



DANICA PENSION, 2ND FEBRUARY 2023

Reporting on the EU Taxonomy Regulation 2022

Danica Pension supports EU's ambition to scale up sustainable investments. Danica Pension is a member of the global UN-convened Net-Zero Asset Owner Alliance and committed to make Danica Pension's investment portfolio carbon neutral by 2050. To support the ambition, we have defined CO₂-sector targets towards 2025 within the energy, utility, transportation, cement, and steel sector. The ambition is to reduce the CO₂-emissions of the investments in the five key sectors from 15 percent to 35 percent. Further, Danica Pension has defined a green investment pledge of DKK 100 billion by 2030. This includes investments defined as alternative investments for example, in renewable energy, real estate with sustainability certifications, companies with renewable-energy activities, and green bonds.

In addition, Danica Pension has developed a new biodiversity strategy in 2022. Focus is on active ownership and a targeted dialogue with 30 large global businesses to strengthen efforts to minimize the impact on biodiversity in forestry and the ocean and improve reporting in this area. At the same time, Danica Pension's ambitions within the real estate investments has increased to bring nature into urban areas. The new initiatives will also help to decrease climate change.

Effective as of 1 January 2022 EU has published a definition catalogue for environmentally sustainable economic activities in the form of the Taxonomy Regulation.¹ As the Taxonomy Regulation is still under development, and the data sources are limited, Danica Pension does not currently include the Taxonomy Regulation as a foundation in the business strategy including concrete target setting, product design processes and engagement with customers and other stakeholders. As the EU Taxonomy Regulation develops and data sources are improved, Danica Pension will revisit the opportunity to define revised taxonomy aligned targets on investments in the green transition, expand the reporting on pension products and increase the ongoing dialogue on the taxonomy with customers and other stakeholders.

¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 establishing a framework for promoting sustainable investment and amending Regulation (EU) 2019/2088.

A. Introduction to the EU Taxonomy Regulation

The EU taxonomy is a classification system, which provides companies, investors, and policymakers with definitions for which economic activities can be considered environmentally sustainable economic activities. The Taxonomy Regulation establishes six environmental objectives:

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

An economic activity is considered environmentally sustainable if it contributes significantly to achieving at least one of the six environmental objectives. At the same time, the activity must not seriously harm other environmental objectives. The assessment shall be made on the basis of additional rules issued pursuant to the Taxonomy Regulation.² Danica Pension has still only estimated data on the first two environmental targets on climate change mitigation and adaptation to climate change, as the supplementary rules on the remaining four environmental targets are not expected to be adopted until 2023.

In July 2022, the EU published additional rules on nuclear and gas related activities.³ This means that from 2022, reporting is required on exposures to nuclear and gas related activities and whether these activities are eligible or not eligible by the Taxonomy Regulation. Where possible, Danica Pension's alternative investments include data on exposure to nuclear and gas related activities. In addition, the estimated data for equities and credit bonds include exposures on nuclear and gas related activities.

This reporting is part of Danica Pension's non-financial statement for 2022. Through this report, Danica Pension comply with the obligation under the EU Taxonomy Regulation to report on the proportion of assets with exposures to taxonomy eligible and non-taxonomy eligible activities for 2022.⁴

Danica Pension's eligibility reporting captures exposures of reported assets in proportion of total assets. Reported assets include real estate and alternative investments. To create increased transparency Danica Pension has also opted to include voluntarily reporting capturing asset exposures based on estimates. Due to data constraints and the maturity of the taxonomy, it is not yet possible to report on to which degree economic activities that Danica Pension has invested into the taxonomy as defined by the criteria in the Taxonomy Regulation. Reporting on the criteria in the taxonomy regulation will take place from 2023.

In 2022, Danica Pension completed the sale of the Norwegian business. Therefore, the taxonomy reporting in 2022 covers only Danica Pension in Denmark. To increase the comparison basis, the reporting for 2021 will include both the total figures for Danica Pension in Denmark and Norway and figures that only cover Danica Pension in Denmark.

² See the Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 laying down additional rules to Regulation (EU) 2020/852 of the European Parliament and of the Council regarding the establishment of technical screening criteria for determining the conditions, in which an economic activity is qualified as contributing significantly to climate change mitigation or climate change adaptation and to determine whether the economic activity in question significantly harms some of the other environmental objectives.

³ See the Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 regarding economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 regarding the publication of specific information on these economic activities.

⁴ The reporting obligation of the Taxonomy Regulation is specified in the Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 on additional rules to Regulation (EU) 2020/852 of the European Parliament and of the Council, which specifies the content and presentation of the information to be published by businesses covered by Articles 19a or 29a of Directive 2013/34/EU; on environmentally sustainable economic activities, specifying the methodology for ensuring compliance with this disclosure obligation.



B. Taxonomy Regulation Reporting

The mandatory reporting under the EU Taxonomy Regulation in 2022 shows that the total share of assets eligible to the taxonomy has increased from 8.7% in Denmark in 2021 to 11.8% in 2022 (covers real estate and alternative investments). The development was due to an increase in investments in real estate from 2021 to 2022 and an increase in the share of alternative investments eligible to the taxonomy.

In addition, the voluntary reporting shows that the share of economic activities covered by the taxonomy has increased from 12.6% in Denmark in 2021 to 16.8% in 2022. The change was due to an increase in investments in real estate, an increase in the proportion of alternative investments eligible for the taxonomy and increased data coverage for credit bonds in 2022. In addition, total investments (AuM) decreased in 2022.

B1: Mandatory reporting in accordance with EU Taxonomy Regulation as a requirement effective from 2022

KEY FIGURES	REGULATORY METRIC IN % AND MILLION DKK (31 DEC 2022) - DENMARK	REGULATORY METRIC IN % AND MILLION DKK (31 DEC 2021) - DENMARK	REGULATORY METRIC IN % AND MILLION DKK (31 DEC 2021) - DENMARK/NORWAY
Total taxonomy eligible assets ¹ in proportion of total covered assets (only real estate and alternative investments) ⁵	11.8 %	8.7 %	8.4 %
Exposures to derivatives in proportion of total covered assets ⁶	2,9 %	0 %	0%
Exposures to non-covered assets in proportion of total covered assets ⁷	13.6 %	13,6 %	15.1%
Exposures to sovereigns in proportion of total assets ⁸	15.7 %	134 %	15.1%
Non-taxonomy eligible assets in proportion of total covered assets	45.9 %	60.7 %	62.3%

⁵ Taxonomy data, which covers investments in equity and credit bonds, is estimated by third-party data provider. Therefore, it is not included in the numerator of the calculation as set out in the Commission communication on the interpretation of certain legal provisions of the delegated Act on disclosure obligations under Article 8 of the EU Classification Regulation on the reporting of economic activities or assets covered by the classification system [2022/C 385/01]

⁶ Derivative in the investment book. The total value of derivatives amounted to DKK 10,552 billion in 2022. Derivatives with a positive value amounted to DKK 94,185 billion in 2022.

⁷ Please note that assets included here may also be included under the eligibility reporting. This may be the case, for example, where an external asset manager has provided data on asset eligibility, even if this is not strictly necessary.

⁸ Exposures to sovereigns includes central governments, central banks and supranational issuers. Please notice, that the fraction for sovereigns is based on the total covered assets, which does not include sovereigns in the denominator. The number is therefore higher, than if based it was based on Danica Pension's total assets.



B2: Supplementary voluntary reporting in accordance with the EU Taxonomy Regulation (also includes estimated data on equities and credit bonds, which include exposure to nuclear and gas related activities and reported data on real estate and alternative investments)

KEY FIGURES	REGULATORY METRIC IN % AND MILLION DKK [31 DEC 2022] - DENMARK	REGULATORY METRIC IN % AND MILLION DKK [31 DEC 2021] - DENMARK	REGULATORY METRIC IN % AND MILLION DKK [31 DEC 2021] - DENMARK/NORWAY
Total taxonomy eligible assets in proportion of total covered assets	16.8 % and 61,622/367,095 DKK ⁹	12.6 % and 56,127/447,064 DKK	12.3% and 56,912/462,890 DKK
- Taxonomy eligible assets in proportion of total covered assets - equity	12.4 % and 16,052/129,244 DKK	10.4 % and 17.013 / 164.177 DKK	10.4% and 17,778/170,145 DKK
- Taxonomy eligible assets in proportion of total covered assets - credit bonds	8.6% and DKK 2,219 / 25,781	0.4% and DKK 119/33,441	0.4 % and DKK 139 / 36.166 DKK
- Taxonomy eligible assets in proportion of total covered assets - real estate (DK)	100% and 37,013 / 37,013 DKK	100% and 34,903/34,903 DKK	100% and 34,903/34,903 DKK
- Taxonomy eligible assets in proportion of total covered assets - alternative investments (DK)	13.7% and 6,338 / 46,254 DKK	8.3% and 4.092/49.542 DKK	8.3% and 4,092 / 49,542 DKK
Data coverage	56,4% and 206,898/367,095 DKK	53,6% and 239,518/447,064 DKK	53.6% and 248.211/462,890 DKK

⁹ We do not yet have the full data base to assess to what extent these investments fully comply with the classification system. However, this figure is expected to be lower when we are required to report for 2023 on economic activities that fully comply with the classification system.



C. Reporting principles

Definitions

Total taxonomy eligible assets in proportion of total covered assets	=	Taxonomy-eligibility illustrates the financial undertaking's exposures to investments with economic assets, where EU has assessed the criteria to have a substantial environmental sustainable impact in proportion of the total covered assets in the Key Performance Indicator (KPI).
Exposures to derivatives in proportion of total covered assets	=	The percentage of derivatives relative to total covered assets covered by the KPI.
Exposures to non-covered assets in proportion of total covered assets	=	The proportion of exposures to undertakings not subject to Articles 19a and 29a of Directive 2013/34/EU over total covered assets covered by the KPI.
Exposures to sovereigns in proportion of total assets	=	The percentage of sovereigns exposures (central governments, central banks, supranational issuers) relative to the total investments (AuM).
Non-taxonomy eligible assets in proportion of total covered assets	=	The value of all the investments that are funding economic activities that are not taxonomy eligible activities relative to the value of total covered assets covered by the KPI.
Data coverage	=	The percentage of assets covered by the KPI relative to total investments (total AuM incl. equity) and excluding investments in sovereigns.
Total covered assets	=	The total assets under management including equity but excluding sovereigns, defined as exposures to central governments, central banks, supranational issuers. Danica Pension follows the delegated act on the Taxonomy Regulation (2021/4987) art. 7 section1.

Scope of assets and activities covered

The taxonomy reporting includes all Danica Pension's assets. The report covers taxonomy eligible assets and non-taxonomy eligible assets within assets like equity, credit bonds, real estate and alternative investments. Data for 2022 include Danica Pension in Denmark.

Data sources and limitations on data

Equity and credit bonds

Danica Pension uses data from ISS ESG to assess whether businesses are eligible with the EU Taxonomy on equities and credit bonds. ISS ESG identifies businesses engaged in financial activities eligible with the EU Taxonomy using a combination of proprietary data sets and external databases. Data from ISS ESG in 2022 includes two of the six environmental objectives of the taxonomy, namely climate change mitigation and climate change adaptation. From 2022 the data from ISS ESG includes exposure to nuclear and gas related activities.

The screening model is in constant development and remains subject to changes as the EU Taxonomy develops. The screening model uses proxies and assumptions, where data is not available. The screening model currently only covers companies' revenues and does not incorporate capex & opex figures.

Real estate

Data on Danica Pension's real estate is based on the book value on December 31st 2022.



Alternative investments

Data is based on answers received by fund managers and direct investments on a questionnaire prepared by Danica Pension and sent to counterparts. Some investments have however, been left out from the questionnaire. For instance, funds that are in liquidation or does not have any portfolio investments, etc. Further, seven alternative investment funds have reported exposures on nuclear and fossil gas related activities.

The data provided is unaudited and represents the managers' and direct investment's "best effort" to deliver eligibility-data to Danica Pension. The responses received have been divided by NAV (Net Asset Value) for Danica Pension's portfolio of alternative investments, which accounts to DKK 46 billion as per 31st December 2022.
