TCFD-report for 2022

Disclosure of climate-related financial risks

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June 2023

Background

Climate change is one of our time's major societal challenges, impacting the financial sector by giving rise to financial risks, including both physical[1]- and transition[2] risks.

Various initiatives have thus been launched to mitigate global warming and address these challenges, particularly through the Paris Agreement, the EU Green Deal and the Disclosure- and Taxonomy regulations.

In 2015, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD), which in 2017 issued climate reporting recommendations for cooperations. The recommendations aim to provide sufficient, reliable and comparable company sustainability-related information.

The recommendations cover the following areas:

1) **Governance**
    - The board's oversight of climate-related information, including risks and opportunities
    - Management's role in assessing and managing climate-related risks and opportunities
2) **Strategy**
    - Identification of climate-related risks and opportunities in the short-, medium- and long term, and how these risks impact the company business, strategy and financial planning
    - The robustness of the strategy under different climate-related scenarios, including a 2°C scenario (or lower)
3) **Risk Management**
    - The company's processes for identifying, assessing and managing climate-related risks, including how these risks are integrated into the company's overall risk management processes
4) **Data and targets**
    - The data used to assess climate-related risks and opportunities
    - Scope 1, 2, and 3 (if possible) emissions and related risks
    - Company targets addressing climate-related risks and opportunities, including performance relative to the targets

TCFD's recommendations have been incorporated into the European Commission's non-binding "guidelines for non-financial reporting" and are also partially part of BankInvest's mandatory PRI reporting.

It is worth noting that the Danish Financial Supervisory Authority, Finanstilsynet, has expressed that it expects the financial sector to disclose accurate and timely information on sustainability-related risks by using internationally recognized frameworks such as TCFD. Furthermore, Finanstilsynet expects companies to engage in scenario planning to prepare for the future.

BankInvest supports TCFD's recommendations. The purpose of the yearly TCFD disclosure is thus to report on TCFD's four recommendations, to the extent possible, and thereby create increased transparency on BankInvest's sustainability efforts.

This TCFD report covers BI Holding A/S, BI Asset Management Fondsmæglerselskab A/S, and BI Management A/S, hereafter referred to as BankInvest[3].

In 2021, BankInvest joined the Net Zero Asset Managers initiative. By doing so, BankInvest has committed to achieving net-zero CO_2 emissions from our investment portfolios by 2050, in line with the objectives of the Paris Agreement. In 2022, we were able to present our first target. BankInvest has committed to ensure that c. 43%

[1] Such as extreme weather events (forest fires, change in rainfall etc.) that can affect asset market value
[2] Such as new sustainability regulation (significant decrease of carbon emissions, rapid technology shifts etc.)
[3] Specific conditions may apply to certain client mandates

of our total assets under management (as of December 31, 2021) will be managed in accordance with the Net Zero Asset Managers initiative. For the covered assets under management, BankInvest has set a target of reducing the CO_2 footprint[4] by 55% from end-2019 to 2030. The target is based on the benchmarks of the covered assets under management. For more information on BankInvest's targets, please refer to Appendix 1.

Governance

BankInvest's Board has adopted a Policy for Responsible Investments, which guides the integration of environmental, social and governance (ESG) aspects into BankInvest's investment strategies and processes. In addition, it serves as guidance for BankInvest's work with sustainability, hereunder efforts towards a climate-neutral world by latest 2050. Furthermore, the board has approved a Policy for Active Ownership and Exercising of Voting Rights, and in prolongation a Sustainable Risk Policy has been developed. Lastly, BankInvest has integrated sustainability risks into the compensation policy for the Group.

BankInvest focuses on strengthening our reporting to the board. This also applies to the field of sustainability. The board of BI Holding A/S receives an annual sustainability report, which provides information on the following:

- ESG within the funds
    - Overview of portfolios' ESG profiles
    - CO_2 emissions
    - Companies that violate the UN Global Compact
- Proxy voting report
- Climate risks

BankInvest has established a Committee for Responsible Investments, which is responsible for overseeing work on responsible investments, including the development of policies within the ESG area, coordinating the implementation of the UN-supported Principles for Responsible Investment (PRI) guidelines and discussing matters related to responsible investments and active ownership. Additionally, the Committee also has the decision-making authority to exclude companies from all of BankInvest's portfolios.

The Committee meets minimum four times yearly and is composed of the following members:

- CEO (Committee President)
- CIO
- Chief Sustainability Officer and Head of Risk & Selection
- COO
- Head of Press Relations
- Head of Fixed Income
- Head of Sales
- Head of Global Equities
- The ESG-team

There is a strong focus on integrating sustainability into BankInvest's value chain and overall governance. BankInvest already believes that we have developed relevant sustainability policies and will continue to fine-tune them as sustainability-related legislation evolves.

[4] The CO2 footprint is defined as tCO_2e/$m invested measured by EVIC (Enterprise Value Including Cash)

Strategy

BankInvest aims to contribute positively to the green transition while delivering the best possible returns to our investors. Climate-related risks and opportunities are integrated into BankInvest's investment strategies and processes, as reflected in the Policy for Responsible Investments and the Sustainable Risk Policy. For example, the Policy for Responsible Investments states that BankInvest must not invest in companies involved in the production of controversial weapons such as cluster munitions, landmines, chemical weapons and nuclear weapons outside the Non-Proliferation Treaty. It also excludes companies with more than 5% of their revenues coming from coal mining, oil sands production or arctic drilling.

For climate-related risks, BankInvest has launched the "Sustainable impact" dashboard, which demonstrates the sustainable impact of a variety of BankInvest's funds. This has helped sharpen the focus on sustainability amongst individual portfolio managers. A robust ESG screening can provide insights into the individual company's environmental- and social risks, while it at the same time can help identify investment opportunities from an ESG perspective.

In 2022, BankInvest had the following portfolios with specific sustainability goals:

- Globale Aktier Bæredygtig Udvikling (both dividend paying and accumulating mutual funds)
- Globale Obligationer Bæredygtig Udvikling (both dividend paying and accumulating mutual funds)
- Danske Aktier Indeks Bæredygtig (both dividend paying and accumulating mutual funds)

In 2022, these three portfolios had specific goals on carbon footprint (measured as CO_2/EVIC[5]), contribution to the UN Sustainable Development Goals, and a requirement of a high ESG rating.

Additionally, the three mutual funds were certified with the Swan Label ("Svanemærket"), which means they met the Swan Label's 25 requirements for sustainable investment funds.

Moreover, the bond division, " Globale Obligationer Bæredygtig Udvikling", has an ambition to invest a minimum of 10% of assets under management in Green Bonds.

BankInvest supports the global climate agreement, the Paris Agreement, which was signed by 195 countries in 2015. The goal of the Paris Agreement is to mitigate climate change and limit global warming to well below 2°C, preferably 1.5°C. Initially, this means that BankInvest aims to be transparent about portfolio CO_2 emissions in order to set targets for portfolio emissions and to gain knowledge of portfolio exposure under different temperature scenarios. Furthermore, BankInvest has joined initiatives such as Climate Action 100+, the Montreal Carbon Pledge, CDP and the Net Zero Asset Managers initiative (NZAM), which means that BankInvest officially aims for its investments to be carbon neutral by 2050. See appendix 1 for more information on the work with the NZAM initiative.

Active ownership is one of the cornerstones of BankInvest's investment policy. The purpose of exercising active ownership is to promote long-term value creation of the companies we invest in for the benefit of our investors. This means that BankInvest acts as an active owner of the companies we invest in, and if a company does not comply with internationally acknowledged norms and conventions on environmental protection, human rights and business ethics, BankInvest, together with other investors, seeks to influence the company to change its behavior through dialogue. This process is monitored by the Committee for Responsible Investments, and the dialogue is conducted in collaboration with the international consulting firm Sustainalytics.

[5] Enterprise Value Including Cash

Risk Management

The Committee for Responsible Investments continuously monitors market developments and decides how climate-related risks should be measured, monitored, and managed. The committee may, for example, choose to exclude particularly carbon-intensive sectors, as was seen with the exclusion of coal mining companies.

BankInvest monitors and measures ESG characteristics daily for all Swan-Labeled portfolios. Additionally, we ensure daily that we do not invest in sanctioned companies.

The overall ESG profile of the portfolios are reported in quarterly meetings between the Investment Risk team and the portfolio managers. The ESG and CO_2 profiles of the portfolios are also reported to their respective boards.

For portfolios where BankInvest has external managers, BankInvest sends annual questionnaires to the external managers as part of ongoing monitoring of delegated tasks. The questionnaires include questions on their handling of ESG-related risks and opportunities, active ownership and more.

BankInvest collaborates with MSCI ESG and Sustainalytics, who provide data input and analysis on sustainability risks and factors. However, data availability and data quality of climate-related risks vary, and some come with significant uncertainties. Based on MSCI ESG, BankInvest can calculate the Climate Value-at-Risk (CVaR) for its mutual funds. CVaR is an aggregation of the effect of transition and physical climate risk scenarios. CVaR represents the present value of the total future policy risk costs, technology opportunities, extreme weather event costs and profits expressed as a percentage of the portfolio's market value, if those scenarios were to materialize by 2050. Transition risks refer to risks that arise in the transition to a more CO_2-efficient economy, such as the risk of potential earnings pressure on companies coming from increased regulation or rapid technological shifts. Physical risks include events such as more extreme weather leading to heatwaves, floods, wildfires, etc.

Climate-related risks are thus treated as a risk factor on par with market-, counterparty- and liquidity risks. BankInvest's ESG team investigates how BankInvest's approach to responsible and sustainable investments is viewed from an "inside-out" perspective, while CVaR can be interpreted as an "outside-in" point of view. The Risk Management function and ESG team collaborate closely on managing and reporting sustainability- and climate risks.

CVaR calculations are based on a "REMIND" model and a 1.5°C scenario calculation. REMIND stands for "Regional Model of Investment and Development," which is a forward-looking model of the global economy developed by the Potsdam Institute for Climate Impact Research, with a particular focus on the energy sector's development and impact on the global climate. The REMIND model is also the most widely used model among asset managers for calculating climate stress tests. According to the Paris Agreement, the ambition is to limit global temperature rise to 1.5°C, which is why this is the base scenario for the calculation.

In addition, BankInvest continuously monitors and reports on the extent (low/medium/high) to which a mutual fund's return is expected to be affected by sustainability risks. This categorization (according to Article 6 of the SFDR) is disclosed in the respective prospectus and PRIIPS.

Data and Targets

With the aim of increasing transparency, BankInvest has launched the dashboard "Sustainable impact", which showcases the sustainability profile of a range of BankInvest's mutual funds. The overviews are published on BankInvest's website.

The overview is updated quarterly.

The Sustainable impact dashboard consist of four main assessments:

1. How the mutual fund aligns with the UN Sustainable Development Goals
2. The mutual fund's carbon footprint
3. The mutual fund's ESG focus (environmental, social, and governance)
4. The types of excluded companies

The Sustainable impact dashboard is prepared for portfolios where MSCI ESG Research provides sufficient data coverage, and where at least 65% of the portfolio companies' total market value is covered. For bond portfolios, there is also a figure disclosed for Green Bonds.

The mutual fund's impact on the UN Sustainable Development Goals
The analysis is based on MSCI ESG Sustainable Impact Metrics, which divide 15 Sustainable Development Goals[6] into four main groups: Basic Needs, Education & Equality, Climate Change, and Earth's Resources.

For each company, the proportion of revenue supporting each of the four main groups is estimated. The sum of the four groups reflects the combined portfolio impact on the Sustainable Development Goals.

The mutual fund's carbon footprint
The carbon footprint overview shows the amount of CO_2 emitted through the invested companies by displaying the CO_2 emissions per million USD invested. The emissions are distributed proportionally among investors invested in the company's total capital as measured by Enterprise Value Including Cash (EVIC). This approach allows for comparisons between different portfolios.

BankInvest has chosen to include Scope 1 and Scope 2 emissions as defined by the "Greenhouse Gas Protocol." This method considers both direct and indirect CO_2 emissions from the companies, considering the CO_2 emissions from the companies' electricity and heat as well.

The mutual fund's ESG focus
When BankInvest's portfolio managers analyse individual companies, they consider both financial indicators and how companies address ESG factors. MSCI ESG provides analyses in this regard and assigns a score to each company, allowing for the calculation of an overall ESG score for the mutual funds. If MSCI has not conducted an analysis and score, BankInvest may in some occasions conduct its own analysis. Additionally, as mentioned earlier, BankInvest has launched Swan-Labeled portfolios with specific targets on CO_2, Sustainable Development Goals, ESG and Green Bonds.

[6] There are 17 SDGs in total. The final two SDGs are directed towards government work and are therefore not included in this analysis

Appendix 1. Climate Action Plan for Net Zero Asset Managers

The financial sector plays a central role in supporting the sustainable transition. BankInvest fundamentally believes that companies creating value are those with long-term responsible business practices. Therefore, BankInvest aims to be a leading actor when it comes to responsible investments. In 2021, we therefore joined the Net Zero Asset Managers initiative (NZAM), committing to achieving carbon neutrality by 2050. By joining the initiative, BankInvest will work to neutralize the greenhouse gas emissions from the companies in which we invest. This will be achieved through various sub-goals.

Practically, this means that BankInvest will examine which companies are responsible for the majority of our financed emissions in the covered funds and, over time, develop action plans and targets for active ownership. BankInvest already sets climate-related requirements on the companies we invest in. Additionally, we exclude investments in companies where more than 5% of revenues comes from coal mining, oil sands production and arctic drilling. As described in our Responsible Investment Policy, we expect companies to meaningfully address climate change within their organizations. We aim to support companies with managing risks and pursuing opportunities associated with the transition to a more climate-friendly world.

BankInvest also participates in Climate Action 100+, which aims to use collective active ownership to encourage the 166 largest CO_2-emitting companies to implement targeted strategies to reduce their CO_2 emissions.

In 2023, BankInvest plans to implement an internal e-learning program on ESG and sustainable investments.

In 2022, approximately 43% of BI Asset Management Fondsmælgerselskab A/S' AuM (as of December 31, 2022) was managed in accordance with the NZAM initiative. The reason for not including all AuM is primarily due to insufficient data coverage and lack of suitable calculation methods for CO_2, including those related to government- and mortgage bonds. Therefore, BankInvest finds it crucial that the set targets and action plans can be supported by data, tools, and internal systems. The initial commitment only covers asset classes where recognized methods and data are available. BankInvest uses standardized CO_2 calculation models from organizations such as Finans Danmark and PCAF.

Finally, BankInvest is in ongoing dialogue with our institutional clients to clarify whether they wish to become part of the initiative or not. BankInvest's aim is to expand the committed AuM to 100% by 2040 in line with our commitments to the NZAM initiative. **For the covered funds, BankInvest has set a 55% reduction target for their carbon footprint as measured by EVIC (tCO2e/$m invested) from the end of 2019 to 2030**. This corresponds to an annual reduction of approximately 7%. The target is based on the covered funds' benchmarks.

This target aligns with the international research from the Intergovernmental Panel on Climate Change (IPCC), which, in its report on 1.5°C global warming (2018), prescribes a required reduction in CO_2 emissions of 49-65% from 2020 to 2030. The benchmarks associated with BankInvest's covered funds are widely diversified and global and are therefore considered applicable to the global reduction requirement as specified by the IPCC.

Method
NZAM has recommended that asset managers choose one of the following three frameworks related to the initiative:

1. Paris Aligned Investment Initiative Net Zero Investment Framework
2. UN Asset Owner Alliance Target Setting Protocol
3. Science Based Target Initiative for Financial Institutions

Therefore, there are different approaches to for how to work with and achieve net zero.

BankInvest has chosen the Paris Aligned Investment Initiative's Net Zero Investment Framework. The Paris Aligned Investment Initiative is an investor-led collaboration supported by four investor networks: AIGCC, Ceres, IGCC, and IIGCC, with BankInvest serving as a member of the latter. Their Net Zero Investment Framework is designed as a foundation for investors to define strategies, measure adjustments and align portfolios with net zero commitments.

The method requires investors to establish clear and science-based targets for the covered funds based on two types of objectives: 1) Top-down target-setting on CO_2, 2) Bottom-up target-setting on active ownership and engagement.

The top-down target-setting deals with portfolio-level decarbonization, while the bottom-up target-setting involves increasing the number of companies in portfolios that are either on the right track with their strategies and action plans aligned with the Paris Agreement or whom which we are engaging with through active ownership dialogue.

BankInvest has examined the data and methodological foundation for the bottom-up target-setting and has concluded that these are currently insufficient for establishing proper target-setting. BankInvest intends to develop and submit bottom-up objectives when the data and methodological foundation are in place. We are continuously exploring data coverage and frameworks that will allow us to set bottom-up targets in the future.

BankInvest's management has the overall responsibility for determining BankInvest's approach to responsible investments, including climate. The management is supported by the internal Committee for Responsible Investments, which is responsible for monitoring BankInvest's work with responsible investments. BankInvest's CEO serves as the chairman of the Committee.

BankInvest's Climate Action Plan for Net Zero Asset Managers is prepared by an internal working group consisting of the ESG department as well as representatives from various areas of the organization. The ESG department is responsible for the overall coordination. Relevant decisions are made in the Committee for Responsible Investments with the participation of members of management and senior leadership across relevant functions. The ultimate approval and responsibility for BankInvest's net zero action plan lies with the management.

Annual reporting on our targets for the NZAM initiative is published on BankInvest's website. BankInvest is committed to reviewing the objectives every 5 years.