



# POLICY FOR RESPONSIBLE INVESTMENTS & INTEGRATION OF SUSTAINABILITY RISKS

MARTS 2023



FORMUE | PLEJE

## 1 Introduction

This Policy for Responsible Investments & Integration of Sustainability Risks ("Policy") applies for the Formuepleje Group's financial companies (hereinafter simply "Formuepleje") and is approved by the boards of directors of the individual companies. In addition, the policy is approved by the board of directors of the funds managed by Formuepleje A/S (hereinafter referred to as "Investment Funds"). The policy concerns the approach to responsible investments and integration of sustainability risks in the investment and decision-making process itself in connection with the management of Investment Funds and discretionary mandates. A *sustainability risk* is understood as an environmental, social or managerial event or circumstance which, if it were to occur, might have a significant negative impact on the value of an investment.

For Formuepleje's property funds, there will be a separate description of the process in section 3.

The purpose of the policy is to establish the framework for the work with responsible investments, social responsibility, ESG and sustainability risks in Formuepleje's investment and decision-making processes, with the ambition that Formuepleje will contribute to the green transition to sustainability.

## 2 Embedding the work with responsible investments and ESG

Formuepleje has appointed an internal Sustainability Committee, which is responsible for work related to responsible investments and sustainability, including the development of policies for the area, and for ensuring that Formuepleje has the right product offerings within responsible and sustainable investments. The Sustainability Committee convenes at least 4 times a year. The Sustainability Committee has set up a number of working groups that regularly report back to the Sustainability Committee, which takes all overall decisions. The Sustainability Committee comprises the following persons:

- CEO of Formuepleje Group
- Director responsible for managed Investment Funds
- Investment Director
- Chair of the Investment Committee
- Marketing and Communications Director
- Head of Fund Administration
- Head of Legal
- Head of Equities

The Sustainability Committee has appointed a chairman, who e.g. is responsible for facilitating the meetings.

## 3 General

Formuepleje aims to achieve a long-term attractive investment return based on focused risk management, which includes assessment of environmental, social and governance-related matters (ESG), including the actual or potential significant negative impact of these factors on the value of the specific investment.

Formuepleje assesses investment risk in all investment decisions. A sustainability risk in the form of a climate- and environment-related, social or managerial event or circumstance can constitute an investment risk on a par with interest rate risk, liquidity risk and other market risks.

Formuepleje is a signatory to the United Nations Principles for Responsible Investment (UN PRI), which establish a number of principles for responsible investments. The UN PRI is a global initiative to promote responsible investment and was established by some of the world's largest investors in co-operation with the

UN. Formuepleje A/S has endorsed these principles and conducts an annual "Reporting and Assessment process" in accordance with the UN PRI guidelines. Part of this report is published on the UN PRI website. Formuepleje works based on a number of principles in relation to responsible investment. Among other things, this means that ESG analyses are included in the investment and decision-making processes, and that Formuepleje A/S refrains from investing in companies where the risk of them violating international principles of social responsibility is deemed to be unacceptably high.

At Formuepleje, we believe that investing in companies that understand and manage responsibility and sustainability-related risks – including respecting international principles of social responsibility – results in healthier creation of returns, lower risk and thus a higher long-term risk-adjusted return, in addition to the societal benefits of such investments.

At Formuepleje, we prefer to specifically opt into companies that are strongly positioned in relation to sustainability risks, rather than systematically opting out of certain industries and sectors.

At Formuepleje, we consider active ownership a natural part of the investment process, prioritising a focus on the negative impacts of sustainability factors<sup>1</sup> and sustainability risks in order to ensure long-term responsible creation of returns for our investors. Active ownership can be exercised both directly by voting at general meetings and indirectly by contact with companies ("engagement"). Please refer to the Active Ownership Policy for further details. The policy can be found on the website [www.formuepleje.dk](http://www.formuepleje.dk) under "vilkår og governance".

Formuepleje has the aim of living up to standards determined on behalf of the industry by Investering Danmark.

#### 4 The investment process

At Formuepleje, we integrate ESG data and analysis into the investment process. This is done by the responsible portfolio manager including ESG analyses in the investment decision, and companies with a strong ESG profile will thus be given high priority, naturally taking into account other financial fundamentals and risks, including pricing and operating and liquidity conditions. The specific methodology depends on the investment goals of the respective Investment fund, as well as the given market and asset class. The approach is described in more detail for the general asset classes below.

All portfolios are routinely screened for sustainability risks, and an overview is kept of the companies with the greatest risk. Formuepleje uses an external partner to oversee the screening. When investing in companies in the highest risk category, the responsible portfolio manager must explain how the sustainability risk has been taken into account. The responsible portfolio manager is not obliged to divest or opt out of companies with high risk, e.g. in a situation where there is a prospect of significant improvements in ESG-related matters, but must, in cases where the committee requires it, present a plan for a reduction with an indication of deadlines etc..

There are certain types of assets where there is either very limited data available or where sustainability risks are deemed to be relevant to a lesser extent. Formuepleje works based on a principle of proportionality, where the integration of sustainability risks is adapted to the given asset class.

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<sup>1</sup> *Sustainability factors* are understood as environmental, social and personnel issues, as well as issues relating to respect for human rights and the fight against corruption and bribery.

Formuepleje's Sustainability Committee has overall responsibility for ensuring that the above principles are properly monitored and that relevant guidelines and objectives are adhered to, which includes ensuring that the work with responsible investments and sustainability risks is a natural part of the investment and decision-making processes at Formuepleje.

### **Sustainability risks**

A *sustainability risk* is understood as an environmental, social or managerial event or circumstance which, if it were to occur, might have a significant negative impact on the value of an investment. These are therefore sustainability factors (ESG factors) that can affect the value of the companies and thus the investors' return on investment.

Sustainability risks may arise as a result of the company's exposure to activities where there is an increased ESG-related risk (e.g. extraction of fossil fuels, mining or low-wage production). But there may also be a lack of managerial measures to reduce the risk (e.g. environmentally improved forms of production, monitoring of the working environment or safeguarding of production facilities against climate change). There may be both physical risk (specific environmental or social events) and transition risk (political or technological changes).

Formuepleje collaborates with an external partner that supplies ESG risk data for use in calculating sustainability risk. The external partner specialises in analysing companies' ESG matters and is one of the largest global data suppliers within the ESG area. All companies are assigned an ESG risk score, which is based on both the risk exposure and the managerial measures taken to limit risk.

Formuepleje has a goal that all sub-funds should have a lower overall ESG risk than a comparable market index.

### **Use of standards-based screening and exclusion**

Formuepleje does not publish an external exclusion list, but can opt-out of companies at any time if they are believed to violate international principles of social responsibility such as the "UN Global Compact", "UN Guiding Principles" and the "OECD Guidelines for Multinational Enterprises". Formuepleje cooperates with an external service provider that carries out standards-based screening, and from which reports are received on an ongoing basis on companies with suspected or confirmed serious violations of international standards or conventions. Formuepleje also screens companies on Norges Bank's list. Companies in the portfolios have already been through the Formuepleje's due diligence process, so it is rare that Formuepleje ends up excluding a company from the portfolios.

Formuepleje also refrains from investing in government bonds of countries subject to international sanctions, and companies that use or proliferate weapons covered by conventions, including:

- Cluster munitions
- Landmines
- Chemical weapons
- Biological weapons
- Nuclear weapons not covered by the Treaty on the Non-Proliferation of Nuclear Weapons

The Sustainability Committee takes the final decision on the possible exclusion of certain companies or sectors.

There may be situations where investments have been made in index funds, financial contracts and/or ETFs where it has practically not been possible to screen the underlying companies. The sustainability risk for these investments is evaluated individually – and this forms part of an overall assessment of the portfolio risk. However, Formuepleje cannot guarantee that, in such instances, there will be no exposure towards companies that we would otherwise have excluded from the portfolio in accordance with the above.

### **Management of sustainability risks for the general asset classes**

#### **Equities**

In all Formuepleje's equity funds (and funds in which equities/equity funds are included), external advisers are used for the selection of equities. As a rule, it will thus be an external party who advises on the daily portfolio composition, which is why ensuring the integration of sustainability risks into the investment process in the equity area is divided into two elements.

Firstly, sustainability risks, and not least the integration of these into the individual equity manager's investment process, are a significant focus point in the selection of equity managers. Equity managers who advise Formuepleje on the composition of the equity portfolios have all signed up to UN PRI and have extensive experience of integration and evaluation of sustainability risks as well as active ownership.

In the evaluation of the individual equity manager's ability to generate long-term risk-adjusted returns, sustainability risks are thus an important focus point on a par with the fundamental analytical approach to the individual company's operating and valuation profile.

In the fundamental analysis of individual companies, sustainability risks are quantified as a negative contribution to the present value of future earnings. In other words, this means that the higher the sustainability risks, the lower the estimated value of the company as a whole, provided that the individual company's total level of sustainability risks is deemed acceptable.

Secondly, sustainability risks are a key focus point in Formuepleje's capital management as well as the ongoing evaluation of the operational cooperation with the individual equity manager. In the same way as the individual advising equity managers, Formuepleje A/S has signed up to UN PRI, through which Formuepleje A/S undertakes to integrate sustainability risks in the investment process and to act as active owners by implementing sustainability risks in the ownership relationship.

An independent internal task group undertakes a continuous screening of the sustainability risks of all equity positions assessed to ensure a consistent and integrated ongoing evaluation of sustainability risks, cf. above. Individual sustainability risks are assessed, and companies that figure in the highest risk category require special follow-up and justification for their continued eligibility in the individual portfolios, while Formuepleje reserves the right to exclude companies that are not deemed to meet Formuepleje's overall principles of responsible investment and acceptable level of social responsibility.

Collectively, Formuepleje's objective is that limited companies in which Formuepleje's equity funds have exposure should all have undergone a robust fundamental analysis as well as an in-depth analysis of sustainability risks, while all equity investments should be routinely monitored to ensure targeted active ownership.

This is done with a view to ensuring a long-term attractive risk-adjusted return on equities with, at the same time, a focus on a responsible social footprint.

### **Corporate bonds**

When Formuepleje invests in corporate bonds, the average sustainability risk is typically higher than in e.g. global equities. This is due, among other things, to a higher proportion of issues from emerging markets, and the fact that sectors such as health and technology, which are generally associated with lower risk, are less prominent in the investment universe. Handling sustainability risks is therefore central to ongoing risk management.

When Formuepleje invests in corporate bonds, all investments are subject to the same screening processes as the other asset classes. In addition, however, all companies are carefully analysed using all available information, and all companies are assigned an ESG Risk Score through an external supplier. The ESG Risk Score is an important input into the investment process, and bonds with the lowest ESG Risk Score are favoured over issues with the same characteristics issued by companies with higher ESG Risk Scores. The investment process is generally structured around dialogue rather than exclusion, with Formuepleje taking a favourable view of companies with a trend towards lower sustainability risk.

Selected sectors with particularly high sustainability risk are subjected to a special analysis with a view to identifying companies that know how to handle the specific sector risk, e.g. within mining. Overall, the strong focus on sustainability risks mean that companies in sectors with high Sustainability risks, where the necessary adjustments have not been made, will find it very difficult to find their way into the portfolio. Tobacco and coal mining are industries that are considered to have too high of a sustainability risk, which is why they are also industries that are sought to be avoided in the investment process.

"Green Bonds", which are issued with the specific aim of financing a sustainable transition, are evaluated independently of the parent company's Sustainability risk. Especially within utilities, Green Bonds offer the opportunity to positively influence the green transition and invest in issues with a lower sustainability risk. These bonds are often issued for specific projects within wind and solar energy in the transition away from fossil fuels. Formuepleje has a specific focus on investments in green bonds where possible.

Corporate bonds generally face a challenge of lower data coverage than other asset classes, which is a risk in itself. Formuepleje therefore routinely works to obtain the best possible data and expects the data quality to improve continuously. Lack of ESG data for a company is included as a parameter in the investment process.

### **Danish mortgage credit bonds**

Danish mortgage credit offers a unique opportunity for long-term financing of Danish homeowners, agriculture and businesses. Danish homes meet high standards in terms of energy consumption, and Danish agriculture and businesses operate under very strict environmental requirements. The mortgage credit issuers also generally have high standards for social responsibility, i.a. in connection with their credit policy. In other words, the ESG standard for Danish real estate is very high.

Issuers are subject to the same screening as other bond issuers, but it is currently not possible to differentiate between individual issuers and individual issues in relation to sustainability risks. As issuers increase their ESG reporting and more data becomes available, sustainability risks will be increasingly included in the investment process for Danish mortgage credit bonds.

### **Government bonds**

Formuepleje follows international sanctions and excludes countries subject to sanctions against investment in government bonds. Possible investments will be made in accordance with international conventions and taking into account the UN's Principles for Responsible Investment.

For any investment into government bonds from "emerging market" countries, there will be an ESG focus on the countries in question. Here, ESG matters, such as corruption and human rights, are included where relevant. Violations of standards or increased sustainability risks will be addressed in the same way as when investing in companies.

### **Property investments (relevant to the process in the property funds)**

Formuepleje manages a number of property funds, which are offered to semi-professional investors in Denmark. The property funds aim to achieve an attractive long-term return while incorporating assessment of ESG matters in the investment process (i.a. in the due diligence process). Formuepleje includes sustainability risks in the investment decisions. Specifically, this means that, in connection with an investment into a given property, Formuepleje considers whether there are any ESG matters that might have a significant negative impact on the value of the investment in the property.

Specifically, this means that there will be an analysis of whether sustainability factors might negatively affect the value of the property. Such matters might relate to environmental conditions where properties are located – including whether there is contaminated soil (oil or chemicals). They might also relate to the risk of flooding due to, for example, cloudbursts or seas/rivers etc. When purchasing properties or building plots, Formuepleje will only work with companies that meet relevant and high Danish standards and conditions in the real estate industry, and where the partner has procedures in place to avoid corruption and bribery. It is also therefore verified that social and management-related matters will not obviously have the greatest impact on the integration of sustainability risks in investment decisions.

## **5 External investment advisers**

When selecting external investment advisers, Formuepleje assesses their ability to handle ESG matters in the investment process in a satisfactory manner. Formuepleje will carry out a thorough assessment and analysis of their ability to integrate sustainability risks into the investment process and investment decisions. The external investment advisers' method must be well-described, consistent and adapted to the specific market conditions. The approach is evaluated on an ongoing basis, and at least annually, and reported to the Sustainability Committee.

Formuepleje assesses external investment advisers in relation to, among other things, integration of responsible investments and processes for sustainability risks, as well as ESG matters.

Formuepleje will regularly carry out sample assessments of external advisers' ESG documentation and processes. Formuepleje will regularly hold meetings with external advisers to ensure intimate knowledge (at Formuepleje) of the external advisor's investment process.

## 6 Disclosure and reporting

This policy is publicly available and can be accessed at [www.formuepleje.dk](http://www.formuepleje.dk). Reporting is done annually through the annual report for the Investment Funds.

Reports are also made to PRI, with the report available here: <https://formuepleje.dk/investering/ansvarlige-investeringer/>

## 7 Approval and review of the policy

Formuepleje's board shall periodically, at least once per year, review and approve the policy. The policy is also endorsed by the boards of the Investment Funds.

## 8 Entry into force and signatures

This policy shall enter into force on 24 March 2023.

## 9 Change log

Change date	Description of change
March 2022	The policy was updated to clarify investment in ETFs.
December 2022	The policy has been updated with: <ul style="list-style-type: none"> <li>• Name of the policy, which is now called the Policy for Responsible Investments &amp; Integration of Sustainability Risks</li> <li>• Description of more concrete examples of how sustainability risks are integrated into the investment decision and what the investment process is, including when separating what specifically applies to, respectively, equities, Danish bonds, corporate bonds and property investments.</li> <li>• Detailed description of how sustainability risks are integrated into asset classes such as properties and government bonds.</li> <li>• Major restructuring of the policy</li> <li>• The addition of a new committee at Formuepleje in the form of the Sustainability Committee, as a new committee replacing the ESG Committee.</li> </ul>
March 2023	The policy has been updated with: <ul style="list-style-type: none"> <li>• Category of people in the Sustainability Committee</li> <li>• Small clarifications in the individual paragraphs as well as proofreading</li> </ul>