

# Policy for responsible investment

**BANKINVEST**

Handler  
med omtanke

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## Policy scope

This policy for 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 Fonds-mæglerselskab (BIAM), hereinafter referred to as BankInvest.

The policy applies to all investments performed by BIAM as well as external managers appointed by BIAM. Institutional clients can be exempted if they provided a commitment hereto. Third-party administrator services are exempt.

The policy covers financial derivatives. If investments in financial derivatives are used, the instrument must comply with this policy in the best possible way.

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

## Why do we work with sustainability?

BankInvest wants to be committed to and serious about its work with responsible investments. This policy is meant to help us achieve that goal.

The purpose of the policy is to set the framework for our work with environmental, social and governance (ESG) considerations and other sustainability risks in BankInvest's investment strategies and processes, including our contribution to the sustainable transition.

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

BankInvest fundamentally believes that the businesses creating value are those who conduct long-term responsible business practices. Consequently, BankInvest has committed to invest in a responsible manner by investing in businesses with responsible business practices.

BankInvest works with responsible investment and sustainability on several levels:

- Integration of ESG
- Handling of principal adverse impacts on sustainability factors
- Screening for sustainability factors
- Exclusion
- Active ownership
- Investor collaboration
- Climate
- Reporting

## Anchoring our work with responsible investments

### Responsible Investment Committee

BankInvest's Responsible Investment Committee is responsible for monitoring BankInvest's responsible investment efforts, including developing policies in the area, maintaining BankInvest's exclusion list and ensuring that BankInvest has the right responsible investments product range 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
- Chief Sustainability Officer and Head of Investment Risk and Selection
- Chief Operating Officer
- Chief Commercial Officer
- Chief Product Officer
- Head of IT

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

## Our work with 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 also be used to identify investment opportunities and risks.

A sustainability risk is defined as an environmental, social or governance event or circumstance that has the potential to have significant adverse effects on the value of an investment. A sustainability risk must be

material, relevant and significant in relation to the valuation of the company for it to be defined as such risk. This naturally varies between sectors.

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 a company- as well as a 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 they assess the future ESG prospects for the company in question when investing. 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 in a positive direction through direct investments. Moreover, in some cases the portfolio manager may have 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.

If a potential investment has not undergone an MSCI ESG analysis, this may be performed by BankInvest's dedicated ESG Investment Experts.

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

For certain divisions, it is not possible to fully identify all ESG-related risks. Examples are funds, individual issuers and alternative investments that are not yet covered by the data suppliers with whom BankInvest collaborates with. In such instances, portfolio managers and ESG experts will jointly seek to identify the relevant ESG risks.

## Handling of principal adverse impacts on sustainability factors

BankInvest has committed to preparing an annual statement on the principal adverse impacts (PAI statement).

The portfolio managers are therefore required to consider the identified principal adverse impacts (PAI indicators) in their investment decisions. The specific PAI indicators identified and prioritised in each division depend, among other factors, on data quality, availability, and relevance.

All divisions must, at a minimum, use information on issuers' revenue within selected sectors, ESG ratings, and apply norm-based screening. Information on issuers' CO<sub>2</sub> emissions has also been identified as an important PAI indicator and will be used in divisions with sufficient data quality and availability.

For divisions that invest sustainably, the sustainable investments will, on an ongoing basis, be subject to monitoring of the 14 PAI indicators to ensure that the investments do not significantly harm any of the sustainable investment objectives. This is ensured through both a quantitative tool and the portfolio manager's own analysis.

For further information on BankInvest's work with PAI indicators, please refer to the annual PAI statement, which can be accessed on the [bankinvest.dk](https://www.bankinvest.dk) website.

## Sustainability factors and screening

Sustainability factors<sup>1</sup> are defined as environmental, social and human resources issues as well as issues concerning respect for human rights, anti-corruption and anti-bribery.

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

- **The UN Global Compact**

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

- **The UN Guiding Principles for Business and Human Rights**

Guiding principles within responsible business conduct and compliance with human rights

- **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.

BankInvest collaborates with the international service provider Morningstar 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 collaboration with Morningstar 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 they assess 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 ESG department, who informs the Responsible Investment Committee.

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 divestments 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. Furthermore, there is a general ban on investing in companies in which more than 5% of the revenue comes from coal mining, production of tar sands, oil- and gas exploration in offshore Arctic regions as well as production and distribution of tobacco.

Exclusion may also occur if a company breaches international norms and does

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<sup>1</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.

not demonstrate willingness 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.

The exclusion list is updated regularly and can be found on BankInvest's website.

Moreover, certain divisions with special sustainability considerations may have stricter exclusion criteria for sectors and companies that are not assessed to be sustainable based on those criteria. In such case, this will be mentioned 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.

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 issued 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 they assess 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) based on a number of factors. The countries are then given an overall ESG rating between AAA and CCC. If a country is rated CCC, BankInvest will generally not invest in the government bonds issued by 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 that can be found on BankInvest's website.

## Climate policy

BankInvest aims to contribute to a climate-friendly world and acknowledges the importance of limiting climate change and understanding the impact of climate-related risks for our investments.

In 2021, BankInvest joined the Net Zero Asset Managers initiative. BankInvest has thus committed to achieving carbon neutrality from our investments by 2050 in line with the targets of the Paris Agreement. As of December 30, 2022, ~62% of BankInvest's total assets under management are to be managed in accordance with the Net Zero Asset Managers initiative. For the cov-

ered assets, BankInvest has set a 55% reduction target for the carbon emissions<sup>2</sup> from the end of 2019 to 2030. The target is based on the benchmarks of the covered assets. Information about BankInvest's targets can be found in the TCFD disclosure on the BankInvest website.

The work with the reduction targets involves reallocating BankInvest's investments in a more sustainable direction. This entails a shift away from the highest carbon emitters towards companies that provide solutions beneficial to the climate. As part of this effort, BankInvest has developed guidelines for our investments in fossil fuel companies. BankInvest aims to invest in fossil fuel companies that meaningfully address climate change within their organizations by demonstrating sufficient transition readiness. Consequently, a target has been set to gradually phase out investments in fossil fuel companies assessed to show insufficient transition readiness. The phase-out is measured from the exposure to these companies in the benchmarks of the covered assets as of the end of 2022 and will be completed by the end of 2030. However, departments primarily investing in Emerging Markets countries will have an extended phase-out period until early 2035<sup>3</sup>. The phase-out applies only to companies. Refer to BankInvest's website for further information on the guidelines for investments in fossil fuel companies.

The work on climate change aligns with our commitment to ensuring, promoting, and respecting human rights and should consider a just transition.

BankInvest continuously works on improving the tools used to analyze climate-related risks and the impact that our investment decisions have on the climate. Reporting on this to the board is done at least once a year.

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<sup>2</sup> Carbon emissions are defined as tCO<sub>2</sub>e/\$m invested measured as EVIC (Enterprise Value Including Cash)

<sup>3</sup> The Paris Agreement emphasizes that developing countries should receive additional support for their

## Darwin

BankInvest also offers investment through the Darwin mobile app. ESG factors are taken into consideration as much as possible in the ETFs that are being invested in. To the extent possible, investments should be made in ETFs with an ESG-profile that, as a minimum, is consistent with the requirements set out in this policy.

The market for ESG-screened ETFs is still developing, especially within Fixed Income, meaning that not all investment areas in Darwin will have an ESG-screened alternative.

## External managers

A part of BankInvest's portfolios is managed externally. When using 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.

In the selection of external managers, assessments of the manager's support for initiatives such as PRI and CDP, the use of data suppliers, carbon targets, etc.

As part of the ongoing control with the delegated tasks, the external managers are required to answer a series of questions each year, including questions regarding their ESG management, e.g. portfolio carbon emissions, exercise of active ownership etc.

## Alternatives

BankInvest also offers funds investing in alternatives such as real estate. These are typically under external management.

transition journey, and it will take them longer to reach their CO<sub>2</sub> emission peaks. Therefore, we have chosen to extend their phase-out timeline by five years

BankInvest collaborates with managers who integrate sustainability and climate considerations into their investment process focusing on topics such as the reduction of carbon footprint.

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

### **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 should approach ESG and carbon emissions.

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 offers both partially and fully sustainable products targeting investors who want to invest with a focus on sustainability.



## Investor collaboration

As a natural and key element in 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 these principles.

- **The UN Global Compact**

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

- **The Net Zero Asset Managers Initiative**

In 2021, BankInvest joined 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.

## Reporting

On BankInvest's website [bankinvest.com](http://bankinvest.com), you can find a range of reports and additional Information including:

- Information about the carbon footprint of the funds, contributions to the UN's Sustainable Development Goals and ESG rating.

- BankInvest's annual reporting to the PRI.
- BankInvest's continuously updated exclusion list.

The annual report on BankInvest's voting activities.

## Changes

### December 2023

- Clarification of policy scope
- The Climate policy section has been updated with a description of guidelines for investments in fossil fuel companies

### August 2023

- Update of the Responsible Investment Committee members

### May 2023

- Linguistic adjustments and updates according to product offerings
- Addition of a section on handling of principal adverse impacts on sustainability factors

### April 2023

- Climate policy section has been updated

### December 2022

- Update of the name of the policy
- Clarification of the scope of the policy.
- Section regarding the mobile app Darwin has been updated.
- Description of the CO2 commitment in accordance with the obligations in the Net Zero Asset Manager Initiative.
- Oil- and gas exploration in offshore Arctic regions and production and distribution of tobacco has been added to the section regarding exclusions.

### 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.

### December 2021

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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Handler  
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