

# Danica Balance & Danica Balance Sustainable Choice

## Sustainability-related website disclosures

### Content

- Danica Balance & Danica Balance Sustainable Choice..... 1
- Sustainability-related website disclosures..... 1
  - Summary ..... 1
  - No sustainable investment objective..... 2
  - Environmental and social characteristics of the financial product..... 3
  - Investment Strategy..... 3
    - Investment analysis and decision-making ..... 3
    - Active Ownership ..... 4
    - Screening and restrictions ..... 4
  - Monitoring of environmental or social characteristics..... 4
  - Methodologies ..... 5
  - Data sources and processing ..... 6
  - Limitations to methodologies and data..... 6
  - Due diligence..... 7
  - Engagement policies ..... 8

### Summary

Danica Balance promotes various environmental, social characteristics and good governance practices, with a focus on environmental characteristics which support the goals of the Paris-agreement. In addition to that Danica Balance Sustainable Choice (DBSC) promotes environmental and social characteristics such as climate, circular economy, water scarcity, reduction of pollution and health. Danica Balance including Danica Balance Sustainable Choice invest in a wide range of assets such as equities, bonds, alternatives and properties in different asset classes, which all has its own unique features, and. Parts of the investments are managed internally by Danica Pension, while parts are managed by external fund managers. However, what all assets have in common is that environmental and social characteristics as well as good governance practices are attained through investment management processes and activities such as the investment analysis and decision making, active ownership, screening and restrictions for which environmental and social materiality perspectives are incorporated in addition to the integration of sustainability risk.

The investment strategy of Danica Balance considers ESG factors along with financial aspects to make the best possible investments in the investment analysis and decision-making process. The investment team apply ESG for all asset classes in different ways in their investment analysis and decision-making, adapting it to the individual investment or asset class, since investments have different characteristics and are affected differently in terms of ESG, which means that the investment teams customize their ESG approach to the specific asset class and strategy to create maximum value on the investment, howe. In addition to Danica

Balance, Danica Balance Sustainable Choice promotes environmental and social characteristics such as climate, circular economy, water scarcity, reduction in pollution and health by investing in different assets such as equities in which the investment strategy incorporate 9 different UN SDGs, sustainable bonds, alternatives with a sustainability focus.

The external manager's approach to integrating sustainability risk as well as promoting environmental and social characteristics are monitored and evaluated by the Responsible investment team in Danske Bank.

Danica Balance apply the following investment restrictions: Thermal coal, tar sand, controversial weapons, tobacco, norms. Danica Balance apply screening to identify companies that are violating international norms and good governance practices as defined by international organisations such as the OECD, ILO, UN Global Compact and other treaties or conventions. Danica Balance Sustainable Choice apply additional restrictions: Alcohol, gambling, fossil fuels, military equipment and pornography. DBSC applies screening in various ways depending on the asset class e.g. parts of the equity investment strategy screen out companies with a poor ESG rating, and companies non-compliant with the Paris Agreements 2°C scenario, whereas within alternatives, the investments undergo a special screening process, where Danica Pension's investment team verifies that the investments support sustainability factors.

The investment team apply various ESG data and external research, which is based on ESG data from multiple ESG data & research providers. The Investment team analyses relevant financial and ESG information to identify material ESG factors affecting a company, sector, and/or country from multiple data sources. The ESG data and research is applied to attain the promoted ESG characteristics of Danica Balance.

Environmental and social characteristics are monitored through a wide range of ESG data and research which the investment team use to assess and monitor the underlying investments sustainability performance and standards in a holistic manner on a regular basis. Furthermore, the investor committee of Danica Pension regularly challenge and monitor the investment team obligations in terms of promoting environmental and social characteristics. To measure the attainment of the environmental and social characteristics promoted by Danica Balance and Danica Balance Sustainable Choice, the following sustainability indicators are applied: Carbon footprint, ESG score, UN Sustainable Development Goals exposure, critical contribution points, Investments in the green transition, engagements, voting and restrictions, read more about the sustainability indicators below.

As the investment team invest into a wide range of assets the ESG due diligence processes might vary according to the given asset class. In general, the investment team carries out ESG due diligence on the underlying assets in various ways which is described more in detail below.

In terms of engagement policies, Danica Balance follows Danica Pension Responsible Investment Policy and the Danske Bank Voting Guidelines. In short, that means that Danica Balance use active ownership to influence the activities or behavior of investee companies by taking an active interest as an investor in investee companies' circumstances, development, and management, and a long-term focus in the company in line with for instance the EFAMA Stewardship Code and the Shareholder Rights Directive II. Danica Pension seeks to be an active owner and influence companies directly through dialogue, voting and collaboration with peers, like-minded investors and stakeholders. Moreover, Danica Pension is a member of various investor initiatives aimed at promoting environmental characteristics such as climate and the transition towards low carbon economy e.g. Danica has signed up to the global investor alliance Net-Zero Asset Owner Alliance, thereby committing to become CO<sub>2</sub>-neutral by 2050. The investor alliance aims on implementing the Paris Agreement in the investment decisions, with the main goal of which is to limit the rise in global average temperature to 1.5°C.

### No sustainable investment objective

Danica Balance and Danica Balance Sustainable Choice promotes environmental or social characteristics, but does not have as its objective a sustainable investment as described in Article 9 of the Sustainable Finance Disclosure Regulation (SFDR, Regulation (EU) 2019/2088).

## Environmental and social characteristics of the financial product

Danica Balance promotes various environmental, social characteristics and good governance practices, with a focus on environmental characteristics which support the goals of the Paris-agreement. In addition to that Danica Balance Sustainable Choice promotes environmental and social characteristics such as climate, circular economy, water scarcity, pollution and health.

## Investment Strategy

Danica Balance and Danica Balance Sustainable Choice invest in a wide range of assets such as equities, bonds, properties etc. which all have their own unique features, characteristics and approaches to how environmental and social characteristics, as well as good governance practices, are promoted. However, what all assets have in common is that environmental and social characteristics as well as good governance practices are attained through investment management processes and activities such as the investment analysis and decision making, active ownership, screening and restrictions for which environmental and social materiality perspectives are incorporated, in addition to the integration of sustainability risk.

In addition, Danica Balance and DBSC also applies external asset management. The external managers that the investment team uses invest in different asset classes, apply various investment processes and therefore also integrate sustainability risks and promote environmental and social characteristics as well as good governance practices in various ways. The external manager's approach to integrating sustainability risk as well as promoting environmental and social characteristics are monitored and evaluated by the Responsible investment team in Danske Bank. The external managers are assessed within a structured proprietary ESG assessment framework. The assessment is used as a part of the ongoing monitoring an evaluation of the external managers to ensure that they consider sustainability risks as well as promote environmental and social characteristics. Furthermore, it enables the investment team to understand and evaluate the external manager's approach to which extent processes, resources and activities are in place to support the overall investment strategy of promoting the selected environmental and social characteristics. All external managers adhere to the Danica Pension Responsible Investment Policy.

## Investment analysis and decision-making

### *Danica Balance*

The investment strategy of Danica Balance considers ESG factors along with financial aspects to make the best possible investments in the investment analysis and decision-making process. The investment team analyses and assesses companies' approach and efforts to ensure the transition towards a low carbon economy, healthy working conditions, and human rights. The investment team apply ESG in different ways in their investment analysis and decision-making, adapting it to the individual investment or asset class, since investments have different characteristics and are affected differently in terms of ESG, which means that the investment teams customize their ESG approach to the specific asset class and strategy to create maximum value on the investment.

### *Danica Balance Sustainable Choice (DBSC)*

In addition to what applies for Danica Balance, the investment strategy of DBSC promotes climate, circular economy, water scarcity, pollution and health by identifying and assessing material environmental, social aspects, and good governance practices and systematically incorporate these into their investment decisions. The investment universe for equities are identified through 3 filters; 1. A quality filter based on companies' ability to generate superior return on invested capital, 2. Proprietary filter for mapping company exposure towards the 9 selected UN Sustainable Development goals (SDGs) (SDGs: Social Capital: 1.No poverty, 3. Good health and well-being, 8. Decent work and economic growth, 11. Sustainable cities and communities. Natural capital: 6. Clean water and sanitation, 12. Responsible consumption and production, 15. Life on land. Climate stability: 7. Affordable and clean energy, 9. Industry, innovation and infrastructure. ) 3. Proprietary filter for scoring companies on financially material ESG topics.

In addition to the quantitative filters, the specific investment strategy for equities carries out high level fundamental analysis to evaluate the company quality and sustainability potential of the individual names.

Furthermore, the equity investment strategy apply in-depth fundamental analysis of investee companies' potential to lead and benefit from the transition towards a sustainable future as well as additional opportunities.

Sustainable bonds such as green bonds or social bonds issued by companies and government authorities must meet specific requirements. E.g. the proceeds from green bonds may be used only to finance green projects and corporate bonds issued by companies must have a sustainable agenda and have a high ESG rating compared with other companies.

Furthermore, the investment strategy also invests in alternatives with a sustainability focus, which might be investments in equities, loans or bonds that are typically not listed on a stock exchange. The environmental focus will typically be investments in renewable energy, such as wind turbines, solar power plants or biomass plants whereas the social focus will be investments in micro loans.

### Active Ownership

The investment team and the external managers engages on a regular basis with investee companies on material ESG matters to understand more about the quality of the company, mitigate sustainability risk and to promote material environmental and social performance and good governance practices. Through engagements and voting at annual general meetings, the investment team addresses standards of corporate governance and sustainability within many areas such as emissions, energy, biodiversity, water, waste, social and employee matters, human rights as well as anti-corruption.

Read more about active ownership in the 'Engagement policies' section below.

[Read more about our policy to assess good governance practices in our active ownership policy.](#)

### Screening and restrictions

#### *Danica Balance*

Danica Balance apply the following investment restrictions: Thermal coal, tar sand, controversial weapons, tobacco, norms. Danica Balance applies screening to identify companies that are violating international norms and good governance practices as defined by international organisations such as the OECD, ILO, UN Global Compact and other treaties or conventions.

#### *Danica Balance Sustainable Choice (DBSC)*

Danica Balance Sustainable Choice apply additional restrictions: Alcohol, gambling, fossil fuels, military equipment and pornography. DBSC applies screening in various ways depending on the asset class e.g. within parts of the equities investment strategy, companies with a poor ESG rating, and companies non-compliant with the Paris Agreements 2°C scenario are screened out of the investment universe, whereas within alternatives, alternative investments undergo a special screening process, where Danica Pension's investment team verifies that the investments support sustainability issues.

### Monitoring of environmental or social characteristics

Processes are in place, in order to monitor the promotion of environmental and social characteristics of the investment strategy via the use of sustainability indicators. The Investment Committee of Danica Pension regularly assesses the investments performance in terms of promoting environmental and social characteristics. The Investment Committee will among other things focus on evaluating sustainability risk and the sustainability indicators to measure the attainment of the environmental and social characteristics. Furthermore, the investment holdings of Danica Balance are continuously screened in order to make sure that the holdings live up to the selected investment restrictions and that companies are not involved in norm-breaches.

## Methodologies

To measure the attainment of the environmental and social characteristics promoted by Danica Balance and Danica Balance Sustainable Choice, the following sustainability indicators are applied:

- **Carbon footprint**  
Measures the carbon footprint of the underlying investments, normalized by the current value of the portfolio. Data is provided by Trucost.

$$\frac{\sum_i \left( \frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1, 2 and 3 carbon emissions}_i \right)}{\text{current value of all investments (€M)}}$$

- **ESG score from Sustainalytics**  
The ESG Risk from Sustainalytics focuses on materiality and measures the degree to which a company's economic value is at risk driven by ESG factors. It measures the magnitude of unmanaged ESG risks in the company. The ESG Risk of a company is an absolute number, and can be used for comparing companies across sectors and countries.
- **Investments in the green transition**  
The Sustainable Impact Metrics from MSCI aims to measure revenue exposure to sustainable impact solutions and support actionable thematic allocations in line with the UN SDGs, EU Taxonomy of Sustainable Activities, and other sustainability-related frameworks.
- **UN Sustainable Development Goals exposure**  
Strategy exposure to all UN SDGs and to those UN SDGs relevant to the strategy. The fund apply a proprietary tool for mapping exposure to SDGs most addressable for companies and relevant for a sustainable future. The data for mapping exposure to SDGs is "material sustainability topic data" from SASB, and the UN SDGs.
- **Critical Contribution Points**  
Critical Contribution Points identifies a company's contribution towards solving the world's sustainability challenges. The Critical Contribution Points are to a large degree quantitative, meaning, which enable to track and measuring progress. These points have been mapped to the UN SDGs and form a measure of UN SDG contribution.
- **Engagement on environmental and social themes**  
The investment team engage with investee companies in order to address and improve sustainability aspects, such as standards of corporate governance, emissions, energy, biodiversity, water, waste, social and employee matter, human rights as well as anti-corruption. All engagements are continuously monitored, logged and disclosed on a semi-annual aggregated basis in the active ownership report.
- **Voting on Environmental and social themes**  
Voting is applied for the investment strategy based on Danica Pension's voting guidelines which covers environmental and social issues such as emissions, energy, biodiversity, water, waste social and employee matters, human rights and anti-corruption. All voting activities of Danica Balance are logged and disclosed on the Proxy Voting Dashboard
- **Number of companies restricted from the investment universe of the product due to Environmental and Social issues**

## Data sources and processing

The investment team applies various ESG data and external research, which is based on ESG data from multiple ESG data & research providers. The Investment team analyses relevant financial and ESG information to identify material ESG factors affecting a company, sector, and/or country from multiple data sources. The ESG data and research is applied to attain the promoted ESG characteristics of Danica Balance.

### Measures taken to ensure data quality

The investment strategy is utilizing ESG data from the following external vendors: SASB, Upright, Verisk Maplecroft, CDP, RepRisk, ISS, Four Twenty Seven, Arabesque, MSCI, Sustainalytics, TruevalueLabs, S&P Global Trucost and Util. Even though the investment team have a broad selection of ESG data available, they are aware of that the data that Danica Pension utilizes is characterized by lack of consistent methodologies and limited transparency on how scores and ratings are calculated. Therefore, the Responsible Investment team will from time to time cross check facts with, industry experts and various ESG providers to ensure data quality.

Furthermore, the Responsible Investment team, which supports the investment team applies a solid framework for the assessment and monitoring of Danica Balance's ESG data providers to ensure data quality. All new ESG data and research providers are assessed before they are added, to ensure they fit the needs of the investment team and that it has a high quality standard. These are the main building blocks of the ESG Data Provider Assessment Framework:

**Research and data quality:** The quality of the research, data and methodology is assessed to see if it meets quality expectations

**Usefulness:** The scope of the vendors offering is assessed to see if it matches the needs and can be use in an investment environment.

**Platform:** The vendor's platform offering is assessed based on how it matches with the IT-integration requirements and user functionality needs.

**Vendor Profile:** The vendor's client service level and their core strengths is assessed

**Contract:** The vendors cost profile, how and for what it charges its clients, and contractual delimitations for customer dialogue and reporting is assessed.



## Limitations to methodologies and data

Danica Balance and Danica Balance Sustainable Choice apply various methodologies and data to attain the environmental and social characteristics which are promoted. These methodologies and data have some limitations which are e.g. addressed through dialogues with companies, ESG data providers or other stakeholders.

### Carbon footprint

Corporate reporting on scope 3 emissions is in general poor, incomplete and sometimes estimated if the company does not disclose the scope 3 emission, which might make it a challenge to consider the broader value-chain climate risk in Danica Balance. Furthermore, carbon emission data is backward looking and does not necessarily predict future carbon emission. Therefore Danica Pension disclose the climate footprint report based on scope 1+2 and on scope 1+2+3.

## Due diligence

As the investment team invests into a wide range of assets the due diligence processes might vary according to the given asset class. In general, the investment team carries out ESG due diligence on the underlying assets in various ways.

First of all, in the due diligence process the investment team identifies and assesses material environmental, social aspects, and good governance practices and systematically incorporate these into the final investment decisions when investing in e.g. equities, bonds, alternatives etc.

Second, the investment team applies screening to identify and understand different ESG related risk and opportunities. This allow for risk mitigation and opportunity identification for a given company, sector or country. The screening also serve to apply investment restrictions and to identify companies potentially violating international norms. The norm-based screening is conducted quarterly based on input from multiple ESG data providers, different investment teams, Danske Bank group positions and customers/Nordic institutions serving as proxies for the Nordic investor as well as other relevant sources and stakeholders (e.g. NGOs). The investment team also use the screening as an input to the in the investment analysis and investment decision-making and active ownership efforts, and they use it to apply individual investment conviction, where the investment team decides to refrain from investing in companies, sectors and/or countries. Third, the investment team might also engage with the company before taking any actions on the investment decision.

In addition, potential external managers that the investment team might apply, goes through a thorough ESG due diligence process carried out by the Responsible Investment team in Danske Bank. The Responsible investment team assess the potential external manager's approach to responsible investments and to which extent processes, resources and activities are in place to support the overall investment strategy of integrating sustainability risk and promoting environmental and social characteristics.

## Controls

Internal controls are in place in order to control the ESG due diligence. First, the Danica Pension Investment Committee is responsible for the final investment decision, and is among other things, tasked with ensuring that all investments, including the external managers selected, all aims towards the same goal of promoting the selected environmental and social characteristics. Secondly, parts of the ESG due diligence process of Danica Balance and DBSC is governed and supported by the Danske Bank ESG Integration Council. The ESG integration Council, which consist of Danske Bank and Danica Pension CIO's and investment heads, governs and guides the responsible investment strategy implementation, discusses and evaluates ESG risks and dilemmas, reviews and endorses investment restrictions, decides on collaborative engagements and other topics with relevance across the investment management organization.

## Engagement policies

Danica Balance & Danica Balance Sustainable Choice follows Danica Pension's Responsible Investment Policy and [the Danske Bank Voting Guidelines](#). This means that the investment product and the underlying components use active ownership to influence the activities or behavior of investee companies by taking an active interest as an investor in investee companies' circumstances, development, and management, and a long-term focus in the company in line with for instance the EFAMA Stewardship Code and the Shareholder Rights Directive II. The investment product seeks to be an active owner and influence companies directly through dialogue, voting and collaboration with peers, like-minded investors and stakeholders.

Overall, the active ownership approach is based on the belief that in general it is more sustainable to address challenging issues through active ownership and dialogue rather than divesting. The investment teams in the underlying components engages on a regular basis with investee companies on material ESG matters to seek improvement in financial performance and processes in order to enhance and protect the value of the investments. We log and monitor company dialogue and progress to ensure a structured engagement process and publish our engagements twice a year in our '[Active Ownership Report](#)'. Furthermore, the investment teams in the underlying components votes on annual general meetings and seek do to it on all holdings while taking into account preconditions, resources, and the costs of exercising voting rights. The Danske Bank Voting Guidelines serve as the default position for all proposals, but the investment teams can deviate based on case specific details. The voting can either be done by the investment team or through a service provider and the voting must always be carried out in the benefit of the investors to avoid conflict of interest. The voting activity of the investment product is published online on [danicapension.dk](http://danicapension.dk)

The external managers in Danica Balance and DBSC applies active ownership through engagements, furthermore they follow the Danske Bank Voting Guidelines.

Moreover, Danica Pension is a member of various investor initiatives aimed at promoting environmental characteristics such as climate and the transition towards low carbon economy e.g. Danica has signed up to the global investor alliance Net-Zero Asset Owner Alliance, thereby committing to become CO<sub>2</sub>-neutral by 2050. The investor alliance aims on implementing the Paris Agreement in the investment decisions, with the main goal of which is to limit the rise in global average temperature to 1.5°C.