Climate-related Financial Risk and Opportunities

- *following the TCFD recommendations*

2021 report

Contents

1 DANISH SUMMARY

Denne klimarapport udgør Pædagogernes Pensions (PBU) første arbejde med at identificere og analysere investeringsporteføljens væsentligste klimarelaterede finansielle risici og muligheder. Klimarapporten er udformet efter Task Force on Climate-Related Financial Disclosures (TCFD) anbefalinger og med reference til PBU's målsætning om, at investeringerne skal være CO_2-neutrale senest i 2050.

PBU arbejder med tre spor for at blive CO_2-neutral:

1) Reduktion af CO_2-fodaftryk - i kraft af porteføljeomlægninger, forbedringspotentiale i virksomhederne og målrettede eksklusioner – med mindst:

- 30 procent i 2025 (i forhold til udgangspunktet i 2019)
- 50 procent i 2030 (i forhold til udgangspunktet i 2019)

2) Udbygning af grønne investeringer, så de udgør mindst 15 procent af AuM, svarende til 18 mia. kr. i 2030.

3) Aktivt ejerskab med de største CO_2-udledere i porteføljen i kraft af dels:

- Kollektivt investorsamarbejde og dialog via Climate Action 100+
- Bilateral dialog via PBU's eksterne forvaltere og ESG-samarbejdspartner

PBU's målsætninger er betinget af en positiv udvikling i de politiske og økonomiske rammebetingelser, herunder en realisering af nationale bidrag til opfyldelse af Paris-aftalens mål om, at stigningen i den globale gennemsnitstemperatur ikke må overstige 1,5 grad. Set i det lys er der et væsentligt gab i forhold til nationernes nuværende klimamålsætninger.

PBU vurderer, at det står i vejen for vores målsætninger om at investere i grønne løsninger og teknologier samt at lykkes med påvirkningsarbejde rettet mod, at virksomhederne skal omstille deres forretningsmodeller til at være i overensstemmelse med Paris-aftalen. Samtidig holder vi os for øje, at klimatiltag skal være socialt afbalancerede.

PBU ønsker og indretter sig efter en verden, som iværksætter tiltag, der vil bane vejen for en omstilling af økonomien til at blive mindre afhængig af fossile brændsler. For at vi kan opfylde vores medlemmers forventninger til os, skal PBU's investeringer ikke desto mindre på en og samme tid være robuste i et høj-CO_2-scenario såvel som et lav-CO_2-cenario.

Klimarapporten identificerer derfor på tværs af de forskellige aktiver i porteføljen, hvordan de vil være påvirket i forskellige klimascenarier. Påvirkningen af investeringerne fra dels fysiske klimarisici såvel som klimarelateret omstilling er betydelig, uden at det dog med de nuværende klimadata er muligt at præcisere i det ønskede omfang, hvor og hvordan klimarisici vil påvirke investeringerne mest. Samtidig vil den klima- og bæredygtighedsrelaterede omstilling indebære muligheder for PBU og andre investorer.

I det videre arbejde vil PBU kvalificere sin analyse af klimarisici og muligheder yderligere, og vi vil fokusere indsatsen mod grønne investeringer - defineret som grøn infrastruktur (herunder vedvarende energi), grønne obligationer, bæredygtige ejendomme og klimaløsningsorienterede teknologier og virksomheder – såvel som mod de tilbageværende mest CO_2-intensive virksomheder i porteføljen inden for olie, gas, kul, mineindustri, tung industri, transport & automobiler og banker.

PBU har med omlægning af aktieporteføljen henimod en mere koncentreret portefølje og med bidrag fra målrettede eksklusioner af kul-, olie- og gasselskaber siden 2019 – på det vi kan måle på - opnået en 39 procent reduktion af vores CO_2-fodaftryk, som bringer os et vigtigt skridt i retning af vores mål om at være CO_2-neutral senest i 2050. Det skorter dog ikke på udfordringer og svære afvejninger om hensynet til klima, social afbalancering og afkast.

2 INTRODUCTION – UNDERSTANDING OUR CLIMATE-RELATED FINANCIAL RISK AND OPPORTUNITIES

PBU acknowledges that climate change and the transition to a less carbon intensive economy to a varying degree affects all our asset classes and investments across the world.

"Climate change is already affecting every inhabited region across the globe with human influence contributing to many observed changes in weather and climate extremes".

The Intergovernmental Panel on Climate Change (IPCC) 2021 report

This report sets out PBU's strategy to understand climate risks and opportunities as they affect our portfolio, and how we intend to reach the goal to be net zero carbon by 2050 at the latest. At the same time, the report sets out PBU's targets for meeting PBU's commitment to become net zero by 2050 at the latest. The targets consist of:

- Carbon reduction
- Active ownership
- Green investment

2.1 About PBU

Pædagogernes Pension (PBU) is an occupational pension fund for early childhood and youth educators in Denmark. The pension scheme is a direct contribution scheme and the AuM, as of September 1st 2021, are USD 12.6 billion.

PBU's membership totals about 120,000. In 2020, the members as part of a member survey expressed that climate change was their 2nd most important priority, only secondary to children's rights, when fulfilling PBU's objective to be a responsible and sustainable investor.

2.2 Objectives

The board has decided that:

The primary objective for PBU's climate strategy is to secure the robustness of the investment portfolio under different scenarios for the development of the climate and the related effect on the market value of PBU's assets. The objective has been reached when the portfolio is aligned with the Paris Agreement and when the portfolio has a satisfactory performance under different climate scenarios.

The secondary objective is that PBU through its investment strategy assists in bringing down global carbon emissions. The objective has been reached when:

- 15 percent of the AuM are invested in dedicated green investments by 2030 (equaling DKK 18 billion if PBU reaches an expected AuM of DKK 110 billion in 2030).
- All companies in the portfolio act in alignment with the goals of the Paris Agreement. The plan is for all companies to have a clear climate commitment and plan for transition to a low carbon economy by 2025.
- PBU becomes net zero carbon.

PBU's understanding of climate-related risks and opportunities should support the pension fund's return on asset goal.

PBU sees the integration of climate-related financial risk into our investment and risk management process as an important part of fulfilling its fiduciary duty to secure the best possible risk adjusted returns. PBU was early to adopt thematic investment in renewable energy, and green investment plays an increasingly important role in the asset allocation. Most recently, PBU has committed DKK 1 billion to green bonds which we see as a growing asset class. PBU has long been an active owner of the investments we are part of.

2.3 Paris Alignment and becoming net zero by 2050

In April 2021, PBU committed to becoming net zero by 2050 at the latest as part of our commitment to the Paris Alignment Investment Initiative (PAII) and as a long-time member of The Institutional Investors Group on Climate Change (IIGCC).

This report is PBU's first report after declaring the ambition to report according to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in 2020. At the same time, the report fulfills PBU's reporting under the Net Zero Investment Framework of the PAII.

2.4 Limitations of the report

Following the implementation plan of the Net Zero Investment Framework, the report covers Listed equity, Corporate bonds, and Real estate. Government, Mortgage, and Index bonds, Infrastructure investment and Other alternatives will be included in the coming years in line with the development of suitable climate risk measurement frameworks.

Over time, it is our ambition to strengthen our analysis and understanding of the risks and opportunities involved. Presently, we do not have a systematic collection of climate data in the bulk of our illiquid portfolio. The analysis of climate-related financial risks and opportunities are also hampered by the quality and reliability of data. For this reason, Infrastructure, Sovereign debt and Other alternatives are not included in the analysis and the measurement of PBU's carbon footprint.

Additionally, PBU does not presently employ a system across the entire portfolio to measure and analyze the risk from physical climate change in the form of changes in weather patterns such as heavy rains, storms, a rise in average temperatures, prolonged drought, wildfires as well as sea level rise. This is an analysis that we will develop over time.

2.5 Structure of the report

This report is structured around the TCFD recommendations and provides insight into how PBU identifies and assesses climate risk, and how it affects PBU's investments over time. The results of the report decide how PBU, going forward, will integrate climate risk into the investment decision making process.

The TCFD recommendations follow four areas listed in figure 1.

Figure 1. Core elements of recommended disclosure by the TCFD

Governance
Board supervision of climate-related risks and opportunities

Strategy
The actual and potential effects of climate-related risks and opportunities for investments, strategy and economic planning

Risk management
Processes for identifying, assessing and managing climate-related risk

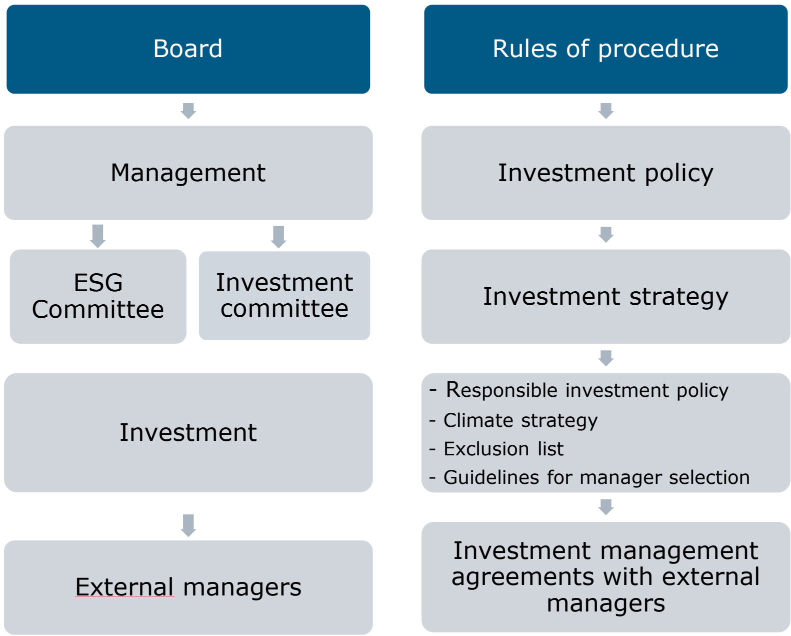
Metrics, targets and transition plans
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

3 GOVERNANCE

Each year, the board decides the investment strategy for the coming year. The strategy needs to be robust and directed so that the interests of the members are catered for in the best possible way. This means that members receive the pension proposed to them. The investment strategy thus needs to be robust when confronted with the risks and opportunities from both physical climate change as well as regulatory induced climate transition. Consequently, climate risks exist in the investment strategy on the same footing as other risks. The board establishes beliefs, policies, and priorities around ESG considerations and thus climate change.

The Board has oversight of investment strategy and climate related risk through the governance structure and policy framework.

Figure 2. PBU's internal governance framework



Financial risk from climate change is an integrated part of the investment analysis and investment decision making and is included as part of investment proposals put before the Board or the Investment Committee. A portfolio manager's commitment to and management of climate risk is a part of the selection process. It is both the responsibility of the portfolio managers and the ESG team to understand the evolving nature of climate risk and opportunity and to engage PBU's external asset managers in this.

3.1 ESG Committee integration of climate risk

The responsibility for ensuring that PBU understands and acts on climate risk is with the ESG Committee that is organizationally placed within the investment department.

The ESG Committee consists of the CEO, the CIO, the CRO and the respective Heads of Listed Equity, Corporate Fixed Income & EMD, and ESG. The committee must ensure that:

- material ESG factors are integrated into the investment process and that relevant climate risks and opportunities are monitored and managed.
- knowledge gathering and distribution around climate change take place in the organization.
- the supervision of the investment- and risk team incorporate climate risks in the relevant processes, including investment proposals, risk modelling etc.
- the necessary and adequate reporting to the board on climate risks and opportunities in the portfolio takes place.

The CRO is part of the ESG Committee and oversees the broader implications of asset allocation decisions and individual investments for the overall portfolio risk.

3.2 Reporting

PBU reports as part of the Net Zero Investment Framework and our net zero commitment using the framework of the TCFD. We also report to the PRI on climate-related risk as part of the annual reporting cycle, and we report to the UN Global Compact as part of our annual Communication on Progress.

3.3 Board level supervision

The administration provides the board with an annual report on climate-related financial risk and opportunity. The report follows the four areas and the recommendations of the TCFD and includes an analysis of the specific risks and opportunities for each of PBU's asset classes.

Climate risk is also addressed as part of the annual investment strategy which is presented to the PBU board. The annual investment strategy sets out the strategic portfolio allocation, and the administration's expectations of asset returns and risks for each of PBU's asset classes and for each of the member groups according to age brackets. The purpose of the investment strategy is to inform the board on the risks in the portfolio and to support their decision making concerning the investment strategy for the coming year. With regards to climate risk, the investment strategy draws on the results and findings of this climate report.

4 STRATEGY

It is PBU's objective to secure the best possible risk-adjusted returns for its members while at the same time meeting member's expectations of PBU to be an active institution in making our contribution to an increasingly sustainable world. This includes our commitment to be part of the solution for reaching the objectives of the Paris Agreement and to assist in keeping the global average temperature rise well below 2 degrees celsius and to aim for the temperature rise to not exceed 1.5 degrees celsius.

PBU follows a strategy to be a global and diversified investor as well as being an active investor. This means that we continuously identify investment opportunities and their related risks which both include general risks, ESG risks as well as climate-related risks.

PBU as a life insurance and pension fund is at the same time a long-term investor, which means that we also need to identify and take measure of long-term risks and opportunities. For this purpose, working with scenarios for global warming and carbon emissions help us to understand risk and opportunity in the short, medium and long-term (see section 3.1 on Climate scenarios).

Over the last two years, PBU has worked towards reducing the complexity of the portfolio. This has involved reducing the number of holdings in the equity portfolio from more than 3000 listed companies before our 2019 baseline year to around 330 companies in 2021. Likewise, PBU is in the process of reducing the holdings in the corporate bond portfolio. The objective being to integrate PBU's investment and ESG strategies and to better understand the companies in our portfolio.

In doing this, PBU almost exclusively works with external portfolio managers who have an intimate knowledge of their respective asset classes and are geographically close to their respective investment regions. PBU believes that this provides the best basis for also understanding climate-related risks and opportunities.

4.1 Scenarios for global warming

PBU's seeks to brings its investments in alignment with a 1.5 degree target by 2050, i.e. for the investments to not emit more emissions than can at the same time be absorbed.

While this is the stated ambition, PBU's investment portfolio at all times has to be aligned with the state of the world economy and the accompanying investment conditions in order to produce the best possible risk adjusted returns.

The overall implied temperature of updated NDCs (nationally determined contribution targets), is under the Paris Agreement pointing toward a 2.9 degree warming by the end of the century. This stands against the goal of the Paris Agreement to keep the global average temperature rise below 2.0 degrees Celsius and to aim for 1.5 degrees Celsius and the goal of PBU to be net zero by 2050 at the latest.

PBU operates with two scenarios developed by the IEA in their 2020 World Energy Outlook based on a.o. the emissions and global warming projections of the IPCC:

- Stated Policies Scenario (SPS). The Stated Policies Scenario reflects the impact of existing policy frameworks and today's announced policy intentions and mirrors what could be called a high CO2 world

- Sustainable Development Scenario (SDS). This scenario holds the temperature rise to below 1.8 °C with a 66% probability without reliance on global net-negative carbon emissions; this is equivalent to limiting the temperature rise to 1.65 °C with a 50% probability.

The IEA has in 2021 produced a Net Zero scenario that entails a more dramatic break-away from fossil fuels than previously anticipated. The scenario plans for the complete and immediate stop of all development of new fossil fuel reserves.

So far, the NDCs fall short of what, according to the IPCC, is needed to keep temperature rise under 1.5 degrees Celsius. The IPCC in its latest 2021 report states that´global surface temperature will continue to increase until at least the mid-century under all emissions scenarios considered. Global warming of 1.5°C and 2°C will be exceeded during the 21st century unless deep reductions in CO_2 and other greenhouse gas emissions occur in the coming decades´.

This means that PBU needs to prepare for either scenario, be it a scenario that corresponds with a low carbon world or with a world that despite collective government action will not meet the emissions reduction targets aimed for. At the present time, there is an action gap. Net zero pledges are not possible without a corresponding policy framework.

The TCFD recommends that asset owners measure and disclose the alignment of their portfolios with the goals of the Paris Agreement by using forward-looking metrics. Portfolio alignment is work in progress and alignment metrics still have challenges around data and regional differences, comparability and transparency.

For this reason, PBU has tried to identify the most evident risks and to summarize these rather than trying at this point to calculate the alignment with various future climate scenarios.

5 RISK MANAGEMENT

PBU's work on reaching the concrete processes of identifying, assessing, and managing climate risk and opportunity is likewise ongoing and nowhere complete. The work involves understanding the risk and opportunity in individual asset classes as well as working out which types of analysis that best informs our decision making.

5.1 PBU's asset classes

Climate change affects PBU's asset classes differently and this makes it important to adjust the investment processes to suit the characteristics and conditions of the respective asset classes. This makes it of importance to supervise that each of our external managers have strong processes for incorporating climate risk. The asset classes included in this report concerning carbon footprint and reduction targets are based on the asset classes covered by the Net Zero Investment Framework 1.0.

PBU uses a heat map to understand the climate-related risks and opportunities inherent to our asset classes shown in table 1.

The heat map (see appendix 1) tries to summarize the expected climate-related risks and opportunities under either the Stated Policies Scenario and the Sustainable Development Scenario in both the short term and the long term.

The different combinations of risk and opportunity are summarized as follows:

- We see limited risks, in combination with opportunities (green)
- We see significant risk, in combination with opportunities (yellow)
- We see that risk exceeds opportunities (red)

Table 1. Asset allocation per July 31st, 2021

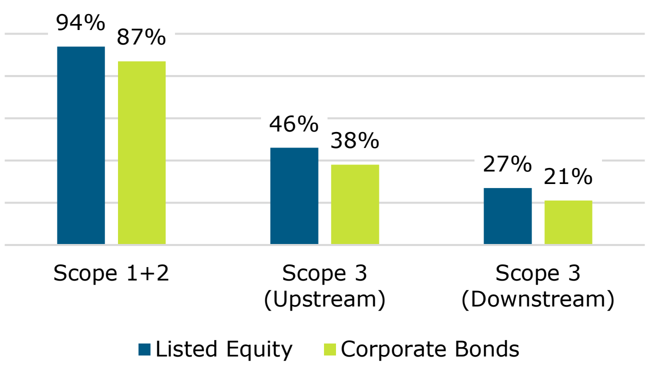
Asset class	DKK million	Percent
Listed Equity	42,481	50
Government, Mortgage and Index bonds	19,931	24
Corporate bonds (incl. green bonds)	9,119	11
Real estate	5,712	7
Infrastructure	2,448	3
Emerging market debt	2,001	2
Other alternatives	1,708	2
Cash	1,156	1
Total	**84,556**	**100**

5.2 Listed equity and corporate bonds

In terms of the heat map, we see listed equity and corporate bonds as yellow representing investment conditions with significant risk in both policy scenarios and in both the short-term as well as the long-term.

Listed equity and corporate bonds are PBU's biggest asset classes. It is the asset classes for which we have the best data on carbon emissions and climate impacts. Figure 3 illustrates the data coverage measured by number of companies, and how many of the companies that PBU are invested in that reports direct and indirect emissions (scope 1 and 2) and external indirect emissions (scope 3).

Figure 3. Carbon emission coverage by number of companies



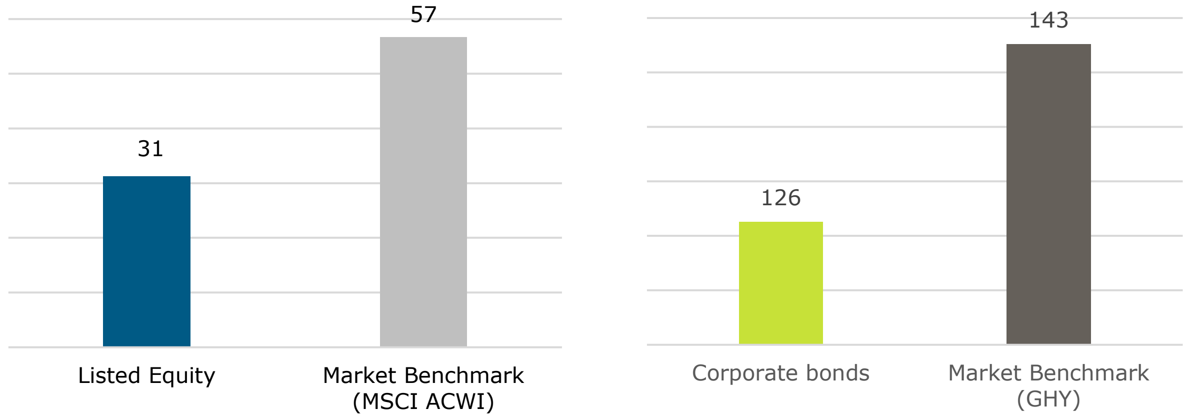
In addition to the relatively low basis of scope 3 data, it is PBU's judgement that scope 3 emissions are not yet sufficiently defined or consistently reported by companies to be comparable. Hence, scope 3 data is not included in our carbon footprint calculation or targets at this point. With the progress in corporate disclosure following recent EU regulation, PBU expects the data to be incorporated in the carbon footprint over time.

PBU's carbon footprint for Listed equity and Corporate bonds is well below the market benchmark. PBU's exposure to the most carbon intensive sectors such as oil, gas, and coal power is equally below the benchmark. This means that the task to decarbonize this part of PBU's portfolio seems managea-ble and within reach (see section 5 for metrics and targets).

Listed equity and Corporate bonds are liquid assets, and valuations are often updated. This is a reason why PBU believes the risk to be manageable and the risk of stranded assets to be modest.

Figure 4. PBU's carbon emissions compared to market benchmark per September 2021

Unit: tons CO_2e/$invested (EVIC base)



Source: MSCI

PBU focuses both on climate risk and opportunities. On the output side we focus on carbon emissions, carbon intensity and exposure to fossil fuel reserves and consumption. On the opportunity side we look for companies with clean tech solutions, targets for emissions reduction, cleaner energy sources strong consumption management and operational efficiency. From a physical climate risk perspective, it could be argued that emerging market companies will be positively impacted in the low carbon sce-nario and negatively impacted in the high carbon scenario.

The effects of changes of regulation, new and disruptive technology and changes in market demand contain significant risk for investments, and how investors like PBU navigate the transition to a low carbon economy. It involves risk regardless of whether you as an institutional investor select climate solutions-oriented companies too early or too late.

PBU has significantly reduced the number of companies in the Listed equity portfolio, and this gives us a better overview and understanding of the individual companies, their business models and their sus-tainability strategies. PBU and its external managers aim for companies whose business models are aligned with or will be aligned with the Paris Agreement and who are committed to formulating and implementing a more sustainable business model. PBU has a clear ambition that all companies in the listed equity and corporate bond portfolios report on their sustainability objectives and progress.

A new corporate green bond portfolio consists primarily of issuers in the northwestern part of Europe. The bonds are all within Bloomberg Barclays MSCI green bonds index, and MSCI ESG research does an independent evaluation of the green credentials of the bond issuers and the use of the proceeds. The issuance of green bonds in corporate and quasi-sovereign space is increasing quite rapidly. This development is expected to continue in the years ahead. The expectation is that this portfolio holds the potential to increase PBU's positive climate impact as the proceeds from the issuance of the bonds finance climate mediation projects and projects that will make the business models of the issuing companies more sustainable, e.g. as in the case of an auto manufacturers shift from ICE to EV vehicles.

5.3 Real Estate Investments

The real estate portfolio consists of direct-owned real estate in Denmark as well as Danish and global indirect investments through funds and listed real estate equities.

An external consultancy firm has assisted PBU in quantifying the carbon footprint from our directly owned real estate. The aim is to gradually reduce the carbon footprint of existing buildings in the future and be able to set environmental requirements for future projects. For instance, that could be through DGNB-certification, which is currently applied on all new residential development projects.

In addition, PBU has also employed the services of an external consultant to better understand the climate-related risk in our existing directly owned real estate portfolio. The analysis shows to what extent buildings are exposed to risk from water- and wind damages and temperature rise. PBU is focused on ensuring that existing and future real estate investments are climate resilient, carbon friendly and suited to the future demands of new tenants.

As regards PBU's portfolio of listed European real estate equities, we intend to meet with selected companies in the portfolio and among other things discuss how they can reduce their carbon emissions.

5.4 Government and Mortgage bonds

The portfolio primarily consists of Danish government and mortgage bonds. There is no clear method of how to assess the sustainability rating of government (and mortgage) bonds. Down the road there ought to be an increasing number of opportunities (from a low starting point) as government outlays and in particular mortgage lending should become more and more aligned with EU's green taxonomy. Furthermore, regarding Danish government bonds, Denmark is relatively far in the process of green transition compared to sovereign nations worldwide. At this point, therefore, PBU's assessment is that the climate risk is limited. Hence, the portfolio is labelled green in the heat map.

5.5 Infrastructure and Other alternatives

The portfolio of unlisted assets and companies consists mainly of global investments through funds in primarily the US and Western Europe. For unlisted infrastructure investments, PBU expects the green transition to continue at a strong pace in both the short and long term. The transition will continue to create opportunities in both the 'sustainable development scenario' as well as in the 'stated policy scenario'. However, these opportunities will not arise without any risks. PBU sees a significant risk stemming from technology and use cases as well as speed of adaptation. PBU will mitigate this risk by limiting investing in unproven technologies and by having a well-diversified portfolio. For this reason, PBU considers infrastructure assets and companies to be 'yellow' in both scenarios and in both the short- and long-term perspective, as shown in the heat map.

Other alternatives, including investments in Private equity, PBU considers both scenarios in the short and long term as 'yellow'. PBU believes the risk to be manageable especially in the short term, but in the longer term the risk of stranded assets is significant. This is particularly due to the illiquid nature of the assets as well as the infrequent valuations. PBU expects to work with its managers on reporting and establishing a baseline of carbon emissions in the coming years. Furthermore, since all PBU's investments are externally managed, it is PBU's goal that all managers will report on their portfolio companies' sustainability goals and progress. PBU will work closely with managers as it relates to sustainability and performance of the underlying portfolio companies.

6 METRICS, TARGETS AND TRANSITION PLANS

PBU is committed to transition its investment portfolio to become net zero by 2050 at the latest.

PBU aims to meet this objective while working on three parallel strategy streams:

- Increasing green and solutions-oriented investment
- Asset allocation, realization of impact potential, and targeted divestment of the most carbon intensive companies
- Engaging the most carbon intensive companies in our investment portfolio.

6.1 Carbon emission baseline and targets

In accordance with the recommendations of the Net Zero investment Framework, PBU has calculated its carbon footprint using 2019 as our baseline year. The analysis includes listed equity, corporate bonds, green bonds, and real estate. For directly owned real estate investments, we have used 2020 data.

Table 2 shows PBU's carbon footprint and targets measured as the carbon equivalent (CO_2e) of scope 1(direct) and 2(indirect) emissions per million US dollar invested. The measuring unit, CO_2e, includes emissions of all direct greenhouse gasses expressed by their relative global warming potential of CO_2.

In 2019 PBU's carbon footprint was 61.2 ton CO_2e per million US dollar invested ($tCO_2e/\$M$). Through the concerted efforts of increased green investments, changes in asset allocation and active ownership, the carbon footprint has been brought down to 44.6 $tCO_2e/\$M$ as per September 2021.
Looking forward, PBU has established short, and medium term overall carbon reduction targets of 30 percent and 50 percent in 2025 and 2030, respectively, besides the long term goal of being carbon

neutral in 2050. Until all asset classes are included in the carbon footprint, PBU are using derived targets for the different asset classes in order to ensure that PBU are on track with our commitments.

Table 2. PBU's financed carbon footprint and reduction targets measured

Asset class	2019	2021	2025	2030	2050
tCO_2e/$M invested (EVIC based)	**Baseline**	**Initial**	*derived targets*		
Listed equity	51,3	31,2	*35,9*	*25,7*	*0*
Government, Mortgage and Index bonds	not included	not included			
Corporate bonds (incl. Green bonds)	133,4	126,5	*93,4*	*66,7*	*0*
Real Estate	5,03	5,03	*3,5*	*2,5*	*0*
Infrastructure	not included	not included			
Emerging market debt	not included	not included			
Other alternatives	not included	not included			
Reduction targets			**30%**	**50%**	**100%**
PBU's Overall carbon Footprint	**61,2**	**44,6**	***42,8***	***30,6***	***0***

Source: MSCI. Note that emissions are derived on a Enterprise Value incl. Cash (EVIC) basis, meaning that company emissions are allocated both shareholder and lenders.

6.2 Plans for Asset Allocation and Targets for Green Investments

When planning for PBU's future asset allocation, we have the following preferences:

- PBU maintains a diversified portfolio while searching for transition leaders and climate solutions-oriented companies.
- PBU aims to work with and engage companies on credible transition paths.
- PBU favors engagement over divestment.

PBU aims to increase our allocation to green and sustainable investments over time. PBU in 2019, as part of a Danish pension industry initiative made an informal commitment to increase our allocation to green investments to DKK 18 billion by 2030. The commitment is conditional on AUM developing as expected. The commitment also rests on a public policy framework which is conducive for more institutional investment capital to be invested into renewable energy, green energy infrastructure and sustainable solutions-oriented companies. At present, PBU has invested DKK 6.4 billion (7.8 percent of the portfolio) in green investments.

The goal is thus for green investments to reach DKK 18 billion if AUM has reached DKK 110 billion by 2030 which would equal 15 percent.

6.3 Targets for Active Ownership

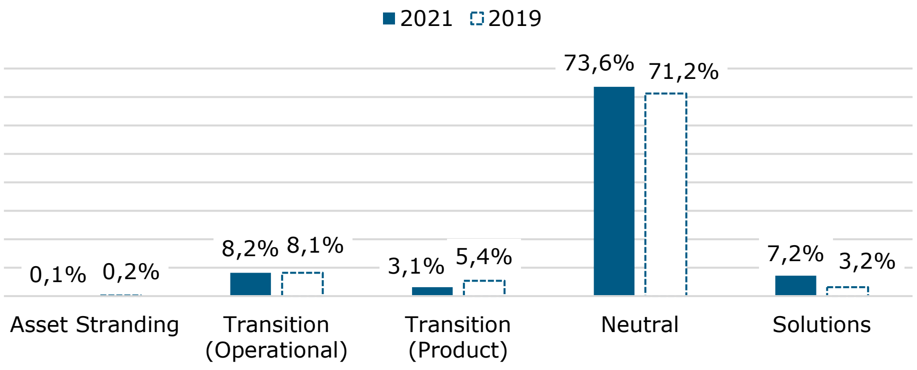
Active ownership is the dominant strategy in PBU for influencing companies to work towards more climate friendly and sustainable solutions. PBU seeks to influence companies to formulate and act on business models and strategies aimed at bringing down their carbon footprint and to prepare for a low carbon world.

Our active ownership thus aims at companies:

- Aligning their business models with the Paris Agreement including setting targets for their capital expenditure (capex).
- Setting targets for reduction of their carbon footprint in the short, medium and long term.
- Disclosing data on their progress.

Figure 5 illustrates the portfolio (Listed equity and Corporate bonds) exposure to the transition to a low carbon economy. It gives PBU the opportunity to asses our journey towards a more carbon resistant portfolio and where to focus our active ownership.

Figure 5. Low carbon transition risk on listed equity and corporate bonds



Source: MSCI

Figure 6 and 7 illustrates how companies seek to change the business models and adapt to the low carbon economy by using cleaner energy sources and setting stronger targets.

Figure 6. Use of cleaner energy sources

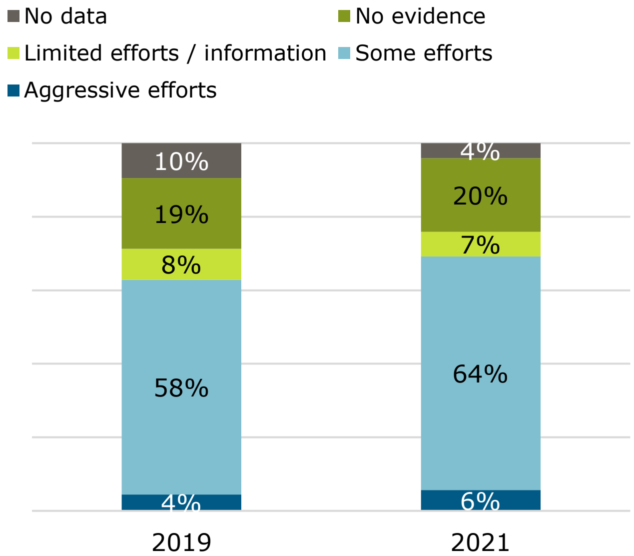
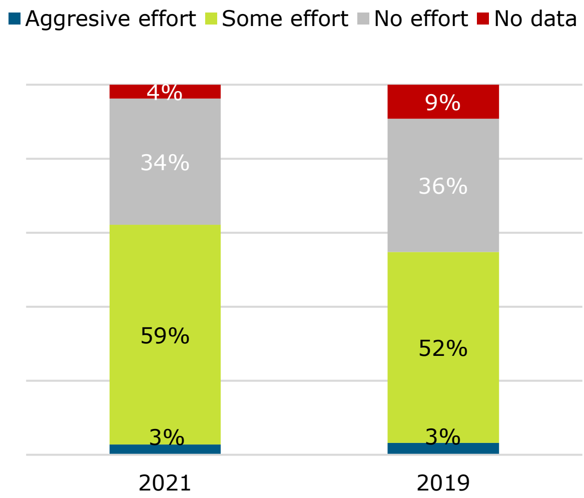


Figure 7. Carbon Reduction targets



Source: MSCI

For PBU, active ownership provides a strengthened understanding of the role of each respective company in relation to the transition to an economy less reliant on carbon and a world with a reduced carbon footprint from the activities of mankind. A better understanding of this relationship leads to a wiser and more strategic use of exclusion as a tool. It can be argued that investing in companies that may still be carbon intensive but are on a pathway to reduce those emissions is more impactful than plainly divesting from these companies. Certain stakeholders are calling on investors to divest from fossil fuels and other climate intense industries. PBU believe divestment is a last resort action that can have severe negative impact on the portfolio, while limiting the ability to push corporate behavior on a better climate path for long-term sustainable growth.

PBU's expectations towards companies are sector specific and built around four pillars by level of recognition and action by companies:

1. General attention to and recognition of the climate challenge (Basic awareness)

2. Action to reduce carbon emissions (Active emissions management)

3. Integration of climate risk and opportunities in the business model and in the business strategy (Strategic approach)

4. Company action in alignment with the Paris Agreement based on scientifically determined objectives across the value chain, investment, product portfolio mix and R&D spending (Alignment)

The following sectors have been identified by PBU as having the largest climate impacts and challenges: Oil/gas; Mining & materials; Heavy industry (cement, steel, Coal-based power plants; Transport & automobiles; Banks.

PBU's efforts are directed at the largest emitters of carbon partly through working with our external ESG overlay provider and partly through our participation in Climate Action 100+. At present, 13 companies in our equity and corporate bond portfolio are included in the Climate Action 100+ engagement program. The strategy is further set forth in how we vote our shares with automatic mistrust in company management if the company does not follow through on climate action. After 2023 and the conclusion of Climate Action 100+, we will reevaluate the companies and their progress.

6.4 Targets for Selective Divestment

Active ownership is one way to reduce PBU's exposure to climate risk. Selective divestment is another.

PBU has selectively divested from some of the largest carbon emitters and from companies whose business models are not presently aligned with the goals of the Paris Agreement. By 2021, 147 oil and gas and coal-based companies have been excluded on the basis of their lack of alignment and measurable progress on climate. PBU will annually review its exclusions and reevaluate the progress of each company measured against the aims of our active ownership.

PBU has set the following thresholds for exclusion:

- Oil and gas companies, where oil sands constitute > 5 percent of turnover.
- Mining companies, where extraction of thermal coal constitutes > 20 percent of turnover.
- Electric utility companies, where thermal coal-based power constitutes > 50 percent of the installed production capacity.
- Other companies based on a quantitative and qualitative assessment of their ambition and capacity to transition their business model.

PBU consistently excludes companies across all asset classes. PBU works towards the goal that coal-fired power should be altogether phased out in OECD-based investment in 2030 and in non-OECD countries in 2050 while planning for social and community impacts of power plant closures.

6.5 Taxonomy alignment

We identify the EU sustainability taxonomy as an important reference, but there are at present no plans for the portfolio to be more or less aligned with the taxonomy.

Martin Skancke, who is currently the Chair of the PRI Board, recently stated in an interview with AM-Watch that "The taxonomy doesn't solve everything. Whether something is sustainable or not depends on how dynamic it is, and what is considered sustainable today may not necessarily be sustainable tomorrow. So it's about how static or dynamic the system is, which we cannot know now, but develops over time."

In that respect, the EU commission plans for the taxonomy to be expanded and strengthened over the coming years to include social and possibly also governance factors. At present, the basis of the taxonomy is primarily on the impact that companies have on the environment and the climate.

Nevertheless, PBU expects that a growing share of its portfolio companies over time will be taxonomy compliant.

6.6 Next steps

PBU does not claim to wholly grasp the complexities of climate change. There is a tendency for the finance community towards reducing the narrative to the energy sector's contribution to carbon emissions and the phase out of fossil fuels. Whereby the importance of the effectivization of energy use is downplayed as is the importance of e.g., land use, farming methods and the acidization of our oceans.

Similarly, PBU believe that there is a strong interplay between the strong differences of living standards and social welfare and the ability and willingness of people to contribute towards more sustainable consumption. Given that e.g., more than one billion people worldwide is without access to electricity. This calls for climate action to have strong consideration for the effects of / and social balancing of policy measures and corporate interventions.

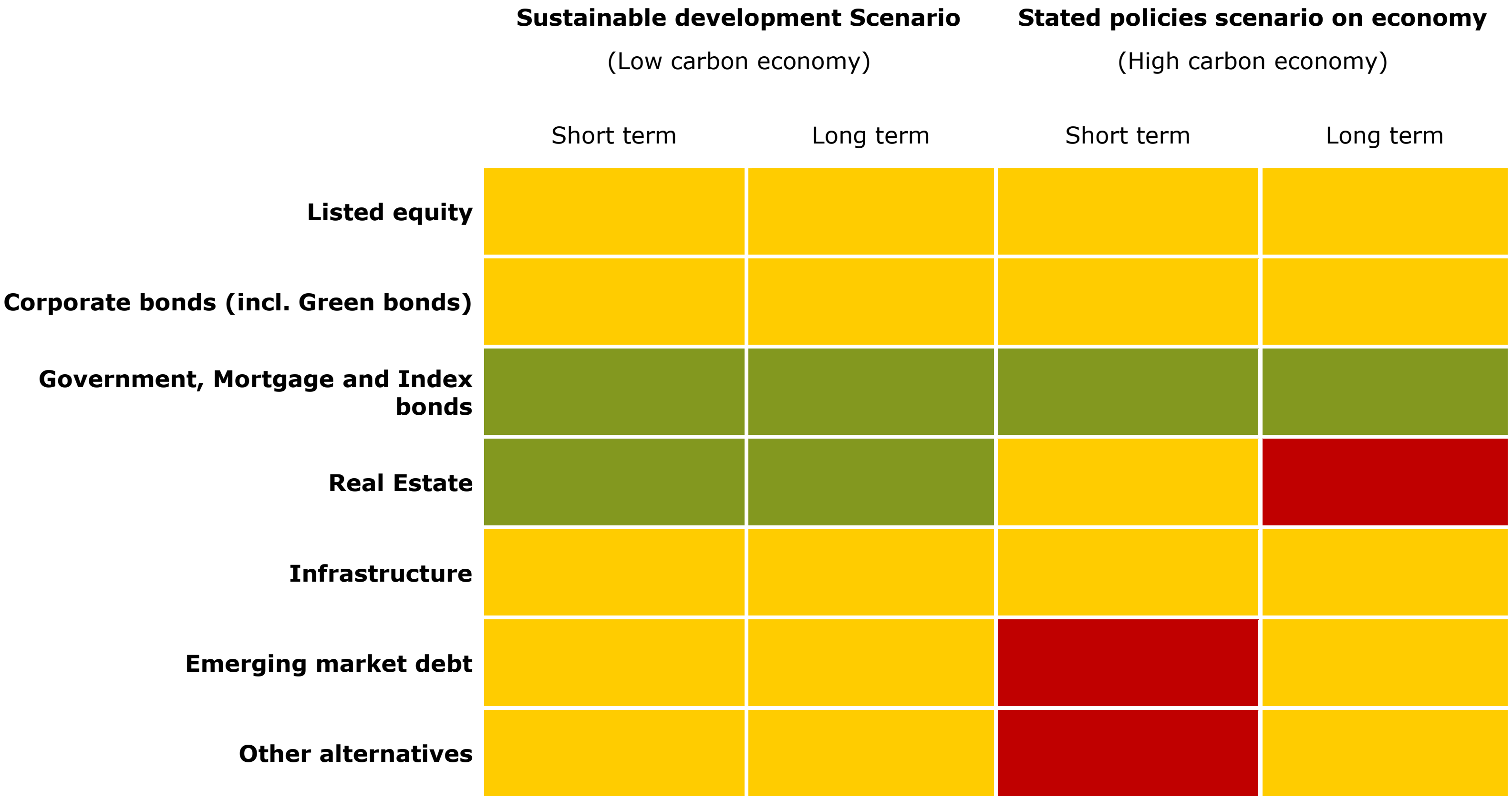
Going forward, PBU wants to further develop and substantiate our analysis of climate risks and opportunities and how they affect our investments.

The analysis in this report points PBU's attention to:

1) Focus our efforts on expanding green investment such as green infrastructure (including renewable energy), green bonds, sustainable real estate and solutions-oriented technologies and companies.

2) Further concentrate our active ownership on the remaining carbon intensive companies within fossil fuels, mining, heavy industry, transport & automobiles, and banks while at the same time recognizing and acknowledging that these very companies may very well hold an important part of the key to a positive impact and solution of the problems of climate change.

Appendix 1. Heat map of anticipated climate risk and opportunity



Green: We see limited risk, in combination with opportunities

Yellow: We see significant risk, in combination with opportunities

Red: We see that risk exceeds opportunities