

Sustainable Investment Houseview and SDG Model

Introduction

What is a sustainable investment to us?

A sustainable investment is a concept defined by the EU Sustainable Finance Regulation (EU) 2019/2088 as an investment that contributes to either an environmental or social objective while not doing significant harm to other sustainable investment objectives and abiding to principles on good governance.

An environmentally sustainable investment can in this respect be identified by applying the criteria of the EU Taxonomy. The EU Taxonomy is a classification system laid down in Regulation (EU) 2020/852, establishing a list of environmentally sustainable economic activities. The EU Taxonomy is centered around six environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

The EU Taxonomy does not lay down a list of socially sustainable economic activities. Also, sustainable investments with an environmental objective might not be aligned with EU Taxonomy. Currently, the identification of EU Taxonomy aligned investments is heavily impacted by data constraints and lack of company reporting, meaning that the majority of the investments that we target as environmentally sustainable investments are not disclosed and reported as taxonomy aligned.

Therefore, we have for actively managed strategies in Danske Bank developed a model the “**SDG Model**” based on the UN Sustainable Development Goals (UN SDGs) to identify direct investments meeting the sustainable investment criteria of positive contribution, no significant harm and good governance. The model is supplemented by overlays at strategy level (such as engagement based criteria) and subject to specific considerations relating to asset classes.

We also consider investments in green labelled, social labelled and sustainability-linked bonds (“**sustainability labelled bonds**”) sustainable investments.

UN SDGs

The UN Sustainable Development Goals (the “**UN SDGs**”) are the globally agreed framework for achieving a better and more sustainable future for all. The SDGs consist of 17 interlinked goals, made actionable by underpinning 169 targets, designed to be a “blueprint to achieve a better and more sustainable future for all”.

The SDGs were set up in 2015 by United Nations General Assembly and are intended to be achieved by the year 2030. The SDGs are an increasingly accepted standard for companies to help clarify, prioritize and maximize the value their products and services have on society. The SDGs work as a lens for any market, asset class and geography and can be set as a benchmark for any company/issuer thanks to the universality of their underlying principles.

The framework created through the SDGs can therefore be used to assess investment opportunities with potential to contribute to a sustainable development.

SDG Model

Pass or Fail Criteria

Danske Bank's SDG Model has been developed in order to assess companies and other issuers' (issuers) net (both positive and negative) contribution to the environmental and social objectives of the UN SDGs and through such assessments identify investments in equity and/or fixed income asset classes that are sustainable investments.

In order for an investment to qualify as a sustainable investment under the SDG model it needs to meet the pass or fail criteria of:

- 1) Sufficient positive contribution to one or more of the environmental and/or social objectives of the UN SDG
- 2) "Do No Significant Harm"
- 3) Good Governance

Contribution to environmental or social SDG objectives

The SDG Model takes account of contribution to the following objectives:

Environmental: SDG 6 - Clean Water and Sanitation, SDG 7 - Affordable and Clean Energy, SDG 9 - Industry, Innovation and Infrastructure, SDG 11 - Sustainable Cities and Communities, SDG 12 - Responsible Consumption and Production, SDG 13 - Climate Action, SDG 14 - Life Below Water, SDG 15 - Life on Land, and/or SDG 17 - Partnerships for the Goals.

Social: SDG 1 - No Poverty, SDG 2 - Zero Hunger, SDG 3 - Good Health and Well-being, SDG 4 - Quality Education, SDG 5 - Gender Equality, SDG 8 - Decent Work and Economic Growth, SDG 10 - Reduced Inequalities and/or SDG 17 - Partnerships for the Goals.

Only investments with sufficiently high overall contribution, as measured through the SDG Model's SDG Impact Indicators described herein, are eligible as sustainable investments per the model. Investments can have contributions to different SDGs and the magnitude of the contribution can vary.

Acknowledging that the EU Taxonomy objectives all fall within the scope of the environmental objectives of the UN SDGs, issuers that have a substantial alignment (Taxonomy-aligned revenue equal to or higher than 50%) of activities with the EU Taxonomy also qualify in full as sustainable investments per the SDG Model.

Do No Significant Harm

The SDG Model captures "Do No Significant Harm" by considering whether an investment has a) net positive average product contribution; b) product contribution for each SDG above certain thresholds and; c) no elevated risk of harm on any SDGs via its operations.

Furthermore, the SDG Model leverages general exclusions defined in the Danske Bank Exclusion Instruction, with additional bans further set-out in this document.

Considerations relating to OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights are managed through the exclusion based on the Danske Bank Enhanced Sustainability Standards Screening.

Good Governance

Good governance considerations are mainly conducted through the Enhanced Sustainability Standards Screening.

Methodologies

Assessment of Positive Contribution – SDG Impact Indicators

The SDG Model leverages on a quantitative model component and a qualitative model component to assess an issuer's positive contribution to the SDGs – each building on SDG Impact Indicators as set out in this document.

Quantitative Model Component

The quantitative model component derives an aggregate score (mSDG score) of an issuer's contribution to the SDGs on basis of underlying SDG Impact Indicators sourced through information from external vendors that measure the performance against each of the SDGs. Issuers can be assigned an mSDG score from -3 to 5, where positive scores on 2 or above indicate a positive contribution to the SDGs per the model. Only issuers with an mSDG score of > 2 can on basis of an mSDG scoring be seen to contribute positive positively to the SDGs per the SDG Model.

Specifically, the methodology underlying the mSDG scoring-system quantifies the contribution to the SDGs by SDG Impact Indicators measuring:

- the contribution of issuers' products are services (product/service contribution) to each SDG; and
- the alignment of operations & business models of issuers (operational contribution) to each SDG.

Product/service contribution:

Product/service contribution is measured as the contribution of issuers' revenue against each SDG on basis of assessments sourced from two ESG data providers (MSCI and Util). The product/service contribution in that respect effectively assesses each business activity of an issuer, weighted by share of revenue, against societal targets underpinning the SDGs to determine the direction and magnitude of product contribution.

Issuers are assigned to a category as outlined in the table below, which implies that the scoring of an issuer per the model is elevated in reference to whether the contribution is linked to one or several SDGs.

Product Score	Product Category	Criteria 1	Criteria 2	Criteria 3
4	Significant contribution	> 50% revenue alignment of at least one SDG	> 0% net revenue average alignment across all SDGs	> No SDG where there is a significant negative impact (-50%)
3	Significant industry contribution	> 25% revenue alignment relative to industry average of at least one SDG	> 0% net revenue average alignment relative to industry average across all SDGs	> No SDG where there is a significant negative impact (-50%)
2	Moderate contribution	> 0% net revenue average alignment across all SDGs	> -50% alignment of each SDGs	
1	Small positive contribution	> 0% net revenue average alignment relative to industry average across all SDGs	> -50% alignment of each SDGs	
-1	Likely obstruction	If none above met		

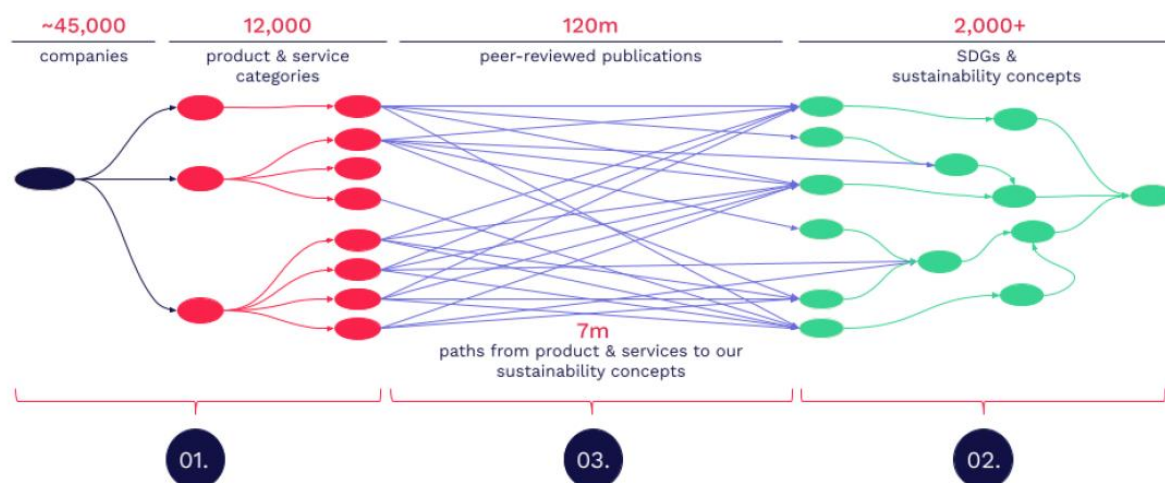
The specific data set from MSCI used as input to this part of the model is MSCI's SDG Product Alignment data set. This data set assesses the net impact of an issuer's products and services on achieving targets associated with each of the 17 SDGs. Net impact implies that some of an issuer's products and services may be well aligned with

the sustainable development objectives, while other products may have an adverse impact and show misalignment with the goals.

Examples of economic activities that are assessed as having a positive SDG contribution are: renewable power generation, zero emission vehicles, insulation solutions, smart grid solutions, recycling solutions, conventional pollution control solutions, environmental remediation solutions and waste water treatment solutions.

The specific data set from Util as input to this part of the model is Util's SDG alignment data. This dataset aims to capture positive and negative impacts on 2,000 metrics underpinning the 17 UN SDGs through the application of natural language processing to 120 million peer-reviewed publications to gather scientific consensus about the impacts of every business activity.

Below is a sample of graphs applied by Util to derive the assessments:



Source: Util

Operational contribution:

Operational contribution is measured through industry-specific material ESG scores mapped to the UN SDGs as a proxy to assess operational contribution. This mapping allows us to consider how well an issuer within its industry manages material sustainability-aspects in relative terms from the perspective of the goals. For example, Automobile manufacturers have "Product Quality and Safety" as a material ESG Issue. This can be linked with SDG 3.3, which aims to "halve the number of global deaths and injuries from road traffic accidents", and the quantitative performance of a company in relevant car safety metrics can be used as a proxy for the given SDG contribution.

To calculate relative SDG scores for an issuer, a respective industry 20th percentile score is subtracted from each issuer's SDG operational absolute proxy score. The final company SDG operations score is set equal to the minimum of the relative SDG scores per issuer. Finally, issuers are assigned to an Operations Category with the following criteria, comparing the final issuers SDG operations score against respective industry percentiles:

Operations Score	Operations Category	Criteria
3	Best in class	Above 80 th percentile
2	Minor risk of harm	Between 40 th and 80 th percentile
1	Moderate risk of harm	Between 20 th and 40 th percentile
-1	Elevated risk of harm	Below 20 th percentile

The operational contribution assessment is intended to capture both the systemic nature of SDGs and the Do No Significant Harm test by not allowing for a poor performance against any individual SDG to be compensated by a strong performance against another.

The aggregation of the product service score and the operational scores follows the principles outlined below:

Product Score	Product Category	Operations Score	Operations Category	mSDG Score
4	Significant contribution	3	Best in class	5
4	Significant contribution	2	Minor risk of harm	4
4	Significant contribution	1	Moderate risk of harm	3
4	Significant contribution	-1	Elevated risk of harm	1
3	Significant Industry contribution	3	Best in class	5
3	Significant Industry contribution	2	Minor risk of harm	4
3	Significant Industry contribution	1	Moderate risk of harm	3
3	Significant Industry contribution	-1	Elevated risk of harm	1
2	Moderate contribution	3	Best in class	3
2	Moderate contribution	2	Minor risk of harm	2
2	Moderate contribution	1	Moderate risk of harm	1
2	Moderate contribution	-1	Elevated risk of harm	-1
1	Moderate industry contribution	3	Best in class	3
1	Moderate industry contribution	2	Minor risk of harm	2
1	Moderate industry contribution	1	Moderate risk of harm	1
1	Moderate industry contribution	-1	Elevated risk of harm	-1
-1	Likely obstruction	3	Best in class	1
-1	Likely obstruction	2	Minor risk of harm	-1
-1	Likely obstruction	1	Moderate risk of harm	-2
-1	Likely obstruction	-1	Elevated risk of harm	-3

Quantitative Model Component - EU Taxonomy based

The EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities supporting environmental objectives of:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

Each of these environmental objective has a correlation to environmental objectives captured by the SDGs as (non-exhaustively) exemplified below:

1. Climate change mitigation -> Climate Action (SDG7), Affordable & Clean Energy (SDG7)
2. Climate change adaptation -> Climate Action (SDG7), Life on Land (SDG15)
3. The sustainable use and protection of water and marine resources -> Life below Water (SDG14), Clean Water and Sanitation (SDG6)
4. The transition to a circular economy -> Responsible consumption and production (SDG12), and to some extent indirectly many other SDGs.
5. Pollution prevention and control -> Life on Land (SDG15), Life Below Water (SDG14)
6. The protection and restoration of biodiversity and ecosystems -> Life on Land (SDG15)

Accordingly, environmentally sustainable economic activities per the EU Taxonomy are per default contributing to the SDGs. As sustainable investments per the SDG Model target issuers' not economic activities – an issuer needs to have substantial contribution to environmentally sustainable economic activities in order to allow for the issuer to be tagged a sustainable investment per the model. Substantial contribution is in that respect defined as issuers' deriving more than 50% of revenues from EU-Taxonomy aligned activities.

For the purposes of the SDG Model – EU taxonomy aligned activities are assessed by utilising a combination of different data-sources.

Qualitative model component

The qualitative model component caters for instances where data is missing data, is incorrect or where the quantitative model fails to capture the business of a given issuer.

Firstly; there is an extensive amount of unique characteristics and challenges that come with ESG data, one of them being that the data to a certain extent is based on "industry-lenses" rather than "company-specific lenses". As a result, issuers can be misrepresented as either being sustainable or not sustainable according to quantitative models just because they operate in the same industry. For instance, issuers within the 'machinery & equipment' industry can have very different lines of business and produce equipment for fundamentally different use-purposes.

Secondly; many issuers are not covered by ESG-data vendors today. This means for instance that large cap companies, European companies and certain industries have better data coverage.

Thirdly; available data to evaluate potential impacts may have biases towards past decisions and the resulting business model, while many issuers have stated intent, made commitments and started establishing procedures to transform their business models into a more sustainable business model.

The qualitative model component has therefore been established in order to tackle the following use cases:

- an issuer is assessed as sustainable according to the quantitative model but where our own, or other research, points toward that the issuer is not sustainable.
- an issuer is assessed as not sustainable according to the quantitative model but where our own, or other research, points towards that the issuer is sustainable.
- an issuer is not covered by the quantitative model but where our own, or other research, points toward that the issuer is sustainable.

The qualitative model component is structured through specific assessment criteria rooted in assessing issuers' business alignment with and contribution to the UN SDGs through their products, services and operations. The assessments are in this respect applying proxies for sustainability-performance and targets in order to assess how positive impact is created and how harm via operations is minimised.

Assessment of Do No Significant Harm

As the SDG Model targets sustainable investments, investments deemed to cause a significant harm to a sustainable investment cannot by default per the model be seen to have a positive SDG contribution.

For the identification of investments with significant harm, the SDG Model takes principal adverse impact indicators in account as managed through a combination of;

- a) pre-defined exclusion criteria and thresholds; and
- b) norms and controversy screenings

Exclusion Criteria and Thresholds

The SDG Model excludes issuers per the exclusion criteria relating to controversial weapons, tobacco, thermal coal, peat-fired power generation, or tar sands. The definitions for these exclusions follow the criteria laid out the Exclusion Instruction of Danske Bank with additional bans for:

- Oil & Gas Refining & Marketing
- Oil & Gas Storage & Transportation
- Oil & Gas Exploration & Production
- Oil & Gas Equipment & Services
- Oil & Gas Drilling
- Integrated Oil & Gas
- Coal & Consumable Fuels
- Casinos & Gaming

The SDG Model also applies additional sub-industry bans in place issuers that have an overall mSDG of 2. These sub-industry bans relates to industries that are regarded as more complex to assess based on quantitative data such as for instance; Advertising, Aerospace & Defense, Air Freight & Logistics, Airlines, Airport Services, Apparel, Accessories & Luxury, Commercial Printing, Commodity Chemicals, Distillers & Vintners, Diversified Chemicals, Footwear, Gas Utilities, Hotel & Resort REITs, Hotels, Resorts & Cruise Lines, Interactive Home Entertainment, Movies & Entertainment, Restaurants, Soft Drinks, Specialty Chemicals, Tobacco, Trucking, Apparel, Accessories & Luxury Goods.

Norms and Controversies

Enhanced sustainability Standards:

The SDG Model excludes issuers deemed to have controversial conduct or activities on basis of Danske Bank's enhanced sustainability standards screening. Decisions made are in that respect based on multiple factors: data from ESG data providers; screening against international norms, such as the UN Global Compact and the OECD Guidelines for multinational enterprises; dialogue with customers; and input from investment teams and other relevant stakeholders and screening against other relevant principal adverse indicators.

By the focus of this screening, the enhanced sustainability standards also works to safeguard considerations of minimum environmental and social safeguards and good governance considerations for the sustainable investments

Extended ESG norm/controversy bans:

The extended ESG norm / controversy bans supplement and overlap (to a large extent) with the enhanced sustainability standards screening. Issuers that are assessed as being linked to controversies, or norm breaches, with severe adverse impacts on societies and/or the environment cannot be classified as sustainable. Issuers with the highest/"worst" signal according to ISS-ESG Norm-Based Research, MSCI Controversy Indicator, or Sustainalytics Controversy Indicator cannot be classified as sustainable.

Extended screening for issuers with mSDG scores of 2:

Issuers with an overall mSDG of 2 are also subject to extended exclusionary filters with regards to norm/controversy allegations, with the following thresholds applied:

- Issuer not labelled sustainable if ISS-ESG norm flag = yellow
- Issuer not labelled sustainable if MSCI controversy flag = yellow or orange
- Issuer not labelled sustainable if Sustainalytics controversy level = 3 or higher

Issuers with an overall mSDG of 2 are also subject to extended sustainability risk assessments with the following thresholds applied:

- Issuer not labelled sustainable if ISS-ESG performance score = equal to or lower than 12.5
- Issuer not labelled sustainable if MSCI ESG Rating = CCC
- Issuer not labelled sustainable if Sustainalytics ESG Risk Score = equal to or higher than 40

SDG Model Outcome

Using the UN SDGs as a guide, we have developed a proprietary framework that systematically measures the magnitude of SDG contributions of issuers leveraging both a quantitative and a qualitative assessment. We are continuously improving our approach using the latest guidance, research and analysis.

Given that sustainability data is dynamic and that corporate disclosures are continuously improving means also that assessments may also evolve over time and additional companies will be assessed as part of the model.

As of December 2022, around 2 800 issuers have been identified as sustainable investments using the quantitative SDG model component and around 60 issuers identified using the qualitative model component. Through reporting on the aggregate SDG contributions for investment portfolios leveraging the model, it will be visible to investors the extent to which their investments have positive contribution to the 17 different SDGs.



As of 2022-12-23, the outcome of the model, per GICS Industry Group