Guidelines for investments in fossil fuel companies

BANKINVEST

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Introduction
BankInvest wishes to contribute to a climate-friendly world and recognizes the importance of combating climate change as well as understanding the implications of climate-related risks on our investments. The emission of carbon dioxide into the atmosphere must be reduced, and in this transition, fossil energy plays a key role.

In 2021, BankInvest joined the Net Zero Asset Managers initiative. BankInvest has thus committed to a goal of net-zero CO2 emissions from our investment portfolios by 2050, in line with the Paris Agreement.

As part of this effort, BankInvest has developed new guidelines for investments in fossil fuel companies[1] with effect from January 2024.

Guidelines for fossil fuel companies
80% of the world's energy production comes from coal, oil, and gas, which will inevitably constitute a significant part of the energy mix for many years to come. According to the International Energy Agency (IEA), energy companies can play an important role in the green transition if they work to reduce the carbon footprint from the energy they extract, while following a credible transition plan. At COP28, the annual UN climate conference, the global community entered into a new climate agreement that, for the first time, addressed the phasing out of fossil fuels[2].

BankInvest's guidelines for investments in fossil fuel companies therefore consist of three elements: exclusion, phase-out and inclusion. When the plan is fully implemented in 2030/2035, BankInvest will only invest in fossil fuel companies that are assessed to be moving in the right direction and are demonstrating transition readiness. All other fossil fuel investments will be phased out by 2030, except for funds whose primary investment area is within Emerging Markets (EM), where investments will be phased out by 2035. The phasing out is measured from the exposure to these companies in the covered assets' benchmark at the end of 2022 (see figure 1).

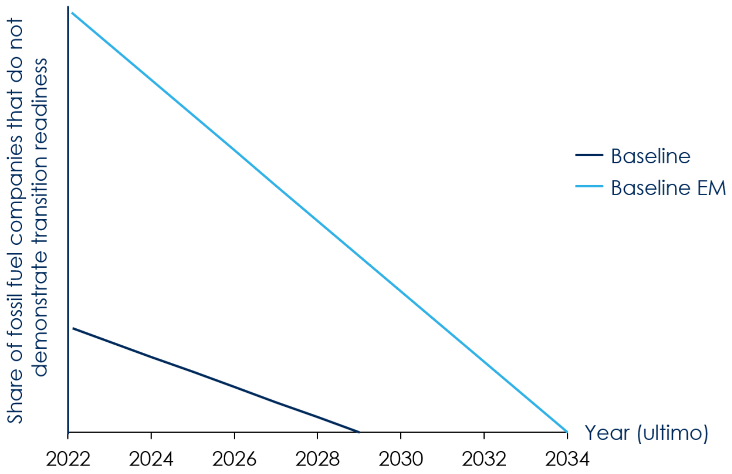

Figure 1: Baseline model for phase-out

[1] Fossil fuel companies are defined as companies that generate either more than 50% revenue from coal or oil- and gas-related services, more than 5% revenue from energy production based on coal, oil and gas, or more than 5% revenue from coal extraction or oil- and gas production
[2] https://unfccc.int/sites/default/files/resource/cma2023_L17_adv.pdf

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Traffic light model for transition readiness
The guidelines are based on a 'traffic light model,' where red companies are excluded, yellow companies are phased out by 2030/2035, while green companies are included in the investment universe as long as they meet a number of criteria (see table 1)

●	**Exclusion** *Companies involved in controversial fossil fuel activities*	• **Purpose:** Exclusion of fossil fuel companies with significant environmental and transition risks defined as companies with more than 5% revenue from coal mining, oil sands production, or oil and gas exploration in offshore Arctic areas
●	**Phase-out** *Companies that do **not** show transition readiness*	• **Purpose:** Phase-out of fossil fuel companies that do not show transition readiness
●	**Inclusion** *Companies that show transition readiness*	• **Purpose:** Continued inclusion of fossil fuel companies who show transition readiness

Tabel 1: Traffic light model of the degree of transition readiness

The assessment of companies' transition readiness is based on a quantitative data model using data from recognized international data providers, such as MSCI, Morningstar Sustainalytics, Transition Pathway Initiative (TPI), and Carbon Disclosure Project (CDP). The tests that companies undergo depend on the type of fossil fuel activity the companies engage in (extraction, services, or energy production). The assessment looks at companies' ESG rating, CO2 intensity, their CO2-related management practices, and which climate scenario the companies' climate goals align with. For companies that are assessed to be on the borderline between two categories in the quantitative model, a manual assessment of the companies' transition readiness is conducted. Green bonds issued for the purpose of financing green projects are classified as a transition-ready activity and will therefore not be phased out. The assessment of companies' transition readiness will be updated and evaluated once a year.

BankInvest already excludes fossil fuel companies involved in controversial fossil fuel activities, including companies generating more than 5% of their revenue from coal mining, oil sands production, or oil and gas exploration in offshore Arctic areas.

Covered assets and compliance
The guidelines apply to all BankInvest funds and all investments made by BI Asset Management Fondsmæglerselskab A/S (BIAM) as well as external managers appointed by BIAM. Institutional mandates may be exempt if they have indicated that they desire to be so. Third-party administration business is exempt.

BankInvest's phase-out target is measured at the BIAM level and reported to BankInvest's Committee for Responsible Investments once a year.

BankInvest's sustainable and Swan-labeled Article 9 funds do not invest in fossil fuel energy[3].

[3] The funds must not invest in companies that either themselves or through entities they control, derive 5% or more of their revenue from the exploration, drilling, extraction, and/or refining (for fuel) of: coal (all forms of thermal coal, e.g., lignite or anthracite), natural gas (conventional and unconventional), crude oil (conventional and unconventional), or uranium.