Danske Invest

Sustainability Risk Integration Instruction

In accordance with the Responsible Investment Policy of Danske Invest Management A/S, Danske Invest Fund Management Ltd., and Danske Invest Asset Management Norway A/S integration of sustainability risks in our managed investments follows the principles set out in this Sustainability Risk Integration Instruction for the Danske Bank Group.

1. Objective

This Instruction aims to ensure an effective operationalisation of Danske Bank's commitment to integrate Sustainability Risks in investment management processes.

2. Definitions

The below definitions apply to the terms used throughout the Instruction. Any term not defined herein shall have the meaning ascribed to it in the Responsible Investment Policy.

Term	Definition
Active Ownership	the use of rights and position of ownership to influence the activities or behaviour of investee companies based on financial and/or impact materiality considerations. Active ownership is exercised by taking an active interest as an investor in the investee companies' circumstances, development, and management, and by adopting a long-term focus in the company in line with, for instance, the EFAMA Stewardship Code and the Shareholder Rights Directive II.
Double Materiality	the determination of whether a sustainability factor is of relevance when investing from either the perspective of Financial Materiality and/or Environmental and Social Materiality
ESG	environmental, social or governance
Environmental and Social materiality (also referred to as "Impact Materiality")	the inside-out impacts that an issuer's/company's economic and financial activities may have on sustainability factors
Financial Materiality	the outside-in impacts that sustainability factors may have on a company's/issuer's economic and financial activities throughout their entire value chain (both upstream and downstream), affecting the value (returns) of such activities.
Group	Danske Bank A/S with its subsidiaries.
Principal Adverse Impact	the negative impacts that investments might have on Sustainability Factors as measured through indicators defined in SFDR.
Screening	a process by which investments are reviewed to identify sustainability risks or sustainability related impacts, as identified in current regulation, industry best practice, international norms and voluntary frameworks for corporate responsibility
SFDR	Regulation (EU) 2019/2088 of the European Parliament and of the Council on Sustainability-Related Disclosures in the Financial Services Sector.
Sustainability Factors	environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters
Sustainability Risk	an environmental, social or governance event or condition that, if it occurs, could cause a material negative impact on the value of the investment
Target Group	means the group of people, subsidiaries, areas and/or functions, for whom the governing information is intended to be directly applicable.

3. Scope

The Instruction applies to investment management activities of Danske Bank as covered by the Responsible Investment Policy.

As enshrined by the Responsible Investment Policy, our approach to responsible investment is based on the principle of Double Materiality. This Instruction addresses the Financial Materiality aspects of Double Materiality. From the perspective of Financial Materiality, we integrate sustainability factors by considering the negative and positive impacts that sustainability factors may have on our investments.

The consideration of negative impacts implies that we consider Sustainability Risks. It forms part of our fiduciary duty to integrate considerations of Sustainability Risks in our investment management processes and we manage such risks as an integral part of those processes.

The consideration of positive impacts implies that we can generate attractive returns by targeting investments well-positioned to manage and capitalise on the sustainable transition.

The Instruction only covers the management of negative impacts that sustainability factors may have on returns – Sustainability Risks. The management of positive impacts rests with the discretion of individual investments teams in accordance with the mandate granted under managed investment strategies, considering also our risk appetite and risk management framework. The investment teams are in that respect utilising adequate investment due diligence processes and procedures for the selection and monitoring of investments.

The Instruction is supplemented by our Exclusion Instruction and Active Ownership Instruction.

For information on how we address Environmental and Social Materiality please refer to our Principal Adverse Impact Statement.

For information on how Sustainability Risk is integrated in remuneration please refer to our Renumeration Policy.

For information on how Sustainability Risk is integrated in Financial Advice please refer to our Policy in Treating Customers Fairly.

3.1. Target group

The Instruction applies to all employees, all functions, and all units in Danske Bank Group that are involved in or oversee investment management activities. The Instruction is also applicable to any employee, function and/or units in Group subsidiaries if adopted and/or incorporated by the subsidiary in accordance with applicable governance rules.

4. Danske Bank's approach to Sustainability Risk Integration

In Danske Bank, Sustainability Risks are addressed in accordance with an overarching framework ensuring that the relevant infrastructure and processes are in place to:

1) identify Sustainability Factors leading to Sustainability Risks

2) manage and mitigate potential Sustainability Risk exposures

3) monitor Sustainability Risk levels

Investment teams are primary responsible for this life cycle management of Sustainability Risks, meaning that investment teams shall:

- screen investments to analyse available financial information and sustainability-related information and identify financially material sustainability factors
- assess the potential impact of material financially material Sustainability Factors on economic, country, sector, and company performance, and thus assess the likely impact of Sustainability Risks on the return of the investment product
- make investment decisions that consider Sustainability Factor, alongside other material factors
- ensure that Sustainability Risks once identified as financially material are captured by the general risk management of the portfolio and sought mitigated

This approach to integration of Sustainability Risks in the investment process enables the investment teams to:

- meet regulatory requirements related to integration of Sustainability Risks in investment management processes and asses the likely impact of these on investment returns
- abide to fiduciary duties owed to clients
- gain a better understanding of the quality of companies/issuers and how they manage risks and opportunities
- make better-informed investment decisions based on a holistic assessment of the investments
- meet client demands for an integrated responsible investment approach.

When managing Sustainability Risks, investment teams are supported by the Responsible Investment team for SME advice, tooling and general assistance, and the Portfolio Risk Advisory Team for the evaluation and challenging of Sustainability Risk integration and assessments of impacts on the value of returns.

5. Identification of Sustainability Risk factors

The process for identifying Sustainability Factors leading to Sustainability Risk is defined by the relevant asset class as further set out in this section.

As general principle, however, for a Sustainability Factor to be considered financially material it needs to translate into investment performance, meaning it should have a positive or negative impact on either the revenue/expenses of an investment, the value of its assets/liabilities, its cost of capital or the risk/return characteristics of the investment.

The identification of such factors is generally challenged by the lack of standards and coherence in respect to disclosures and the backward nature of data. Hence, for the screening, investment teams should to the best of their ability leverage on data from multiple data sources (including but not limited to company reports and third-party investment research). Investment teams may include this information into existing models or the development of new valuation models.

Sustainability-related data sources and data providers are continuously monitored and updated to be able to serve the needs of the investment teams. The Responsible Investment Team is further responsible for developing and managing the sustainability analytical tools to be used by its investment teams (e.g. mDash)

5.1. Investments in Equities and Credit

For actively managed equity and credit strategies, investment teams must as part of their due diligence of an investee company, issuer and/or issuance screen, review and consider sustainability-related data alongside other financial information to understand the linkages to investment performance.

While a definitive list of ESG issues does not exist investment teams can apply the Sustainability Accounting Standards Board's (SASB) materiality map as a framework to focus on the material topics for each company and industry. The SASB framework does not provide a Sustainability Risk rating or a scoring, but fosters an understanding of the relative importance of different Sustainability Factors across various industries facilitating a consistent approach to Sustainability Risk impacts. In instances where SASB cannot be applied the investment teams can work in collaboration with the Responsible Investment team to identify financially material sustainability-related information. Further, investment teams may use Danske Bank proprietary analytical tool (mDash) with its materiality dashboard to complete their analysis.

Below list provides a non-exhaustive list of factors that under given certain circumstances can become financially material and thus lead to sustainability risks for investments in equity and credit investment:

Access & Affordability	Customer Privacy	Human Rights & Community Relations	Selling Practices & Product Labeling
Air Quality	Customer Welfare	Labor Practices	Shareholder Rights
Audit & Controls	Data Security	Management of the Legal & Regulatory Environment	Supply Chain Management
Board of Directors	Ecological Impacts	Materials Sourcing & Efficiency	Systemic Risk Management
Business Ethics	Employee Engagement, Diversity & Inclusion	Physical Impacts of Climate Change	Waste & Hazardous Materials Management
Business Model Resilience	Employee Health & Safety	Product Design & Lifecycle Management	Water & Wastewater Management
Competitive Behavior	Energy Management	Product Quality & Safety	Selling Practices & Product Labeling
Critical Incident Risk Management	GHG Emissions	Remuneration	Shareholder Rights

5.2. Investments in Sovereigns
The financial importance of effectively managing ESG issues for sovereign issuers is increasing. We believe that identifying and understanding relevant Sustainability Risk issues and assessing how challenges are met, aid our long-term analysis of sovereign risk. We approach sovereign analysis by applying a quantitative framework and a qualitative overlay.

Below list provides a non-exhaustive list of factors that under given certain circumstances can become financially material and thus lead to Sustainability Risks for investments in sovereigns:

Co2 emissions from land use change and forestry	Minority rights	Torture and other ill-treatment	Democratic governance
Environmental regulatory framework	Right to privacy	Child labor	Rule of law
Low carbon economy	Sexual minorities	Forced labor	
Freedom of assembly	Women's and girls' rights	Migrant workers	
Freedom of opinion and expression	Arbitrary arrest and detention	Modern slavery	
Indigenous peoples' rights	Extrajudicial or unlawful killings	Occupational health and safety	
Land, property and housing rights	Security forces and human rights	Corruption	

5.3. Third party manager selection and investments in externally managed funds
Danske Bank uses also external asset managers to manage assets on behalf of clients both through white-labelling and by investing into externally managed funds.
The due diligence process when selecting an external manager for white-labelling ensures that the external manager's approach to integrating Sustainability Risks is presented and duly assessed in the initial assessment of the manager. The initial assessment caters for diversity in responsible investment approaches and focuses on the fact that Sustainability Risk should be integrated in a meaningful way by the manager.

Conclusions from the initial assessment also forms the baseline for ongoing monitoring and evaluation of the managers in order to ensure that Sustainability Risks considerations are consistently integrated in their investment process. Relevant observations made can in that respect form part of feedback to the external managers with potential recommendations for initiatives to strengthen their responsible investment efforts in respect to Sustainability Risk integration.
For investments into externally managed funds, the assessment of the external manager is complemented by an assessment of how the relevant fund integrates Sustainability Risks, and the likely impacts that sustainability risks might have on the returns of the fund.

The Responsible Investment Team is responsible for the external manager evaluation, including the monitoring process in relation to Sustainability Risk.

5.4. Passively managed strategies
Passively managed strategies are managed through the tracking and replication of performance of a designated index. This implies that the investments in passively managed strategies in principle reflect the investments that are in the benchmark. Accordingly, the approach to Sustainability Risks integration in our passively managed products does not constitute a one-to-one match to that of the actively managed ones.

Instead, for passively managed strategies we identify and address Sustainability Risks through the approach in the respective benchmark construction. Further, Sustainability Risks are managed by exclusions applicable to the given passively managed strategy. Exclusions are part of how we address Environmental and Social Materiality in our investment products, however, by screening investments in the benchmarks for exposure to Sustainability Factors, such as thermal coal, and controversial weapons, the exclusions at the same time mitigate Sustainability Risk exposures deriving from these activities.

For more information on exclusions, please see our Exclusion Instruction.

5.5. Derivatives

Sustainability Risks are determined by the underlying exposures, meaning that no specific approach is applied for this asset class.

6. Management of sustainability risks

6.1. Materiality and impact assessment

Sustainability Risks are assessed and measured alongside other material financial risk factors in the investment management process. The assessments consider whether Sustainability Factors relating to the investments are likely to impact the returns of the investment product, and whether such impact is deemed material.

The practice of assessing Sustainability Risks is still at an early stage, with statutory qualitative and quantitative indicators and methodologies yet to be developed. Further, although duly mapped, identified and managed in the investment processes, the following elements can from a general perspective affect the degree to which Sustainability Risks are likely to impact the value of returns and thus influence assessments on how Sustainability Risks should be integrated:

- Sustainability Risks are often complex and interlinked, which can make it difficult to assess them in their entirety
- Sustainability Risks are usually difficult to quantify and are long-term in nature, and the probability of materialisation thus also depends on the investor's time horizon.
- Sustainability Risks, such as risks stemming from changes in physical climate, political action, societal expectation, consumer demand or technological development, can occur at an unexpected scope and magnitude or at an unanticipated pace, which may not be reflected to a full extent when investment decisions are made.
- Lack of ESG market standards in general and a lack of comprehensive or standardised ESG data can make it difficult to uncover all sustainability risks or cause investment decisions to be based on faulty grounds.
- The Sustainability Risk assessments can be inaccurate, which may cause the sub-fund to become exposed to greater sustainability risks than anticipated, or to miss investment opportunities, or buy or sell investments at a sub-optimal time.
- Sustainability risk profile is dynamic and impacted by dimensions such as asset class, investment universe, investment strategy, specific investments, geographical exposure, responsible investment processes and investment horizon. This means that the sustainability risk exposure will evolve over time.
- The impact of Sustainability Risks can increase in magnitude in combination with other risks, especially in relation with market, credit, emerging and frontier markets, illiquidity, concentration and tax risks.

The financial position of investments may deteriorate due to Sustainability Risks materialising. The exact impact of a Sustainability Risk materialising is difficult to model due to the aspects mentioned above. Therefore, the impact of Sustainability Risk on returns may be both higher and lower than expected based on the exact nature of the situation and context. If sustainability-related issues are identify and considered potentially material for the company/issuer's financial, operating or sustainability performance, an assessment of their impact must be carried out by the investment team. This assessment includes considerations of:

- Adjustments to the investee company's forecasted financials
- Valuation-model variables
- Valuation multiples
- Forecasted financial ratios
- Internal credit assessments
- and/or portfolio weightings are necessary

If sustainability factors are analysed and found not to be potentially material, an assessment is not conducted and adjustments are not made.

6.2. Management of Sustainability Risks

Sustainability Risk exposures should be well managed and, as needed, lead to and/or influence a decision to either buy/increase weighting, hold/maintain weighting, decrease weighting, or sell/divest or to engage through our Active Ownership activities.

When a portfolio is subject to Sustainability Risk exposures, investment teams shall ensure that such risks are monitored at an ongoing basis and as take action to mitigate the risks through weighting, engagements and/or as a last resort divesting when needed to protect the value of the portfolio.

Appreciating that investments have different characteristics and are affected differently by Sustainability Factors; the investment team tailors management of Sustainability Risks to the specific investment strategy and asset class. In order to manage Sustainability Risks, three processes are applied, Inclusion, Active Ownership and Exclusions. This is done through processes leveraged both in the investment team and in other supporting functions.

Inclusion

Sustainability Risk considerations are included in the selecti-

on of investments in the same way as other risk considerations. Appreciating that investments have different characteristics and are affected differently by Sustainability Factors, the investment team tailors the Inclusion of sustainability factors potentially leading to Sustainability Risks to the specific investment strategy and asset class. The time horizon is which the investment is held is also to be considered.

Active Ownership
Investment teams and the Responsible Investment team can use 1) Engagements, 2) Voting and 3) Collaborative engagements to manage Sustainability Risks. Through the use of rights and position of ownership we aim to impact activities or behaviour of our investments based on financial materiality considerations.

The Investment- and Responsible Investment teams engage on a regular basis with investee companies about financially material sustainability matters in order to seek improvement in performance and processes with the aim of enhancing and protecting the value of Danske Bank's investments.

A company's general meeting is an opportunity for Danske Bank as an investor to voice opinion on issues of key importance to corporate governance and to contribute to a company's sustainability performance.

When appropriate, Danske Bank collaborates with peers, like-minded investors, and other relevant parties to exercise Active Ownership by engaging through joint dialogue and contributing collectively to make a positive impact. It might be appropriate to raise the issue with others in instances where Danske Bank's own engagement may have proven to be unsuccessful.

Exclusions
Due to considerations of Environmental and Social Materiality certain investments are excluded. These investments often also come with elevated Sustainability Risks, meaning that the Exclusions serve dual purposes. Based on data from a number of ESG data providers, the investments are screened to identify business-critical sustainability risks. The Exclusions cover equity, corporate bonds and sovereign bonds for the investment universe.

7. Monitoring of sustainability risks

Sustainability Risk exposures are monitored on a continuous basis using the "Sustainability Risk Alert Framework". In order to assess the impact of Sustainability Risk on returns of our managed strategies, multiple indicators are used. The framework measures the relative risk exposures versus a relevant benchmark to ensure that sustainability risks are continuously managed by the sub-fund.

The Sustainability Risk Alert Framework uses a set of five sustainability indicators to benchmark strategies against their benchmark. Strategies that are labelled as "green", "yellow" or "red" depending on whether the portfolios average score on the KPIs are better or worse than that of its benchmark according to a proprietary defined model.

The indicators are the following:
mSCORE:
Danske Asset Management's proprietary ESG risk scoring tool, the foundation for how we assess companies' ESG risk & opportunities. Only focuses on sustainability data that have been assessed being financially material. mSCORE aggregates data from multiple vendors in order to reduce vendor bias and construct a score that is based on multiple inputs. It covers environmental, social and governance topics.

Companies are scored on a scale 0-100 (higher is better)

MSCI ESG Rating:
Based on sub-industry classification, MSCI's rating methodology assesses companies' material sustainability risk and opportunity exposures and how well the company manages its exposures. It covers Environmental, Social and Governance topics.

Companies are scored on a scale 0-10 (higher is better)
- 0.0-1.4 = CCC = Laggard
- 1.4-2.9 = B = Laggard
- 2.9-4.3 = BB = Average
- 4.3-5.7 = BBB = Average
- 5.7-7.1 = A = Average
- 7.1-8.6 = Leader
- 8.6-10.0 = Leader

Sustainalytics ESG Risk Rating:
Based on sub-industry classification, Sustainalytics assesses companies' material sustainability risk & opportunity exposures and how well the company manages its exposures. It covers Environmental, Social and Governance topics

Companies are scored on a scale 0-100 (lower is better)
- 0-10 = Negligible risk
- 10-20 = Low risk
- 20-30 = Medium risk
- 30-40 = High risk
- 40-100 = Severe risk

ISS-ESG Rating:
Based on sub-industry classification, ISS-ESG assesses com-

panies material sustainability risk & opportunity exposures and how well the company manages its exposures. It covers Environmental, Social and Governance topics

Companies are scored on a scale 0-100 (higher is better)
- 0-8.33 = D-
- 8.33-16.67 = D
- 16.67-25 = D+
- 25-33.33 = C-
- 33.33-41.67 = C
- 41.67-50 = C+
- 50-58.33 = B-
- 58.33-66.67 = B
- 66.67-75 = B+
- 75.00-83.33 = A-
- 83.33-91.67 = A
- 91.67-100 = A+

Carbon Risk Rating:
The Carbon Risk Rating (CRR) is based on two complementary elements:

Carbon Performance Score (CPS): a metric for the current carbon-related performance of a company as well as its capabilities to seize climate-related opportunities and manage its industry-specific climate risks in the future.

Carbon Risk Classification (CRC): a classification of a company's individual exposure to climate change risks based on its specific industry assignment and business activities.

Companies are scored on a scale 0-100 (higher is better)
- 0-24 = Climate laggard
- 25-49 = Climate medium performer
- 50-74 = Climate outperformer
- 75-100 = Climate leader

Strategies are categorized as "green", "yellow" or "red" depending on how the portfolio is scoring compared to its benchmark according to the alert framework. Stricter thresholds are used for article 8 and 9 investment products. Strategies that stand out negatively according to the alert framework are subject to review by the SRC based on the discussions within the Portfolio Risk Council.

Sustanability risk alert based on avarage relative score vs. benchmark across aplied metrics

	-5%	-4%	-3%	-2%	-1%	0%	1%	2%	3%	4%
Article 6/7	Red	Yellow	Yellow	Yellow	Yellow	Green	Green	Green	Green	Green
Article 8	Red	Red	Red	Yellow	Yellow	Yellow	Yellow	Green	Green	Green
Article 9	Red	Red	Red	Red	Red	Yellow	Yellow	Yellow	Yellow	Green

Sustainability Risk Alert observations and recommendations are discussed at the monthly Portfolio Risk Council, which will recommend investment management to act accordingly and report/or escalate to the Head of Asset Management. The Portfolio Risk Council and the Head of Asset Management can propose suggested exposure changes or strategy changes if warranted.

The Portfolio Risk Advisory team has a dedicated Sustainability Risk Challenger' (SRC) to assist monitoring in the first line. The SRC monitors, reviews and follow-up on investment products' sustainability risk exposures and evaluate whether products deliver on the customer promise. The SRC focuses on evaluating sustainability risk and performance to ensure investment teams address relevant sustainability aspects in the investment process, thereby helping to protect customers' investments. The SRC acts independently from investment teams.

SRC is analytical and is mandated to perform in-depth analysis of products to assess their sustainability risk and performance. In-depth sustainability analysis of products is triggered by the so-called sustainability risk alert framework, requests from management in asset management or Danske Invest or on own initiative. Findings from the in-depth analysis are used in dialogue and to challenge investment teams.

The Responsible Investment team and the Sustainability Risk Challenger are responsible to assess and review the sustainability integration processes applied by investment teams to make sure that they comply with legal and regulatory requirements, the Fund's prospectus and the Responsible Investment Policy (e.g. with respect to the monitoring framework of the investment teams).

Sustainability Risk Challenger is responsible for delivering reporting and data to relevant stakeholders across the Group.

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8. Change Log

Date	Version number	Comments/changes
02 December 2022	Version 1.0	Instruction created