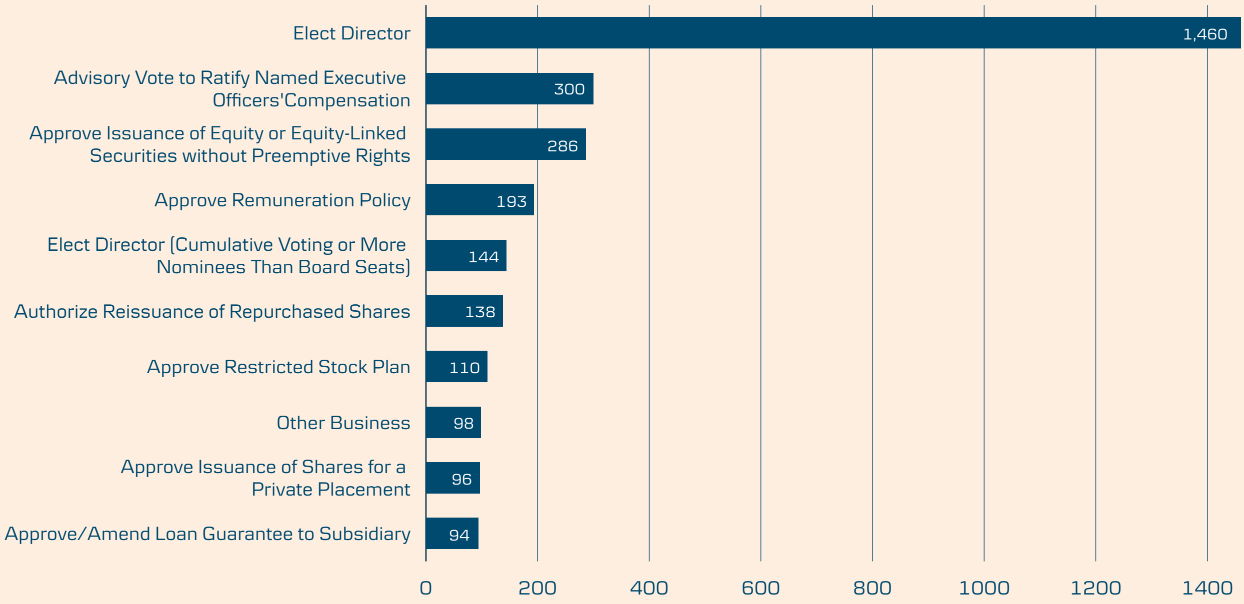
For	50,103
Against/Withhold	4,531
Abstain	454
Total	**55,207**

Shareholder proposals

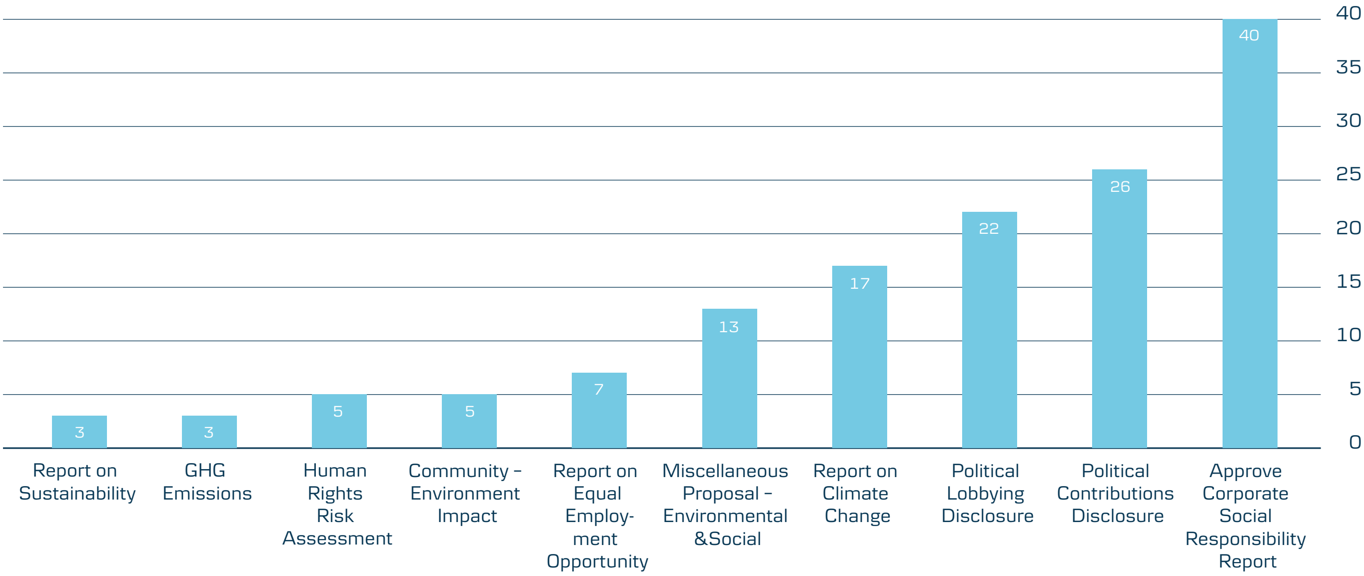


For	1,068
Against/Withhold	481
Abstain	28
Total	**1,577**

Most common proposals where we voted against management recommendations



List of environmental and social proposals we most frequently voted in favour of



Learn more about our voting activities in our
Active Ownership Report at danskebank.com.

Pushing companies to curb their climate impact

We collaborate with other investors to bolster our active ownership and put additional pressure on companies. As an example, we have joined forces with almost 600 global investors who are part of the Climate Action 100+ initiative to push companies to reduce their climate footprint. The coalition has been instrumental in the investment industry's ability to push companies on their decarbonisation strategies.

In addition to our investment teams' direct engagement with companies, we are members of several investor initiatives where we together with other investors influence companies to advance their sustainability performance.

"Through collaboration and initiatives, we encourage companies to increase transparency and disclosure of their climate impact and to move towards more sustainable business practices. Collaborating with others supports and strengthens our ability to influence companies, as it increases the power of our voice as an investor," says Mantas Skardzius, who is a Senior ESG Research Analyst and part of Danske Bank's Responsible Investment team.

> *From our perspective it is important that companies are transparent about their climate-lobbying activities and that they do not influence lawmakers to drop new regulations aimed at curbing carbon emissions and supporting the transition to a cleaner society.*
>
> *Mantas Skardzius*

Putting climate on the corporate agenda

We are part of the investor-led initiative Climate Action 100+ as part of our focus on supporting the green transition and achieving the climate goals of the Paris Agreement. A key aspect of the Climate Action 100+ alliance is to use our voting rights at companies' annual general meetings to influence companies on climate matters. In 2020, we voted in favour of companies having to increase disclosure of their climate and energy-related lobbying activities, including lobbying conducted by their trade associations. Furthermore, we voted in favour of proposals urging companies to align their lobbying activities with the climate targets of the Paris Agreement.

We did this at the annual general meetings of companies such as Chevron, Delta Airlines, Rio Tinto, Santos Limited, United Airlines, American Airlines, Caterpillar, Duke Energy, ExxonMobil, Ford, General Motors, NextEra Energy and The Southern Company.

"From our perspective it is important that companies are transparent about their climate-lobbying activities and that they do not influence lawmakers to drop new regulations aimed at curbing carbon emissions and supporting the transition to a cleaner society. Ensuring greater transparency gives us insight into which companies are opposing worldwide efforts to rein in climate change, so we can focus our engagement with these companies and influence them to withdraw from these harmful lobbying activities," explains Mantas Skardzius.

He adds that Danske Bank is currently engaging directly with the US construction equipment manufacturer Caterpillar together with 9 other members of Climate Action 100+ and other large shareholders. One objective of the engagement is to have Caterpillar commit to setting carbon-emission reduction targets aimed at achieving carbon-neutrality by 2050.

Changing the rationale of climate action

The initiative has been a game changer for the investment community's ability to move the needle on companies' climate action, according to Mantas Skardzius. Since its inception in 2017, the initiative has played a central role in pushing large companies, such as General Motor, Unilever, Total, Eni and Nippon Steel, to set tangible carbon reduction targets and transition to more sustainable business models.

"The initiative represents investors with over USD 54 trillion under management, and by combining our power as shareholders we have the attention of some of the largest companies on all continents and across industries. Climate Action 100+ has definitely changed the conversation about the necessity of curbing carbon emissions. It is no longer a 'nice to do', it is a business imperative. Cutting emissions and avoiding the worst impacts of climate change is the only real path to protecting long-term investment value and return. At the same time, the necessary transition to net-zero emissions will create significant new investment opportunities that can create future jobs, wealth and growth for investors, businesses and communities. The initiative has been instrumental in injecting that logic into companies," says Mantas Skardzius.

Far from finished

Even though many companies have taken steps to mitigate the climate impact of their operations, companies still need to advance their commitments and implement credible transition plans. Signatories of Climate Action 100+ initiatives are therefore stepping up their ambitions for the 2021 voting season and have, for example, filed 37 proposals at North American companies seeking disclosure of climate-related risks, alignment of business plans with the goals of the Paris Agreement, and transparency around corporate lobbying practices that influence climate and energy regulations.

"Steering companies towards cleaner energy sources and curbing their carbon emissions is not accomplished overnight. Companies are increasingly setting net zero by 2050 commitments, but many more lack the short- and medium-term GHG reduction targets required for them to be on track. Very few of the world's highest carbon-emitting corporations have defined the strategies and capital investment plans necessary to decarbonise their businesses. The coalition of investors is constantly pressuring companies and holds them accountable for their climate practices to move the low-carbon transition forward. We strongly believe that collaborating with the world's largest investors will drive real-world change and help secure stable and climate-resilient economies in the long term," concludes Mantas.

While Swedish property companies may be at the forefront in terms of energy efficiency, they still have a lot of work to do in terms of an integrated approach to mitigating adverse climate effects. They need to supplement the climate strategies with sustainability assessments at supplier level and life-cycle analyses of buildings.

Emelie Holmström,
Senior Portfolio Manager

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Mantas Skardzius

Climate Action 100+

What is Climate Action 100+?

As a member of Climate Action 100+, we collaborate with almost 600 investors around the globe to influence and ensure that the world's largest corporate greenhouse gas emitters take necessary actions on climate change, help drive the clean energy transition and participate in achieving the goals of the Paris Agreement.

The overarching purpose is to engage with companies to:

- Curb emissions
- Improve governance on climate-related issues
- Strengthen climate-related financial disclosures

The initiative targets 100 of the systemically important corporate emitters, accounting for two-thirds of annual global industrial emissions, as well as more than 60 other companies with significant opportunity to drive the clean energy transition.

Voting guidelines need to reflect best practice

It is important that our voting guidelines are updated on a regular basis, as they are an essential tool for investment teams with respect to exercising active ownership and thus enabling us to influence companies included in index products. The new EU regulation has spurred us to further enhance our efforts to address principal adverse impacts and influence company behaviour.

Having systematic and comprehensive voting guidelines is a key component in driving change and influencing companies, according to Giedrė Šavinienė, senior ESG Analyst and part of our Responsible Investments team. She is responsible for our voting activities and guidelines. We have asked her to explain the most important updates to the voting guidelines and elaborate on the future of voting.

Why have the voting guidelines been updated?
Our voting guidelines are an important component of our voting infrastructure. As the guidelines direct the voting activities of our investment teams, it is essential to review, update and improve the guidelines, so they reflect best market practices and support our ambition to protect our investors and actively contribute to companies becoming increasingly focused on long-term value creation that benefits both investors and society in general. Moreover, voting guidelines are becoming increasingly important from a regulatory perspective, and we consider them one of the enablers that ensures our various investment products comply with the sustainability requirements included in the EU's Sustainable Finance Disclosure Regulation (SFDR).

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As a major investor, we have a responsibility to use our position to safeguard our investors' assets and actively influence and shape companies to adopt more sustainable business practises.

Giedrė Šavinienė

What are the most significant improvements to the voting guidelines?
SFDR obliges investors to disclose whether they consider the principal adverse impacts of investment decisions on sustainability factors. We have now incorporated indicators related to these impacts into our voting guidelines to ensure we always address and vote on principal adverse impact issues. More specifically, we have significantly expanded the guidelines concerning environmental (greenhouse gas emissions, energy, biodiversity, water and waste) and social issues (employee matters, respect for human rights, anti-corruption and anti-bribery). The voting guidelines adhere to internationally recognised corporate governance standards and voluntary principles, such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises. Coupled with consideration of local regulations and stewardship guidelines, we have a solid foundation for being an active investor who addresses sustainability risks and the potential negative impact on society caused by the companies we invest in.

Why is using our voice as an investor at annual general meetings important?
As a major investor, we have a responsibility to use our position to safeguard our investors' assets and actively influence and shape companies to adopt more sustainable business practises. Voting at annual general meetings is an important tool that feeds into this purpose, while encouraging companies to be responsible, to support sustainable development and manage their sustainability risks is fully embedded in our responsible investment philosophy. I believe that using our voting rights will push companies along on the sustainability agenda, which in turn adds value for society.

What do you expect will be the most important voting topics going forward?
Society faced unprecedented challenges in 2020 amid the COVID-19 pandemic, which caused economic chaos and underscored how sustainability is a prerequisite for societal and corporate resilience. The 2021 voting season will have to address similar difficulties and uncertainties, and shareholders are now even more focused on corporate governance and its importance in ensuring a robust and long-term business operation. Governance issues will thus obviously be a key topic at general meetings, but COVID-19 has generally accentuated the business urgency of many other aspects of sustainability. As a consequence of the pandemic, I expect topics such as climate change practices, risk management, IT readiness, diversity and inclusion, employee safety, and linking executive remuneration to sustainability performance, to garner more attention going forward. The pandemic has changed the mindset of the global community and it is more acutely aware that the wellbeing of society, people and business is tightly bound together, so this will be more obviously reflected at annual general meetings in the future.

What are Danske Bank's voting guidelines?

Our voting guidelines set out a number of principles that guide how we vote on proposals. The overall principle guiding our votes is how the proposal may grow or protect the assets of our investors in either the short or long term. The guidelines address a vast range of topics, including financial aspects, remuneration policies, the composition of boards of directors, capital structures, as well as topics related to consumer and product safety, environment and energy, labour standards and human rights, gender pay gap, workplace and board diversity, and corporate political issues. The guidelines ensure that we address topics related to principal adverse sustainability impacts on society.

Our guidelines include for instance:

Board of directors
The board should have a combination of competences (knowledge and experience) appropriate to the company's operations and phase of development. Diversity among the board of directors supports the company's business operations and long-term development. Examples of diversity parameters include age, gender, background and international experience.

Climate aspects
Companies should report on their contribution to climate change and their greenhouse gas emissions, including future targets, carbon intensity and an estimation of the company's carbon footprint. Companies should set and publish targets for greenhouse gas emissions aligned with the goals of the Paris Climate Agreement.

Social aspects
Companies are expected to act in line with international conventions, such as the UN Global Compact and the ILO Conventions on social and labour issues, including human rights, minimum wages, industrial relations, employment policy, social dialogue, social security and other issues.

Anti-corruption
Companies are expected to have an adequate and well-disclosed policy framework and procedures that are consistent with the United Nations Convention against Corruption.

See our voting guidelines here.

Restricting investments with harmful business practices

Addressing sustainability risks, considering adverse impacts on society and promoting sustainability-related characteristics are an integral part of our responsible investment processes. Robust screening and restriction processes are key drivers to creating value for our investors and society in general.

In our view, contributing to the transition of society towards increased sustainability while protecting the assets of our investors are two sides of the same coin. We therefore screen our investments on an ongoing bases to identify sustainability risks and to address the negative impact on society that our investment decisions may have (referred to as principal adverse impacts).

It is absolutely vital that companies have strong ethical values, adhere to responsible business conduct and are vigilant about their impact on the sustainability of society. Companies must be committed to advancing their ethical business practices, respecting human rights and putting emphasis on corporate citizenship. Disregarding its societal responsibility is simply not a viable solution for companies.

Riitta Louhento, Senior Portfolio Manager

Screening gives our investment teams a deeper knowledge of how companies work with sustainability, while also enabling the teams to mitigate sustainability risks. Moreover, screening can help identify positive investment opportunities that would benefit our investors. Screening is also employed to ensure that our ESG investment products promote relevant environmental or social characteristics. In addition, we have introduced a "Sustainability risk challenger", a role that spars with investment teams on a wide range of sustainability-related issues (learn more on page 49).

Screening according to frameworks for corporate responsibility

Based on information from a number of ESG data providers, investments are screened with reference to current regulations, industry best practice, international norms and voluntary frameworks for corporate responsibility. Among other things, screening is based on the principles set out in the UN Global Compact and the OECD Guidelines for Multinational Enterprises. Moreover, screening helps us identify companies that contribute to principal adverse impacts, such as climate change, harmful environmental or weak human rights practices, inadequate labour standards or insufficient anti-corruption measures.

Learn more about our screening process here.

Promoting sustainability characteristics

For all investment products, we restrict investment in specific companies as a method to mitigate the sustainability risks that can affect the value of an investment and to reduce the adverse impacts on society that our investment decisions may have. Moreover, our ESG investment products (article 8 under SFDR) and future sustainable investment products (article 9 under SFDR) use restrictions to ensure they have a low exposure to investments which have a negative impact on the climate or society as a whole and ensure good governance in our investee companies. Investment restrictions are thus utilised to ensure that investment products have a minimum level of sustainability-related materiality to meet the demands of clients in terms of sustainability preferences and to comply with SFDR product requirements.

Investment restrictions promote:

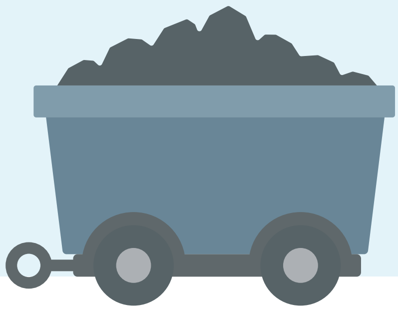
- Enhanced sustainability standards: Restrictions impose minimum standards and safeguards on environmental and social matters. By promoting enhanced sustainability standards, a product does not invest in certain companies that a) are involved in activities, or behave in ways, that might result in significant principal adverse impacts on sustainability factors, b) show weak sustainability practices, c) do not have minimum social safeguards, or d) fail the 'do no significant harm' test.
- Reduced involvement in non-ethical or controversial activities and sectors: This is an ethical overlay to the environmental and/or social characteristics promoted by a product. It means that a product does not invest in companies involved in tobacco or controversial weapons. For certain products, exclusions are expanded to cover other types of non-ethical or controversial exposures, such as alcohol, fossil fuels or military equipment.
- A reduction in activities that have a significant negative impact on the climate: Restrictions promote environmental factors by refraining from investing in companies involved in thermal coal, tar sands or peat-fired power-generation, or companies that do not have credible transition plans or issue sustainable bonds.

Our investment restrictions

Our investment restrictions apply to the entire investment universe and are also utilised as a tool to promote the sustainability-related characteristics of an ESG investment product.

See full list of restricted companies here.

Reduction in activities that result in a significant negative impact on the climate

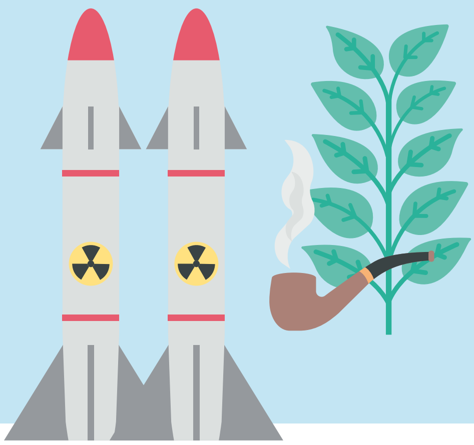


Companies deriving more than 5% of their revenue from thermal coal mining, thermal coal energy (or a combination of these), extraction of oil from tar sands or peat-fired power generation are restricted. These restrictions are part of our commitment to phasing out investments in companies involved in the three fossil fuel types by 2030 in the EU and OECD and by 2040 in the rest of the world, in line with the requirements of the Paris Agreement.

Reduction of involvement in non-ethical or controversial activities and sectors

We impose investment restrictions on companies directly or indirectly involved in controversial weapons, i.e. weapons that are prohibited by international law or considered controversial because of the arbitrary damage they cause. Such weapons include cluster munitions, anti-personnel mines, biological weapons, chemical weapons and nuclear weapons.

Companies deriving more than 5% of their revenue from growing, processing or producing tobacco products are also restricted. This includes products that are wholly or partly based on leaf tobacco and so-called next-generation tobacco products such as electronic cigarettes and snus.



Enhanced sustainability standards

We restrict certain companies involved in a) activities, or behaving in ways, that might result in significant principal adverse impacts on sustainability factors, or that b) show weak sustainability practices, or c) do not have minimum social safeguards, or d) fail the 'do no significant harm' test. This includes companies with harmful climate practices, involvement in deforestation or having a negative impact on biodiversity, that violate human rights, have inadequate labour standards or forced labour, or are involved in corruption or the arms trade.

Development of process to promote enhanced sustainability standards in investments

We have enhanced our framework for restricting companies causing significant negative adverse impacts on sustainability factors and with weak sustainability practices. This reinforces our ability to address sustainability risks and consider adverse sustainability impacts.

Our ambition to meet investor demands and new sustainability regulation prompted us to develop a process that enhances our ability to identify and restrict companies with weak sustainability standards and practices. This allows us to restrict companies that we assess as causing adverse impacts on sustainability factors, such as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. By imposing these investment restrictions, we can promote enhanced sustainability standards.

"It is important for us to take ownership of the assessment of companies in relation to their sustainability standards and to utilise restrictions as part of promoting enhanced sustainability standards among companies around the world. We have therefore established a research framework that leverages input from multiple ESG data vendors, academia, our investment teams, our investors, etc., and enables us to identify and restrict companies with weak sustainability standards. Moreover, we now screen and update our investment restrictions quarterly instead of annually, which enables us to capture the latest developments and take appropriate action," explains Alexander Lindwall, Senior ESG Analyst.

He explains that, as a consequence of the process and framework, Danske Bank restricts companies with significant adverse sustainability impacts, including companies with significant contributions to climate change or water contamination, negative impact on biodiversity, involvement in arms & defence, violation of human rights, weak tax practices or involvement in corruption.

With our in-depth screening process, we are able to identify companies exhibiting harmful behaviour or practices and to analyse and assess their severity. This rigorous process provides us with a holistic view of specific companies' sustainability practices and a sound foundation upon which to restrict companies.

Alexander Lindwall

Reducing sustainability risks and negative impact on society

These restrictions serve as a tool to reduce sustainability risks and thus protect the value of our investors' assets. They also underpin our ambition to contribute to a more sustainable society and reduce the negative footprint left by our investments. For example, a company's ability to deliver return to its investors may be affected if its operations have significant adverse impacts on the environment and the company lacks proper governance and mitigation strategies for such impacts. Another example is companies with business models that depend on poor and unsafe working conditions. If we assess that a company is exposed to such activities or practices, we may decide to restrict it.

"With our in-depth screening process, we are able to identify companies exhibiting harmful behaviour or prac-

tices and to analyse and assess their severity. This rigorous process provides us with a holistic view of specific companies' sustainability practices and a sound foundation upon which to restrict companies," says Alexander, who adds:

"Imposing restrictions of course limits our opportunities for active ownership and influencing companies, so we need to be very mindful every time we consider restricting a company from our investment universe."

He points out that Danske Bank's restriction framework for companies causing negative societal impacts is a work in process and will be continuously developed and refined over time.

Our enhanced process

UN's Global Compact

Previously, our decision to apply restrictions due to weak sustainability standards was based on input from one ESG data provider and our investment restrictions were updated once a year. The enhanced framework utilises multiple inputs and we now screen our investment universe and update our list of investment restrictions on a quarterly basis. The process is guided by industry best practice as per international norms and voluntary frameworks for corporate responsibility, such as the Task Force on Climate-related Financial Disclosures, the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises. Furthermore, the process includes input and research from multiple ESG data sources, Danske Bank's investment teams, Danske Bank's Sustainability Position Statements, our investors across the Nordics, Nordic investment institutions, NGOs, academia and other relevant stakeholders.

Restriction case

Excluding companies involved in deforestation

We are aware of and concerned about increasing deforestation in the Amazon, which contributes to increasing CO_2 emissions and harming diversity. We therefore view deforestation very seriously and closely track developments. We expect that the companies we invest in do not contribute to deforestation but rather protect forests. That is why we monitor and research companies that could potentially be directly or indirectly involved in deforestation and focus on how they act in relation to preventing and stopping deforestation. Based on our analyses, we have restricted 18 companies involved in deforestation. These companies are primarily linked to the clearing of tropical rainforests in Brazil (Amazon) and in Malaysia, Indonesia and Borneo. Deforestation in Brazil is linked to agricultural expansion, whereas deforestation in Malaysia, Indonesia and Borneo is more explicitly related to palm oil plantations. We have restricted companies directly involved in deforestation through their own operations as well as companies involved in deforestation through their supply chains.

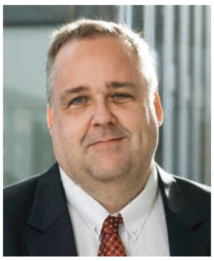
Tightened restrictions on activities that result in a significant negative impact on the climate

In support of the Paris Agreement, we will not invest in companies deriving more than 5 per cent of their revenue from thermal coal, tar sands or peat going forward. These enhanced restrictions are part of phasing out investments in these fuel types by 2040 and achieving net-zero greenhouse gas emission investments by 2050 at the latest.

As part of our commitment to supporting the green transition and to protecting and growing our investors' assets, we have decided to tighten our current investment restrictions on thermal coal and tar sands and have introduced a new restriction on peat-fired power generation. Strengthening our climate approach helps us to reduce the potentially significant negative impact on the climate caused by our investments.

Hence, we have implemented stricter investment restriction criteria on thermal coal and tar sands by lowering our threshold from 30 to 5 per cent of revenue. In addition, we will not invest in companies deriving more than 5 per cent of their revenue from peat-fired power generation. Furthermore, we will refrain from investing in companies expanding thermal coal mining, coal-fired power generation or peat-fired power generation. These enhanced restrictions are part of our commitment to phasing out investments in companies involved in the three fossil fuel types by 2030 in the EU and OECD and by 2040 in the rest of the world, in line with the requirements of the Paris Agreement.

"The energy sector is undergoing rapid change, so it is vital we enhance our approach in order to ensure that our investors' assets are positioned for the green energy transition. The tighter



> *The energy sector is undergoing rapid change, so it is vital we enhance our approach in order to ensure that our investors' assets are positioned for the green energy transition. The tighter restrictions will essentially strengthen our ability to mitigate risks and unlock opportunities associated with the low-carbon transition.*

René Ebbesen

restrictions will essentially strengthen our ability to mitigate risks and unlock opportunities associated with the low-carbon transition. This supports our ambition to invest our investors' assets in accordance with their values, while delivering attractive returns and supporting society in decarbonising the economy," says René Ebbesen, Chief Portfolio Manager at Danske Bank Asset Management.

He adds that the tighter fossil fuel restrictions are another step towards achieving Danske Bank's goal of having net-zero greenhouse gas emission investment portfolios by 2050 or sooner, and thus support our ambition of contributing to society's decarbonising targets.

Supporting the green transition through active ownership

A key element in achieving the climate goals set out in the Paris Agreement is that companies reduce their climate footprint – and as a responsible investor, Danske Bank Asset Management wants to encourage and support companies transitioning from a carbon-intensive business model. Therefore, we can exempt companies from being restricted if they are able to demonstrate their commitment to phasing out thermal coal, tar sands and peat activities in accordance with the Paris Agreement.

"As an investor, we have a vital role to play in driving the low-carbon transition and in shaping tomorrow's companies. By using the Transition Pathway Initiative framework, we can objectively assess whether companies have credible transition plans and so target our engagement with those companies that are in a transition phase and use our power to support their journey. This enables us to actively foster change and encourage companies to, for example, increase the production and use of renewable energy sources, embrace the business opportunities sparked by the transition and help achieve the climate goals of the Paris Agreement," concludes René Ebbesen.

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René Ebbesen

Transition Pathway Initiative

Assessing companies' transition plans against a robust framework

We want to encourage and support companies transitioning from a carbon-intensive business model to greener energy sources. Therefore, we can exempt companies from being restricted if they are committed to phasing out thermal coal activities in alignment with the Paris Agreement and can demonstrate level 3 compliance to the Transition Pathway Initiative Management Quality Measures. Using this framework allows us to make an objective assessment of companies' transition plans and determine the credibility of the plans. The assessment framework measures the quality of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition.

Level 3 requirements for companies include that they:

- Set quantitative targets for reducing GHG emissions
- Report on scope 3 GHG emissions
- Disclose membership and involvement in trade associations engaged on climate matters
- Support domestic and international efforts to mitigate climate change
- Have a process to manage climate-related risks

What are the tasks of a sustainability risk challenger?

The sustainability risk challenger assesses to what degree the investment teams actively consider sustainability matters, address sustainability indicators, take principle adverse impacts into account and how all this affects the portfolio. More specifically, the sustainability risk challenger is tasked with:

- Challenging investment teams on how they meet a product's specific sustainability characteristics
- Monitoring sustainability factors and challenging investment teams on their investment decisions with reference to sustainability aspects
- Assessing the principal adverse impacts that investment decisions might have on societies
- Helping to mitigate sustainability risks in order to protect investors
- Including an evaluation of an investment strategy's market risk and excess return from a sustainability perspective to ensure that sustainability is not used as justification for poor investment performance

Introducing 'Sustainability risk challenger'

We have reinforced our investment risk function by adding a new role focused on sustainability. This provides us with an even more robust foundation for addressing sustainability risks and principal adverse impacts, as well as offering high-quality ESG and sustainable investment products.

A robust process for assessing the sustainability risks of our investment products and investee companies is paramount in terms of protecting our investors. It is also a prerequisite for having a product shelf of first-rate ESG and sustainable offerings. To further strengthen the investment risk assessment process, we have introduced a new role of 'Sustainability risk challenger', which is an addition to the current risk challenger role.

Support for our sustainability focus
The new function helps monitor to what degree investment teams meet regulatory requirements for ESG and sustainable investment products (known as article 8 and 9 products as stated in the Sustainable Finance Disclosure Regulation), as well as considering and addressing potential principal adverse impacts caused by our investment decisions. Moreover, the role focuses on evaluating sustainability risk and performance to ensure investment teams address relevant sustainability aspects in the investment process.

"The sustainability risk challenger role is a significant enhancement of our ability to assess and mitigate sustainability risks that could potentially have an effect on our investors' returns and to support investment teams in delivering on the sustainability promises and characteristics of specific investment products. By challenging investment teams on sustainability risks and being a sparring partner for investment teams, the new role will support investment teams in deploying a structured risk assessment process and thereby create substantial value for our investors. Moreover, it ensures we are well prepared to comply with future EU regulation and are able to have attractive and relevant products with sustainable characteristics," says Christian Vestergaard Paulsen, Head of Portfolio Risk Advisory.

The new role is also essential to ensuring that we constantly consider the potential impact we have on society through our investments. Our objective is to minimise our negative effect on human lives and the environment and support positive development – and the role will be instrumental in achieving this ambition.

Christian Vestergaard Paulsen

Ensuring high-quality sustainability processes
The introduction of the new sustainability risk challenger role is an important step in our ability to meet the requirements of the EU's Sustainable Finance Disclosure Regulation (SFDR).

"The creation of the sustainability risk challenger role is part of our ongoing work to enhance our infrastructure, enabling us to monitor, address and mitigate sustainability risks and adverse impacts based on robust processes. This means we will be better able to determine whether a product's sustainability profile is in line with the SFDR product requirements. The new role will assess, for example, to what extent sustainability risks are incorporated into investment analyses and investment decision-making processes, how active ownership is utilised, as well as to what extent environmental or social characteristics are promoted and whether sustainable investment objectives are met. In short, the role will support our ambition of having strong ESG and sustainability products that cater to the growing number of investors with sustainability preferences," says Christian.

The sustainability risk challenger role is a significant enhancement of our ability to assess and mitigate sustainability risks that could potentially have an effect on our investors' returns and to support investment teams in delivering on the sustainability promises and characteristics of specific investment products.

Christian Vestergaard Paulsen

Making sustainability more transparent

We have categorised our investment products according to the new EU Sustainable Finance Disclosure Regulation. At the same time, we are providing improved information about the sustainability features of investment products, making it easier for investors to choose investment products according to their sustainability preferences and to support society's goal of redirecting investments into sustainable activities.

Responsible investing has developed rapidly in recent years, and the increased focus on sustainability from investors, capital market participants, regulators and society in general is adding a surge of momentum to this agenda. In particular, the EU's Sustainable Finance Disclosure Regulation (SFDR) has been a turning point, with its aim of improving transparency on sustainability risks integration and the sustainability profile of investment products. This includes standardising how the financial sector can categorise products as being sustainable and setting specific rules for what sustainability-related information needs to be disclosed for products and how.

We welcome the SFDR's ambition of harmonising sustainability disclosures, preventing 'greenwashing' of investment products and ensuring investors have the information they need to make investment choices in line with their sustainability goals. We believe that the regulation will make it easier for our investors to navigate the wide range of investment products with sustainability features.

A rigorous assessment process
As part of our ambition to enable sustainable development, funnel investments to sustainable activities and increase sustainability transparency, we have discontinued our previous product framework based on the 'ESG Inside' strategy and adopted the SFDR product categorisation framework. As a result, we have categorised our products according to the product requirements for article 8 products and article 9 products, which are marketed as "ESG investment products" and "Sustainable investment products", respectively. To ensure our products comply with the extensive regulatory requirements and honour the spirit of SFDR, we have chosen a conservative approach to labelling our products according to their sustainability characteristics.

Our entire product shelf underwent a thorough assessment process to identify products covered by SFDR articles 8 and 9. This has resulted in 89 products being labelled as "ESG investment products", meaning they promote environmental or social characteristics under article 8. In addition, we have updated the pre-contractual disclosure, prospectuses, product labels and sustainability-related reports of our products to reflect their categorisation under SFDR, while we have also updated marketing material and websites to reflect the SFDR requirements and our newly adopted Responsible Investment policy.

Product innovation and repositioning
Our sustainability ambitions and targets set the course for our product innovation and the goal of accelerating investments that support the green and sustainable transition of society (learn about our targets on page 8). Based on this, we will enhance and expand our product offering by, for example, repositioning certain products currently labelled as ESG investment products as sustainable investment products, position most externally managed products as ESG investment products and upgrade certain index products to ESG investment products or sustainable investment products.

Our overarching ambition is to offer a wide range of ESG and sustainable investment products that fit the needs of our investors and can accelerate the journey towards a sustainable economy. We will achieve our mission by continuing to focus on building robust sustainability processes, expanding ESG data and developing analytical tools. This is our roadmap to building high-quality ESG and sustainable investment products that will have a real and lasting impact and deliver attractive investment performance.

Awarded the LuxFLAG ESG sustainability label

In 2020, 82 of our funds and sub-funds were awarded the renowned LuxFLAG ESG certification, making us one of the fund managers with the highest numbers of funds bearing this sustainability label in Europe. Being awarded the LuxFLAG ESG certification marks an important step for our work with responsible investment, as it reinforces and validates the strength of our responsible investment approach, and underlines that our investment funds meet strict and rigorous criteria for incorporating sustainability matters throughout the entire investment process. Some 82 funds and sub-funds being awarded this sustainability label demonstrates the breadth and depth of our entire product range and adds credence to our progress and journey to incorporate sustainability-related aspects into investment products.

How we work with the climate agenda

The financial industry plays an important role in transforming companies and societies in a green direction. At the same time, the climate agenda and the transition to a low-carbon society are important topics for investors, as climate issues are increasingly having an impact on investments and opportunities for return.

In 2020, we launched a new publication called 'Climate – Our Investment Approach' to increase transparency towards our investment customers and other stakeholders. It details how Danske Bank Asset Management and our investment teams actively work with the climate agenda in order to protect and grow the value of our investors' assets, while supporting the green transition by influencing companies to reduce their carbon emissions and making societies more climate resilient and sustainable.

The publication includes examples of how we assess the climate work being done by the paper industry, the energy and financial sectors, the copper and the car industry, and how they can accelerate the green transition. It also illustrates how we influence the oil industry, shipping and the transport sector and support their journey towards becoming more climate friendly. In addition, it explains how we use voting at general meetings to push companies to report on their actions to mitigate supply chain impact on greenhouse gas emissions, or to increase the use of sustainable and recyclable packaging, etc.

Read the publication here.

We analyse and identify business-critical climate issues and consider them as factors in the investment process alaong with financial factors.

We collaborate with other investors and stakholders – to impact companies' climate performance.

We engage directly with companies - and influence them to manage their climate issues and reduce their contribution to climate change.

We exclude certain companies that are involved in activities, practices or products that materially contribute to climate change.

What are ESG and sustainable investment products?

The Sustainable Finance Disclosure Regulation (SFDR) framework sets out a classification system for investment products that places strict sustainability requirements on products if they are to be marketed on the basis of sustainability claims. SFDR mandates market participants to categorise their products according to their sustainability features. Products must prove and be able to demonstrate that their investment processes, sustainability characteristics, risk management and product disclosure are fully aligned. We have named products meeting article 8 requirements "ESG investment products" and products meeting article 9 requirements as "Sustainable investment products.

ESG investment products

These are products that promote environmental or social characteristics and ensure good governance. They promote those traits by, for example, investing in companies focused on climate and employee issues, diversity or anti-corruption. They can also actively work to influence companies to become more sustainable or they can refrain from investing in companies that have a large and harmful impact on the climate. You can read more about how these products work to promote environmental and social aspects on page 23.

Sustainable investment products

These products have sustainable investments as an objective. The products invest in, for example, activities that aim to solve some of the earth's challenges and contribute to a more sustainable society. The fund's investee companies perhaps have a low carbon footprint, or the fund invests in activities to secure clean drinking water, reduce energy consumption, increase biodiversity, reduce pollution or ensure greater social equality. At the same time, these investments do no significant harm to other sustainability objectives. We do not yet offer these products but are planning to offer sustainable investment products in the near future.

All other products

Products that do not integrate any kind of sustainability into the investment process are considered non-sustainable according to SFDR. However, these products are required to disclose how sustainability risks are incorporated into the investment process. Our products within this category adhere to our Responsible Investment Policy (as all our products do). This entails, among other things, that the product incorporates sustainability risks, exercises active ownership and refrains from investing in specific companies and sectors. (Learn more about our policy on page 5).

Improved sustainability information for all products

Presenting the distinct sustainability perspectives of our various products is an important step in our quest to be transparent and support our ambition of providing investors with detailed information tailored to their specific needs, while at the same time giving a holistic overview of the sustainability features of a particular product. To ensure we meet the information needs of our investors, we have conducted surveys and dialogues with a significant number of our investors to gain a deeper insight into their information requirements and the level of detail desired. Based on this input, we have developed one-page reports detailing, for example, a product's investment restrictions, carbon footprint or sustainability risk profile.

Sustainability report for all products

Investment restrictions

All our products adhere to our Responsible Investment Policy. Among other things, this means that the funds do not invest in certain companies that are involved in controversial weapons, tobacco or coal, for example. We also offer funds that include additional restrictions and that do not invest in areas such as alcohol, gambling, pornography, fossil fuels or military equipment. All funds have an investment restriction one-page report detailing the specific restriction criteria for investing in particular sectors, activities and products.

Sustainability reports for ESG investment products

Sustainability approach

This one-pager provides investors with an introduction to how the fund integrates sustainability into investment decisions, considers sustainability risks, utilises active ownership, and lists which investment restrictions are applied. Furthermore, the report clearly states which product category under the Sustainable Finance Disclosure Regulation the fund adheres to and explains the sustainability characteristics of an article 8 product.

Carbon footprint

It is of great importance for investors to know how their investments are performing on climate issues, as the climate is high on their agenda and society in general. Therefore, we publish a carbon footprint one-pager detailing, for example, how much carbon portfolio companies in the product emit per USD 1 million invested or in relation to the company's revenue. The report also outlines how the fund supports the climate goals of the Paris Agreement by exercising active ownership, for example. The carbon footprint of the fund is compared to a relevant benchmark, so investors can assess and better understand the climate performance of the specific fund.

Risk rating

How a fund's portfolio companies are exposed to various material sustainability risks and their ability to capitalise on sustainability is especially important for institutional investors. Our fund-specific risk report expounds on the risk assessment conducted by Sustainalytics detailing the extent to which the product's portfolio companies address material sustainability risks that may affect their business. By leveraging third party data, investors are provided with a nuanced and impartial assessment of a fund's risk profile and this adds credibility to the risk assessment.

How sustainability characteristics are promoted

The Sustainability-related Website Disclosure is part of the mandatory disclosure requirements under SFDR. It provides a deep insight into how the product incorporates sustainability risks and promotes environmental or social characteristics and good corporate governance throughout the entire investment process. This include:

- how the product selects investments and practises active ownership and screening to promote environmental or social characteristics
- which activities and/or products the product does not invest in
- how the fund is monitored to ensure that it is promoting environmental and/or social characteristics
- which ESG data is used to promote sustainability characteristics

Find the sustainability one-pager here.

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