

ESG Screening in investments

October 2020

Integrating ESG into the investment process is part of our fiduciary duty to clients and beneficiaries to achieve the highest and most stable investment returns. Therefore, it is fundamental to identify those environmental, social and governance (ESG) factors in the investment research, security selection, portfolio construction and investment decision process, which may pose a risk or an opportunity and thereby affect financial performance.

Our different portfolios are subject to screening activities on a continuous basis. Screening is an important tool to identify and understand different ESG related risk and opportunities. This allow for risk mitigation and opportunity identification for a given company, sector or country.

Screening serves to identify companies, sectors or countries in an investment universe with negative deviations from a given ESG reference point. The purpose is to identify investment risks i.e. downside risk as well as to determine opportunities i.e. belief that the company, sector or country will be a positive delta case.

The results of the screenings are used as input in our investment teams' ESG Integration and/or Active Ownership efforts. The results can also be used to apply individual portfolio manager's conviction, where the investment team decides to refrain from investing in companies, sectors and/or countries. In addition, the ESG Integration Council decides on investment restrictions related to companies involved in ESG related controversies, practices, or other activities considered unacceptable in relations to Nordic norms. This is an incident-based restriction of companies allegedly violating international norms as defined by international organizations such as the OECD, ILO, UN, and others treaties or conventions deemed to be material in Nordic societies.

To identify companies potentially violating international norms, a screening is conducted quarterly based on input from multiple ESG data providers, our investment teams, Danske Bank group positions and customers/Nordic institutions serving as proxies for the Nordic Investor as well as other relevant sources and stakeholders (e.g. NGOs). An analysis of the individual company cases together with a recommendation on how to tackle each individual case are then presented to the ESG Integration Council for decision.

The ESG Integration Council comprises Heads of investment strategies and has been created to support ESG integration into the core of our investment processes. Since ESG Inside® is about making better-informed investment decisions, addressing risk issues, problems and dilemmas, and influencing portfolio companies through active dialogue to contribute to a positive outcome, decisions of this nature are anchored in the investment organisation.

Investment-restrictions related to norms apply to all Danske Invest and Danica Pension assets and intends to strengthen our ability to serve our customers' interests by providing sustainable investment solutions with the goal to deliver competitive and long-term performance.

The specific issues outlined below, have during 2020 been addressed as part of the norms-based screening process, and has led to investment restrictions being imposed on companies. These topics have potential significant impact on investments return/risk and/or misalignment with customers' expectations on sustainable/acceptable business practices.

For information about companies currently restricted see: <https://danskebank.com/-/media/danske-bank-com/file-cloud/2019/3/danske-bank-investment-restrictions.pdf?rev=0fd1b7c63b814137991db413562c8eb9>

ESG Screening Criteria

- Prudent use of antimicrobial medicines (antibiotics) in food-producing animals in order to minimize antimicrobial resistance.
- Commitment to fair recruitment practices.
- Operations in locations where the consequences of an accident for the environment are unmanageable.
- Zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment.
- Comprehensiveness of mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.
- Clauses on the compliance with criteria on human rights, climate change, corruption, labour rights, nature, tax, gender, animal welfare or any other relevant ESG-criteria in their contracts with subcontractors and suppliers.
- Animal welfare criteria integration in procurement and operational policies.
- Environmental impact assessment on the total consequences of a large scale project on biodiversity according to appropriate standards
- Operations in weak governance zone or conflict-affected areas if they are able to demonstrate that they are not causing or contributing to human rights abuses.
- Prevention of conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
- Prevention negative impacts for the populations or the number of animal species that are on the IUCN Red List of Threatened Species.
- Prevention negative impacts on High Conservation Value (HCV) areas within their business operations and the areas they manage.
- Reduction of extractive waste and manage and process this in a responsible way by adequately tracking, reviewing and acting to improve their tailings risk management and by adopting a zero-failure objective to tailings storage facilities.
- Conversion of peatland and high-carbon stocks for agricultural development should be avoided
- Mining and trading in conflict materials incidents
- Riverine tailings disposal and sub-marine tailings disposal incidents

- Supply of arms and weapon systems, military transport systems, and other military goods should be avoided if there is an overriding risk that the arms will be used for serious violation of international human rights and humanitarian law.

- Supply of arms and weapon systems, military transport systems, and other military goods to countries having a failed or fragile state, should be avoided.

- Supply of arms and weapon systems, military transport systems, and other military goods to countries that are severely corrupt, should be avoided

- Supply of arms and weapon systems, military transport systems, and other military goods to countries that severely violate human rights, should be avoided

- The construction of all water infrastructure projects, including dams, should seek to comply with the 7 principles of the World Commission on Dams (WCD).