Danske Bank

# *Sustainable Investment Houseview and SDG Model*

## Introduction

### What is a sustainable investment to us?

A sustainable investment is a concept defined by the EU Sustainable Finance Regulation (EU) 2019/2088 as an investment that contributes to either an environmental or social objective while not doing significant harm to other sustainable investment objectives and abiding to principles on good governance.

An environmentally sustainable investment can in this respect be identified by applying the criteria of the EU Taxonomy. The EU Taxonomy is a classification system laid down in Regulation (EU) 2020/852, establishing a list of environmentally sustainable economic activities. 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.

The EU Taxonomy does not lay down a list of socially sustainable economic activities. Also, sustainable investments with an environmental objective might not be aligned with EU Taxonomy. Currently, the identification of EU Taxonomy aligned investments is heavily impacted by data constraints and lack of company reporting, meaning that the majority of the investments that we target as environmentally sustainable investments are not disclosed and reported as taxonomy aligned.

Therefore, we have for actively managed strategies in Danske Bank developed a model the **"SDG Model"** based on the UN Sustainable Development Goals (UN SDGs) to identify direct investments meeting the sustainable investment criteria of positive contribution to an environmental or social objective, no significant harm and good governance. The model is supplemented by overlays at strategy level (such as engagement based criteria) and is subject to specific considerations relating to asset classes. For active managed strategies, we also consider investments in green labelled, social labelled and sustainability-linked bonds ("**sustainability labelled bonds**") sustainable investments.

Passively managed products can be deemed to make sustainable investments according to our houseview, if they track a reference benchmark supporting the attainment of the sustainable investment objective and meet the general criteria of a sustainable investment by also considering good governance and do no significant harm. Specifically, some of our managed passive funds make sustainable investments in support of a CO2 reduction objective in line with the long-term ambitions of the Paris Agreements. This objective is attained through the replication of a Climate Transition Benchmarks and EU Paris Aligned Benchmark meeting minimum requirements of EU Delegated Regulation 2020/1818.

The description outlined in this document covers the identification of sustainable investments per the SDG Model. The section of the model description concerning good governance and considerations of principal adverse impacts for the purpose of do no significant harm assessments, are equally relevant for other sustainable investments.

### UN 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. 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.

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.

# SDG Model

Danske Bank's SDG Model has been developed in order to assess companies and other issuers' (issuers) net (both positive and negative) contribution to the environmental and social objectives of the UN SDGs and through such assessments identify investments in equity and/or fixed income asset classes that are sustainable investments.

In order for an investment to qualify as a sustainable investment under the SDG model an issuer needs to meet the pass or fail criteria of:

1) Sufficient positive contribution to one or more of the environmental and/or social objectives of the UN SDG
2) "Do No Significant Harm"
3) Good Governance

## Contribution to environmental or social SDG objectives

The SDG Model takes account of contribution the following objectives:

***Environmental:*** SDG 6 - Clean Water and Sanitation, SDG 7 - Affordable and Clean Energy, SDG 9 - Industry, Innovation and Infrastructure, SDG 11 - Sustainable Cities and Communities, SDG 12 - Responsible Consumption and Production, SDG 13 - Climate Action, SDG 14 – Life Below Water, SDG 15 – Life on Land, and/or SDG 17 – Partnerships for the Goals.

***Social:*** SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health and Well-being, SDG 4 – Quality Education, SDG 5 – Gender Equality, SDG 8 – Decent Work and Economic Growth, SDG 10 – Reduced Inequalities and/or SDG-SDG 16 – Peace, Justice and Strong Institutions, and SDG 17 – Partnerships for the Goals.

Investments with sufficiently high overall contribution, as measured through key indicators in the SDG Model, are eligible as sustainable investments per the model. Acknowledging that the EU Taxonomy objectives all fall within the scope of the environmental objectives of the UN SDGs, issuers that have a substantial alignment (Taxonomy-aligned revenue equal to or higher than 50%) of activities with the EU Taxonomy also qualify in full as sustainable investments per the SDG Model.

## Do No Significant Harm

The SDG Model captures "Do No Significant Harm" by considering whether an investment carried an elevated risk of harm on any SDGs via its operations. Furthermore, the SDG Model applies thresholds defined against principal adverse indicators and other exclusions/bans as further set-out in this document.

Considerations relating to OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights are managed through exclusions based on the Danske Bank Enhanced Sustainability Standards Screening supplementing the SDG Model.

### Good Governance

Good governance considerations are managed through the Enhanced Sustainability Standards Screening with thereto related exclusions. The Enhanced Sustainability Standards Screening applies a good governance test that is further detailed in the document "Enhanced Sustainability Standards" available here:

https://danskebank.com/sustainability-related-disclosures

# Methodologies

## Assessment of Positive Contribution – SDG Impact Indicators

The SDG Model uses a quantitative model component and a qualitative model component to assess an issuer's positive contribution to the SDGs.

### Quantitative Model Component

The quantitative model component derives an aggregate score (mSDG score) of an issuer's contribution to the SDGs on basis of underlying key indicators applied by external vendors. The key indicators measure the performance against each of the SDGs. Specifically, the methodology underlying the mSDG scoring-system quantifies the contribution to the SDGs by measuring:

- the contribution of issuers' products are services (product/service contribution) to each SDG; and
- the alignment of operations & business models of issuers (operational contribution) to each SDG.

Issuers are assigned an mSDG score from -3 to 5, where positive scores on 2 or above indicate a positive contribution to the SDGs per the model. Only issuers with an mSDG score of -> 2 can on basis of an mSDG scoring be seen to contribute positive positively to the SDGs per the SDG Model.

### Product/service contribution

Product/service contribution is measured as the contribution of issuers' revenue against each SDG on basis of assessments sourced from two ESG data providers (MSCI and Util). The product/service contribution in that respect effectively assesses each business activity of an issuer, weighted by share of revenue, against societal targets underpinning the SDGs to determine the direction, and magnitude of product contribution.

Issuers are assigned to a category as outlined in the table below, which implies that the scoring of an issuer per the model is elevated in reference to whether the contribution is linked to one or several SDGs.

| Product Score | Criteria 1 | Criteria 2 | Criteria 3 |
|---|---|---|---|
| 4 | > 50% revenue alignment of at least one SDG | > 0% net revenue average alignment across all SDGs | > No SDG where there is a significant negative impact (-50%) |
| 3 | > 25% revenue alignment relative to industry average of at least one SDG | > 0% net revenue average alignment relative to industry average across all SDGs | >No SDG where there is a significant negative impact (-50%) |
| 2 | > 0% net revenue average alignment across all SDGs | > -50% alignment of each SDGs | |
| 1 | > 0% net revenue average alignment relative to industry average across all SDGs | > -50% alignment of each SDGs | |
| -1 | If none above met | | |

There are numerous key sustainability indicators from the MSCI and Util data sets integrated into the model. Some key indicators measure positive impacts. Should a company meet a such a threshold, it will receive a higher product/services score. Conversely, other key indicators might measure negative impacts, and might result in the company receiving a lower product/services score. A company may thus impact multiple SDGs, whereby each of these impacts may be positive or negative at various impact levels. Once a company's impacts on the 17 SDGs have been scored, its overall product/services score is calculated.

Examples of sustainability indicators leveraged in the SDG Model:

| Sustainability indicators | | | | |
|---|---|---|---|---|
| **SDG** | **Economic activity (examples)** | | | **Measurements points (examples)** |
| 1 – No Poverty | Solar power generation | Pre-school childcare | Healthcare education services | The recent-year percentage of revenue, or maximum estimated percent, a company has derived from e.g. solar power generation, pre-school child care or health care education services.. |
| 2 – Zero Hunger | Nutritional health products | Sustainable agriculture | | The recent-year percentage of revenue, or maximum estimated percent, a company has derived from agricultural goods or nutritional health products produced using certified sustainable or organic practices |
| 3 – Good Health and Well-Being | Solid waste recycling equipment | Accident and health insurance | Major disease treatment | The recent-year percentage of revenue, or estimated revenue percentage, a company has derived from drugs for top worldwide diseases typically in the following sub-industries: Healthcare Equipment, Biotechnology, Pharmaceuticals and Life Sciences Tools & Services. Examples of top diseases include HIV/AIDS, TB, Malaria, Stroke, Diarrhea, and orphan diseases. |
| 4 – Quality Education | Educational services | Communications equipment | Telecommunications infrastructure construction | The recent-year percentage of revenue, or estimated revenue percentage, a company has derived from education services in the following sub-industries: Diversified Support Services, Human Resource & Employment Services, Education Services, Specialized Consumer Services, Broadcasting, Cable & Satellite, Publishing, Internet Software & Services, Application Software, Systems Software, Home Entertainment Software, Technology Hardware, Storage & Peripherals, Alternative Carriers, Integrated Telecommunication Services, Wireless Telecommunication Services, Movies & Entertainment, Distributors, Advertising, Industrial Conglomerates and Technology Distributors. |
| 5 – Gender equality | Educational services | | | The recent-year percentage of revenue, or estimated revenue percentage, a company has derived from education services in the following sub-industries: Diversified Support Services, Human Resource & Employment Services, Education Services, Specialized Consumer Services, Broadcasting, Cable & Satellite, Publishing, Internet Software & Services, Application Software, Systems Software, Home Entertainment Software, Technology Hardware, Storage & Peripherals, Alternative Carriers, Integrated Telecommunication Services, Wireless Telecommunication Services, Movies & Entertainment, Distributors, Advertising, Industrial Conglomerates and Technology Distributors. |
| 6 – Clean Water and Sanitation | Wastewater treatment services | Water utilities | | The recent-year percentage of revenue, or maximum estimated percent, a company has derived from hazardous waste treatment. |
| 7 – Affordable and Clean Energy | Wind energy products | Energy storage and batteries | | The recent-year percentage of revenue, or maximum estimated percent, a company has derived from storage technology for alternative or renewable energy. |
| 8 – Decent Work and Economic Growth | SME finance | | | The recent-year percentage of revenue, or estimated revenue percentage, a company has derived from loans to small and medium enterprises in the following sub-industries: Diversified banks, Regional Banks, Thrifts & Mortgage Finance, Other diversified financial services, Consumer Finance, Life & Health Insurance, and Multiline Insurance |

| | | | | |
|---|---|---|---|---|
| 9 – Industry, Innovation and Infrastructure | Clean transport infrastructure | Energy efficient industry automation | | The recent-year percentage of revenue, or maximum estimated percent, a company has derived from products, services, infrastructure, or technologies that proactively address the growing global demand for energy while minimizing impacts to the environment. |
| 10 – Reduced Inequalities | Educational services | Healthcare education services | | The recent-year percentage of revenue, or estimated revenue percentage, a company has derived from education services in the following sub-industries: Diversified Support Services, Human Resource & Employment Services, Education Services, Specialized Consumer Services, Broadcasting, Cable & Satellite, Publishing, Internet Software & Services, Application Software, Systems Software, Home Entertainment Software, Technology Hardware, Storage & Peripherals, Alternative Carriers, Integrated Telecommunication Services, Wireless Telecommunication Services, Movies & Entertainment, Distributors, Advertising, Industrial Conglomerates and Technology Distributors |
| 11 – Sustainable cities and Communities | Affordable real estate | Green buildings | | The recent-year percentage of revenue, or maximum estimated percent, a company has derived from design, construction, redevelopment, retrofitting, or acquisition of 'green' certified properties – subject to local green building criteria. |
| 12 – Responsible Consumption and Production | Pollution prevention | Resource recovery | Solid waste recycling | The recent-year percentage of revenue, or maximum estimated percent, a company has derived from products, services, or projects that support pollution prevention, waste minimization, or recycling as a means of alleviating the burden of unsustainable waste generation. |
| 13 – Climate Action | Hydropower | Wind energy | Inland and ocean marine insurance | The recent-year percentage of revenue, or maximum estimated percent, a company has derived from small hydro power. |
| 14 – Life Below Water | Environmental remediation | Wastewater treatment | | The recent-year percentage of revenue, or maximum estimated percent, a company has derived from environmental remediation technology or services. |
| 15 – Life Above Land | Environmental remediation | Recycling services | Wholesale electricity generated by wind power | The recent-year percentage of revenue, or maximum estimated percent, a company has derived from water recycling technology or services. |
| 16 – Peace, Justice and Strong Institutions | Addressed solely through operational contribution | | | |
| 17 – Partnerships for the Goals | Addressed solely through operational contribution | | | |

## Operational contribution

Operational contribution is measured through industry-specific material ESG scores mapped to the UN SDGs as a proxy to assess operational contribution. This mapping allows us to consider how well an issuer within its industry manages material sustainability issues in relative terms from the perspective of the goals.

Potential to impact SDGs via operations varies significantly over industries based on which sustainability issues are business-critical in a given industry.

To illustrate industry-specificity, the mapping indicates that Construction Materials industry has high overall impact exposure to SDG9, SDG12 and SDG14, while low or non-meaningful impact exposure to SDG4, SDG5, SDG10, SDG16 and SDG17 via its operations. For example, the way construction materials companies manage their GHG emissions and energy more broadly, biodiversity impacts of their operations, waste, and wastewater as well as how they innovate for more circular products, influences how societies may reach their goal of responsible consumption and production (SDG12). Similarly, management of water and, to some extent, waste and biodiversity impacts, determine the material contribution of the operations of construction materials companies to societal goal of

ensuring access to clean water and sanitation (SDG6). Hence, measuring relative performance in managing these issues works as a proxy for assessing contribution to the Sustainable Development Goals.

| *Material Sustainability issue* | *SDG1* | *SDG2* | *SDG3* | *SDG4* | *SDG5* | *SDG6* | *SDG7* | *SDG8* | *SDG9* | *SDG10* | *SDG11* | *SDG12* | *SDG13* | *SDG14* | *SDG15* | *SDG16* | *SDG17* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Air Quality | | | | | | | | | | | | | | | | | |
| Biodiversity Impacts | | | | | | | | | | | | | | | | | |
| Energy Management | | | | | | | | | | | | | | | | | |
| GHG Emissions | | | | | | | | | | | | | | | | | |
| Pricing Integrity & Transparency | | | | | | | | | | | | | | | | | |
| Product Innovation | | | | | | | | | | | | | | | | | |
| Waste Management | | | | | | | | | | | | | | | | | |
| Water Managment | | | | | | | | | | | | | | | | | |
| Workforce Health & Safety | | | | | | | | | | | | | | | | | |

| *Colour* | *Impact* |
|---|---|
| | None |
| | Low |
| | Medium |
| | High |

To calculate relative SDG scores for an issuer, a respective industry 20th percentile score is subtracted from each issuer's SDG operational absolute proxy score. The final company SDG operations score is set equal to the minimum of the relative SDG scores per issuer. Finally, issuers are assigned to an Operations Category with the following criteria, comparing the final issuers SDG operations score against respective industry percentiles:

| Operations Score | Operations Category | Criteria |
|---|---|---|
| 3 | Best in class | Above 80th percentile |
| 2 | Minor risk of harm | Between 40th and 80th percentile |
| 1 | Moderate risk of harm | Between 20th and 40th percentile |
| -1 | Elevated risk of harm | Below 20th percentile |

The operational contribution assessment is intended to capture both the systemic nature of SDGs and the Do No Significant Harm test by not allowing for a poor performance against any individual SDG to be compensated by a strong performance against another.

The aggregation of the product service score and the operational scores follows the principles outlined below:

| mSDG Score | Classification | Product Score | Operations Score |
|---|---|---|---|
| 5 | Sustainable Investment | 4 | 3 |
| 5 | | 3 | 3 |
| 4 | | 4 | 2 |
| 4 | | 3 | 2 |
| 3 | | 4 | 1 |
| 3 | | 3 | 1 |
| 3 | | 2 | 3 |
| 3 | | 1 | 3 |
| 2 | Sustainable Investment (under certain conditions) | 2 | 2 |
| 2 | | 1 | 2 |
| 1 | Not a Sustainable Investment | 4 | -1 |
| 1 | | 3 | -1 |
| 1 | | 2 | 1 |
| 1 | | 1 | 1 |
| 1 | | -1 | 3 |
| -1 | | 2 | -1 |
| -1 | | 1 | -1 |
| -1 | | -1 | 2 |
| -2 | | -1 | 1 |
| -3 | | -1 | -1 |

## Quantitative Model Component - EU Taxonomy based

The EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities supporting environmental objectives of:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

Each of these environmental objective has a correlation to environmental objectives captured by the SDGs as (non-exhaustively) exemplified below:

1. Climate change mitigation -> Climate Action (SDG7), Affordable & Clean Energy (SDG7)
2. Climate change adaptation -> Climate Action (SDG7), Life on Land (SDG15)
3. The sustainable use and protection of water and marine resources - > Life below Water (SDG14), Clean Water and Sanitation (SDG6)
4. The transition to a circular economy -> Responsible consumption and production (SDG12), and to some extent indirectly many other SDGs.
5. Pollution prevention and control -> Life on Land (SDG15), Life Below Water (SDG14)
6. The protection and restoration of biodiversity and ecosystems -> Life on Land (SDG15)

Accordingly, environmentally sustainable economic activities per the EU Taxonomy are per default contributing to the SDGs. As sustainable investments per the SDG Model target issuers' not economic activities – an issuer needs to have substantial contribution to environmentally sustainable economic activities in order to allow for the issuer to be tagged a sustainable investment per the model. Substantial contribution is in that respect defined as issuers' deriving more than 50% of revenues from EU-Taxonomy aligned activities.

For the purposes of the SDG Model – EU taxonomy aligned activities are assessed by utilising a combination of different data-sources.

## Qualitative model component

The qualitative model component caters for instances where data is missing data, is incorrect or where the quantitative model fails to capture the business of a given issuer.

Firstly; there is an extensive amount of unique characteristics and challenges that come with ESG data, one of them being that the data to a certain extent is based on "industry-lenses" rather than "company-specific lenses". As a result, issuers can be misrepresented as either being sustainable or not sustainable according to quantitative models just because they operate in the same industry. For instance, issuers within the 'machinery & equipment' industry can have very different lines of business and produce equipment for fundamentally different use-purposes.

Secondly; many issuers are not covered by ESG-data vendors today. This means for instance that large cap companies, European companies and certain industries have better data coverage.

Thirdly; available data to evaluate potential impacts may have biases towards past decisions and the resulting business model, while many issuers have stated intent, made commitments and started establishing procedures to transform their business models into a more sustainable business model.

The qualitative model component has therefore been established in order to tackle 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 toward that the issuer is sustainable.

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 products, services and operations. The assessments are in this respect applying proxies for sustainability-performance and targets in order to assess how positive impact is created and how harm via operations is minimised.

## Assessment of Do No Significant Harm

As the SDG Model targets sustainable investments, investments deemed to cause a significant harm to a sustainable investment cannot by default per the model be seen to have a positive SDG contribution.

For the identification of investments with significant harm, the SDG Model (in addition to assessment on operational alignment – see the above) takes principal adverse impact indicators into account as managed through a combination of;

a) pre-defined principal adverse impact thresholds and exclusions
b) general exclusion criteria; and
c) norms and controversy screenings

### Principal adverse impact indicator thresholds

In order to further ensure that the DNSH criteria are meet, the model takes into account indicators on principal adverse impacts. This means that an issuer that qualifying as a sustainable investments per the quantitative or the qualitative assessment, would be disqualified if failing to meet the outlined principal adverse impact assessment and thresholds. The thresholds have been set with the intention to capture the weakest performing companies on the outlined metrics. That means that the thresholds have been set at different levels dependent on the indicat or and the data availability as well as data quality. Certain metrics have been combined in order to achieve intended outcome.

The indicators subject to thresholds are listed in the table below. As the assessment and relevant ESG data supporting the assessment continuously evolves, the thresholds and the table will updated at an ongoing basis. Additional indicators will be added over time as data quality and availability improves.

| 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 | ClimateScope12EmissionsEV | >11 391 |
| | Total Scope 1\|2\|3 emissions | ClimateScope123EmissionsEV | >82 151 |
| | GHG intensity of investee companies | ClimateTotalEmissionsIntEUR | >5 979 |
| | GHG intensity of investee companies | ClimateScope123EmissionsIntEUR | >2 5687 |
| | Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources | NonRenewableEnergyProduction | Value equals = 1 |
| | Energy consumption intensity | EnergyConsumptionIntensity | >57 |
| Greenhouse gas emissions/Biodiversity | Companies active in the fossil fuel sector | FossilFuelInvolvementPAI | Fossil fuel involvement = true AND negative |
| | Activities negatively affecting biodiversity-sensitive areas | 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 waste ratio | 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 | |

## Exclusion Criteria and Thresholds

The SDG Model excludes issuers per the exclusion criteria relating to controversial weapons, tobacco, thermal coal, peat-fired power generation, or tar sands. The definitions for these exclusions follow the criteria laid out the Exclusion Instruction of Danske Bank with additional bans for:

- Oil & Gas Refining & Marketing
- Oil & Gas Storage & Transportation
- Oil & Gas Exploration & Production
- Oil & Gas Equipment & Services
- Oil & Gas Drilling
- Integrated Oil & Gas
- Coal & Consumable Fuels
- Casinos & Gaming

The SDG Model also applies additional sub-industry bans in place issuers that have an overall mSDG of 2. These sub-industry bans relates to industries that are regarded as more complex to assess based on quantitative data such as for instance; Advertising, Aerospace & Defense, Air Freight & Logistics, Airlines, Airport Services, Apparel, Accessories & Luxury, Commercial Printing, Commodity Chemicals, Distillers & Vintners, Diversified Chemicals, Footwear, Gas Utilities, Hotel & Resort REITs, Hotels, Resorts & Cruise Lines, Interactive Home Entertainment, Movies & Entertainment, Restaurants, Soft Drinks, Specialty Chemicals, Tobacco, Trucking, Apparel, Accessories & Luxury Goods.

## Norms and Controversies

### Enhanced sustainability Standards

The SDG Model excludes issuers deemed to have controversial conduct or activities on basis our enhanced sustainability standards screening. The enhanced sustainability standards screening is Danske Bank's proprietary screening model that supports the exclusion of certain companies/issuers engaged in certain activities and conduct deemed harmful to society. The enhanced screening is a multidimensional process assessing both environmental materiality as well as social materiality in order to promote adherence to UN Global Compact, principles, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights and ILO conventions and other relevant environmental or social safeguards by its exclusions. The screening also seeks to capture certain other activities indicating weak sustainability practices (as well as weak governance practices.

Decisions made are in that respect based on multiple factors: data from ESG data providers; screening against international norms, such as the UN Global Compact and the OECD Guidelines for multinational enterprises; dialogue with customers; and input from investment teams and other relevant stakeholders and screening against other relevant principal adverse indicators.

By the focus of this screening, the enhanced sustainability standards also works to safeguard considerations of minimum environmental and social safeguards and good governance considerations for the sustainable investments.

### Extended ESG norm/controversy bans

The extended ESG norm / controversy bans supplement and overlap (to a large extent) with the enhanced sustainability standards screening. Issuers that are assessed as being linked to controversies, or norm breaches, with severe adverse impacts on societies and/or the environment cannot be classified as sustainable. 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.

### Extended screening for issuers with mSDG scores of 2

Issuers with an overall mSDG of 2 are also subject to extended exclusionary filters with regards to norm/controversy allegations, with the following thresholds applied:

- Issuer not labelled sustainable If ISS-ESG norm flag = yellow
- Issuer not labelled sustainable if MSCI controversy flag = yellow or orange
- Issuer not labelled sustainable If Sustainalytics controversy level = 3 or higher

Issuers with an overall mSDG of 2 are also subject to extended sustainability risk assessments with the following thresholds applied:

- Issuer not labelled sustainable if ISS-ESG performance score = equal to or lower than 1 2.5
- Issuer not labelled sustainable if MSCI ESG Rating = CCC
- Issuer not labelled sustainable if Sustainalytics ESG Risk Score = equal to or higher than 40

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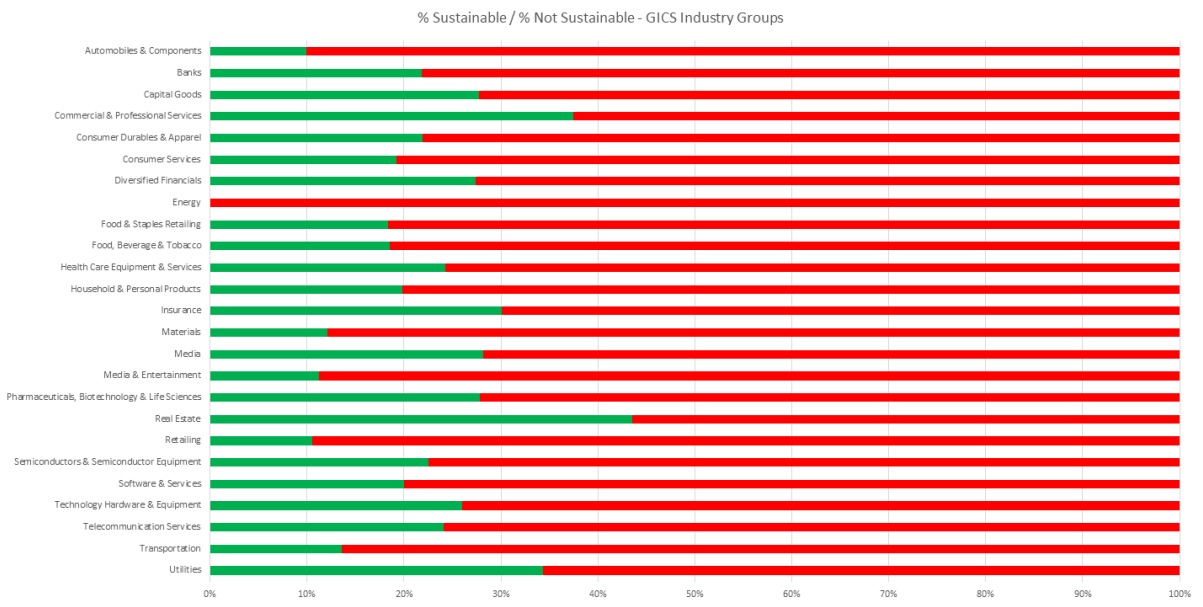
# SDG Model Outcome

Using the UN SDGs as a guide, we have developed a proprietary framework that systematically measures the magnitude of SDG contributions of issuers leveraging both a quantitative and a qualitative assessment. We are continuously improving our approach using the latest guidance, research and analysis.

Given that sustainability data is dynamic and that corporate disclosures are continuously improving means also that assessments may also evolve over time and additional companies will be assessed as part of the model.

As of December 2022, around 2 800 issuers have been identified as sustainable investments using the quantitative SDG model component and around 70 issuers identified using the qualitative model component. Through reporting on the aggregate SDG contributions for investment portfolios leveraging the model, it will be visible to investors the extent to which their investments have positive contribution to the 17 different SDGs.




As of 2022-12-23, the outcome of the model, per GICS Industry Group