Climate

Our Investment Approach

Danske Bank


Danske Bank

Content

Bringing climate into the core of investment decisions

The financial industry plays an important role in transforming companies and societies in a green direction. The focus and actions of policymakers, consumers and other stakeholders to mitigate the effects of climate change are reshaping the investment landscape. Danske Bank's overarching ambition and duty is to grow and protect our customers' investments, and based on that foundation we support and contribute to the low-carbon transition and making societies more resilient and sustainable.

The climate change agenda is, in other words, an integral part of how we invest on behalf of our customers. Taking climate aspects into account is of paramount importance, in our view, as this supports our ambition to deliver attractive risk-adjusted returns, which in turn constitutes genuine support for the journey towards more climate-friendly businesses and societies. We believe that our approach helps and supports society to achieve the climate goals set out in the Paris Agreement while at the same time delivering attractive returns for customers.

Climate considerations are an integral part of customer investments

Analysing and assessing the business impact of climate issues is embedded in the decision-making of all our investment teams and is a key factor when selecting investments for our customers. Whenever relevant, our investment teams analyse and assess the short- and long-term business impact of climate change issues, which helps them address climate-related risks and dilemmas, identify opportunities and make better-informed investment decisions that benefit our customers.

Our approach enables us to mitigate potential investment risks related to climate change. Similarly, by analysing climate issues we can identify those companies that manage their climate impact and embrace the business opportunities of the transition to a low-carbon economy.

Creating value for customers, companies and society

We believe that as an investor we can contribute to changes and improvements by influencing companies to reduce carbon emissions and choose the path towards a cleaner and greener society, thus making companies more resilient. By actively engaging with companies, we take climate action and address climate-related risks, opportunities and problems through constructive dialogue. We represent our customers' interests when we, as an investor, influence developments and help companies transition to renewable energy sources, reduce their contribution to climate change and be part of the solution. By focusing on business-critical climate issues, we are able to influence companies and create value for our customers and the societies we are part of.

Our approach

Our duty is to deliver attractive returns for our customers.
We support the transition to a low-carbon society through following:

We analyse and identify business-critical climate issues and consider them as factors in the investment process along with financial factors.

We engage directly with companies – and influence them to manage their climate issues and reduce their contribution to climate change.

We collaborate with other investors and stakeholders – to impact companies' climate performance.

We exclude certain companies who are involved in activities, practices or products that materially contribute to climate change.

Climate considerations are an integral part of investments

Assessing how companies tackle climate issues and how they are participating in the green transition are key considerations when we invest our customers' assets. By having climate considerations at the core of our customers' investments, we can better invest their assets in companies that are addressing climate issues, reducing their contributions to climate change and embracing green growth opportunities.

Climate change and the transition to a greener and more sustainable society are megatrends that are influencing investments and our customers. Climate change is a global challenge that fundamentally alters the risks and opportunities that people, businesses and the financial sector face. Companies will encounter stricter climate regulations in the coming years, consumers are increasingly demanding green solutions and society as a whole expects companies to take responsibility and participate in solving the challenges of climate change. This backdrop has a significant and lasting impact on our customers' investments.

Our customers' investments are exposed to climate-related risks and also the potential benefits from investments associated with the transition to a low-carbon economy. It is our responsibility and ambition to protect and grow our customers' investments by managing risks and unlocking opportunities that influence these investments.

Climate considerations: an integral part of making sound investments
Identifying and assessing climate-related issues that may pose a risk or an opportunity and thereby affect a company's ability to deliver an attractive return is fundamental to the approach of our investment teams. Considering the climate aspects is an important component in making sound investments and a lodestar to help our investment teams make better-informed investment decisions.

Investment teams consider the climate aspects alongside other environmental, social and governance aspects of a company as well as a company's financial performance. This approach provides our investment teams with a fuller picture and enables them to focus on the crux of relevant and financially material climate issues for a particular company. Furthermore, it helps them manage potential risks and unlock opportunities that could benefit our customers and their returns.

Utilising climate data to make better investments

We have built a data platform consisting of high-quality climate data that lists those climate aspects that are relevant and critical for businesses and their financial performance. The data platform currently consists of 11 different ESG data sources, which are used by our investment teams to assess how companies are addressing climate issues. These include a company's carbon footprint from their own operations, the carbon footprint of products and supply chains, biodiversity and deforestation policies, involvement in renewable or fossil fuel activities, strategies for reducing carbon emissions and how they are positioned to meet future climate regulations or shifting consumer demands for low-emissions products.

Leveraging the Task Force on Climate-related Financial Disclosures

To support our ambition of growing and protecting our customers' investments, we take inspiration and guidance from the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Investment teams apply these recommendations as part of the investment process in order to understand, assess, mitigate and adapt to complex climate-related risks and to identify opportunities. The recommendations help investment teams better understand, measure and manage portfolio companies' financial risks and opportunities stemming from the global transition to a lower-carbon economy. The TCFD recommendations include:

- Governance: The company's governance around climate-related risks and opportunities.
- Strategy: The actual and potential impact of climate-related risks and opportunities on the company's business, strategy and financial planning.
- Risk Management: The processes used by the company to identify, assess and manage climate-related risks.
- Metrics & Targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Focus on financially material climate issues

Central to making sound investments is our investment teams' focus on climate issues that are likely to affect a company's business and ability to deliver attractive returns to our customers. This is called financial materiality and is the focal point when investment teams analyse which climate-related aspects are important for individual companies. To support investment teams in focusing on financially material climate aspects, we have developed our proprietary analytical tool called mDASH (short for materiality dashboard). The tool helps our investment teams better assess how individual companies address and manage those climate aspects that are likely to be critical for their business and thus enables the teams to make better-informed investment decisions.

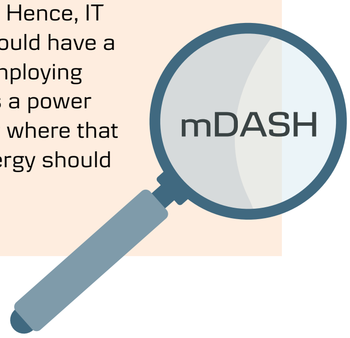
Examples of financially material climate issues

Car manufacturers

The regulatory push to transform the auto industry in a more climate-friendly direction combined with increased consumer demand for non-emitting cars is profoundly changing the automotive industry. It is paramount that carmakers adapt their future car models to a world in which electricity replaces petrol and diesel, that they remodel factories to manufacture full electric or plug-in hybrid models and are prepared to meet the strict emissions standards planned for the coming years.

IT companies

Our increasingly digitalised societies require data centres that can store huge amounts of data. Data centres are electricity-intensive and IT companies need to have a strategy for building energy-efficient data centres that consume as little power as possible and keep CO_2 emissions to a minimum. Hence, IT companies should have a strategy for employing renewables as a power source and for where that renewable energy should come from.



Mitigating risks and unlocking opportunities associated with climate change

Climate change and the transition to a sustainable economy throw up a number of risks and opportunities that affect a company's value, business model and growth potential. Our investment teams analyse, identify and assess the impact of the risks and opportunities when they invest our customers' assets, so they can make the best possible investments.

We assess climate-related risks and their impact on our customers' investments from two perspectives. First, transitioning to a low-carbon society will disrupt company valuations via, for example, higher carbon prices, lower demand for carbon-intense products or higher demand for green energy. Second, even if societies achieve the goals of the Paris Agreement by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C, that warmer world will look very different to the world today.

Opportunities arising from addressing climate change

Identifying companies that are embracing and capitalising on the new business opportunities sparked by the green transition is an integral part of the investment process for our investment teams. Transitioning to a more climate-friendly society creates multiple opportunities for companies to grow their business if they can be at the forefront when it comes to, for example:

- Developing and offering solutions that meet the surge in consumer demand for green and low-emission products and services. This includes consumer goods and services that place greater emphasis on a product's carbon footprint in its marketing and labelling, or products that enable the consumer or society to reduce emissions. Companies that innovate such products and solutions may up their competitive game and gain access to new markets, which can result in increased revenue streams.
- Adopting to and using lower-carbon-emission sources of energy to reduce their sensitivity to stricter fossil fuel regulations planned for the future.
- Improving energy efficiency across their production and distribution processes, buildings, machinery or transportation of products – which can reduce operating costs.

Physical risks

Climate change is set to shift the opportunities companies have for running a business. More extreme weather and an altered climate will present companies with new challenges.

Extreme weather

More extreme weather, with longer droughts, more forest fires, greater water scarcity, more powerful hurricanes and flooding, could hurt food companies, as they might no longer be able to produce the same volume of food. Moreover, production facilities could get damaged and the transport of goods disrupted, potentially leading to revenue losses.

Altered climate

Climate change and the rise in global temperatures has produced a shift in climate patterns. The results include sustained heatwaves that cause icecaps to melt and sea-levels to subsequently rise, making low-lying areas uninhabitable. Potential business implications include higher insurance premiums due to the risk of production facilities being flooded or companies being unable to produce goods because of insufficient access to water and other raw materials.

What risks are associated with the transition?
Stricter climate legislation, changes in consumption patterns and new climate technologies are some of the forces driving society in a greener direction.

Increased climate regulation
The political focus on mitigating climate change will likely mean increasing regulation designed to limit activities and products that contribute to altering the climate. These could include CO_2 emission charges, legislation to reduce vehicle CO_2 emissions or to create a greater economic incentive to shift from polluting technologies and products to more energy-efficient and climate-friendly solutions.

Technological developments and changing patterns of consumption
New climate technologies and solutions that support the green transition could have great significance for companies and their opportunities to do business. There might be negative consequences if companies are not in a position to develop solutions related to renewable energy, reducing CO_2 emissions from their production process or replacing existing products with more energy-efficient alternatives, etc. Competitiveness, for example, could suffer if companies fail to develop products that meet the increasing demands of consumers for green solutions.

Contributing to the green transition in different ways

Companies can contribute to creating a greener future in different ways. They can, for example, supply products or solutions that enable other companies and society to reduce their impact on the climate and move in a green direction. They could also reduce CO_2 emissions from their production process or the carbon footprint of using their products. Meanwhile, a number of companies are in the process of transitioning to greener energy sources and so contributing to the green transition in this way.


Kasper From Larsen
Senior Portfolio Manager

Equinor
"Equinor is a Norwegian oil company pursuing a strategy to transition from being an oil company to being an energy company. They are changing their energy mix and gradually increasing their renewable energy capacity to meet the higher power demand from electrification, etc. and have plans to invest DKK 13-19 billion annually in renewable energy going forward to 2025. As an example, Equinor and their partner SSE Renewables have been awarded contracts to develop the world's biggest offshore wind farm in the Dogger Bank region of the North Sea, with a total installed capacity of 3.6 GW – enough energy to power the equivalent of 4.5 million UK homes."


Thomas Fabricius
Senior Portfolio Manager
& Chief ESG Analyst

Microsoft
"US IT company Microsoft is viewed as a sustainability leader and has had a carbon-neutral operation since 2012. Recently, the company stepped up its climate ambitions by aiming to be carbon negative by 2030 – meaning they would be drawing down more carbon than they emit, including carbon emissions from their own operations and emissions from the power plants that generate the electricity they use. The target also includes emissions from their supply chain and the carbon emitted by using their products. By 2050, Microsoft will remove from the environment all the carbon the company has emitted either directly or through power consumption since it was founded in 1975."


Jesper Neergaard Poll
Chief Portfolio Manager

Vestas
"Danish company Vestas designs, manufactures, installs and services wind turbines around the globe, making them one of the key drivers in enabling the transition from fossil fuels to renewable and climate-neutral energy. With 117+ GW of wind turbines installed in 81 countries, they have installed more wind power than any other company. Furthermore, they have an ambition to reduce their carbon emissions by 55 per cent by 2025, and a goal of reaching 100 per cent by 2030. Today, Vestas wind turbines are 85 percent recyclable, on average, though their wind turbine rotors (blades and hubs) are currently comprised of non-recyclable composite materials. The company has therefore set targets for improving the recyclability of these components to 44 per cent by 2025 and 55 per cent by 2030."

Embracing the green transition creates value

The global action to mitigate the effects of climate change caused by society, companies and consumers is profoundly changing the corporate bond investment universe, which underscores the importance of focusing on climate issues when assessing investment opportunities, according to Cecilie Hoffmeyer.

Cecilie Hoffmeyer
Senior Portfolio Manager

Assessing and identifying climate-related risks is an integral part of assessing investment opportunities in corporate bonds, according to Cecilie Hoffmeyer. She is senior portfolio manager in Danske Bank's corporate bond team, where she specialises in European high-yield bonds. Issuers of these bonds vary from listed companies operating globally to privately owned companies with a focus on their domestic market.

"Consumer preferences, company operations and regulations are rapidly changing, spurred by increased awareness of the impact of climate change and global ambitions to push society in a more sustainable direction. These changes will most likely accelerate even more going forward, which is why we have a rigorous process for identifying climate-related risks and opportunities," says Cecilie Hoffmeyer.

Embracing green opportunities can increase business value

She believes incorporating climate-related risks and opportunities is not only relevant for the longest-dated corporate bonds. In particular, there are European issuers of high-yield bonds that have a stretched balance sheet or exposure to cyclical sectors which are affected by systematic changes in the economy, like the current economic effects caused by efforts to curb climate change. These companies are therefore more vulnerable to change and risk a lack of refinancing opportunities for their bonds. However, companies can reduce downside risks if they are able to mitigate the risks associated with climate change and so be considered attractive investments.

Cecilie also notes how the green movement is spawning new business ventures, which is an important aspect of the high-yield bond space.

"The disruptive nature of climate action can also cause new business opportunities to emerge if companies can adapt to the change in consumer preference or stricter climate regulation. A company that innovates new, sought-after climate solutions can have a significant positive effect on the investment case, as this can potentially generate higher revenue and lower a company's funding costs," concludes Cecilie Hoffmeyer.

What are stranded assets?

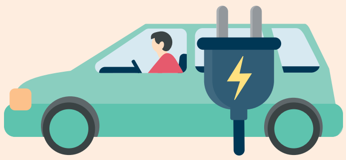
A stranded asset is something — a piece of equipment, production site or a resource, for example — that once had value or produced income but no longer does, usually due to external change, including changes in technology, markets and societal habits. Today, the term is commonly used to describe oil and gas resources that have not yet been extracted, but which appear as assets on companies' ledgers. A variety of factors could lead to oil and gas resources becoming stranded. These include new government regulations that limit the use of fossil fuels (like carbon pricing), a change in demand (for example, a shift towards renewable energy because of lower energy costs), or legal action. This can potentially lead to oil and gas resources being financially unfeasible to extract in light of society's ambition to meet global temperature targets under the Paris Agreement. The value of stranded assets might not be fully reflected in the value of companies that extract, distribute, or rely heavily on fossil fuels, which could result in a drop if this risk were priced in, thereby potentially reducing the value of these companies' stocks and bonds.

When investing in corporate bonds, Cecilie Hoffmeyer analyses how well companies are positioned for the low-carbon transition and assesses their risks and opportunities in relation to the transition. Here are three examples of her company assessments.

Contour Global
"The company constructs and operates renewable energy assets and has historically acquired coal facilities in order to upgrade them, resulting in facilities operating with lower carbon emissions. We have been invested in the company since they first came to the European bond market in 2016 and have maintained an ongoing dialogue with Contour Global since then. Initially, their strategy was to invest mostly in renewable assets, and as a bond investor we have funded these acquisitions. As European utility companies in particular have set higher targets for renewables, Contour Global believed renewable assets were priced expensively and decided not to further invest in these high-cost projects. Instead, they looked to invest in coal assets and were interested in a project in Kosovo constructing the least polluting coal facility in Europe.

When we were informed about the company's intentions to increase coal investments, we decided to divest the bonds, as we were not keen to support the increased focus on coal and believed there were a risk of the company becoming a stranded asset themselves by investing in such stranded assets. We informed company management about our decision in connection with a new bond issuance process, emphasising there was a risk of the company breaching the coal thresholds for eligible investments in most Northern European investment funds.

The Kosovo project relied on funding from the European Bank for Reconstruction and Development; however, their funding of the coal project was questioned and came under scrutiny, resulting in them declining to fund the Kosovo project. Due to a lack of funding options and investor interest, Contour Global ended up abandoning the Kosovo project site and bearing a loss of several million Euros. The company has subsequently changed its business strategy and made a firm commitment to not acquiring any coal assets in the future. This significant change in strategy from company management prompted us to reconsider the investment case and we have now invested in a bond issued by Contour Global in order to support acquisition of renewable projects."



Volvo Cars
"We have been invested in Volvo Cars since the launch of their corporate bond programme and have been in dialogue with management throughout the years. Volvo Cars has high ambitions for electric and hybrid vehicles and their communication clearly underlines their ambition to transition the pipeline to low-emission car models. As a result of clear communication, the brand is associated with electric and hybrid vehicles and new climate technology and has not suffered from "diesel gate" to the same extent as other car manufacturers.

From my point of view, sustainability is at the core of Volvo Cars' business model and management team, which is one of the reasons why they have been able to make a timely transition to comply with changing consumer behaviour and regulation – as well as expected future regulation and incentive schemes. I believe the focus on sustainability and the relaunch of electric and hybrid vehicles is a growth opportunity for Volvo Cars, as the market for eco-friendly vehicles is expected to grow substantially in the coming years given the increased focus on electrification as a predominant pathway to decarbonising society.

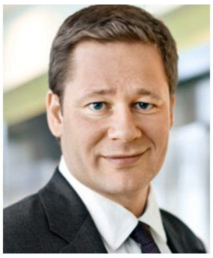
Simply put, Volvo Cars' sustainability focus is a key component to mitigating downside risk and protecting our investment, as their sustainability strategy strengthens Volvo Cars as a financially viable business. Recently, Volvo Cars announced a green bond programme to finance battery technology, and we participated in the transaction."

Wepa Group
"Wepa is a German, family-owned company producing tissue such as toilet paper, kitchen towels, napkins, paper towels, etc. As the company is not listed, bond investors like us are important stakeholders for the company, and we have been in dialogue with Wepa's management team over the years and provided input emphasising the importance of sustainability. The management team has a strategic focus on reducing their carbon footprint, as the tissue industry is a polluter during both the production process and the transportation of finished products.

A major barrier to reducing CO_2 emissions is consumer behaviour. Consumers to a great extent demand tissue made of virgin pulp, as the colour is not as bright when tissue is based on recycled material. The tissue industry is highly competitive and commoditised, and therefore a low-margin business. In order to satisfy consumer preferences, a focus on costs and a desire to innovate new, sustainable solutions, Wepa developed a hybrid tissue. The result was a competitive product offering meeting future consumer demand and a strong research & development profile that explores alternative fibres to replace the materials currently used in tissue production. With sustainability firmly implanted in their corporate DNA, Wepa was positioned to swiftly launch new sustainable tissue products that cater to changing consumer demand, thereby protecting margins in a competitive industry."

Assessing companies' entire carbon emissions

Portfolio manager Lars Erik Moen tracks a company's carbon footprint to mitigate the risk of a company not being priced correctly according to the climate challenges it faces. However, lack of carbon data poses a huge challenge.



Lars Erik Moen
Portfolio Manager and
Head of Norwegian Equities

"Stricter sustainability demands on companies will likely have a significant impact on business models and financial performance," says Lars Erik Moen, Head of Norwegian Equities. Together with his team he spends a great deal of time evaluating and analysing the carbon footprint of the companies they invest in. Lars Erik believes the national and international focus on reducing the impact of climate change is creating new types of risk for companies that they need to address and manage. Identifying these risks is important, as they can influence a company's return potential and licence to operate.

"The transition to a low-carbon economy brings with it numerous new challenges for companies, including complying with stricter sustainability requirements from governments and a growing consumer demand for green solutions. Simply put, if companies do not transform their businesses and embrace the green agenda, they will probably not be attractive investment cases for us in the long run," explains Lars Erik Moen.

Considering all three emission scopes
In his view, the market focuses too narrowly on companies' direct emissions from the burning of fossil fuels (Scope 1 emissions) and indirect emissions generated by the electricity purchased and consumed by companies (Scope 2 emissions). As a consequence of focusing only on Scope 1 and 2 emissions, solar energy company REC Group has higher carbon emissions than oil companies. That is why Lars Erik Moen also includes Scope 3 emissions in his analysis. This provides him with a more complete picture of a company's associated risks and exposure to the climate agenda. Scope 3 emissions include emissions from a company's suppliers as well as the consumers of its products and services. These indirect emissions often represent the largest portion of a company's carbon footprint, and in some cases account for as much as 90 per cent of a company's total emissions.

> *Simply put, if companies do not transform their businesses and embrace the green agenda, they will probably not be attractive investment cases for us in the long run.*

"By considering all three emission scopes, we can capture all risks and opportunities throughout the company's value chain and gain a better understanding of its climate and environmental impact. This enables us to conduct a holistic analysis of how companies might be subject to future regulations and changes in consumer behaviour that could influence their business models and future return potential for Danske Bank's customers," notes Lars Erik Moen.

By way of example, he points out that the carbon footprint of oil companies is much larger when including Scope 3, as this also encompasses the emissions created from using their products.

Extensive need for assessments and calculations
Access to quality greenhouse gas emission data is limited, and far from all Norwegian companies publicly disclose such data. Hence, the Norwegian equity team has to perform its own calculations and assessments of Scope 1, 2 and 3 emissions.

"Measuring a company's carbon footprint may seem straightforward, but in practice the calculation can be tricky. Sometimes, it is easier to determine a company's earnings for next year than to calculate last year's carbon footprint. Furthermore, when you have a portfolio of companies where services or products can be interlinked, you run the risk of double counting when calculating a company's carbon footprint,' says Lars Erik Moen.

He points out that although the team has to employ a number of assumptions and estimates, he still believes their carbon analyses are important for understanding the consequences of expected increases in carbon taxation, etc. for companies. It provides him with more objective measures for evaluating how far a company or sector has progressed in the green transition and of its efforts to address climate-related risks and opportunities.

Looking under the hood

The ongoing shift to a green economy will likely transform whole sectors and business models and set out entirely new roadmaps for creating viable business growth. This trend underlines the importance of investors having access to quality emission data, explains Lars Erik Moen, as robust sustainability data are needed to make the best possible investments.

"When a company pledges to cut its emissions, we have to consider what exactly is being counted and whether all scopes are included. Hopefully, we will see more and more companies increase the transparency of their climate impact across all scopes. I support initiatives like the Task Force on Climate-Related Financial Disclosures, which encourages companies to publish details and data on their climate-related risks," concludes Lars Erik Moen.

> *Measuring a company's carbon footprint may seem straightforward, but in practice the calculation can be tricky.*

What are Scope 1, 2 and 3 carbon emissions?

The so called Scope framework was introduced by the World Resources Institute and World Business Council for Sustainable Development as part of their Greenhouse Gas Protocol Corporate Accounting and Reporting Standard back in 2001 focusing on Scope 1 and 2, and with Scope 3 as optional. The goal was to create a universal method for companies to measure and report the emissions associated with their business. The three scopes allow companies to differentiate between what they emit directly into the air, which they have the most control over, and the emissions they contribute to indirectly.

Scope 1

Scope 1 emissions are direct carbon emissions from sources that are owned or controlled by the company. These include manufacturing and process emissions, onsite fuel combustion and emissions from company vehicles.

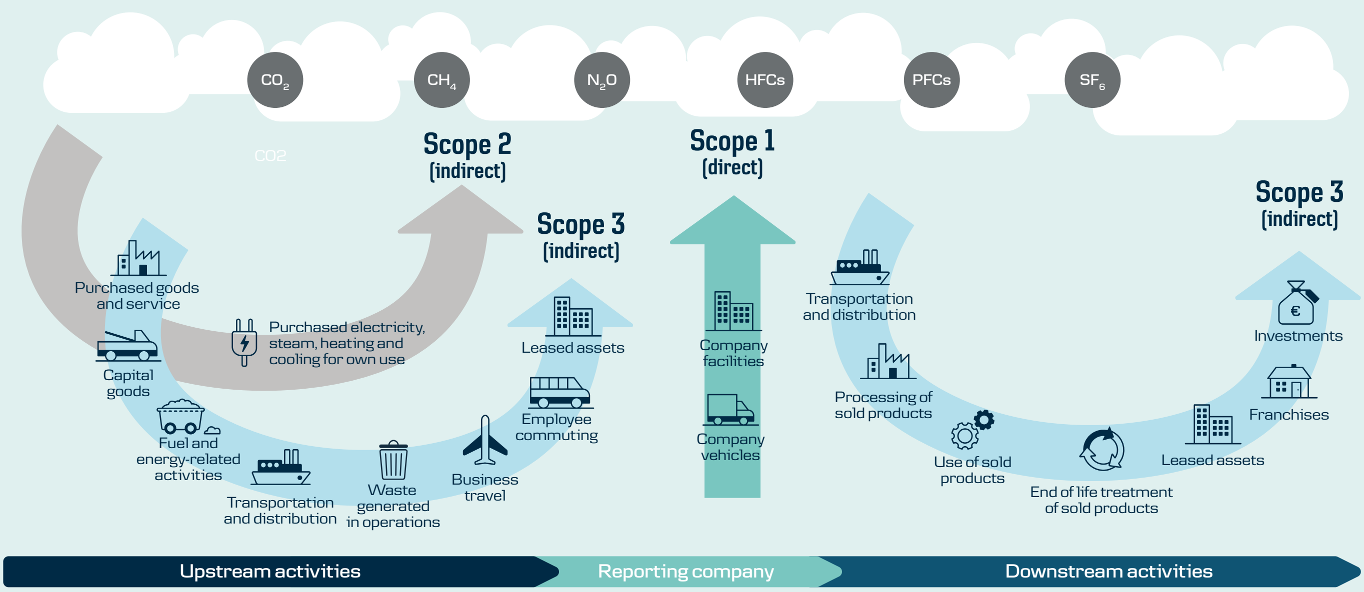
Scope 2

Scope 2 emissions are indirect emissions from the use of energy that the company buys, such as electricity, heating or cooling, and steam.

Scope 3

Scope 3 emissions are all the indirect greenhouse gas emissions not captured by Scope 1 and 2 reporting. Also known as value-chain emissions, they include emissions from the company's suppliers as well as the consumers of their products or services.

GHG Protocol scopes and emissions across the value chain



Green energy transformation: a megatrend with attractive investment opportunities

If society is to resolve its climate challenges, we need to accelerate the provision of renewable energy. This will create attractive new business and investment opportunities, says the team behind the Global Sustainable Future investment fund.

"Political climate ambitions are adding a surge of momentum to the green transition, which is creating huge growth opportunities for climate-related companies and a financial incentive to develop climate technologies," says Simon Christensen. He is co-lead and chief portfolio manager in the team behind the fund Global Sustainable Future, which invests in companies that can help drive society in a green direction. When governments, US states or the EU set ambitious goals for cutting CO_2 emissions, they spark a wave of green innovation across the business community to supply technology that can resolve global climate challenges. Companies that can ride that green wave make for interesting investments and could create value for us as shareholders, according to Simon Christensen.

Climate as an investment theme
Achieving our global climate ambitions will require massive financing of and investment in green projects, says Martin Slipsager Frandsen, co-lead and senior portfolio manager in the fund team. He notes that the OECD and the US Envi-

We focus on investing in companies leading the green transition and supplying solutions that can help society achieve the target of being CO_2-neutral by 2050.

Martin Slipsager Frandsen

ronmental Protection Agency estimate the annual financing requirement for projects that support the Paris Agreement (read more about the Paris Agreement on page 39) will increase almost five-fold from around USD 500 billion in 2020 to around USD 2,250 billion between 2025 and 2031 – which underlines the commercial potential for companies with green solutions.

"Climate stability is one of the main themes in our fund, where we focus on investing in companies leading the green transition and supplying solutions that can help society achieve the target of being CO_2-neutral by 2050. They are companies that contribute to the UN Sustainable Development Goals concerning renewable energy and the development of sustainable infrastructure and innovation. Through detailed research, we arrive at those companies that are best positioned to address the global climate challenge and which we expect will share in an aspect of economic growth that other companies will not," says Martin Slipsager Frandsen.

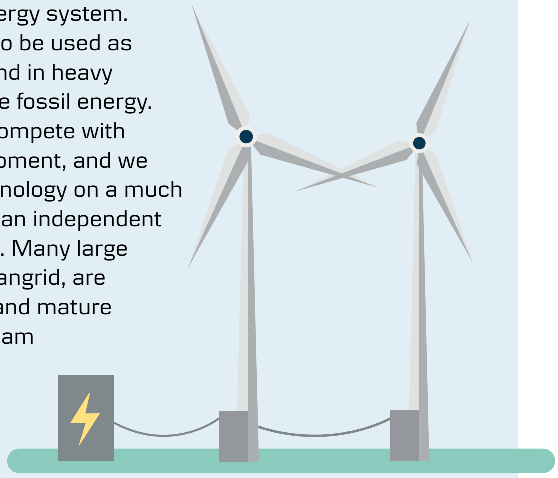
Mature and competitive market

The cost of renewable energy has fallen dramatically in recent years to the point where it can now compete with fossil fuels in many parts of the world. The cost of green energy is expected to fall even more in the coming years, which will increasingly speed up the transition from black to green energy. For Thomas Fabricius, this trend simply underlines that moving in a green direction makes good business sense – and has a positive effect on the opportunities for investors to earn a return.

"The green transition will only experience stronger and stronger tailwinds in the coming years, which will have a positive economic effect on the many industries necessary for the transition. That is why we invest broadly in different types of companies, including those in renewable energy, like wind turbine companies, or companies that produce copper, which is vital to the green electrification of the economy. We also focus on investing in companies in the financial sector who supply the capital needed to transition to a CO_2-neutral world," concludes Thomas Fabricius, chief ESG analyst and senior portfolio manager in the fund.

Looking for the green technologies of the future

The team are also on the lookout for the climate technologies of the future that could become attractive investments in the long term. For example, a major challenge is that some of the green power produced by solar or wind parks gets wasted if not used right away. Moreover, the power produced from the sun and the wind fluctuates with the weather, which means that renewable energy is not always available to meet demand. That creates an unstable energy system and is an impediment to creating a society in green balance. The team has pointed to hydrogen technology as a solution to creating an efficient energy system, as hydrogen enables surplus solar and wind energy to be stored and used later via fuel cells. This would allow society to better utilise green energy and develop a robust and green energy system. Furthermore, hydrogen can also be used as a fuel in the transport sector and in heavy industries, and so could replace fossil energy. Hydrogen technology cannot compete with fossil energy sources at the moment, and we have to be able to use the technology on a much larger scale before it becomes an independent element in the green transition. Many large companies, like Ørsted and Avangrid, are currently investing to develop and mature the technology, and the fund team expects that hydrogen will be a key component in driving society towards being CO_2-neutral.



Driving forces of the green transition

The team behind Global Sustainable Future highlights three particular sectors as being the fundamental drivers of the green transition and which are attractive from an investment perspective.

Climate technologies
Renewable energy has to be massively expanded if we are to transition from a black to a green economy. That requires new solar and wind parks along with the upgrading and expansion of our energy infrastructure, so we are able to integrate green energy into the power grid. Better infrastructure is also required to store surplus solar and wind power, so society can draw on green power as required. Hence, we need to create a flexible energy system with a focus on upgrading energy infrastructure or developing battery and hydrogen technologies. The fund invests in Avangrid, for example, a leading US renewable energy company. Avangrid plans to produce 20 GW of solar and wind energy, which will provide power to more than 11.5 million homes, and the company is upgrading and building new infrastructure so that renewable energy can reach consumers. In addition, Avangrid is building infrastructure and solutions for electric cars and green hydrogen, which are important elements in creating a climate-friendly transport sector.

Raw materials for the green transition
A great many raw materials are needed to produce climate technology. As more wind turbines, solar panels and batteries are produced, so the pressure on and demand for raw materials increases. The fund invests in mining company Antofa-

gasta, which produces copper, one of the key raw materials for a successful green transition. Four to six times as much copper is needed to produce energy from wind turbines and solar panels as conventional energy, while four times as much copper is used to produce electric cars compared to conventional cars. Large amounts of copper are also used in energy infrastructure, such as charging stations for electric cars, energy storage facilities for renewable energy and in electrical cables and transistors that can handle power generated from renewables. Antofagasta has also set ambitious goals for reducing the environmental and climate impact of its copper production. For example, the company has a goal of only using renewable energy in its mining operations from 2022.

Financing

Huge investments are required if we are to transition global energy consumption to renewables. And if companies are to be in a position to make the necessary investments in green energy and infrastructure, then that will require financing, and here the banks and financial markets will play a key role. The OECD, for example, expects that bank lending to projects that support the Paris Agreement will increase to around USD 600 billion a year in the 2030s. Along with green bonds, where banks also help facilitate issuance, financing will play a key role in providing companies with the financial muscle to invest in wind, solar and infrastructure projects, energy-efficient property or to reduce the climate impact of transport, food production, water infrastructure or waste management. Furthermore, several banks are in the process of setting targets for how much CO_2 their loans to companies may emit. This contributes to companies focusing more on reducing their CO_2 emissions in order to be able to finance their business via the banks. The fund has, for example, invested in Toronto Dominion Bank, which is the first North American bank with the ambition that their loans to companies may not emit CO_2 by 2050 and should live up to the climate goals of the Paris Agreement. In addition, the bank has a goal of facilitating USD 100 billion for CO_2-reducing projects. In part this is to be through direct loans to companies that have specifically borrowed money for renewable energy projects.

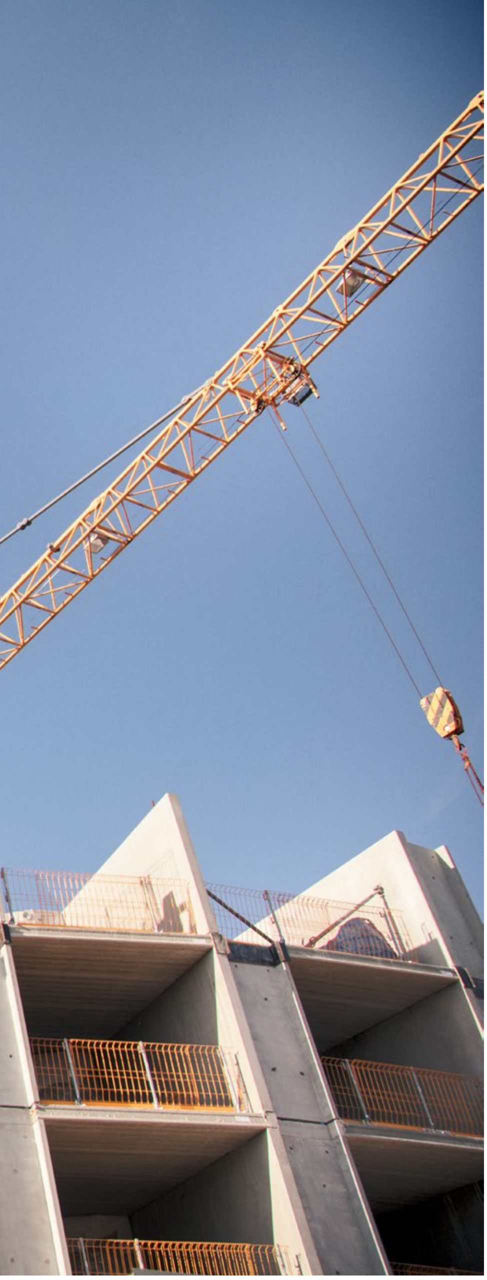
The importance of energy-efficient buildings

Senior portfolio manager Emelie Holmström has followed and analysed Swedish property companies for a long time. While they may be at the forefront in terms of energy efficiency, they still have a lot of work to do in terms of an integrated approach to mitigating adverse climate effects.

Emelie Holmström
Senior Portfolio Manager

The Swedish construction and property industries account for almost 40 per cent of energy use in Sweden and about 20 per cent of the country's CO_2 emissions. A keen political focus on the climate that translates into more regulations and tougher climate-related requirements places high demands on the industry to reduce its climate impact and find ways to maintain its appeal to investors in the future. As is always the case when a sector or industry undergoes rapid change, profits can be made by those who act quickly and intelligently.

Shifting to climate-neutral energy
She notes that most property companies have made great improvements in terms of energy use.



Most have completely or partially switched to climate-neutral heating and power supply systems.

“Wallenstam, for instance, builds its own wind turbines and solar parks to supply its properties with electricity. Another example is property company Fabege, which is an industry leader in terms of developing innovative solutions that mitigate adverse climate effects: In one particular area of Stockholm, for example, fossil-fuelled lorries and cargo transporters are banned from entering. Instead, services like package delivery (a fast growing area in itself) are organised from hubs placed outside the area with electric vehicles completing the final leg of the journey,” says Emelie Holmström.

The climate-friendly changes and innovations mentioned above are also reflected in the property industry’s significant share of the green bond market in Sweden, where proceeds are used for various types of environmental projects. This may include the expansion of wind turbines, environmentally certified new-build and rebuild projects, or other climate-related adaptations to properties.

Life-cycle analyses of buildings

At the other end of scale, Emelie Holmström finds companies where talk and action do not go hand-in-hand. For her, it is unacceptable not to quantify and specify targets for energy mixes and carbon footprints, and indeed these companies tend to quickly fall behind their competitors, as things are moving fast in this area right now, so these are important aspects for her to bring up in her engagement with these companies.

“From a broader perspective, we need to remember that while the industry produces many solid climate-related initiatives, the focus is to a very large extent on existing properties. Climate-wise, this is a good start but not enough. Energy management of the property portfolio is a true priority, but it needs to be supplemented by sustainability assessments at supplier level and life-cycle analyses of buildings,” explains Emelie.

Using more sustainable materials in construction would, we believe, increasingly pay off, and we generally think that companies should start this transition process as soon as possible.

Few of the property companies she has analysed have any substantial understanding of their suppliers, and nor are they interested in the life-cycle perspective. Instead, they exclusively focus on keeping costs down, making a lot of the talk around sustainability suddenly seem empty and hollow – which is a problem, not least in the longer term.

Scope 3 emissions are important

Building materials such as cement and concrete account for most of the industry’s emissions, and she believes that construction itself will be the biggest sustainability challenge for property companies in the future. Most property sector emissions fall into what is termed Scope 3, i.e. emissions resulting from the companies’ construction activities, with actual emissions occurring on other parties’ sites.

Property companies certainly have complicated value chains, at least if you look at the rear end of the chain, where several thousand subcontractors are often found. Naturally, keeping track of everyone is difficult, but we firmly believe this is necessary.

“My concern is that many companies exercise no control or even have a grasp of this particular area, which will grow in importance, not least in light of increased regulation, both now and in the future. Using more sustainable materials in construction would, we believe, increasingly pay off, and we generally think that companies should start this transition process as soon as possible,” says Emelie, who adds:

“Property companies certainly have complicated value chains, at least if you look at the rear end of the chain, where several thousand subcontractors are often found. Naturally, keeping track of everyone is difficult, but we firmly believe this is necessary. Property companies must take the entire value chain into account. Any company that comes up with sound and efficient solutions in this area will, I believe, quickly stand out from the competition and also set future standards for how to report and act on climate effects in a much more integrated way. Essentially, such companies will meet the future expectations of both the market and the legislation, concludes Emelie.

Influencing companies to reduce their climate footprint

By actively engaging with companies, we not only gain better insight, we are also able to influence and support them in curbing their contribution to climate change and participating in the transition to a greener society. This underpins our mission to protect and enhance our customers' investments and helps create climate-resilient companies.

We believe investors have a vital role to play in driving the low-carbon transition across the global economy. As investors, we have the power and opportunity to influence companies to address climate change and reduce their carbon emissions. We believe that by being an active owner, we can play a significant role in shaping tomorrow's companies and how they can contribute to the transition to a cleaner and more sustainable world. Active ownership means we engage with companies through dialogue and vote at their annual general meetings to encourage them to improve their climate performance and cut their contribution to climate change.

What is active ownership?

When you invest in a company you become a shareholder, and as a shareholder you have the right to vote at companies' general meetings and can engage with companies. Broadly speaking, active ownership is about exercising your rights as a shareholder and using your power as an investor to understand, support, influence and improve the long-term value of a company through dialogue and voting at general meetings.

Danske Bank gives you a stronger voice

You have a stronger voice as a shareholder when you invest with Danske Bank, and you can better influence companies to improve their work with climate issues. Not only do we invest on your behalf, we also represent several hundred thousand other investors who also invest though us. This affords us a strong position to influence companies, as we represent a substantial proportion of companies' stocks. We are thus in a stronger position to influence companies through dialogue with management and at general meetings. Corporate management teams listen to our input and opinions because we are a large investor and have insight into their businesses, and this enables us to make a real difference and influence and improve companies' efforts to mitigate their impact on the climate and be part of the movement towards creating a more sustainable and climate-friendly society.

In a nutshell, by combining your investments with others, you have greater power to influence companies and your investment has a real impact on companies and the climate agenda.

Influencing companies while protecting our customers' investments

Our investment teams regularly engage with companies to gain better insight and knowledge about their climate strategies and to address those climate issues that can impact the companies' business models and future growth potential. The ultimate goal of our engagement is to help facilitate change and improvement and support companies in future-proofing their business in a world that is on a green path.

Using active ownership to foster positive change is an integral part of our ambition to protect and enhance our customers' investments. This approach enables investment teams to manage climate-related risks and unlock opportunities when they invest customers' assets.

Creating value

As a responsible investor, we want to understand and address climate challenges and issues through constructive dialogue with companies, rather than divesting and leaving the problems for someone else to solve. It is in our role as investors that we can contribute most effectively and push companies to take climate action and reduce their contribution to climate change. In essence, this is about creating value for customers, companies and society, taking responsibility and being part of the change, the transformation and the solution.

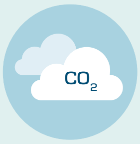
Voicing our opinion at general meetings

Using our voting rights at companies' annual general meetings (AGM) is an important part of our efforts to support and influence companies to address climate issues and curb their contribution to climate change. Our voting guidelines set out a number of principles that guide how we vote on climate proposals at AGMs. The overall principle guiding our votes is how the proposal may enhance or protect our customers' investments in either the short term or long term.

Our guidelines on the climate aspects of a business include:

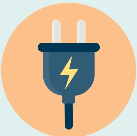
Carbon emissions

Set and publish targets for greenhouse gas emissions aligned with the goals of the Paris Climate Agreement and be transparent in communicating efforts to mitigate and combat climate change.



Carbon footprint

Companies should have a clear reporting framework for their climate change contribution and greenhouse gas emissions, including future targets, carbon intensity and an estimation of the company's carbon footprint.



Energy consumption

Energy consumption and energy intensity should be reported, including the breakdown of energy consumption by type of renewable or non-renewable source of energy. Companies should have an emissions reduction target as well as information about multi-year greenhouse gas emissions development. Plans for reductions should align with the Paris climate targets.

Stranded carbon assets

Companies with large investments in carbon-based energy sources should have a clear risk-assessment framework in reference to the Paris Agreement targets.

Collaborating to support and enhance our impact

In addition to our investment teams' direct engagement with companies, we are members of numerous investor initiatives and alliances where we together with other investors influence companies to take action on climate issues and contribute to sustainable development. Through alliances and initiatives, we encourage companies to increase transparency and disclosure of their climate impact and to move towards more sustainable business practices. Collaborating with others supports and strengthens our ability to influence companies, as it can increase the power of our voice as an investor. We are members of:

CDP Carbon Disclosure Project

The organisation encourages companies and cities to disclose their climate impact and aims to reduce companies' greenhouse gas emissions and mitigate climate change risk. The organisation collects and shares information on greenhouse gas emissions and climate strategies in order to provide data and tools that enable investors to mitigate climate-related risks in investment decisions.

Climate Action 100+

Climate Action 100+ is one of the world's largest investor-led engagement initiatives. Together with more than 500 global investors we engage with the world's largest corporate greenhouse gas emitters to curb CO_2 emissions in line with the Paris Agreement's climate targets and improve carbon emission disclosures. The initiative targets companies in the oil and gas, utilities, mining and metals, transportation, industrials and consumer products sectors.

PRI Montréal PLEDGE Montreal Carbon Pledge

We are a signatory to the Montreal Carbon Pledge and we publicly disclose the carbon footprint of our equity and bond investment funds. Going forward, we will continue to increase the number of funds where we disclose their carbon footprint.

PCAF Partnership for Carbon Accounting Financials

A global partnership of financial institutions that work together to develop and implement a harmonised approach to assessing and disclosing the greenhouse gas emissions associated with their loans and investments.

IIGCC The Institutional Investors Group on Climate Change

The European investor alliance focuses on mitigating climate change. The group has more than 250 members and its

Putting climate change on the corporate agenda

As a member of the investor alliance Climate Action 100+, we collaborate with more than 500 investors around the globe to influence and ensure that the world's largest corporate greenhouse gas emitters take necessary actions on climate change, help drive the clean energy transition and participate in achieving the goals of the Paris Agreement. The overarching purpose is to engage with companies to:

- Curb emissions
- Improve governance on climate-related issues
- Strengthen climate-related financial disclosures

Climate Action 100+ targets 100 of the systemically important corporate emitters, accounting for two-thirds of annual global industrial emissions, as well as more than 60 other companies with significant opportunity to drive the clean energy transition.

Voting for increased climate transparency

One key aspect of the Climate Action 100+ alliance is that we use our voting rights at companies' annual general meetings to influence companies on climate matters. Recently, we voted in favour of companies having to increase disclosure of their climate and energy-related lobbying activities, including lobbying conducted by their trade associations. Furthermore, we voted in favour of proposals urging companies to align their lobbying activities with the climate targets of the Paris Agreement. We did this at the annual general meetings of companies such as Duke Energy, ExxonMobil, Chevron, Ford, General Motors, Delta Airlines and United Airlines.

From our perspective it is important that companies are transparent about their climate-lobbying activities and that they do not influence lawmakers to drop new regulations aimed at curbing carbon missions and supporting the transition to a cleaner society. Ensuring greater transparency gives us insight into which companies are opposing worldwide efforts to rein in climate change, so we can focus our engagement with these companies and influence them to withdraw from these harmful lobbying activities.

Targeted engagement with Caterpillar

We are currently engaging directly with the US construction equipment manufacturer Caterpillar together with 9 other members of Climate Action 100+ and other large shareholders. Main priority is to build trust and a long-term relationship with the company and to be able to help and support them in their climate efforts. One tangible climate objective is to have Caterpillar commit to setting carbon emission reduction targets aimed at achieving carbon-neutrality by 2050.

mission is to mobilise capital for the low-carbon transition and to ensure resilience to the effects of a changing climate by collaborating with companies, policymakers and fellow investors. The group works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change.

Sustainability Accounting Standards Board

We have partnered with the Sustainability Accounting Standards Board to leverage their research and approach to which sustainability issues are business-critical and important for companies to address and manage, including climate-related issues. In our engagements, we urge companies to adopt this approach as a way of enhancing their disclosure of which climate issues are critical for their business.

Task Force on Climate-related Financial Disclosures

We are a signatory to the Task Force on Climate-related Financial Disclosures (TCFD), which develops voluntary, consistent, climate-related financial risk disclosures for use by companies when providing information to investors, lenders, insurers or other stakeholders. Danske Bank believes that TCFD's recommendations help companies understand what financial markets want from disclosures in order to measure and respond to climate change risks, and to encourage companies to align their disclosures with investor needs. We also use TCFD recommendations to help structure our engagements with companies as part of our goal of being a change agent supporting companies in the transition to low-carbon business models and creating real world positive outcomes.

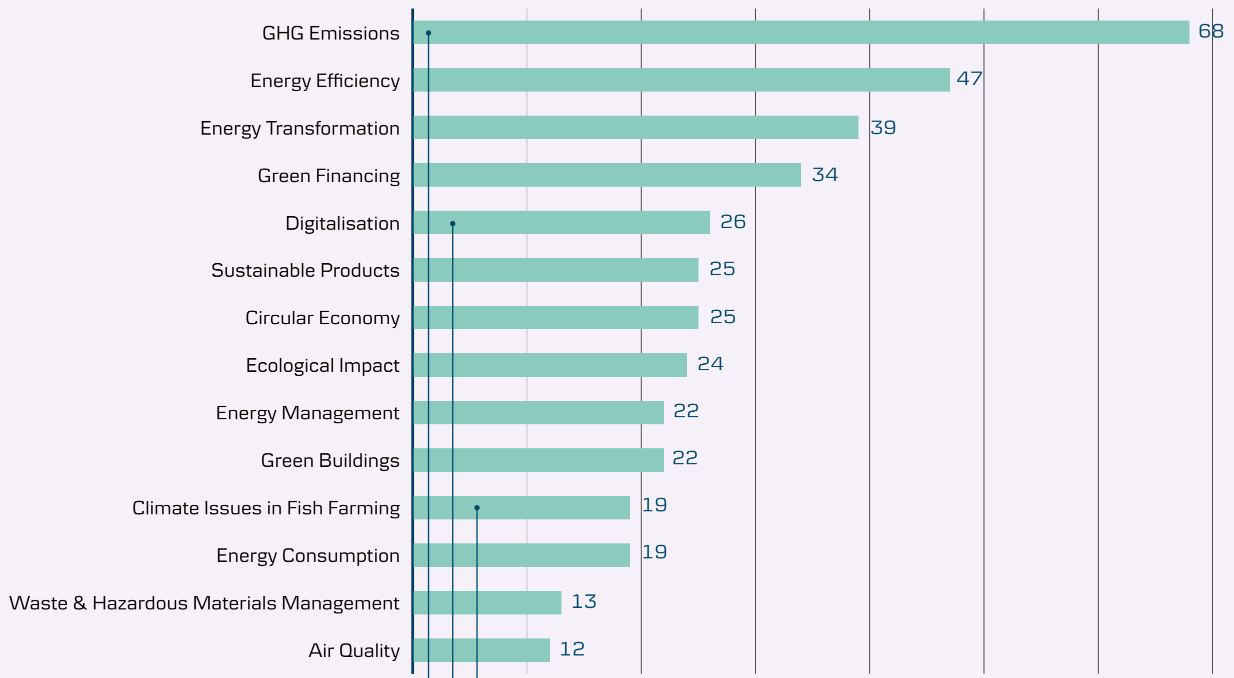
Engaging with companies on climate topics

Climate-related issues are a top priority of our investment teams' engagement with companies. We consider climate matters to be business-critical aspects of sustainability – which underlines both the urgency of corporate climate action and their potential to impact the financial performance of companies. Our engagement on climate covers a wide array of topics that we believe are important for companies to address and manage in both the short and long term, as they have a substantial business impact.

We discuss climate aspects with companies all over the world. Here are our most frequently discussed climate topics with companies by country.

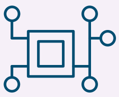
Circular Economy

Most frequently discussed climate topics in H1 2020



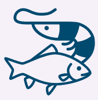
GHG Emissions

A greenhouse gas (or GHG for short) is any gas in the atmosphere that absorbs and re-emits heat, thereby keeping the planet's atmosphere warmer than it otherwise would be. Carbon dioxide (CO_2) is the most dominant greenhouse gas emission and is produced by the burning of fossil fuels or in connection with industrial production - it causes global warming and climate change. Managing and reducing GHG emissions is important for a great many industries, such as fossil fuels, metals and mining, iron and steel production, food and agriculture, and transportation.



Digitalisation

A successful transition to greater sustainability and reducing their contribution to climate change will depend on the capacity of companies to bring innovation to the table, often leveraging digital technologies as key enablers. Harnessing such technologies has the potential to inspire entirely new ways of solving climate change problems and at the same time to create new, green business opportunities. Leveraging technology to create more energy-efficient manufacturing processes or utilising artificial intelligence to innovate new, climate-friendly products are some of the aspects of digitalisation we discuss with companies.



Climate Issues in Fish Farming

Fish farming is affected by and contributes to climate change. For example, there is a clear connection between higher water temperatures and sea lice as well as other fish diseases, making it important to discuss how fish farms manage rising water temperatures and their efforts to mitigate the business impact. Another key discussion point is how fish farming can reduce the carbon emissions produced by transporting fish products – for instance, by using sea transport to a greater extent than road transport, as ships are more energy efficient than trucks.

Using voting to enhance corporate climate action

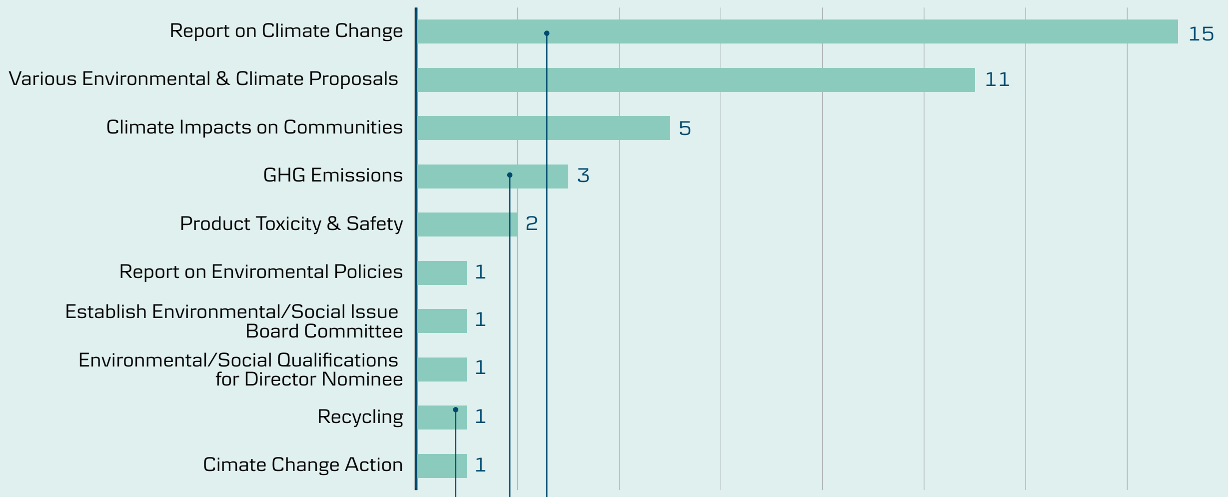
Voting at annual general meetings is an effective way of influencing and supporting companies to raise the bar on climate matters, thus improving their long-term value creation. We vote on numerous proposals related to climate issues, and we coordinate our voting activities with our engagement activities to maximise our ability to influence and support companies' climate strategies.

Our H1 2020 voting activities on climate issues

Companies	Meetings	Proposals
58	58	112

Voting against company management

In H1 2020, we voted for 37.5 per cent of climate proposals and against 62.5 per cent. Voting against climate proposals may be due to the lack of scope of the proposals, the proposals not addressing material climate issues or if the proposals do not benefit the company´s long-term value creation. Listed below are the proposals where we most often voted against company management recommendations.

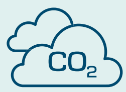


Recycling

At the AGM of a large US supermarket company, we supported a proposal asking the company to disclose information about its assessment of the environmental, reputational, operational and financial risks stemming from the continued use of non-recyclable packaging. Additionally, the proposal urged management to disclose its commitment to sustainable packaging and to increase efforts to make packaging of their house brands sustainable and recyclable. Using sustainable and recyclable packaging is important for the company's competitiveness and can help reduce carbon emissions.

GHG Emissions

We voted for a proposal at a restaurant group's AGM calling for the company to report on its efforts to mitigate supply chain impact on greenhouse gas emissions, including deforestation. The restaurant industry uses several commodities, including beef, soy, palm oil and pulp/paper, that are considered leading drivers of global deforestation, which contributes significantly to climate change. The report would create increased transparency on the company's policies, targets and initiatives for managing these risks.



Report on Climate Change

We supported a proposal requesting a gas company to publish a climate change report. This would help investors understand the risk of the company's assets becoming stranded due to policy decarbonisation efforts designed to reduce greenhouse gas emissions in a manner necessary to achieve the Paris Agreement's climate targets of maintaining global warning well below 2 degree Celsius.

Investors can influence oil companies to take part in the green transition

Investors are an important voice in the oil industry and can use their influence to push oil companies in a green direction, says senior portfolio manager Kasper From Larsen. He believes that engaging actively with oil companies makes sense both from a return and a climate perspective.

Kasper From Larsen
Senior Portfolio Manager

As an investor, how do you contribute most effectively to the oil industry getting onboard the green transition? Remain invested in oil companies, says Kasper From Larsen, senior portfolio manager with Danske Bank's European equity team specialising in the energy and utilities sector. This way Kasper can use his voice and position as a shareholder to push and support companies to move in a green direction. He believes in actively contributing to their transformation, and he would not have the chance to influence developments and make a difference if he divested oil companies. Kasper From Larsen sees a clear trend of traditional oil companies embracing the climate agenda and increasing their investments in renewables.

"In recent years, several oil majors have increased their investment budgets for the production of solar and wind energy, in particular, and that is the result of pressure from various actors. Oil companies face a new reality where the world around them is shifting towards greener energy alternatives and where the demand for oil will most likely not continue at the same level as before," says Kasper. His view is that pressure from consumers and politicians along with investors has been the main reason why some oil companies are increasingly joining the transition towards a low-carbon economy.

Investors have good opportunities to influence

One of the oil companies' most important goals is to be an attractive investment and to have access to capital to expand their businesses and so on. This provides investors with good opportunities to influence oil companies in a green direction.

"Companies listen to us because they are keen to present an attractive investment case, so they are interested in hearing about what we view as material business matters from an investment perspective. Failure to listen and adjust their businesses could essentially increase their cost of capital in the longer term. Moreover, it could mean a lower external ESG rating, which would also weigh on the companies' cost of capital. In combination, these factors can have huge financial consequences for companies and make them poor investments," says Kasper From Larsen.

Engaging actively in the transition

In Kasper's opinion there is no contradiction between creating a good return for customers and at the same time pushing oil companies to reduce their climate impact.

"Pushing this process along involves being actively engaged in the transition and contributing to the journey. That is why I am constantly in active dialogue with many oil companies, pushing for change. Oil companies will not become green overnight, it is a long, hard slog, but acting responsibly and using your influence as an investor to help drive the transition is important. In my view, this is the most effective way to make a difference to the green transition, rather than selling out of oil companies and losing your opportunities to influence."

He emphasises that the oil industry is a super tanker and that changing direction takes many years. Hence, the dialogue should not only be viewed over a 2-5-year period but over decades, and it is vital that investors are actively engaged and influence companies to drive developments towards green energy.

Preparing for the age of electrification

Electrification is one of society's predominant pathways to decarbonising the economy, with sectors such as transportation and construction already shifting their energy consumption towards electricity. Against this backdrop, one of Kasper's key points in his engagements with oil companies is the need to increase investment levels in renewable energy and that fossil

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I see no reason to divest from oil companies when you can influence them to reduce their CO_2 emissions and turn to greener forms of energy.

fuel production should take up an ever smaller portion of the business in the coming years.

"It is crucial that oil companies progressively position themselves for the energy transition by changing their energy production and gradually increasing their renewable energy capacity to meet the higher power demand stemming from e.g. electrification. Entire industries are undergoing a major transformation, with the auto industry as a prime example. The majority of auto manufacturers have launched ambitious targets for electric vehicle production, and we expect this to be one of the major drivers towards increased electrification," explains Kasper From Larsen.

Ramping up renewables

Kasper points to Equinor, Shell, and Total as companies pursuing strategies to transition from being oil companies to energy companies. As an example, Equinor and its partner SSE Renewables have been awarded contracts to develop the world's biggest offshore wind farm in the Dogger Bank region of the North Sea with a total installed capacity of 3.6 GW, enough energy to power the equivalent of 4.5 million UK homes. Shell's renewable energy activities include operating and developing several offshore and onshore windfarms across Europe and the US, acquiring an electric vehicle charging company and developing numerous large-scale solar power plants. Total is well under way to having 6GW of renewable power generation installed by the end of this year and is targeting at least 25GW, but with aspirations of about 35GW – all by 2025.

A climate focus is good for business

Being invested in oil companies makes sense from a business perspective so long as they are moving in a green direction. The companies know this is their licence to operate, for if they do not move in this direction, they do not have a relevant business or will not be an attractive investment, says Kasper From Larsen, who adds: "I see no reason to divest from oil companies when you can influence them to reduce their CO_2 emissions and turn to greener forms of energy. A few years ago, the industry was focused on increasing oil production, but senior management now has a greater focus on investing massively in renewable energy. One important reason for this is that consumer demand has moved in a green direction, and that provides us investors with a financial incentive to push the oil industry along a climate-friendly path."

Kasper meets up with the management teams of certain major European oil companies several times a year to discuss, among other things, their climate strategies and how they are transforming production to cleaner energy technologies, so they can have the right sustainable energy products on their shelves. He has observed a clear trend towards investors very much wanting to pay less for companies that are not transitioning and more for companies that are moving in a green direction. For Kasper From Larsen, this is a clear example of how it makes return and climate sense to remain invested in companies that are shifting towards a greener profile, and how investors can use their financial muscle to contribute to international climate ambitions.

Renewable energy investments

Traditional oil companies have set ambitious goals for energy production from renewables*.

Company	Planned annual investments in renewable energy going forward to 2025
Shell	DKK 13-19 billion
Total	DKK 25 billion
Equinor	DKK 13-19 billion

**Data are from the companies' latest available financial reports.*

Climate solutions as a business enabler

How can companies leverage the movement towards a low-carbon society to grow their business and achieve a competitive advantage? That is a focal point when Joel Backesten engages with smaller Swedish companies, where green solutions often play a key role for their business potential – and our return potential as investors.

Joel Backesten
Portfolio Manager

"The common denominator for smaller Swedish companies is their general focus on sustainability, but during the last couple of years their focus on leveraging sustainability and the low-carbon transition as a business driver in order to capitalise on it has increased," says Joel Backesten, who is portfolio manager and part of the investment team behind Danske Bank's Swedish small cap fund.

He notes that large, global companies have a longer track record in working with sustainability and the green agenda from a business perspective compared to smaller companies. However, across the board, many companies are raising the bar and looking to gain a competitive advantage by embedding climate considerations into their business model and developing climate solutions that can support the low-carbon transition.

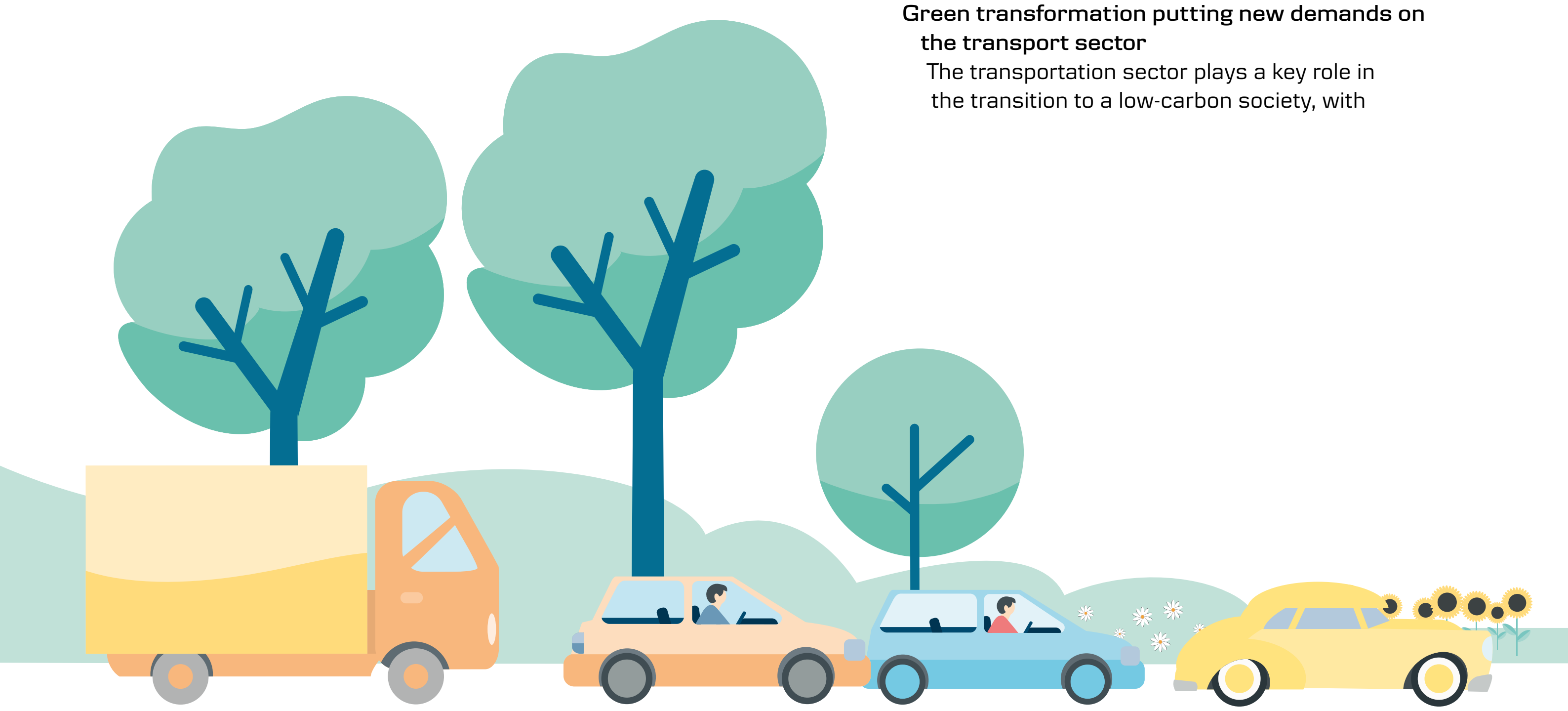
Going green supports business growth

Joel regularly discusses with the companies in the Small cap fund how they can grow their bottom line by leveraging the green transition, and thus deliver competitive returns to Danske Bank's customers.

"Companies embracing the green transition can to a greater extent use it as a business enabler and be better positioned than competitors to create growth and development. Smaller companies typically have a more focused business model and are more agile than larger companies, which enables them to adjust products and services faster or launch new ones that comply with increasing climate regulations from governments and municipalities as well as the growing demand from consumers for green solutions," says Joel Backesten.

Green transformation putting new demands on the transport sector

The transportation sector plays a key role in the transition to a low-carbon society, with



> *Companies embracing the green transition can to a greater extent use it as a business enabler and be better positioned than competitors to create growth and development.*

electrification and biofuels gaining ground as a means of reducing the sector's carbon emissions. Swedish firm Nobina is the largest operator of public bus transportation in the Nordics, and it has a clear strategy to increase energy efficiency and transition from diesel to biogas and electricity.

The company has increased its use of green energy in recent years, and in 2019/2020 some 82% of the buses' energy consumption came from renewables. Nobina introduced 100 new buses in 2019/2020 that were electric powered, of which 44 were articulated buses in the Oslo region, and secured contracts for a total of 41 new electric buses for city transport. The company's ambition is for 100 per cent of total fuel consumption to consist of renewable energy by no later than 2030.

"Nobina sees the transition to a green economy as a business opportunity and a means to strengthen its market position. Many cities are already demanding that buses only run on green energy, and we expect that more cities will make similar or stricter contractual demands for bus transport in the future. That is why it is important that Nobina future-proofs its buses at an early stage, and we discuss this regularly with the company," says Joel Backesten.

Together with other investors, Joel has for instance advocated that Nobina improve its level of transparency and communication of the company's climate and environmental impact and how that benefits Nobina's long-term growth as well as society as a whole. As a result, Nobina now discloses its net carbon emissions per passenger and the reduction in air pollution.

Nobina's work with sustainability is not only of importance to Danske Bank's small cap equity team but also to the corporate bond team. In 2019, Danske Bank's corporate bond team was one of the investors in Nobina's green bond issue of SEK 500 million. That was the first time a green bond was used to support the green transformation of public transport in the Nordics, with the proceeds used to finance more fossil-free and electric Nobina buses.

Before investing in Nobina, the Danish-based corporate bond team discussed Nobina's financial and sustainability situation with Joel Backesten to leverage his deep

Nobina has reduced its carbon dioxide emissions by 39 per cent in 2019/2020 compared to 2017/2018. The reduction corresponds to emitting 581.4 kg CO_2 instead of 948.6 kg CO_2 when driving from Copenhagen to Venice.

Balco's build-in glazed balconies brings several benefits for the customers. The windows and air in the balcony act as insulation, meaning that incoming air is warmed up before it reaches the apartment. The result is fewer drafts and a higher indoor temperature, which reduce energy consumption. Additionally, the solution contributes to lower maintenance costs and increased property value.

Balco's production process is ISO 14001 certified, which means that they follow all the international standards regarding ecolabelling, environmental audits and environmental management systems.

Nobina sees the transition to a green economy as a business opportunity and a means to strengthen its market position. Many cities are already demanding that buses only run on green energy, and we expect that more cities will make similar or stricter contractual demands for bus transport in the future.

understanding of the company. This is an example of how Danske Bank's investment teams collaborate and share company insights with each other in order to make the best possible investment decision to the benefit of Danske Bank's customers.

"There was considerable and broad interest in investing in the green bond, and that resulted in lower loan costs for Nobina, which can benefit our potential return as shareholders. The level of demand shows the financial markets are supportive of Nobina's approach to fusing climate and earnings, which is one of the company's great strengths," says Joel Backesten.

Energy-saving balconies have growth potential

Another example is Swedish-based Balco, which is a Nordic market leader in glazed balconies and growing in northern Europe too. The company's glazed balconies have a lifespan up to five times longer than traditional concrete balconies, plus they have lower maintenance costs. In addition, Balco has a balcony solution where the building's entire facade is built together with the balcony, which gives significant savings of up to 15 per cent on an apartment's energy consumption.

"We can see that Balco's focus on energy efficiency gives the company a potential competitive advantage and a good chance to increase market share in the growing northern European market for installing new balconies and replacing old ones," explains Joel Backesten.

In his dialogue with Balco, Joel Backesten emphasised that a lifecycle analysis of the balconies could be a good tool to boost their sales and earnings. The longer lifetime of Balco's balconies compared to concrete balconies means a lifecycle analysis would make the sustainability and cost benefits of Balco's balconies more transparent and tangible to potential new customers. Balco has now conducted a lifecycle analysis that shows its balcony solutions have a lifespan of around 90 years and need only be renovated once during their entire lifespan. In contrast, traditional concrete balconies have a shorter lifespan of around 50 years and need to be renovated three times during that period. Furthermore, the energy consumption and CO_2 emissions for Balco's solutions are also much lower than for traditional concrete solutions. Concrete balconies having as small a carbon footprint as Balco's balconies would require the planting of 10.00 m2 of forest for a single apartment to compensate for the difference in CO_2 emissions.

Balco views dialogue with investors as an important way to gain input and new ideas for the development and release of business potential.

"It is very important to discuss the different ways that we can raise the bar in terms of sustainability, and the ongoing dialogue with Danske Bank's investment team carries weight in our roadmap to capitalising on sustainability. We gain valuable insight into how the team perceives the climate agenda and which aspects are important for them as investors," says Kenneth Lundahl, Balco's CEO.

Joel will continue his dialogue with Balco to support its work with energy-saving balconies and its expansion into new markets.

Focussing on shipping's climate footprint

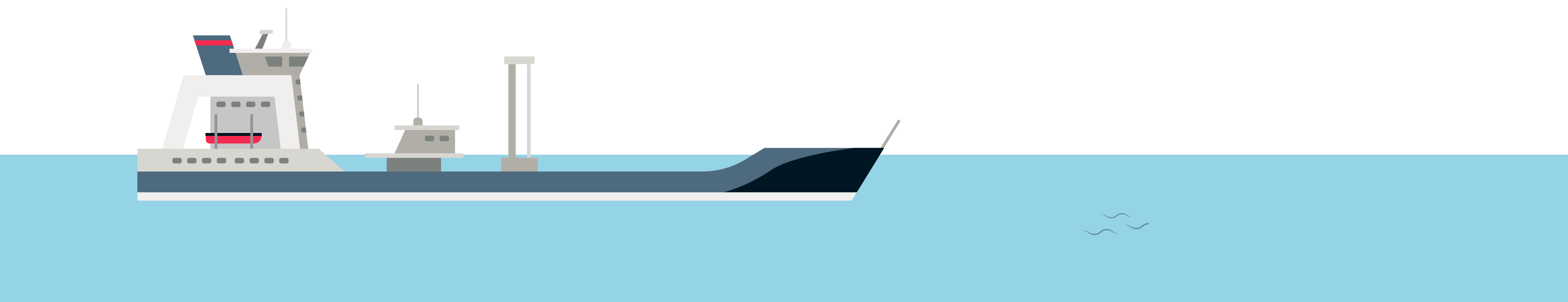
The climate agenda has moved into the engine room of the shipping industry, and with it comes a number of challenges for the sector. Portfolio manager Anders Grønning shines a spotlight on how shipping companies address climate issues, as this will have great significance for whether or not they continue to be attractive investments.

Anders Grønning
Portfolio Manager

Shipping plays an essential role in a globalised economy dependent on transporting goods and products around the world. While shipping is one of the most energy-efficient forms of transport, the industry is also one of the biggest emitters of CO_2 and accounts for approximately three per cent of global carbon emissions. If the industry continues on its current course, its CO_2 impact will rise by between 25 and 50 per cent between now and 2050. The political and regulatory pressure to reduce the industry's climate footprint has resulted in shipping companies facing new climate regulation and rising costs, e.g. due to more expensive fuel types. On 1 January 2020, for example, a new climate regulation came into force reducing the permitted sulphur content of marine fuel from 3.5 per cent to 0.5 per cent, with the aim of reducing shipping's environmental footprint.

"Shipping is high on the agenda of international society's efforts to combat climate change. In light of this, we are even more focused on whether shipping companies are working actively with climate challenges to be better positioned if political pressure for stricter climate and environmental regulation moves forward faster than expected," says Anders Grønning, who is a portfolio manager at Danske Bank and follows the shipping industry closely.

Climate challenges are a natural part of Anders Grønning's dialogue with shipping companies, as they are an important aspect when assessing whether shipping companies will continue to be attractive investments. His focus is both on how shipping companies address existing climate regulation and, equally important, how they are preparing their business for the future.



Financial importance of climate initiatives

Given the global transition towards a greener economy, it is important from a financial perspective that shipping companies have a strategy of reducing their carbon emissions. Anders Grønning, along with other investors, has had this on his agenda for a number of years when talking to companies such as German-based Hapag-Lloyd and French-based CMA CGM.

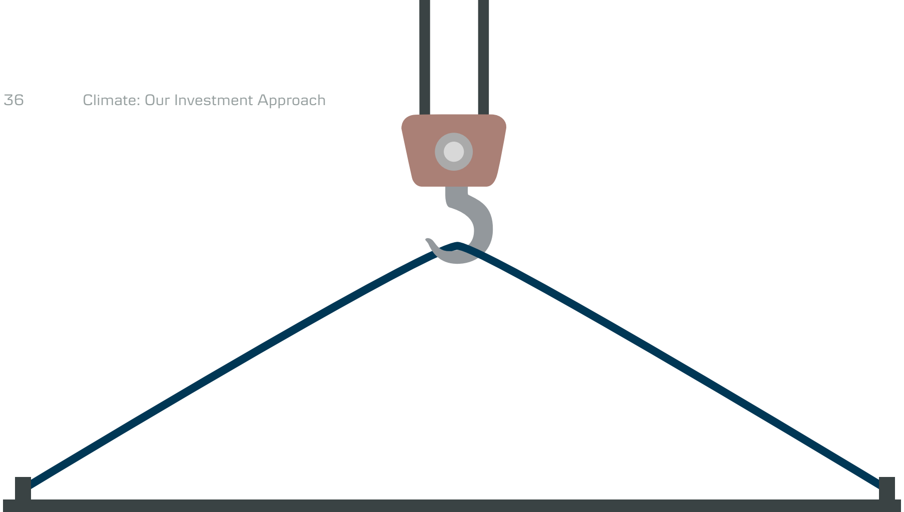
"Industry participants were uncertain how companies could ensure existing vessels would comply with the new low-sulphur requirements. Assessing climate challenges alongside the financial aspects were central to our dialogue and will continue to be so going forward. We have to be convinced that a shipping company's strategy adequately addresses climate challenges. If not, remaining an investor could carry substantial financial risks and ultimately negatively affect the return earned by Danske Bank's customers," Anders Grønning points out.

In a nutshell, shipping companies that transform their business in line with the shift towards a carbon-neutral economy will also be the best investments over the long term. This will require allocation of resources for new technologies and innovation.

Mitigating the risk of stranded assets

LNG-powered vessels is one of the ways shipping companies are complying with the 0.5 per cent sulphur limit. However, LNG technology is not the ultimate solution to reduce shipping's climate impact as LNG also emits greenhouse gasses that contribute to climate change. Tighter regulation is needed for shipping to meet society's climate ambition, and it is therefore important for Anders Grønning to track the climate strategies of shipping companies.

"Global solutions are needed for decarbonising shipping, and we expect



What are LNG-powered vessels?

Liquefied natural gas (LNG) is natural gas (predominantly methane) that is pumped from the earth's core and cooled to approximately -162° Celsius, thereby becoming liquefied. LNG offers substantial advantages for shipping companies, especially with respect to ever-tightening environmental and climate regulations. The most notable benefits of using LNG are cleaner emissions, less wear and tear on engines and lower costs.

the International Maritime Organization to implement tighter regulation to force the sector to cut total greenhouse gas emissions and its contribution to climate change. Hence, it is important that we as investors closely follow the strategies of shipping companies for developing a fleet that can live up to future climate requirements."

What is important for Anders is that shipping companies do not end up with vessels that become stranded assets (read more about stranded assets on page 10) because they do not comply with climate regulation. That would lead to major financial losses for the companies, which in turn would have significant negative consequences for investments in these companies.

Supporting companies' low-carbon strategies

Anders Grønning typically talks to companies several times a year at conferences or one-on-one meetings, which allows him to have a detailed dialogue about their climate strategies.

"A movement of professional investors, shareholders and customers is putting a spotlight on climate issues. As part of that movement, I can help promote the discussion on the low-carbon transition from an investor perspective and influence companies to utilise the climate agenda as an

accelerator for creating long-term sustainable growth."

Ambition pushing the industry forward

Danish shipping company Maersk has an even greater need for innovation. Maersk has set the industry's most ambitious climate target of being CO_2 neutral by 2050. To avoid using vessels powered by traditional fuels by 2050, Maersk needs to have new technologies installed in vessels delivered to them from 2030. If Maersk is to achieve its climate ambition, completely new technologies and fuel types that have not yet been developed will be needed. Maersk is focusing on three fuel pathways; alcohol, biomethane and ammonia, which for now look like the best alternatives to the current bunker fuel oil. Hence, Maersk is helping to accelerate the development of new climate-friendly technologies that will raise the bar for the entire industry.

"In a nutshell, shipping companies that transform their business in line with the shift towards a carbon-neutral economy will also be the best investments over the long term. This will require allocation of resources for new technologies and innovation. Climate challenges are set to take up an increasing share of our dialogue with shipping companies, and especially how they might seek to gain a competitive advantage by investing in energy-efficient and CO_2-reducing technologies. From our perspective, this is about shipping companies being at the forefront of developments and positioning themselves for a new reality, so they can continue to generate attractive risk-adjusted returns for our customers," says Anders Grønning.

Exploring sustainability-linked bonds

Sustainability-linked bonds, where the coupon on the bond depends on whether a company achieves predefined social, climate or environmental objectives, is gaining traction within green project financing. Shipping companies are also considering issuing such bonds, focusing on environmental targets. Anders Grønning is positive about investing in these types of bonds, as it explicitly commits the shipping company to future improvements in their climate outcome within a predefined timeline. The bond concept

> *A movement of professional investors, shareholders and customers is putting a spotlight on climate issues. As part of that movement, I can help promote the discussion on the low-carbon transition from an investor perspective and influence companies to utilise the climate agenda as an accelerator for creating long-term sustainable growth.*

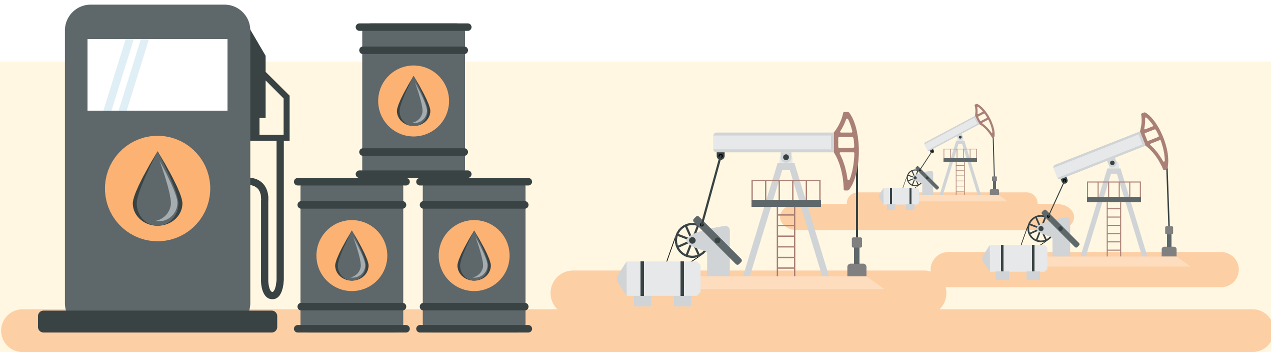
would provide him with specific environmental or climate goals that he could measure the companies against. Nevertheless, sustainability-linked bonds are not without their problems, as verifying that real progress has been made can be challenging.

Excluding companies with harmful climate practices

We exclude companies that are involved in tar sands and thermal coal, as well as companies involved in harmful climate business practices and activities that are not aligned with our customers' values.

We firmly believe in investing our customers' assets according to their preferences and values. We therefore refrain from investing in companies that generate a significant share of revenue from tar sands or thermal coal. Additionally, we do not invest in companies that our customers do not wish to invest in due to their involvement in activities that contribute to climate change. These restrictions are applied to all our investment products. Furthermore, we offer investment products with extended investment restrictions on fossil fuels.

We believe that in the long term, the political commitment to fight climate change, technological advancements and changed consumer behaviour will keep fossil fuel companies (those not embracing the green transition) and other companies involved in climate-damaging activities under pressure globally. We believe such companies have a low potential for being attractive investments and thus are not able to deliver strong returns to our customers.



Excluded companies

Thermal coal and tar sands

Thermal coal and tar sands are two of the highest carbon-emitting sources of energy. Tar sands is among the most carbon intensive means of producing crude oil, emitting three times more than conventional oil. Thermal coal also generates a high level of other pollutants. We believe that the development of these energy sources is not consistent with good management of climate risks or the preservation of our environment at large and contributes significantly to global warming.

Consequently, we do not invest in companies that obtain 30 per cent or more of their revenue from thermal coal mining, thermal coal utilities, the combination of thermal coal mining and thermal coal utilities, or the extraction of oil from tar sands.

Companies contributing to climate change

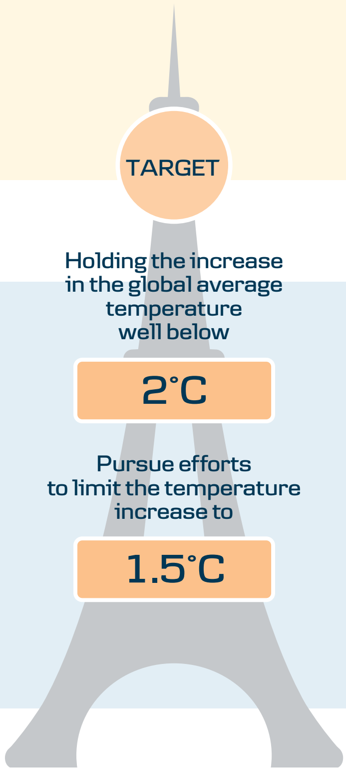
To be aligned with our customers' values and preferences and to invest their assets according to their norms and values, we exclude a number of companies involved in activities or products that contribute to climate change and which conflict with achieving global climate ambitions.

Based on input and research from, for example, multiple sustainability data sources and dialogue with our customers across the Nordics and with other relevant stakeholders, we continuously assess companies' climate-related activities and practices. If we conclude that a specific company is contributing significantly to climate change and is not aligned with our customers' values, we will stop investing in the company and place it on our investment restriction list. As a result, we have excluded companies due to, for example, lobbying activities against stricter climate regulation or investing in or financing oil and coal projects that are in breach of the climate goals set out in the Paris Agreement.

See the full list of restricted companies here

What is the Paris Agreement?

At the climate summit in Paris in 2015 (called COP21), parties to the UNFCCC (United Nations Framework Convention on Climate Change) reached a landmark agreement to combat climate change and accelerate and intensify the actions and investments needed for a sustainable low-carbon future. The Paris Agreement joins all nations in a common cause to undertake ambitious initiatives to combat climate change and adapt to its effects. The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping the global increase in temperatures this century to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.

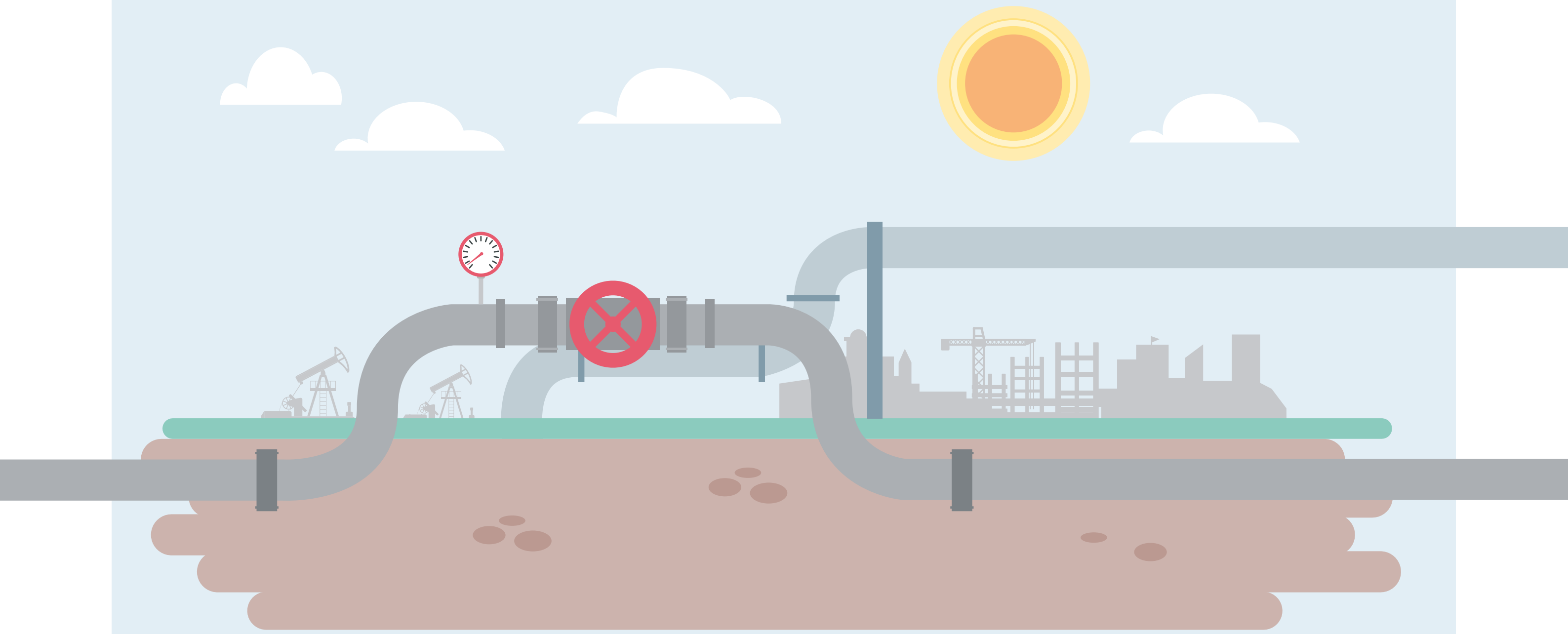


Examples of restricted companies

Lobbing against climate action

The transport sector is one of the biggest emitters of CO_2 globally. So, it is vital that car manufacturers participate in the green transition and cooperate with lawmakers and other authorities to create solutions that lead to more environmentally friendly cars. South Korean car manufacturer Hyundai Motor Company, working through a lobby organisation for carmakers, helped roll back new climate legislation in the US that proposed stricter mileage requirements, which would help reduce CO_2 emissions. The draft legislation was dropped under pressure from the lobby group, thus preventing the state of California and 13 other states from implementing stricter climate requirements for cars. Estimates suggest that dropping the requirements will lead to an increase in vehicle greenhouse gas emissions of 1.5 billion tons between now and 2040.

Hyundai's support for and role in stopping stricter climate legislation aimed at underpinning the climate goals of the Paris Agreement and the green transition is not aligned with our customers' values. Consequently, we have excluded Hyundai and do not invest in the company.



Construction of oil pipeline in North America

The Canadian energy infrastructure company TC Energy Corporation is constructing the 1,947 km Keystone XL pipeline that connects the Canadian tar sands production area with the US. The pipeline will be capable of delivering 830,000 barrels of crude oil per day and is a necessary component in the oil industry's pursuit of its plans to triple tar sands production by 2030. Oil sands has significant negative environmental and climate consequences and emits three times more CO_2 than conventional oil.

TC Energy's activities are not compliant with our customers' values when it comes to climate change contribution, as the tar sands pipeline will undermine global climate ambitions and be at odds with the climate targets set out in the Paris Agreement. Therefore, we have excluded the company and do not invest in TC Energy.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Being transparent about climate aspects

Transparency about our climate work and our support for the green transition of society is of high priority when we invest on behalf of our customers. To support our transparency ambitions, we publish various reports, documents and other material aimed at showing how and why climate issues are an integral part of our investment teams' investment process, and how this ties into our ambition of delivering attractive returns for our customers and supporting our goal of contributing to the low-carbon transition.

CO_2 emissions from investment funds
We produce CO_2 reports on our equity and bond funds, showing customers how much CO_2 the companies in the fund emit. Among other things, the reports state how many tons of CO_2 the fund emits per invested USD 1 million or relative to the turnover of the companies the fund invests in.
You can see and read more about the reports here.

Influencing companies and voting at annual general meetings
We produce two reports on how we work to influence companies and support their long-term value creation. Our Active Ownership Report is published semi-annually and contains data and analyses of our dialogues with customers, voting activities at annual general meetings and the sustainability topics we discuss with companies. The report shows how we voted at company annual general meetings and our dialogue on climate issues, etc.

Active Ownership Stories
In our annual Active Ownership Stories report, our investment teams provide concrete examples of their dialogues with specific companies. The stories show how our investment teams work with various aspects of climate and sustainability, and how they contribute to change and to influencing companies to move in a greener direction.
You will find the reports here.

Progress with climate considerations
Our Sustainable Investment Journey is an annual report describing our initiatives and progress with embedding sustainability issues into our customers' investments. It gives examples of how specific investment teams work with sustainability issues in their investment process, including climate-related aspects.
You can find the report here.

Voting activities on climate issues
You can continually track how we vote at corporate annual general meetings on climate issues and other aspects of sustainability via our website.
You can see the digital voting platform here.

2020.11 · Danske Bank A/S · CVR-nr. 61 12 62 28 · København

This publication has been prepared by Asset Management — a division of Danske Bank A/S, Holmens Kanal 2-12, 1092 København K, VAT.no. 61 12 62 28 ("Danske Bank").

Danske Bank is under supervision by the Danish Financial Supervisory Authority (Finanstilsynet).

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