

# Policy for corporate social responsibility, sustainability risks and responsible investment

**BANKINVEST**

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## Policy scope

This policy for corporate social responsibility, sustainability risks and responsible investment is issued by the boards of directors of BI Holding A/S (BIH) and the subsidiaries BI Management A/S (BIM) and BI Asset Management Fondsmæglerselskab (BIAM).

The respective boards update the policy as necessary, however at least once annually.

## Why do we work with sustainability?

BankInvest wants to be a leading player within responsible investment. This policy is meant to help us achieve that goal.

Hence, the purpose of the policy is to set the framework for the work with environmental, social and governance (ESG) considerations and sustainability risks in BankInvest's investment strategies and processes, including contributing to the sustainable transition. This applies to both climate and other social and governance matters and in relation to setting the framework for BankInvest's work on active ownership, which has its own, separate policy.

Sustainable transition is essential to meet the ambitious targets set by the EU and the UN, including the 17 Sustainable Development Goals. The financial sector plays a key role in supporting sustainable transition as described in the European Commission's action plan for financing sustainable growth<sup>1</sup> from 2018 and the objectives in the Paris Agreement<sup>2</sup> from 2015, which BankInvest backs.

BankInvest fundamentally believes that the businesses creating value are those who are responsible in their business practices in the long term. Consequently, BankInvest has undertaken, together with the investors, to invest in a responsible manner and invest in businesses with responsible business practices.

BankInvest works with responsible investment and sustainability at several levels:

- Integration of ESG
- Screening for sustainability factors
- Exclusion
- Active ownership
- Investor collaboration
- Climate
- Reporting

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097>

## Embedding the work with responsible investment

### Responsible Investment Committee

BankInvest has set up an internal Responsible Investment Committee, which is tasked with monitoring BankInvest's responsible investment efforts, including developing policies in the area, maintaining BankInvest's exclusion list and ensuring that BankInvest has the right product range within responsible investment and meets the requirements imposed on BankInvest as an investment manager.

The committee meets at least four times annually and is made up of the following persons:

- Chief Executive Officer (committee chairperson)
- Chief Investment Officer
- Head of ESG
- Investment Management Officer
- Chief Communications Officer
- Head of Fixed Income
- Partner Director
- Chief Portfolio Manager for Global Equities
- Head of Investment Risk and Selection
- ESG team

The operation of the Responsible Investment Committee falls under the Head of ESG.

### Use of ESG integration and sustainability risks

BankInvest integrates ESG matters in the investment process. This means that besides looking at traditional, financial ratios, the portfolio managers also include non-financial ratios and parameters in the investment analyses, including how the companies handle ESG matters. ESG matters can

<sup>2</sup> [http://unfccc.int/files/essential\\_background/convention/application/pdf/english\\_paris\\_agreement.pdf](http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf)

also be used to identify risks and investment opportunities.

A sustainability risk is defined as an environmental, social or governance event or circumstances which, if occurring, can significantly adversely affect the value of an investment. A sustainability risk must be material, relevant and significant in relation to the valuation of the company. This naturally varies from one sector to another.

To obtain ESG data for the purpose of analysing corporate investments, BankInvest cooperates with the international data supplier MSCI ESG, which specialises in analysing companies' ESG parameters. MSCI ESG provides both ESG data and research at company as well as sector level, which helps support the criterion of materiality.

If MSCI ESG assesses a company to have poor ESG qualities and thus a high sustainability risk resulting in the lowest ESG rating (CCC), the responsible portfolio manager must explain in writing how he/she assesses the future ESG prospects for the company in question. This means that a comply-or-explain principle is practised for CCC-rated companies. The typical reason to invest in companies with poor ESG qualities is to influence the companies through direct investments going forward. Further, the ESG rating is often based on historical conditions. Moreover, in some cases the portfolio manager may assess that he/she has knowledge of the company that goes beyond that of MSCI ESG.

The written report must be sent to the Head of ESG, who informs the Responsible Investment Committee at the next Committee meeting.

If MSCI ESG has not subjected an issuer to ESG analysis, this may be performed by the dedicated ESG Investment Experts.

This means that both internal and external ESG analyses are applied in the investment process.

It must be expected that certain divisions will enter into positions for which the ESG-related risks cannot be identified in full. Examples are funds, individual issuers and alternative investments which are not yet covered by the data suppliers with whom BankInvest works. In such instances, portfolio managers and ESG experts will jointly seek to identify the relevant ESG risks.

## Sustainability factors and screening

Sustainability factors<sup>3</sup> are defined as environmental, social and human resources issues as well as issues concerning respect for human rights, anti-corruption and anti-bribery measures.

At least once a year, BankInvest's investments are subject to norm-based screening to identify breaches of the following international norms and conventions within human rights, labour rights and the environment:

- **The UN Global Compact**

Ten principles on the environment, anti-corruption, labour rights and child labour, human rights etc.

- **The UN Declaration of Human Rights**

Including a prohibition against forced labour and discrimination, the right to a fair trial, the right to freedom of speech etc.

- **The OECD guidelines for multinational enterprises**

Including how enterprises minimise the negative impact of their activities and how businesses can contribute to financial, social and environmental progress.

- **The ILO labour market conventions on dignified conditions for the labour force**

Including the conventions on abolition of child labour, discrimination, forced labour and the right to organise and collective bargaining

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<sup>3</sup> The investment funds in the Darwin mobile app are not covered by the ethical screening as the supply of

ethically screened ETFs is quite limited at present. We are closely monitoring developments in the area.

BankInvest cooperates with the international service provider Sustainalytics, which performs the norm-based screening.

If the screening shows that a company breaches one or more international norms or standards, BankInvest will typically – through its cooperation with Sustainalytics – seek to influence the company to take responsibility and change its behaviour rather than divesting the portfolio in the company at once. In this event, the responsible portfolio manager must explain in writing how he/she assesses the confirmed breach. This means that a comply-or-explain principle is practised for companies breaching international standards.

The written report must be sent to the Head of ESG, who informs the Responsible Investment Committee at the next Committee meeting.

If the dialogue does not show the desired progress, BankInvest may consider excluding the company from its investment universe, which will be decided by the Responsible Investment Committee. This is further described in the next section of this Policy.

Certain investment divisions may have another approach, where disposals are typically made earlier in the process, e.g. as soon as a breach of international norms is identified.

## Exclusion

BankInvest has a general ban on investing in companies involved in the production of controversial weapons such as cluster munitions, land mines, chemical and biological weapons and nuclear weapons outside the Non-Proliferation Treaty as well as companies in which more than 5% of the revenue comes from coal mining and production of tar sands.

Exclusion may also be a possibility if a company breaches international norms and does not demonstrate any will to take responsibility and change its behaviour as

described in the section on norm-based screening.

The Responsible Investment Committee has the decision-making power to exclude a company from BankInvest's investment universe, which decision is typically recommended on the basis of an analysis made by the Head of ESG.

The exclusion list is published regularly and can be found at BankInvest's website (in Danish): <https://bankinvest.dk/baeredygtighed/sadan-arbejder-vi/>.

Moreover, certain divisions with special sustainability considerations may have stricter exclusion criteria for sectors and companies that are not assessed to be sustainable. In such case, this is described in the divisions' prospectuses.

## Government bonds

For government bond investments, BankInvest follows UN and EU sanctions and excludes countries that are subject to sanctions against investment in government bonds. In addition, BankInvest invests in government bonds in accordance with international conventions and in consideration of the UN-backed principles for responsible investment.

When BankInvest invests in government bonds issued by Emerging Market countries, we have ESG focus on the country in question. BankInvest's assessment of countries includes the methods from the FFP's Fragile States Index and the MSCI ESG rating.

FFP makes an annual assessment of countries based on indicators in three groups: social, economic and political/military indicators and divides the countries into 11 categories. If a country belongs to the two lowest categories (High Alert and Very High Alert), BankInvest will generally not invest in government bonds from that country, unless approved by the Responsible Investment Committee. As a general rule, BankInvest reviews the results once a year.

When investing in a country belonging to the third-lowest category (Alert), the responsible portfolio manager must explain in writing how he/she assesses the future ESG prospects for the country in question. This means that a comply-or-explain principle is practised for this category.

MSCI ESG makes an overall assessment of the countries according to E (Environment), S (Social) and G (Governance) on the basis of a number of factors. The countries are then given a general ESG rating between AAA and CCC. If a country is rated CCC, BankInvest will generally not invest in government bonds from that country, unless explicitly approved by the Responsible Investment Committee. As a general rule, BankInvest reviews the results once a year.

### **Active ownership**

Active ownership is a key element in BankInvest's approach to responsible investment.

Consequently, BankInvest has prepared a separate Policy for Active Ownership and Voting. Please see that policy for further information.

### **Darwin**

Wherever possible, investment products in the Darwin mobile app consider ESG matters in the ETFs in which investments are made. The market for ESG-screened ETFs is still developing, meaning that not all investment areas in Darwin will have an ESG-screened alternative.

### **External managers**

With respect to portfolios for which BankInvest has external managers, BankInvest must endeavour to integrate ESG considerations in the agreed Investment Guidelines to the greatest possible extent. This means that the external managers commit to using both BankInvest's exclusion list and the

comply-or-explain principles described in this policy.

The assessment of external managers also includes parameters concerning support for initiatives such as PRI and CDP, but also the use of data suppliers and carbon targets.

As part of the ongoing control with the delegated tasks, BankInvest each year sends questionnaires to the external managers, which also include questions regarding their ESG management, e.g. the carbon emissions of the portfolio, exercise of active ownership etc.

### **Alternatives**

BankInvest also offers funds investing in alternatives such as real estate, which are typically under external management. BankInvest collaborates with managers who integrate sustainability and climate considerations into the investment process, focusing on a reduced carbon footprint, etc.

BankInvest regularly meets with alternative investment fund managers to ensure focus on sustainability, including setting targets for this work, in the investment process.

### **Objects for the ESG work**

BankInvest wants to contribute positively to the industry's efforts to integrate sustainability considerations into the investment process and continuously sets targets for how the investment divisions must approach ESG and carbon emissions. This includes sustainable divisions such as Globale Aktier Bæredygtig Udvikling, Globale Obligationer Bæredygtige Obligationer and Danske Aktier Indeks Bæredygtig.

BankInvest wants to be transparent in these efforts and consequently issues quarterly reports on the individual divisions' sustainability considerations. For further details, see the section on Reporting.

Furthermore, BankInvest wants to offer particularly sustainable products targeting investors who want to invest with a dedicated sustainable focus.

## Investor collaboration

As a natural and key element of BankInvest's responsible investment efforts, we have joined the following networks and initiatives:

- **The UN-backed Principles for Responsible Investment**

In February 2008, BankInvest signed the UN-backed Principles for Responsible Investment (called UN PRI), and much of the work with responsible investment in BankInvest is based on precisely these principles.

- **The UN Global Compact**

Since 2019, BankInvest has supported the UN Global Compact, which comprises ten principles on responsibility within human rights, labour rights, the environment and anti-corruption.

- **The Net Zero Asset Managers Initiative**

In 2021, BankInvest acceded to the Net Zero Asset Managers Initiative, joining forces with an extensive number of the world's largest asset managers to neutralise the carbon emissions of our investments by 2050 or sooner.

- **CDP**

In 2021, BankInvest joined CDP, the world's largest investor and corporate partnership for environmental data. CDP is a non-profit organisation that collects environmental data from companies, cities and regions all over the world through dialogue.

- **IIGCC**

BankInvest is part of IIGCC (Institutional Investors Group on Climate Change), a European network forum for institutional investors that have joined forces to ensure a more sustainable and climate-friendly future. IIGCC is behind several of the other networks in which BankInvest is involved.

- **Climate Action 100+**

BankInvest has signed Climate Action 100+, an investor initiative that seeks to influence 161 of the world's largest carbon-emitting companies to head in a more climate-friendly direction.

- **Task Force on Climate-related Financial Disclosures (TCFD)**

BankInvest supports the TCFD recommendations, which are a number of recommendations on climate reporting and the handling of climate-related risks.

- **Montréal Carbon Pledge**

As a signatory to the Montréal Carbon Pledge, BankInvest acknowledges the long-term investment risks associated with greenhouse gases, carbon emissions and climate change and undertakes to act accordingly. This means that BankInvest publishes the carbon footprint for a number of divisions.

- **Danish Social Investment Forum (Dansif)**

The membership gives BankInvest access to a wide network of members and the opportunity to influence and build the Danish market for responsible investment.

Besides the above initiatives, BankInvest satisfies the Danish Investment Association's industry recommendation on the minimum management of sustainability.

## Climate policy

BankInvest acts with care. This is our pledge to investors, owners, employees and other stakeholders. Each day, we go to work to create long-term value and financial opportunities for our investors and shareholders and are aware of the fact that our investment decisions make a difference to many people all over the world.



BankInvest wants to contribute to a climate-friendly world and acknowledges the importance of fighting climate change and understanding the impact of climate-related risks on our investments.

BankInvest supports the Paris Agreement and has joined the Net Zero Asset Managers Initiative and TCFD. In so doing, we are committed to a target of zero carbon emissions from our investment portfolios by 2050 or sooner. We also work continuously to set interim targets for carbon reductions.

The results of these efforts include reallocating our assets in a more sustainable direction, shifting slowly away from the largest carbon emitters and towards companies with solutions to the climate crisis. This involves both shareholder engagement with the most carbon intensive companies in the energy sector and the exclusion of companies that fail to transition towards the targets in the Paris Agreement. BankInvest already offers sustainable portfolios with specific carbon reduction targets that must be achieved continuously. We expect companies to meaningfully address climate change in their organisations, and we want to support companies' efforts to manage risks and pursue options that involve transitioning to a more climate-friendly world.

Though we are aware of climate risks and the implications for particularly vulnerable and carbon-intensive sectors, we acknowledge the key role of biodiversity and ecosystems and their impact on the climate. We consequently also expect companies to act responsibly in their production of palm oil and comply with international deforestation standards.

The work on climate change must live up to our obligation to ensure, promote and respect human rights and must provide for

a fair transition that does not impair humans' basic needs in developing countries.

BankInvest continuously strives to improve the tools we use to analyse climate-related risks and the impact of our investment decisions on the climate. A report on these issues is submitted to the board of directors at least once a year.

## Reporting

Information on the sustainability of the individual divisions, including their carbon footprints, is publicly available and can be found at BankInvest's website (in Danish) under the section Bæredygtigt Aftryk (Sustainable Footprint): <https://bankinvest.dk/om-at-investere/baeredygtigt-aftryk.aspx>

BankInvest also reports to the UN PRI on an annual basis. The annual report can be found at BankInvest's website (in Danish) under the section Internationale Principper (International Principles): <https://bankinvest.dk/baeredygtighed/sadan-arbejder-vi/>.

BankInvest regularly updates its exclusion list which can be found at BankInvest's website (in Danish) under Ansvarlige investeringer (Responsible Investment): <https://bankinvest.dk/baeredygtighed/sadan-arbejder-vi/>.

Furthermore, BankInvest annually reports on the Policy for Active Ownership and Voting, including how BankInvest's investment divisions have exercised their voting rights. This reporting can be found here (in Danish): <https://bankinvest.dk/baeredygtighed/sadan-arbejder-vi/>

## Changes

August 2022

- By way of clarification, it has been added that ESG-related risks cannot be expected to be identified in full for certain divisions due to insufficient data.
- The section on government bonds has been expanded and the wording adjusted so that the "Alert" category in FFP's Fragile States Index is subject to the comply-or-explain principle.

The policy has undergone a major restructuring, adjusting the sequence of certain sections. In addition, the following material changes have been made, among other things reflecting the decisions made in 2021 by BankInvest's Responsible Investment Committee:

- If MSCI ESG has not subjected an issuer to ESG analysis, this may now be performed by the dedicated ESG Investment Experts
- Tar sand issuers have been added to the exclusion criteria, and the threshold for coal extraction has been reduced from 25% to 5%.
- The section on sustainability factors has been expanded so as to also include the required response by portfolio managers to a confirmed breach of the screening.
- It has been clarified that external managers are obliged to follow BankInvest's exclusion policy. Going forward, the selection of external managers will also be guided by their approach to sustainability initiatives and their use of data suppliers and carbon targets.
- Greater focus on sustainability efforts in relation to alternative managers.

- A new section has been added on investor collaboration concerning the networks and initiatives joined by BankInvest.
- A new section has been prepared concerning BankInvest's climate policy with respect to BankInvest's ambitions and goals in the climate area.
- The approval process and scope of the policy has been made clearer.



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