Sustainable Investment Methodology

Danske Bank

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Definitions

Alternative Investments	Private debt and private equity
CTB	Climate Transition Benchmark
DNSH	Do No Significant Harm
EU GBS	EU Green Bonds Standard
EU Taxonomy	Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
GHG	Green House Gas
ICMA	International Capital Market Association
Labelled Bonds	Use-of-proceed bonds marked as social, green or sustainability labelled
PAB	Paris Aligned Benchmark
PAI	Principal Adverse Impacts
SFDR	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
UN SDGs	United Nations Sustainable Development Goals

1. Introduction

A sustainable investment is defined by SFDR as an investment that:

- **contributes to an environmental or social objective** as measured e.g. by indicators for use of energy, renewable energy, raw materials, water and land, the production of waste, and greenhouse gas emissions, or based on its impact on biodiversity and the circular economy; or a social objective, e.g., tackling inequality or fostering social cohesion, social integration, or labour relations, or in human capital or economically or socially disadvantaged communities";
- **meets the principle of Do No Significant Harm (DNSH)** by not causing a significant harm to an environmental or social objective as linked to an assessment of principal adverse impact indicators and adherence to minimum environmental and social safeguards; *and*
- **demonstrates adherence to principles on good governance practices** through sound management structures, employee relations, remuneration and tax compliance.

SFDR does not prescribe a specific approach to determine the contribution of an investment to environmental or social objectives, therefore this methodology paper outlines our approach within Danske Bank for categorizing an investment a sustainable investment based on the criteria set out in the regulation.

This approach may differ from how other financial market participants perform their sustainable investment assessment, meaning that it is important for each investor to familiarize themselves with the considerations outlined in this methodology paper.

2. Scope

This methodology description sets out the approach for categorizing an investment a sustainable investment. The approach is applied for all Danske Bank, Danske Invest and Danica Pension branded products promoted with a commitment to fully or partially invest in sustainable investments as confirmed through the pre-contractual disclosures of the given products and measured and reported in periodic reporting.

When an investment product invests indirectly through externally managed funds, Danske Bank may choose to take reliance on the models and methodologies applied by those managers in respect to identifying sustainable investments. This however provides that Danske Bank deems the processes and methodologies sufficiently robust to manage the sustainable investments throughout the lifecycle of the investments and that the approach taken by an external manager in respect to the relevant product falls within the overall remit of our model.

3. Our Sustainable Investment Approach

Danske Bank's sustainable investment approach fundamentally builds on the following methodologies and tools:

a) the EU Taxonomy to determine economic activities substantially contributing to the environmental objectives of the EU Taxonomy,
b) other investment tools and methodologies designed to contribute to the societal transition, including in particular EU Climate Benchmarks
c) a proprietary framework developed by Danske Bank to determine investments substantially contributing to one or more of the UN SDGs.

Our approach allows for a more specific sustainable investment approach to be developed at product level, provided that relevant safeguards set out in this methodology paper are in place in respect to measurement of contribution and consideration to DNSH and good governance.

3.1. EU Taxonomy

The EU Taxonomy entered into force on 12 July 2020 and is a cornerstone of the European Union's sustainable finance framework. It helps direct investments to the economic activities most needed for the transition, by establishing a classification system for the identification of environmentally sustainable economic activities. To achieve the SDGs in the Union and reach the objectives of the European green deal, it is vital to direct investments towards sustainable investments.

The EU Taxonomy is centered around six environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

Through measurement of the turnover, capital expenditures (CapEx), and operating expenditures (OpEx) linked to economic activities substantially contributing to these objectives as defined by the Taxonomy, companies can measure the degree of sustainability of their economic activities, and investors can determine how environmentally sustainable their investments are. From an investment perspective, taxonomy aligned investments can consist of different financial instruments such as equity, credit (incl. labelled bonds) and real assets.

Currently, the identification of taxonomy aligned investments is heavily impacted by data constraints and lack of company reporting. This also implies that at current stage only a limited amount of our managed investment products have commitments to invest in investments aligning to the goals of the EU Taxonomy.

3.2. EU Climate Benchmarks

The Paris Agreement is essential for achieving the UN SDGs due to the close interlinkages between climate change mitigation, development pathways and the pursuit of the goals.

To support the long-term goals of the Paris Agreement, the European Commission has developed a methodology for two climate benchmarks, the EU CTB and EU PAB.

These climate benchmarks are investment benchmarks that incorporate – next to financial objectives – specific objectives related to GHG emission reductions and the transition to a low-carbon economy. The benchmarks are based on the scientific evidence of IPCC and criteria aiming to ensure a transition path for portfolios that is compatible with the transition to a sustainable economy through outlined decarbonisation targets and trajectories in respect to GHG intensity and GHG emissions.

All passive investments tracking either an EU CTB or EU PAB are deemed sustainable investments. Therefore, our passively managed products tracking an EU Climate Benchmarks are deemed to have dual investment objectives, supporting financial objectives as well as the long-term goals of the Paris Agreement through GHG reductions. When an investment product partly invests into underlying funds or mandates tracking such objective, the subset of these investments is considered sustainable for the specific product and may be considered as falling within the broader objective of the UN SDGs.

The climate benchmarks have exclusions in place safeguarding global standards such as UNGC Standards and DNSH assessments for the EU Taxonomy Regulation.

All our directly managed CTB or PAB products track climate indices administered by MSCI. Investments into any external fund tracking a CTB or PAB can be tied to benchmarks maintained by other administrators.

To address climate change, countries adopted the Paris Agreement at the COP21 in Paris on 12 December 2015. The Agreement entered into force less than a year later. In the agreement, all countries agreed to work to limit global temperature rise to well below 2 degrees Celsius, and given the grave risks, to strive for 1.5 degrees Celsius.

3.3. Danske Bank's SDG Framework

To further support the channeling of funding to companies contributing to the UN SDGs, Danske Bank has developed a framework with methodologies that assess and identify investments contributing to one or more of the UN SDGs.

The framework distinguishes between criteria for investments in 1) listed equity and corporate bonds (non-labelled), 2) Labelled Bonds and 3) Alternative Investments. Defined criteria for sovereign bond investments (non-labelled) and derivatives have not been developed, meaning that these asset classes are not as of this date in scope of Danske Bank's SDG framework.

The framework is fundamentally based on a classification performed by Danske Bank of business activities (product lines) and/or project categories that are measured to contribute to specific SDGs. The SDG classification allows us to determine an investment's alignment to the SDGs by measuring the extent to which an investment is financing the respective activities/projects. In practice this means that we measure the weight of revenue lines of a company that are tied to product lines with a positive SDG contribution, the weighted use-of-proceeds of a Labelled Bond that are allocated to project categories with positive SDG contribution and, for alternatives, the weight of investments in assets considered sustainable by our external managers and/or substantially aligned to the EU Taxonomy.

Through reporting on the aggregate SDG contributions for these asset classes, it will be visible to investors the extent to which their investments have positive contribution to the individual SDGs.

*The UN Sustainable Development Goals (the "**UN SDGs**") are the globally agreed framework for achieving a better and more sustainable future for all. The SDGs consist of 17 interlinked goals, made actionable by underpinning 169 targets, designed to be a "blueprint to achieve a better and more sustainable future for all".*

The SDGs were set up in 2015 by United Nations General Assembly and are intended to be achieved by the year 2030. The SDGs are an increasingly accepted standard for companies to help clarify, prioritize and maximize the value their products and services have on society. Consequently, assessing the SDG contributions of companies provides a powerful means of demonstrating the overall impact of positive contribution a given company has on environmental or social objectives. The SDGs work as a lens for any market, asset class and geography and can be set as a benchmark for any company/issuer thanks to the universality of their underlying principles.

3.3.1. Assessment of equities and corporate bonds (non-labelled)

The assessment of whether an investment in listed equities and corporate bonds (non-labelled) contributes to one or more of the UN SDGs is performed through a proprietary model developed by Danske Bank (the ***SDG Model***).

The SDG Model is a data driven and quantitative model that ensures a replicable and consistent approach for assessing an investment's contribution to the SDGs through the sustainability-indicators and assessment criteria applied herein. The model relies on external datasets, such as, revenue datasets from Factset, PAI data from ISS-ESG and management quality scores from Sustainalytics.

The SDG Model assesses a company's contribution to the SDGs through the weight of revenue lines tied to the products and services the company produces (in the following referred to as "**Product Lines**").

Companies deriving ≥50% revenues from Product Lines contributing positively to the SDGs are classified as sustainable under the condition 1) that the company does not have ≥5% revenues linked to Product Lines that are assessed as having negative contribution to any of the SDGs, b) that the company has no negative operational contribution , 3) that supplementing DNSH requirements are met, and 4) that the company adheres to principles of good governance.

A company will also be assessed as having positive contribution to the SDGs if the company has ≥50% revenues from activities aligned with the EU Taxonomy.

The assessment of whether a company has negative operational contribution is based on how well the company manages material sustainability dimensions within its operations compared to its peer group. The assessment is made using PAI indicators from ISS-ESG and management indicators from Sustainalytics. The operational assessment uses sector-specific criterion based on materiality, meaning that the evaluation criteria will differ between sectors. For instance, banks are evaluated on criteria such as "money laundering policy programmes", "compliance programmes", "responsible investment programmes" whereas a utility is evaluated on criteria such as "health & safety management", "emergency response programmes", "carbon intensity trend" and "radioactive waste management".

Qualitative overlay

While the positive SDG contribution of a company can be assessed through a quantitative approach measuring revenue lines against Product Lines with positive SDG contribution, in certain instances, a supplementing qualitative overlay is needed to cater for inherent ESG data gaps and challenges.

These use cases will often be relevant in cases where companies do not consistently report sustainability related information, or such data is not fetched by the data vendors, e.g. as is the case for many private equity companies, as well as small cap companies and certain companies operating outside the European region, where we tend to a see a lower data quality.

The qualitative model component is structured through specific assessment criteria rooted in assessing issuers' business alignment with and contribution to the UN SDGs through their business activities and operations. The assessments utilize additional information/data for sustainability-performance and targets in order to assess how positive impact is created and how harm via operations is minimized. Qualitative assessments are approved by a qualitative assessment forum established under the Sustainability-Related Model Risk framework in Danske Bank. The qualitative assessment is specifically mandated to decide on the following use cases:

- an issuer is assessed as sustainable according to the quantitative model but where our own, or other, research points toward that the issuer is not sustainable.
- an issuer is assessed as not sustainable according to the quantitative model but where our own, or other, research points towards that the issuer is sustainable.
- an issuer is not covered by the quantitative model but where our own, or other, research points towards that the issuer is sustainable.

3.3.2. Labelled Bond criteria

Companies, sovereigns, and sovereign-related issuers (collectively "***issuers***") can issue bonds to finance social and environmental projects. These instruments are often referred to as Green and Social bonds, and/or (collectively) Labelled Bonds.

In Danske Bank, we consider an investment in a Labelled Bond a sustainable investment in support of the UN SDGs, if the issuance is issued under the EU Green Bond Standard or follows ICMA's principles on Sustainability Labelled Bonds. Also, sustainability safeguards must be in place, ensuring that the issuance does not cause a significant harm to a sustainable investment objective, and – for investee companies – meet principles on good governance.

bFor the assessment of a Labelled Bond's adherence to the ICMA principles for Sustainability Labelled Bonds, we perform a supplementing assessment to ensure that bond finances project categories that are measured to contribute to the SDGs per the SDG Classification of Danske Bank. The ICMA screening criteria are outlined below. In our screening we leverage a dataset from NASDAQ, which collects disclosed and reported labelled bond data from the issuers.

*European Green Bonds are bonds that meet the legislative green bond standard ("**GBS**") defined in the EU Regulation on European Green Bonds, which applies from end-2024. Bonds issued under GBS will align with the EU Taxonomy for environmentally sustainable activities and are seen as one of the main instruments for financing investments related to green technologies, energy efficiency and resource efficiency as well as sustainable transport infrastructure and research infrastructures.*

Additional screening criteria for ICMA labelled bonds

For an ICMA Labelled Bond to be considered a sustainable investment contributing to the SDGs in accordance with our framework, an additional screening is done in relation to the robustness and reliability of the framework under which the bond is issued and the project categories which the use-of-proceeds is financing. Having completed the screening all of the below criteria must be demonstrated when categorising a Labelled Bond as sustainable:

1. **Verification:** The issuer framework must be verified by an external party as aligned to the ICMA Framework.
2. **Eligible project categories:** The framework issuance must be determined to contribute to one or more of the UN SDGs. This is considered through an assessment of the project categories subject to the proceeds of the framework, and the supporting impact metrices associated to those categories. For this purpose, we leverage the proprietary SDG Classification outlining the individual SDG alignment/contribution of eligible project categories. The SDG Classification leverages the SDG mapping performed by ICMA[1] under their framework, with supplementing indicators/metrices supporting the assessment of these project categories.
3. **Reporting:** The issuer must publish an allocation report annually until the full allocation of proceeds is completed. Reporting can be conducted at the individual bond level or on an aggregated portfolio level. This criterion will not be relevant to assess for any new issuances dating <18 months from the date of the issuance. However, for these investments the publication of the allocation report will be a follow-up item in the monitoring of the lifecycle of the investments. For existing issuances dating > 18 months at the time the assessment is performed, a screening is required in order to assess if the issuer actively is/has reported allocation of proceeds. Issuers with overdue reporting, where no further comfort is provided in

[1] Green-Social-and-Sustainability-Bonds-A-High-Level-Mapping-to-the-Sustainable-Development-Goals-June-2023-220623.pdf (icmagroup.org)

respect to the allocation reporting, are considered as failing the reporting requirement of this assessment.

If the framework fails any of the criteria, the Labelled Bond will not be eligible to qualify as a sustainable investment, due to lack of assurance in respect to the contribution of the use-of-proceeds.

3.3.3. Alternative Investments

As part of the investment analysis when making an investment into Alternative Investments, a due diligence is conducted to determine whether the potential investment falls within the sustainable investment goal of contributing to one and/or several of the UN's Sustainable Development Goals in accordance with the methodology of Danske Bank.

For investments made through externally managed funds or co-investments, this is done by assessing the processes and the documentation provided by the external manager in respect to the fund and/or underlying co-investment. The assessment captures the robustness of processes maintained by the external manager in respect to sustainable investments and the strategy fit in relation to the sustainable investment objectives of the fund. In this, an alignment check is also performed ensuring that the approach taken by the external managers ensures that the investment contributes to one or more of the UN SDGs and that supplementing processes are in place in relation to DNSH and good governance.

Also, as part of the initial due diligence process, the legal documentation in relation to sustainability related dimensions are reviewed and negotiated. The legal documentation ensures that the manager in respect to the managed funds undertakes to manage specific safeguards in relation to sustainable investment that are not well addressed in the product literature. Direct investments in alternative investments are only considered as contributing to the UN SDGs if substantially aligned to the EU Taxonomy (≥50%). For these investments the allocation is managed in accordance with the principles of the SDG Model as outlined above. Regular monitoring on an annual basis is conducted to ensure continuous ensure the investment goal of contributing to one and/or several of the UN's Sustainable Development Goals. This is done through the provided reporting/data and a questionnaire. Investments that potentially no longer meet requirements for sustainable investments will, as far as the internal handling of these investments is concerned, be re-categorized.

4. Do No Significant Harm Assessment

All directly managed sustainable investments in Danske Bank must pass our DNSH assessment. The DNSH assessment is managed through exclusion criteria applied by the given product as further outlined in the product disclosures and through general thresholds (exclusions) defined principal adverse impacts. Also, certain models/frameworks (such as the EU Climate Benchmarks) apply additional exclusionary filters or requirements.

4.1. Principal Adverse Impacts

Principal adverse impacts on sustainability factors are addressed in the DNSH assessments for our sustainable investments through pre-set thresholds ("**PAI Thresholds**") defined for the PAI indicators in respect to investee companies (see the PAI Thresholds in Appendix 1). This ensures that even if a company might have passed an operational assessment, relevant activity-based exclusions, the company or investment will still not be deemed sustainable in case it is assessed to have a significant negative performance against the PAIs as based on these thresholds and indicators.

The thresholds have been set with the intention to capture the weakest performing investments on the outlined metrics. That means that the thresholds have been set at different levels dependent on the indicator and the data availability as well as data quality. Certain metrics have been combined in order to achieve intended outcome. As the assessment and relevant ESG data supporting the assessment continuously evolves, the thresholds and the table will be updated at an ongoing basis. Additional indicators will be added over time as data quality and availability improves.

4.2. Minimum safeguards

Alignment with OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights is specifically sought through the Enhanced Sustainability Standards Screening excluding certain conduct and activities deemed harmful to society. The screening, among others, screen for companies' and other issuers' adherence to OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. Issuers assessed to act in breach of conventions in accordance with the criteria of the Enhanced Sustainability Standards screening are not investable as a sustainable investment.

For the SDG Model, the Enhanced Sustainability Standard screening is supplemented by extended norm exclusions, meaning that issuers with the highest/"worst" signal according to ISS-ESG Norm-Based Research, MSCI Controversy Indicator, or Sustainalytics Controversy Indicator cannot be classified as sustainable.

4.3. Good Governance

Corporate Governance refers to a set of rules or principles defining rights, responsibilities, and expectations between different stakeholders in the governance of corporations. A well-defined corporate governance system can be used to balance or align interests between stakeholders and can work as a tool to support a company's long-term strategy. Good governance is critical to the efficient and effective operation of any company, and the protection of shareholder value.

For purposes of the Good Governance test for sustainable investments we leverage again the Enhanced Sustainability Standards creening, where we consider several indicators relating to sound management structures, employee relations, remuneration of staff and tax compliance. The indicators are purposefully simplistic, considering the differences in market-specific, and industry-specific governance practices across the globe, to allow for comparability and monitoring. The screening is done on our entire investment universe wherever data on the indicators are available. Failure to adhere more than half of the criteria will always lead to a failure of the good governance test and Exclusion per the enhanced screening.

For more information see the method paper available here: Enhanced Sustainability Standards Screening.

Change Log

Date	Version number	Comments/changes
November 2024	Version 2.0	Revenue requirement linked to Product Lines with Positive Contribution Updated indicator description Updated requirements for sustainability labelled bonds and unlisted assets

Adverse sustainability indicator	Metric	ISS ESG Data point	Threshold
Greenhouse gas emissions	Scope 1 GHG emissions	ClimateScope1EmissionsEV	>2 665
	Scope 2 GHG emissions	ClimateScope2EmissionsEV	>8 785
	Scope 3 GHG emissions	ClimateScope3EmissionsEV	>70 761
	Total Scope 1|2 emissions	ClimateScope12 EmissionsEV	>11 391
	Total Scope 1|2|3 emissions	ClimateScope123 EmissionsEV	>90 000
	GHG intensity of investee companies	ClimateTotalEmissionsInt EUR	>5 979
	GHG intensity of investee companies	ClimateScope123EmissionsIntEUR	>50 000
	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources	NonRenewableEnergy Production	Value equals = 1
	Energy consumption intensity	EnergyConsumption Intensity	>57
Greenhouse gas emissions/Biodiversity	Companies active in the fossil fuel sector	FossilFuelInvolvementPAI	Fossil fuel involvement = true AND negative
	Activities negatively affecting biodiversity-sensitiveareas	CompNegAffectBioSensAreas	
	Companies without carbon emission reduction initiatives	CompWOCarbonEmissionReduct	biodiversity impacts = true AND companies without carbon emission reductions = true
Water	Emissions to water	CRCODEmissionsEvic	>10
Waste	Hazardous waste and radioactive wasteratio	CRHazardousWasteEvic	>3 967
Social and employee matters	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Enhanced Sustainability Standards	UNGC Violation= true AND Lack processes for monitoring UNGC/OECD guidelines = true
	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	LackProcessesUNGCOECDGuidelines	
	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	InvolvInContrWeapons	Involvement = True
	Board gender diversity	RatioOfWomenOnBoard	Zero women on board = true AND lacks human right policy = ture AND lacks whistleblower protection = true
	Lack of a human rights policy	LackHumanRightsPolicy	
	Insufficient whistleblower protection	InsWhistleBlowerProtection	