TCFD report for 2021

Climate-related financial risk disclosures

List of contents

September 2022

Background

Climate change is one of the largest challenges to our society today – and the changes also impact the financial sector and entail financial risks, including physical risks[1] and transition risks[2].

Numerous initiatives have been launched to slow global warming and deal with the challenges, including in particular the Paris Agreement, the EU Green Deal and the Disclosure and Taxonomy Regulations.

In 2015, The Financial Stability Board set up the Task Force on Climate-related Financial Disclosures (TCFD), which for the first time in 2017 published recommendations on climate reporting for companies. The recommendations aim to create adequate, reliable and comparable sustainability-related information about companies.

The recommendations concern the following areas:

1) **Governance**
   - The board of directors' supervision of climate-related information, including risks and opportunities
   - The management's role in relation to assessing and managing the climate-related risks and opportunities
2) **Strategy**
   - The identified climate-related risks and opportunities in the short, medium and long term, including their impact on the company's business, strategy and financial planning
   - The resilience of the strategy in various climate-related scenarios, including a 2-degree scenario (or lower)
3) **Risk management**
   - The company's processes for identifying, assessing and managing climate-related risks, including the integration of these risks in the company's overall risk-management processes.
4) **Data and targets**
   - The data and methods used to assess the climate-related risks and opportunities.
   - The targets used by the company to manage the climate-related risks and opportunities, including the actual performance.

TCFD's recommendations are incorporated in the Commission's non-binding guidelines for non-financial reporting and are also part of the mandatory PRI reporting.

It is also worth noticing that the Danish Financial Supervisory Authority has previously stated their expectation that the financial sector will make accurate and timely disclosures of sustainability risks, etc., and that the companies use international, acknowledged framework tools such as TCFD.

In addition, the Danish Financial Supervisory Authority expects companies to apply scenario planning to prepare for the future.

[1] Extreme weather events (rapid water level increases, fires, precipitation changes, etc.) that may affect the market value of assets.
[2] Examples include new regulation on sustainability, a drastic reduction of carbon emissions, rapid technology changes, etc.

BankInvest supports the TCFD recommendations. The annual disclosures thus aim to report on TCFD's four recommendations wherever possible to further increase the transparency of BankInvest's sustainability work.

The report covers BI Holding A/S, BI Asset Management Fondsmæglerselskab A/S and BI Management A/S, hereinafter referred to as BankInvest[i].

Governance

BankInvest's board of directors has adopted a *Policy for Responsible Investment, Sustainability Risks and Corporate Social Responsibility* which defines the framework for integration of environmental, social and governance (ESG) considerations in BankInvest's investment strategies and processes as well as BankInvest's work on sustainability and efforts towards a climate-neutral world by 2050 or sooner. The board of directors has also approved a *Policy for Active Ownership and Voting*, and a *Sustainability Risk Policy* has been drawn up. Finally, BankInvest has integrated sustainability risks in the remuneration policy for the group.

BankInvest focuses on strengthening its reporting to the board of directors and expects to devote even more space to sustainability and climate in the reporting in the years to come. The board of directors of BI Holding A/S consequently receives an annual sustainability report, disclosing the following:

- ESG in the funds
    - Overview of ESG profiles of the portfolios
    - Carbon emissions
    - Companies in breach of the UN Global Compact
- Reporting on voting
- Climate risks

BankInvest has set up a Responsible Investment Committee tasked with working on responsible investment, including developing policies for the area, coordinating the implementation of the UN-backed Principles for Responsible Investment (PRI) and discussing matters concerning responsible investment and active ownership. The committee also has the power to decide on the exclusion of companies in all of BankInvest's portfolios.

The committee meets at least four times annually and is mainly made up by members of BankInvest's management:

- Chief Executive Officer (committee chairperson)
- Chief Investment Officer
- Investment Management Officer
- Head of ESG & Responsible Investment
- Head of Fixed Income
- Partner Director
- Head of Investment Risk & Selection
- Chief Portfolio Manager for Global Equities
- ESG and responsible investment specialists
- Head of Press Relations

"Creating a culture of sustainable company management" is an independent track in BankInvest's sustainability project, overseen by the functions of Compliance and ESG & Responsible Investment.

In other words, intensifying the integration of sustainability in BankInvest's value chains and the overall company management is a high priority.

BankInvest assesses that its policies in this area are already good, but will use future statutory rules on sustainability risks as an opportunity to fine-tune and optimise them.

Strategy

BankInvest wants to contribute positively to the green transition, while generating the best possible returns for our investors.

Climate-related risks and opportunities are integrated into BankInvest's investment strategies and processes, as expressed in the *Policy for Responsible Investment, Sustainability Risks and Corporate Social Responsibility* and the *Sustainability Risk Policy*. As stated in the *Policy for Responsible Investment, Sustainability Risks and Corporate Social Responsibility*, BankInvest must not invest in companies involved in the production of controversial weapons such as cluster munitions, land mines, chemical 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.

In terms of climate-related risks, BankInvest launched the overview "Sustainable Footprint" in 2019 to depict the sustainability of a number of BankInvest's divisions, and this has helped intensify focus on sustainability among the individual portfolio managers. A good ESG screening can thus assist in gaining insight into the environmental and social risks of the individual companies and identifying investment opportunities from an ESG perspective. In 2021, BankInvest expanded the coverage of the portfolios significantly.

BankInvest has the following portfolios with specific sustainability targets:

- Globale Aktier Bæredygtig Udvikling (both distributor and accumulation divisions)
- Globale Bonds Bæredygtig Udvikling (both distributor and accumulation divisions)
- Danish Aktier Indeks Bæredygtig (both distributor and accumulation divisions)

These portfolios have targets for carbon footprint (measured as CO2/EVIC), efforts to achieve the UN Sustainable Development Goals and requirements for a high ESG rating.

The divisions have also qualified for the Nordic Swan Ecolabel, meaning that they meet the 25 Nordic Ecolabelling requirements of sustainable investment funds.

The bond divisions also have an ambition of investing at least 10% of their assets in green bonds.

BankInvest supports the Paris Agreement, a global climate agreement signed by 195 countries in 2015. The Paris Agreement aims to counteract climate change and minimise global warming to well below 2 degrees Celsius, and preferably 1.5 degrees Celsius. This initially means that BankInvest wishes to be transparent about the carbon emissions of the portfolios in order to set specific targets for the portfolios' carbon emissions and to be attentive to the exposure of the portfolios in various temperature scenarios. BankInvest has also joined the initiatives Climate Action 100+ and Montreal Carbon Pledge.

In 2021, BankInvest furthermore joined CDP and the Net Zero Asset Managers initiative (NZAM), meaning that BankInvest officially has a target of carbon-neutral investments by 2050 or sooner. See appendix 1 for more information about the work under the NZAM initiative.

Active ownership is among the pillars of BankInvest's investment policy. The purpose of exercising active ownership is to promote the long-term value creation of the investee companies, to the benefit of our investors.

This means that BankInvest acts as an active owner of the companies in which we invest and, if a company does not comply with the norms, BankInvest will join forces with other investors in an effort to influence the companies to change their behaviour through dialogue. The Committee for Responsible Investment monitors this process, and the dialogue is conducted in cooperation with the international consultancy firm Sustainalytics.

Risk management

The Responsible Investment Committee monitors market developments and decides on how to measure, monitor and manage climate-related risks. By way of example, the Committee may decide to exclude particularly carbon-intensive sectors, as was the case when carbon-extraction companies were excluded.

BankInvest thus monitors and measures carbon and ESG properties for all Nordic Swan Ecolabelled portfolios on a daily basis. A daily check is also made to ensure that no investments are made in sanctioned companies.

In addition, reporting is made on the portfolios' overall ESG profiles at quarterly meetings between the portfolio risk function and the portfolio managers. The respective boards also receive reporting on ESG and carbon profiles.

For BankInvest's portfolios with external managers, BankInvest each year sends questionnaires – as part of the ongoing control with the delegated tasks – to the external managers with questions about their ESG management, exercise of active ownership etc.

Climate-related risks are still a new and fairly unknown area with many uncertainties, particularly in relation to data. Work still remains on establishing specific processes for identifying, assessing and managing climate-related risks. The same applies to developing specific processes to assess whether climate-related risks are integrated into the company's overall risk management processes. In 2021, BankInvest focused on strengthening work on climate-related risks, including scenario analyses for individual portfolios, and developing a separate sustainability risk policy.

BankInvest significantly strengthened its work on Climate Value-at-Risk, also known as Climate VaR (CVaR), in 2021, calculated through MSCI ESG. So far, CVaR is calculated on a semi-annual basis for most portfolios and reported to the respective boards and portfolio managers.

The CVaR figure is an overall estimate of the impact of the transitory and physical climate risk scenarios. CVaR represents the present value of the sum of future political risk costs, technology options and extreme weather event costs and profits expressed as a percentage of the market value of the portfolio if those scenarios are realised until the year 2080. These three circumstances result in 14 minor stress test scenarios, which are eventually mapped to the final CVaR% figure.

Transitory risks are understood as risks arising in the transition to a more carbon-efficient economy. For instance, the basis for corporate earnings may be squeezed by regulation or faster technology shifts. The physical risks cover the more extreme weather events, such as heat waves, floods, fires, etc.

The results of the tests show, among other things, the impact of the transformation of economies towards a low emission economy, as well as extreme weather events. Both tests are calculated using models in the MSCI ESG Manager. These are therefore "outside-in" effects on the managed UCITS and AIFs.

Climate-related risks are thus a risk factor in line with, for example, market, counterparty and liquidity risks. On the other hand, the ESG & Responsible Investment function looks at BankInvest's approach to responsible and sustainable investment from an "inside-out" perspective. In other words, how BankInvest affects the outside world. The risk management function and ESG & Responsible Investment cooperate closely on the management and reporting of sustainability and climate risks.

The CVaR figures are based on a "REMIND" model and a 1.5-degree scenario calculation. REMIND is defined as "Regional Model of Investment and Development," a forward-looking model of the world economy by the Potsdam Institute for Climate Impact Research, with a particular focus on the development of the energy sector and its impact on the global climate. Furthermore, the REMIND model is the most widely used model among asset managers for the calculation of climate stress tests. The Paris Agreement has an ambition of limiting the global temperature rise to 1.5 degrees, which is why this is used in the calculation.

Data and targets

With the aim of increasing transparency, BankInvest in 2019 launched the "Sustainable Footprint" overview, which shows the sustainability of a number of BankInvest's divisions. The overviews are published on BankInvest's website and updated quarterly.

Sustainable Footprint contains four statements:

1. the division's position in relation to the UN SDGs;
2. the division's carbon footprint;
3. the division's actions in relation to ESG;
4. the types of companies excluded.

Sustainable Footprint is prepared for those portfolios for which MSCI ESG Research provides an adequate data basis and where at least 65% of the total market value of the portfolio companies is covered. In addition, a figure for green bonds is shown for bond portfolios.

The division's impact on the UN Sustainable Development Goals
This analysis is based on MSCI ESG Sustainable Impact Metrics, which divides 15 SDGs[3] into four main groups: basic needs, education & gender equality, climate change and natural capital.

It is then estimated how much of the companies' turnover supports each group. The sum of the four groups shows the portfolio's overall impact on the SDGs.

The division's carbon footprint
In the overview, we show how much carbon is emitted through the investee companies by relating the companies' carbon emissions to their turnover. The figure thus indicates how effectively companies operate in relation to their carbon emissions. This enables the portfolio's carbon emissions to be calculated across the size of the companies. At the same time, this method means that you should generally only compare the carbon impact of divisions investing in the same type of company and in the same regions.

BankInvest has chosen to include Scope 1 and Scope 2 emissions as defined by the Greenhouse Gas Protocol. This methodology looks at both the direct and indirect carbon emissions from companies and thus also takes into account carbon coming from companies' electricity and heating.

The division's actions in relation to ESG
When analysing individual companies, BankInvest's portfolio managers look at both financial ratios and how companies deal with ESG matters. MSCI ESG analyses this and scores each company to enable the calculation of a combined ESG score for the divisions. If MSCI has not prepared an analysis and a score, BankInvest will in several instances make its own analysis of the company.

Each company is assessed in relation to its own sector of activity. The individual ratings are then combined to express the overall ESG profile of the portfolio on a scale from the lowest grade of CCC to the top grade of AAA. As the ESG level of the companies may vary significantly, the overview shows how the companies' individual ESG ratings are distributed on the scale.

As mentioned above, BankInvest has also launched Nordic Swan Ecolabel portfolios with specific targets for carbon emissions, SDGs, ESG and green bonds.

BankInvest has joined the Net Zero Asset Managers initiative and thus aims to achieve carbon-neutral investments by 2050 or sooner. Work to implement this will continue in the coming years.

In addition, BankInvest has strengthened the data basis by purchasing access to even more climate-related data for scenario analysis, etc.

[3] There are 17 Sustainable Development Goals in total. The two last SDGs are targeted at the work of governments and are consequently not included in this analysis.

Appendix 1. Climate Action Plan for Net Zero Asset Managers

The financial sector plays a key role in supporting the sustainable transition, and BankInvest fundamentally believes that the businesses creating value are those who are responsible in their business practices in the long term.

BankInvest thus wants to be a leading player in responsible investments and therefore in 2021 joined the Net Zero Asset Managers Initiative (NZAM), where we have committed to be carbon neutral by 2050. By joining the initiative, BankInvest will work to neutralise greenhouse gas emissions from the companies in which we invest, through various interim targets.

From a practical point of view and in the long run, this means that BankInvest will, for example, look at which companies are responsible for the majority of our financed emissions in the funds committed and eventually formulate action plans and shareholder engagement objectives. BankInvest already imposes climate-related requirements on the companies we invest in. We are already offering Nordic Swan Ecolabel portfolios with specific carbon reduction targets that must be met continuously. In addition, we have a ban on investing in companies in which more than 5% of the revenue comes from coal mining and the production of tar sands.
As also outlined in our responsible investment policy, we expect companies to meaningfully address climate change in their organisations and we want to support companies' efforts to manage risks and pursue the options associated with transitioning to a more climate-friendly world.

This is why BankInvest also participates in Climate Action 100+, which, through collective active ownership, seeks to induce the 166 largest carbon emitters (companies) to implement strategies and action plans to reduce their carbon emissions.

In 2022, BankInvest plans to deploy an internal e-learning programme about ESG and sustainable investments.

BankInvest has made the commitment that around 43% of AuM (as of 31 December 2021) will be managed in line with the NZAM initiative.

The reason for not including all AuM is primarily due to inadequate data and lack of calculation methods for carbon emissions, including in relation to government and mortgage bonds.

BankInvest therefore considers it essential that the defined objectives and action plans can be supported by data, tools and internal systems. The initial commitment thus only covers asset classes for which recognised methods and data access exist. BankInvest uses standardised carbon calculation models from e.g. Finance Denmark and PCAF.

Finally, a dialogue has been initiated with BankInvest's institutional clients in order to clarify whether they wish to be part of the initiative.

BankInvest's objective is to extend the committed AuM to 100% by 2040, in line with our commitments to the NZAM initiative.

For the funds committed, BankInvest aims to reduce the carbon footprint by 55% measured in terms of EVIC (tCO2e/$m invested) from the end of 2019 to 2030. This corresponds to an annual reduction of slightly more than 7%. The target is based on the benchmarks for the funds committed.

This target is in line with international research by the Intergovernmental Panel on Climate Change (IPCC) which, in its special report on 1,5 degrees of global warming (2018), foresees a necessary reduction in CO_2 of 49-65% from 2020 levels by 2030. Taken together, the benchmarks associated with BankInvest's committed funds are broad-based and global and are therefore considered applicable to the global reduction requirement as specified by the UN Climate Change Panel.

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

These frameworks represent different approaches to working towards achieving net zero. BankInvest has selected the Paris Aligned Investment Initiative's Net Zero Investment Framework. The Paris Aligned Investment Initiative is an investor-led cooperation supported by four investor networks: AIGCC, Ceres, IGCC and IIGCC, with BankInvest being a member of the latter. Their Net Zero Investment Framework is designed as a basis and framework tool for investors to define strategies, measure adjustments and adjust portfolios to net zero commitments.

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

The top-down target addresses the decarbonisation at portfolio level, while the bottom-up target addresses how we increase the number of companies in our portfolios that are either on track with strategies and action plans that follow the Paris Agreement, or with which we are in dialogue through shareholder engagement.

BankInvest has examined the data and methodological basis of the bottom-up target and has concluded that these are currently not sufficient to set such a target. BankInvest intends to design and deliver bottom-up targets once the data and methodological basis are in place. We are regularly examining data coverage and frameworks that will enable us to set bottom-up targets in the future.

BankInvest's executive board has overall responsibility for setting the direction of BankInvest's approach to responsible investment, including climate. The executive board is supported by the internal Responsible Investment Committee, which is tasked with monitoring BankInvest's work on responsible investment. BankInvest's Chief Executive Officer chairs the committee.

BankInvest's Climate Action Plan for Net Zero Asset Managers has been prepared by an internal working group composed of the ESG department, as well as representatives from different areas of the organisation. The ESG department is responsible for the overall coordination. Relevant decisions are made in the Responsible Investment Committee, with the participation of members of the executive board and the senior management across specialist fields. The ultimate approval and responsibility of BankInvest's net zero action plan rests with the executive board.

We report annually on our targets to the NZAM initiative and publish the reporting on BankInvest's website. BankInvest is committed to reviewing the targets every five years.

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[i] Specific circumstances may apply to individual client mandates.