

ESG Integration in the Investment Process

Icelandic Pension Fund Association & Central Bank of Iceland

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1 March 2022

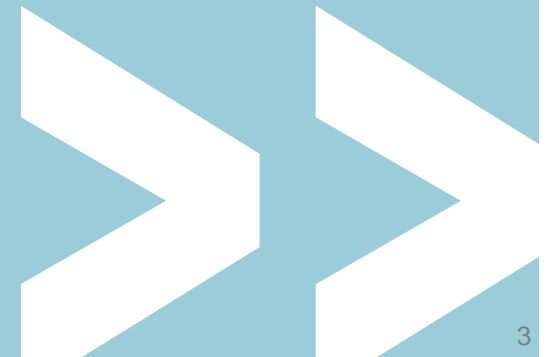
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Agenda

- #1 Introduction to ATP Lifelong Pension**
- #2 How ATP integrates sustainability in the investment process**
- #3 Examples**
- #4 Q&A**

#1

Introduction to ATP Lifelong Pension



Our vision

We are here to ensure basic financial security for all of Denmark – simply and efficiently.

We strive to always be a trusted and relevant organisation for all Danes.



ATP – an organisation of its own



**Founded by law
in 1964**



**ATP is a self-
governing institution**



**Managed by the
social partners**



**Works on behalf of all
of Denmark**

One ATP - two business areas



Pension and Investments



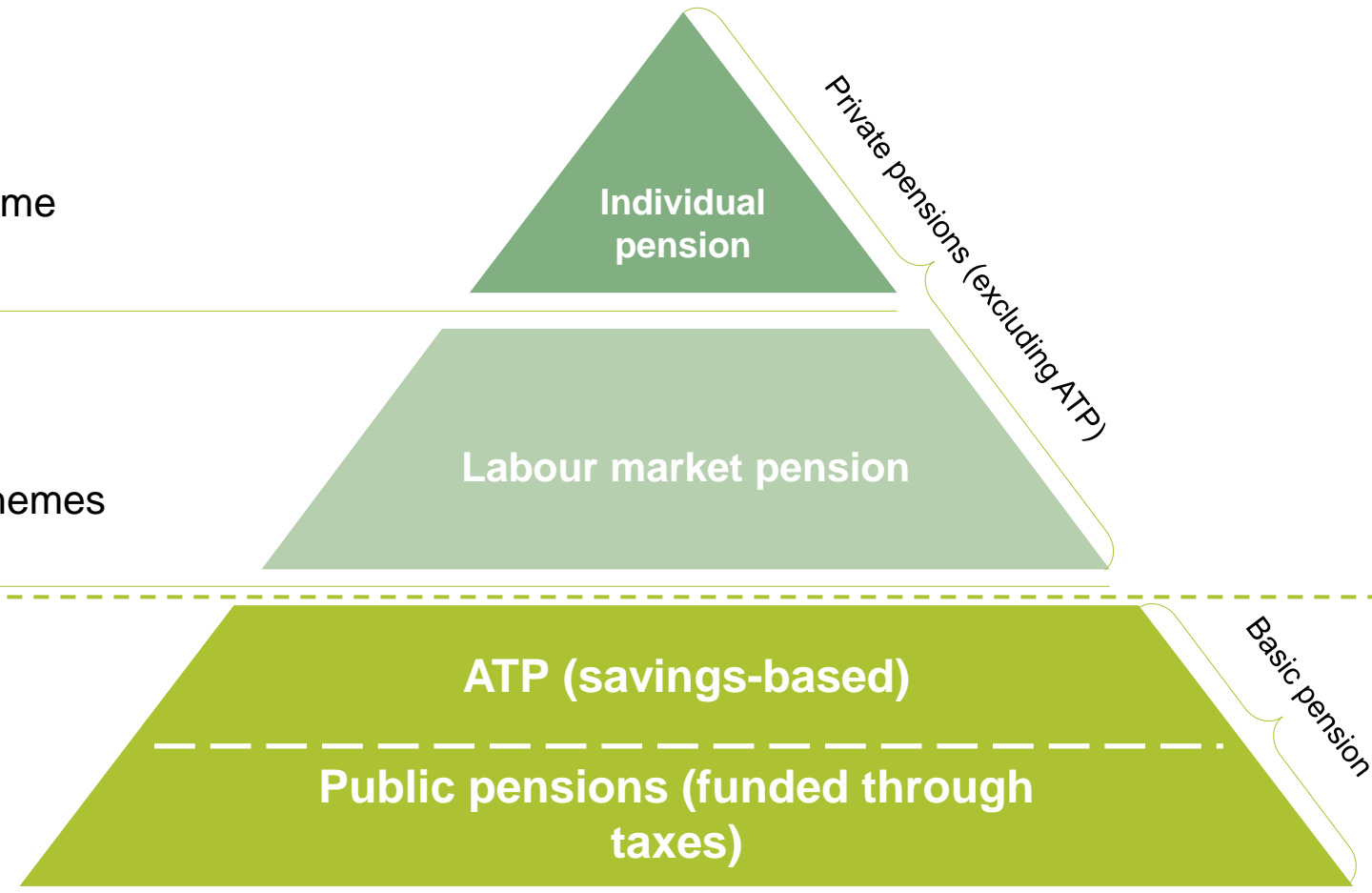
Processing Business

ATP's fundamental role in the Danish pension system

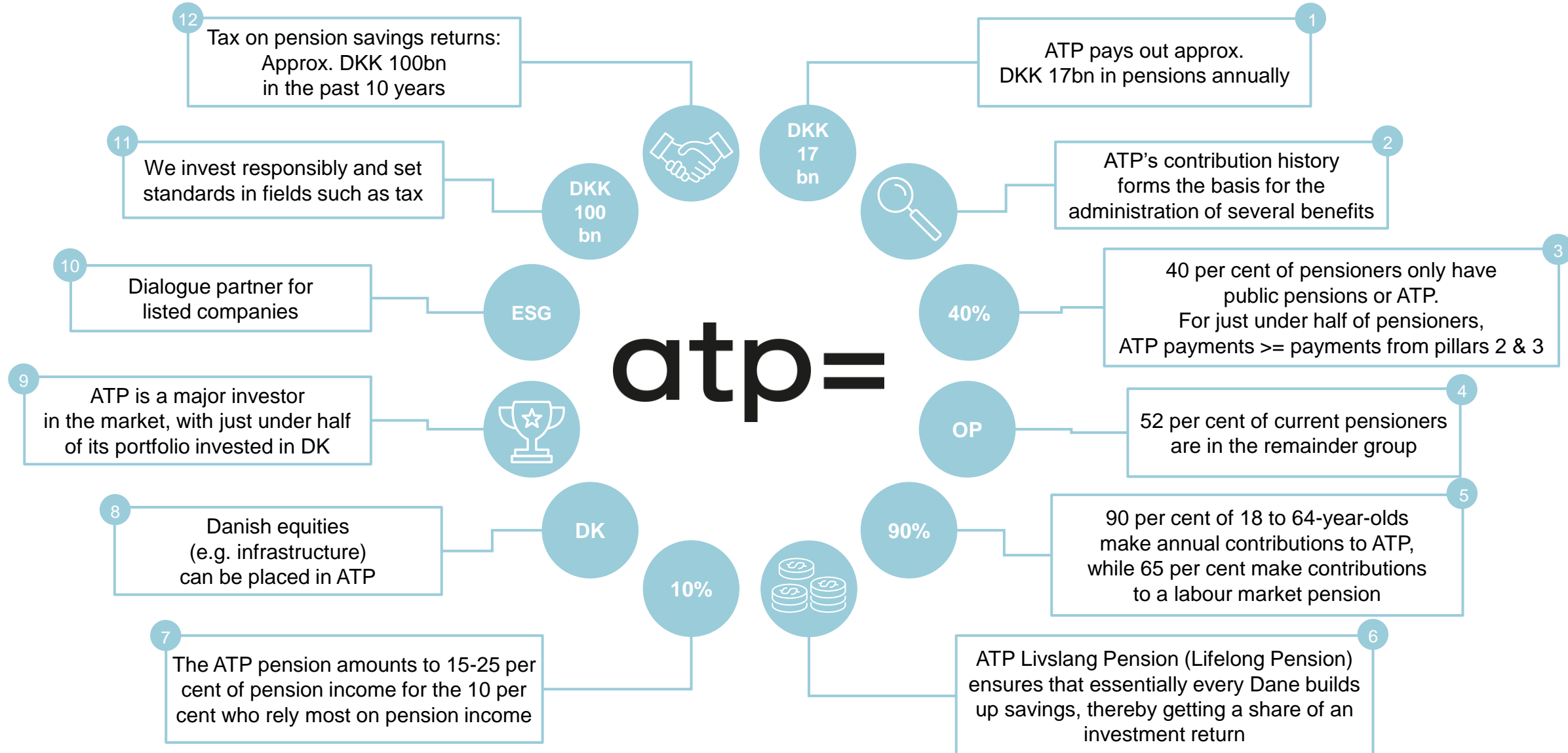
Pillar 3:
Individual flexibility
Voluntary savings-based scheme

Pillar 2:
Reasonable cover ratio
Agreement-based savings schemes

Pillar 1:
Basic security
Universal and statutory



The societal importance of ATP Livslang (lifelong) Pension



947
bn DKK in assets

5,4
million members

~150
employees

23
% i årligt
investeringsafkast i
forhold til
bonuspotentialet de
sidste 5 år



8
IPE Awards 2021

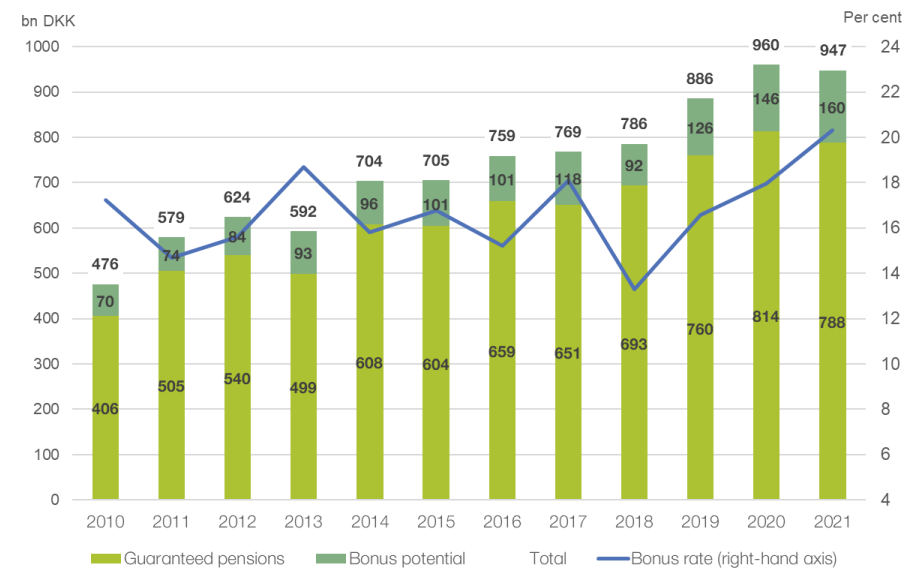


633
number of annual
general meetings
where ATP has voted
during 2021

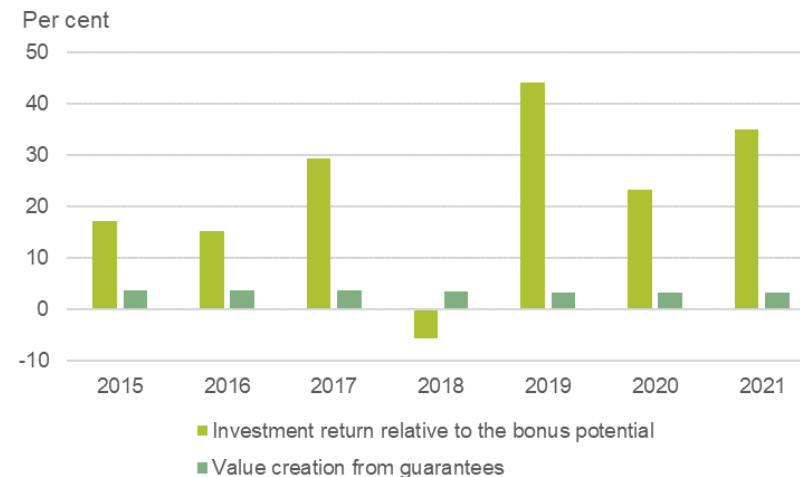
~100
bn DKK paid in tax the
last 10 years

~25.000
trades per quarter

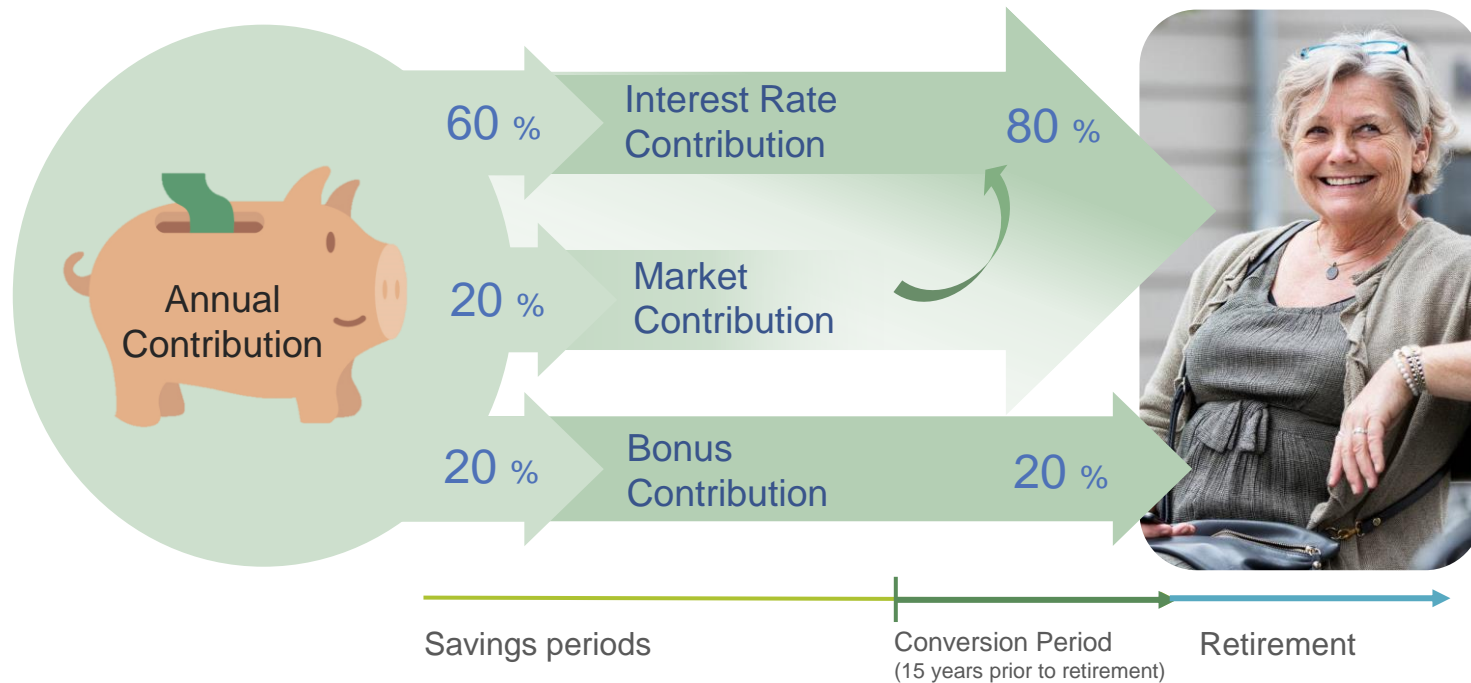
ATP's two portfolios



Return and value creation



Overview of life annuity with market exposure



The purpose of *life annuity with market exposure* is to create an expected additional return component and contribute to higher pensions.

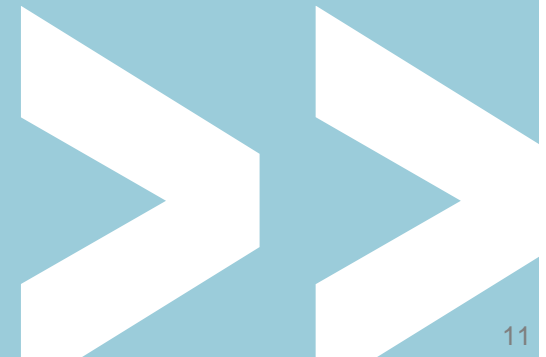
The product has features similar to life-cycle products from the Danish pension-sector, i.e. where the risk is reduced as members approach retirement.

The guaranteed contribution will be split into a market contribution and an interest rate contribution. The market contribution is invested together with the investment portfolio. Longevity is guaranteed during the entire savings phase; however, returns are not.

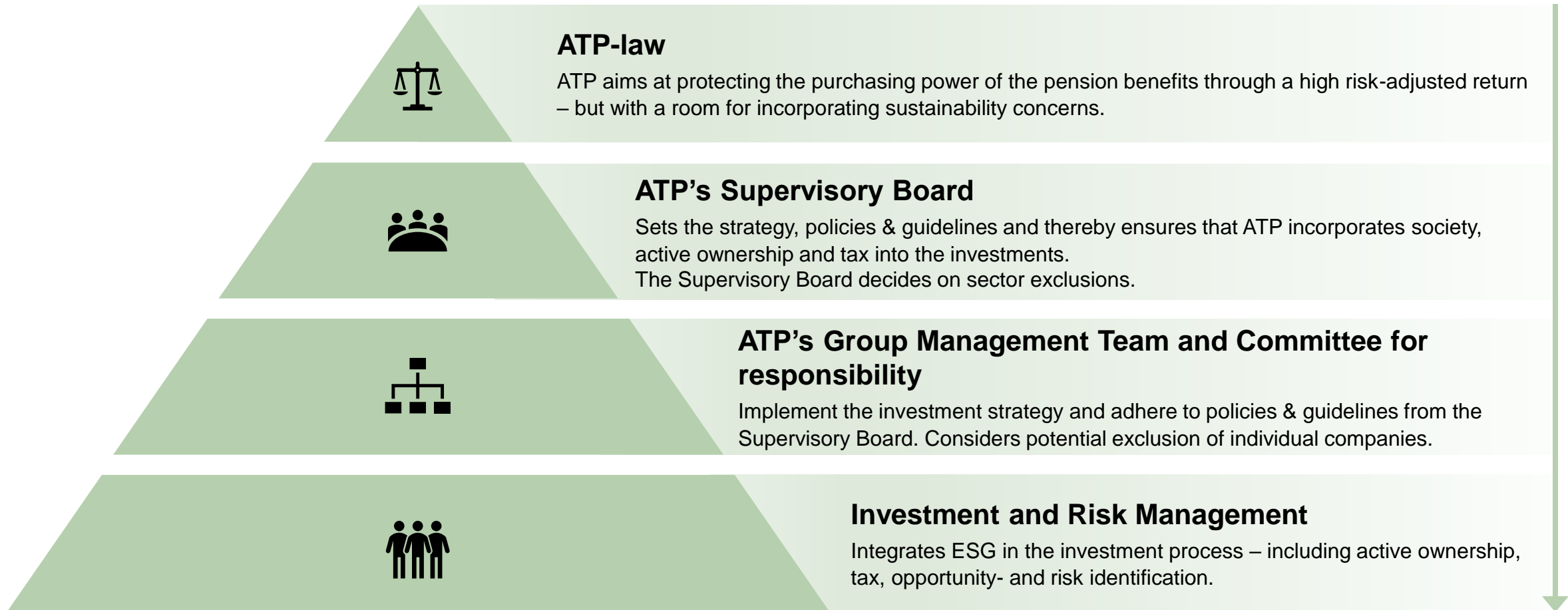
The product is gradually converted to the guaranteed life annuity from 15 years prior to retirement. Hence at the retirement age, the whole pension is fully guaranteed.

#2

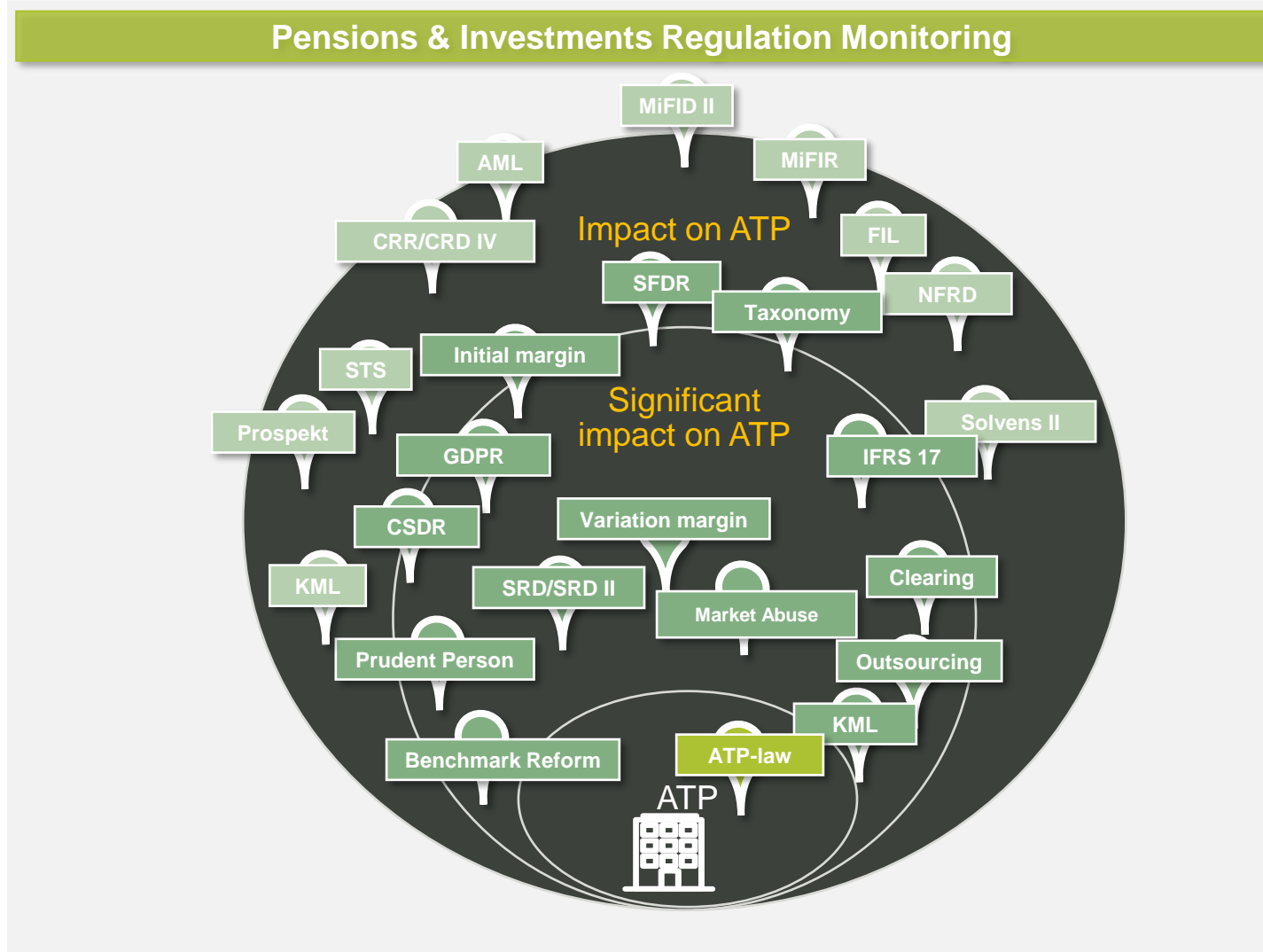
How ATP integrates
sustainability in the
investment process



The framework for sustainability in ATP



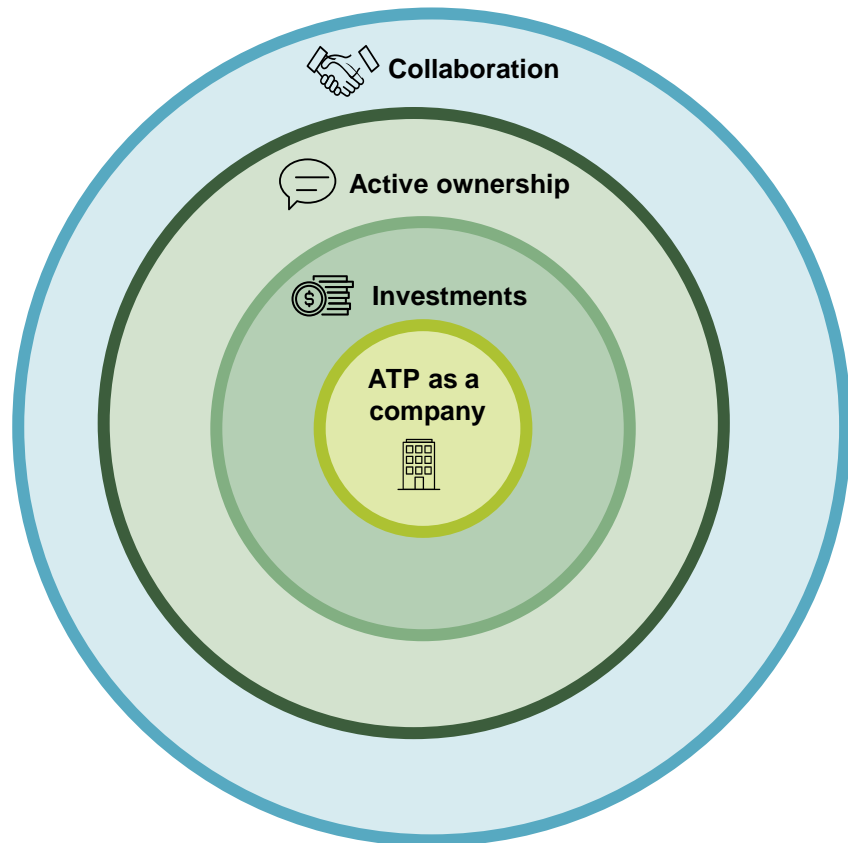
Implementation of financial regulation...



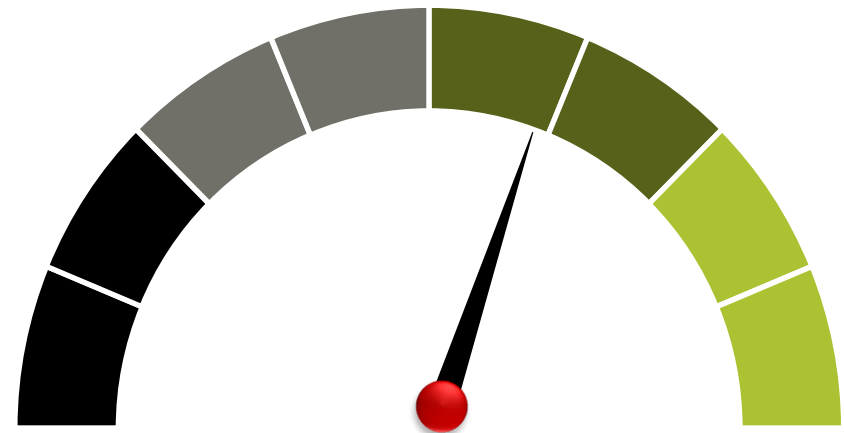
| Implementation | |
|---|---|
| Regulation | ✂ |
| Prudent Person: standard for investing | ● |
| Benchmark reform: phasing-out of discretionary reference-rates | ● |
| Initial margin: stricter collateral requirements in OTC-derivatives | ● |
| SFDR: disclosure of ESG-information | ● |
| Taxonomy: classification of sustainable investments | ● |
| Market Abuse: extend controls aimed at preventing market abuse | ● |
| SFTR: reporting of securities financing transactions | ● |
| IFRS 17: new financial reporting principles | ● |
| CSDR: improvement of resolution procedures | ● |
| GDPR: protection of personal data | ● |
| ● Large implementation (project) ● Small implementing (development task) | |

ATP's approach to sustainability and ESG

ATP's impact on society



The ESG transformation



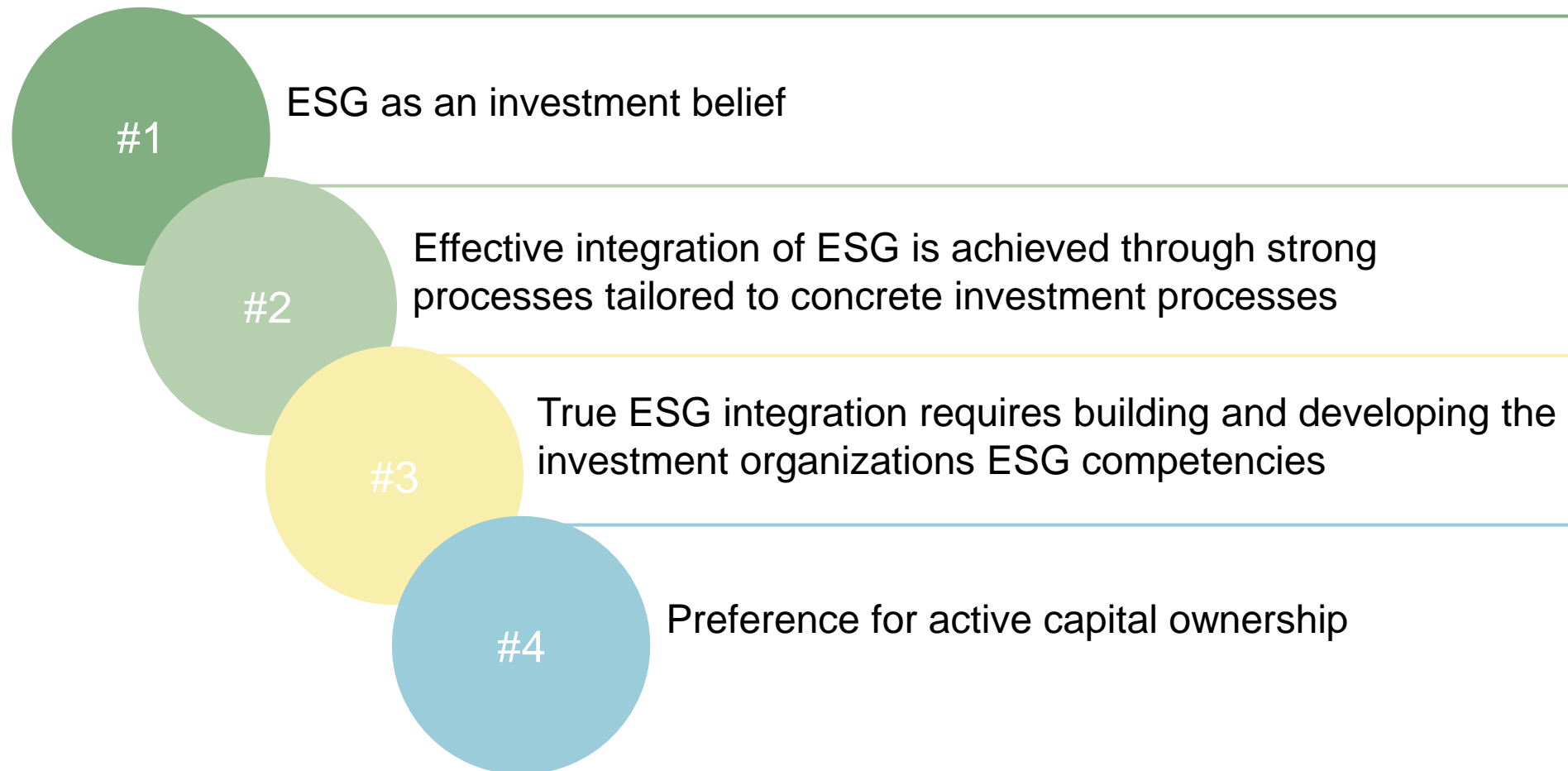
We invest in the transition towards a greener society...

ATP's ESG-activities have a broad span

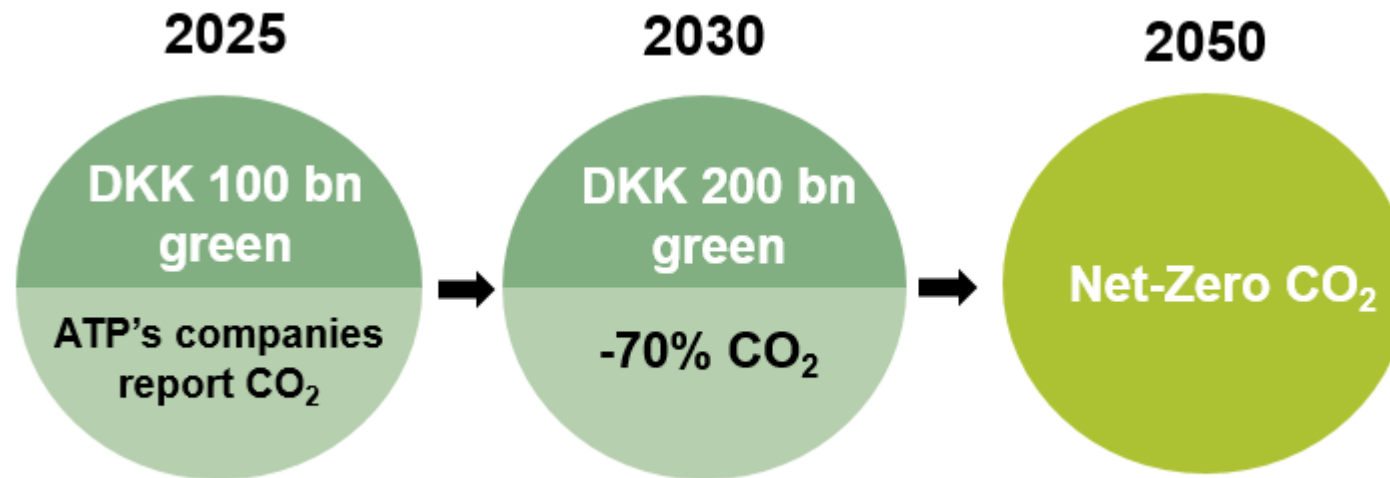


... focus is on effect and transparency in the ESG-effort

ATP's ESG strategy is rooted in four fundamental and overall principles



ATP's green ambitions



CONDITIONS FOR CLIMATE AMBITIONS (CF. INSURANCE & PENSION DENMARK)

MARKET CONDITIONS

That there are sufficient green investments and that they create a good return.

COMPANY-SPECIFIC CONDITIONS

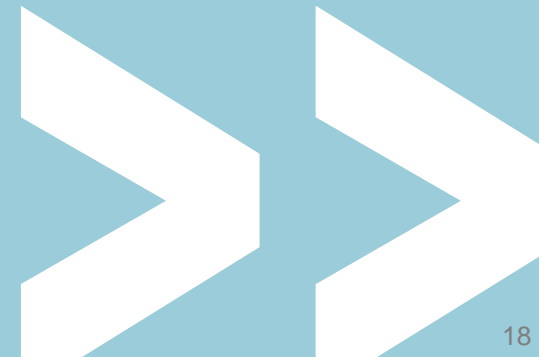
That the development in pension contributions continue in the expected scope and that the guaranteed pensions do not force the companies to change investment allocation.

POLITICAL CONDITIONS

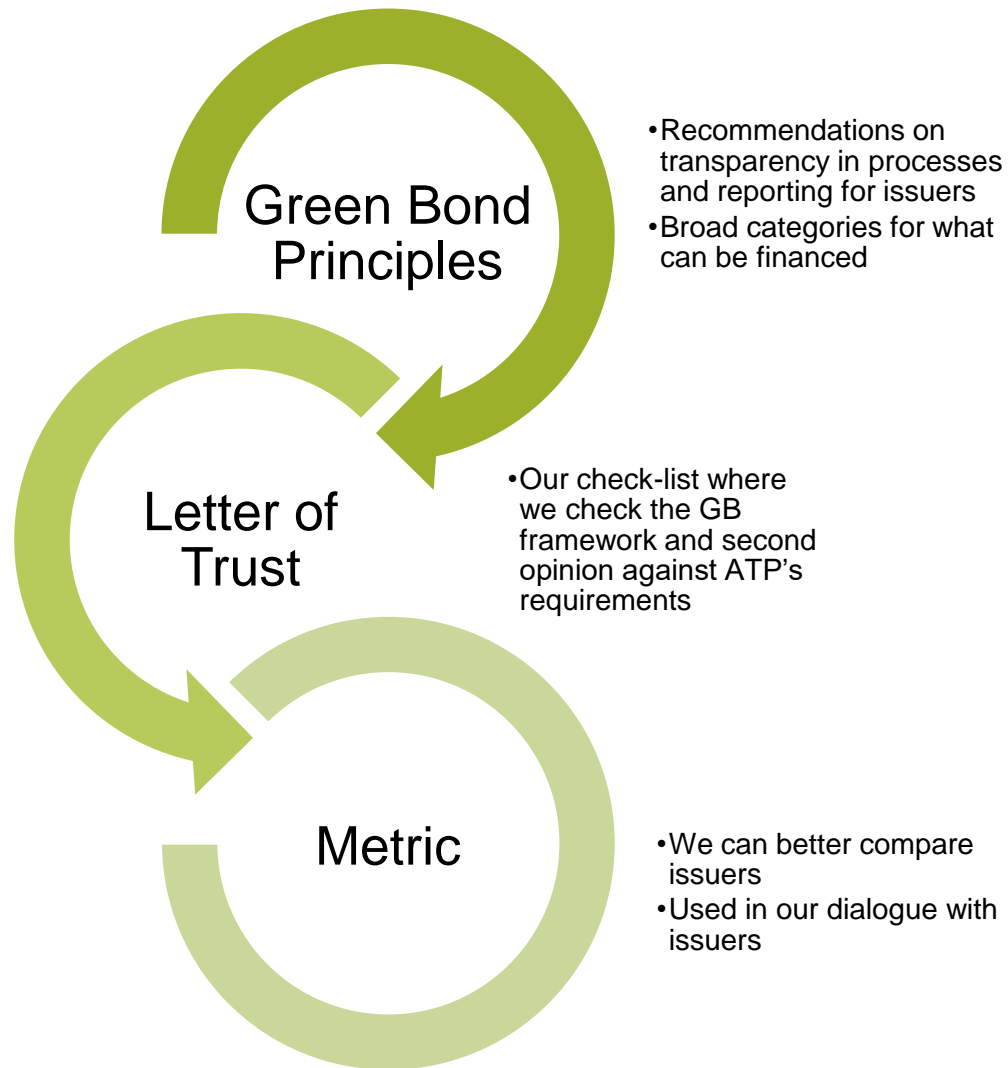
That socio-economic framework conditions continue to support the green transition, making green investments relatively attractive and less risky

#3

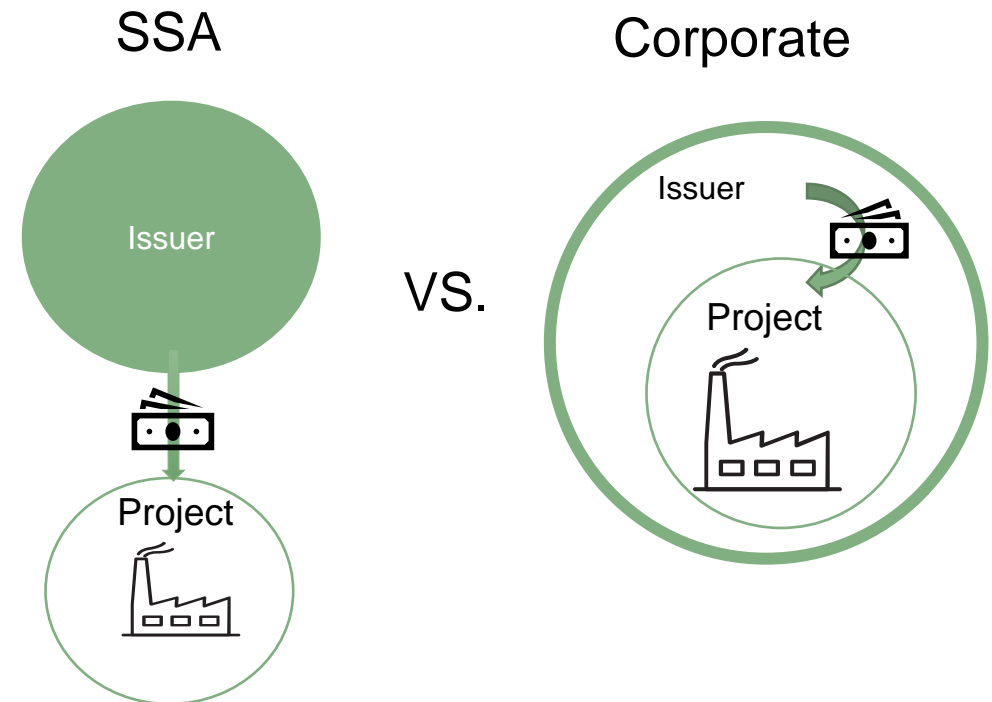
Examples



ATP's approach to green bonds



Green corporate bonds differ in a key aspect



We are therefore more accountable for the activity of the issuer...

Green corporate bonds

We are screening each individual issuer



The process



Green Asset Wallet: Ongoing work

| | | |
|---|--|---|
| Use Of Proceeds | | Total issue volume 173 411 429 000 EUR See currency breakdown |
| Energy efficiency ⓘ 2 of 6 issuers (33%) | Green buildings ⓘ 1 of 6 issuers (17%) | Renewable energy 120 000 EUR spent <hr/> Capacity of energy generation of plant 52 MW <hr/> Annual renewable energy generation 634 MWh <hr/> Annual GHG emissions reduced/avoided 53 t CO2e |
| Terrestrial and aquatic biodiversity conservation ⓘ 1 of 6 issuers (17%) | Renewable energy ⓘ 6 of 6 issuers (100%) | |
| Climate change adaptation ⓘ 1 of 6 issuers (17%) | Clean transportation ⓘ 2 of 6 issuers (33%) | |
| Dialogue and Impact Reporting | | |

ESG-survey, benchmarking og reporting

Annual survey with 110 questions within E, S and G as well as 10 extra SFDR-questions. Both

yes/r

Report

- All directly owned companies receive suggested action points
- Funds not participating are provided a benchmark report and a statistical report

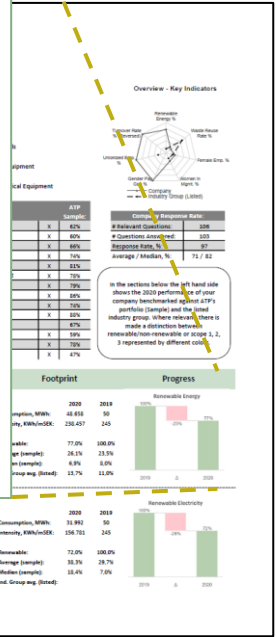
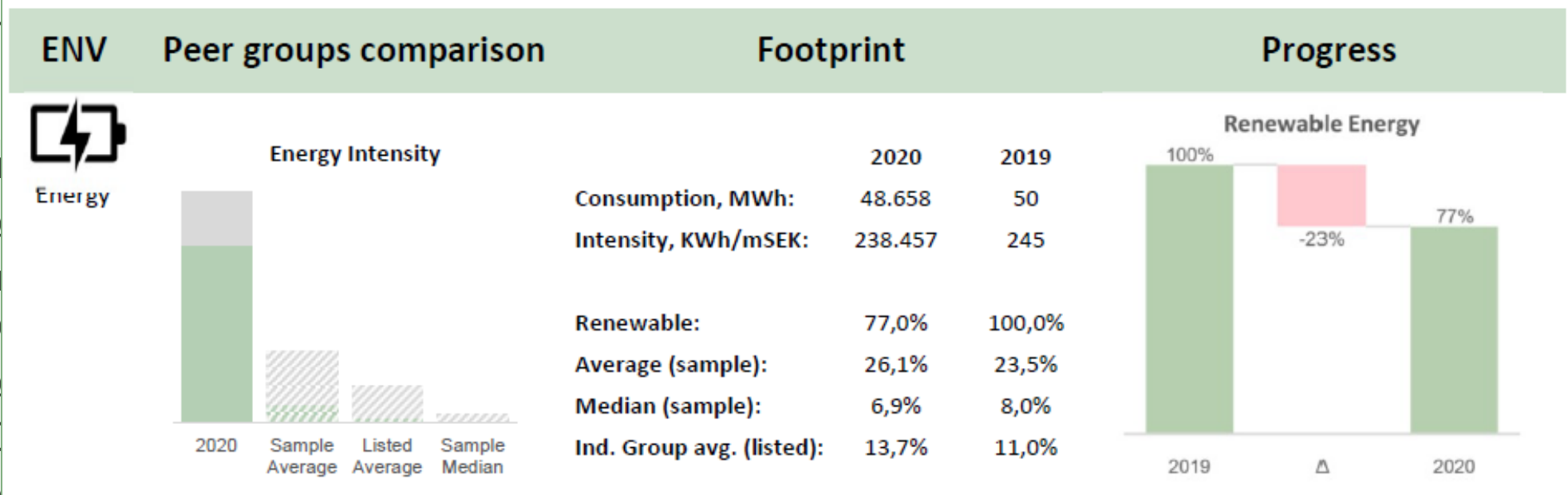
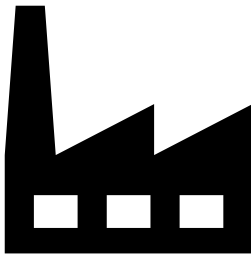


Chart: Company-specific report with benchmarking against portfolios and listed companies

Integrating ESG data as leading indicator for green transition improves return and environmental impact



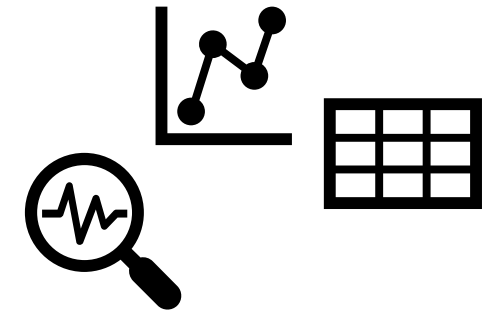
Utilities under pressure in green transition

- small but important part of portfolio
 - big part of portfolio carbon footprint
- GHG intensity is key to picking the winners within utilities



Pick green utilities or utilities going green?

- Implications for the return and the environment?



Combining ESG and GHG emission data and thorough research we have established that systematically picking utilities going green is possible and a better strategy both in terms of returns and expected impact on global GHG emission

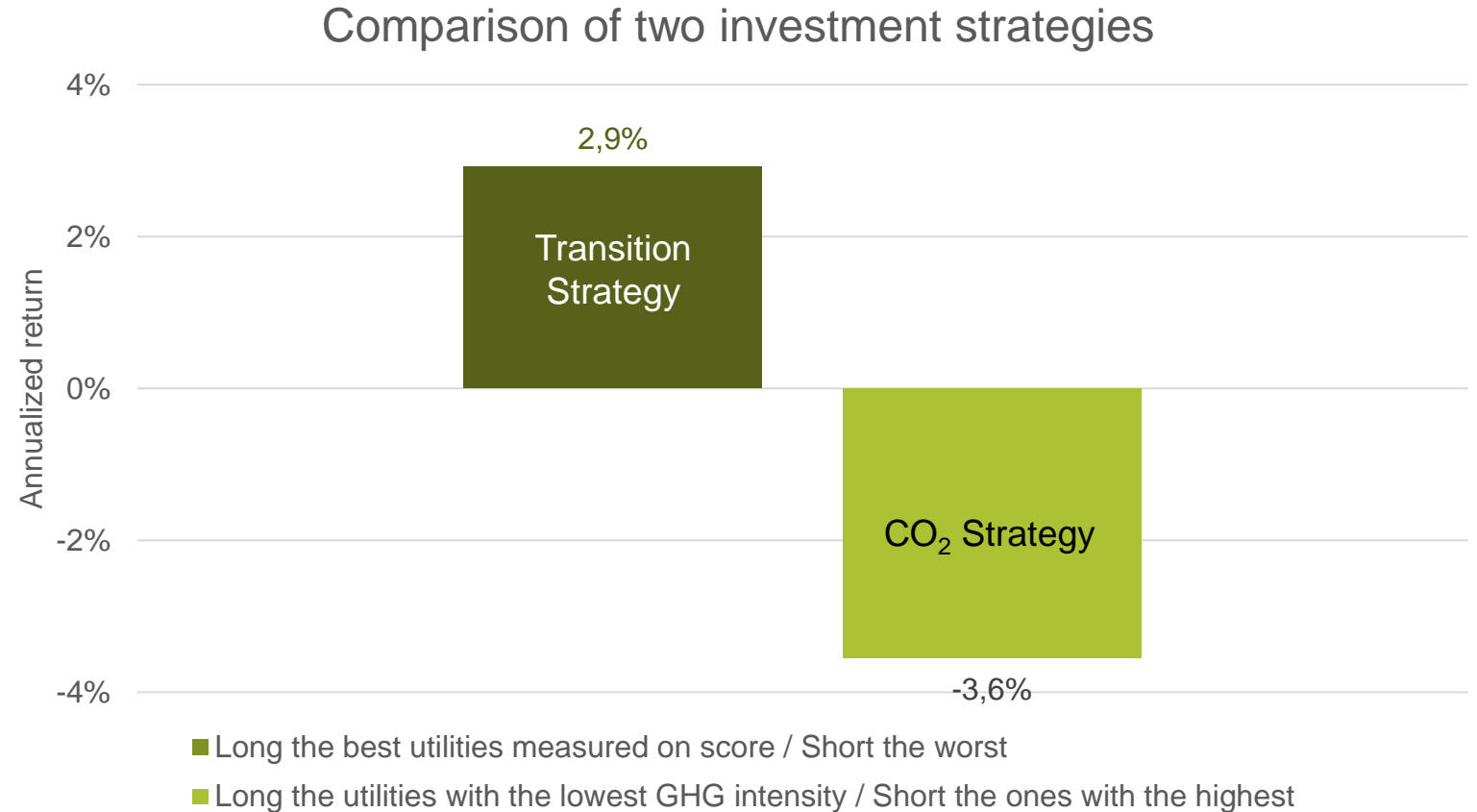
Annualized return from long/short strategies formed on score and intensity

We test to strategies in a back-test:

1. “Transition Strategy”:
Buy the best scoring companies and sell the worst scoring companies

2. “CO₂ Strategy”:
Buy the already most carbon efficient companies and sell the least carbon efficient companies

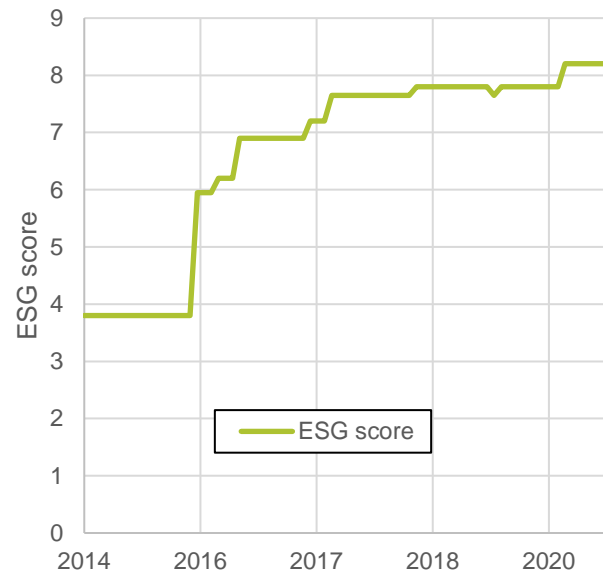
Investing in utilities going green is a better strategy than investing in already green utilities



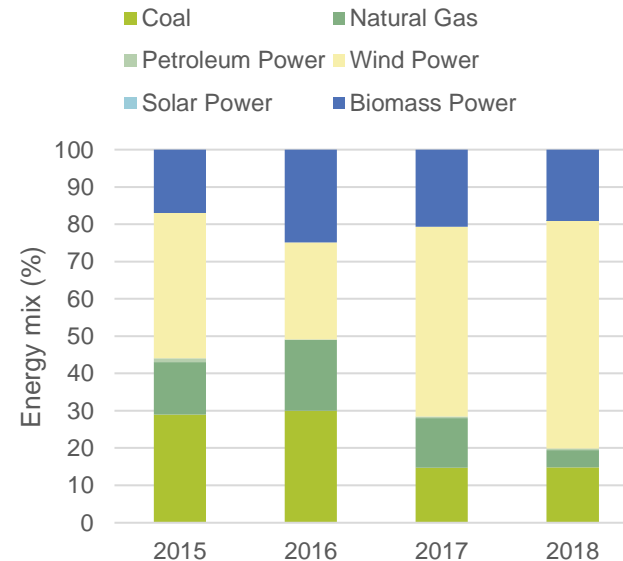
* Data period : 2013-2019. Strategies are scaled to 10% annual volatility

DONG/Ørsted example: ESG scoring and subsequent development

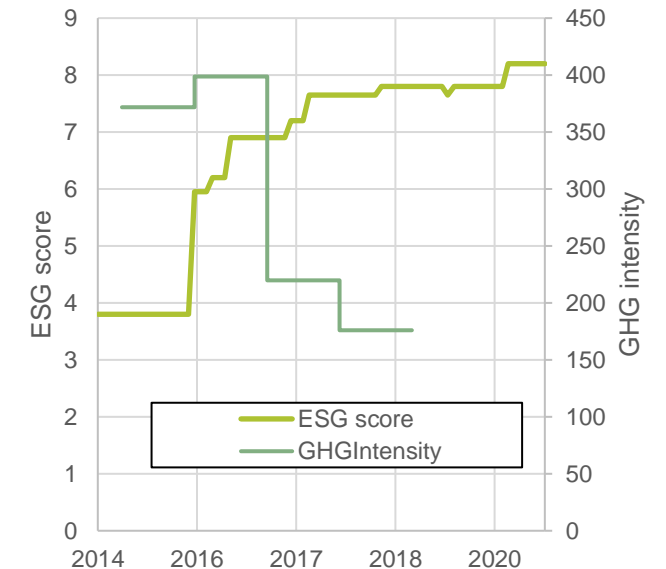
Scoring identified change in management focus beginning 2016...



... where after we saw significant change in energy mix..

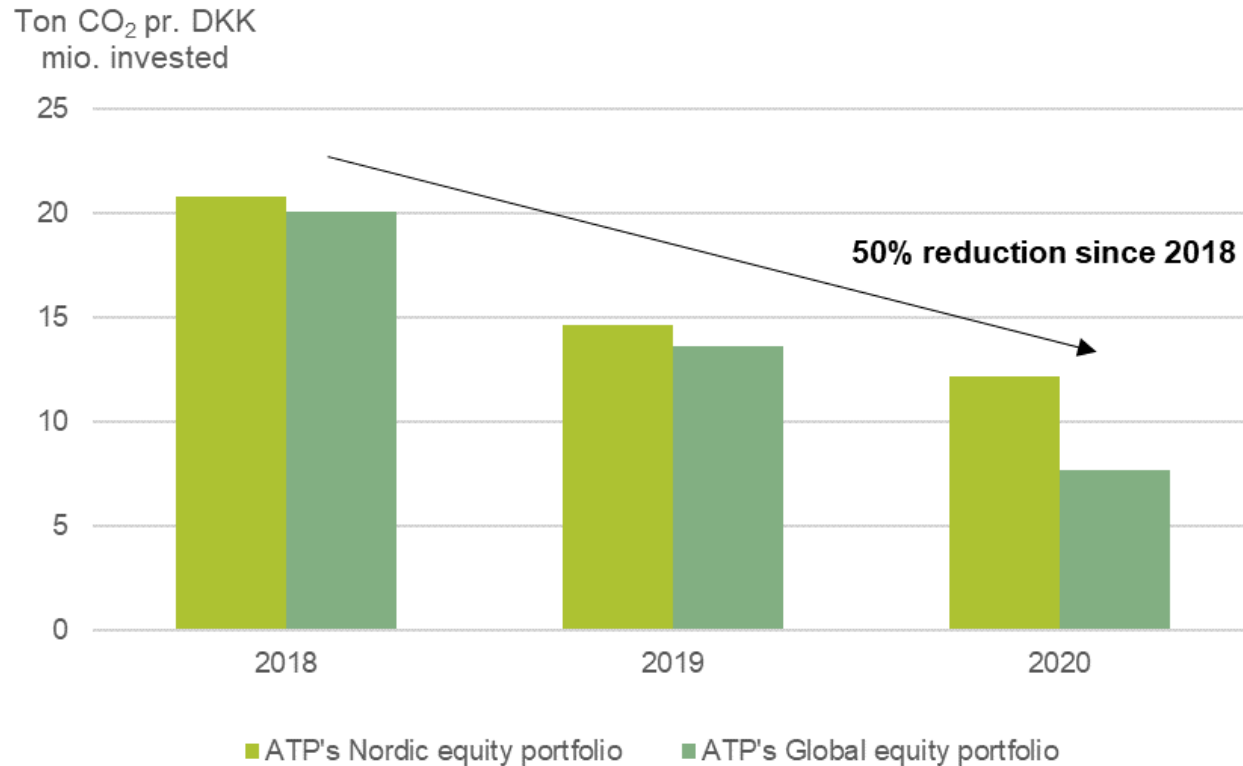


... and GHG intensity

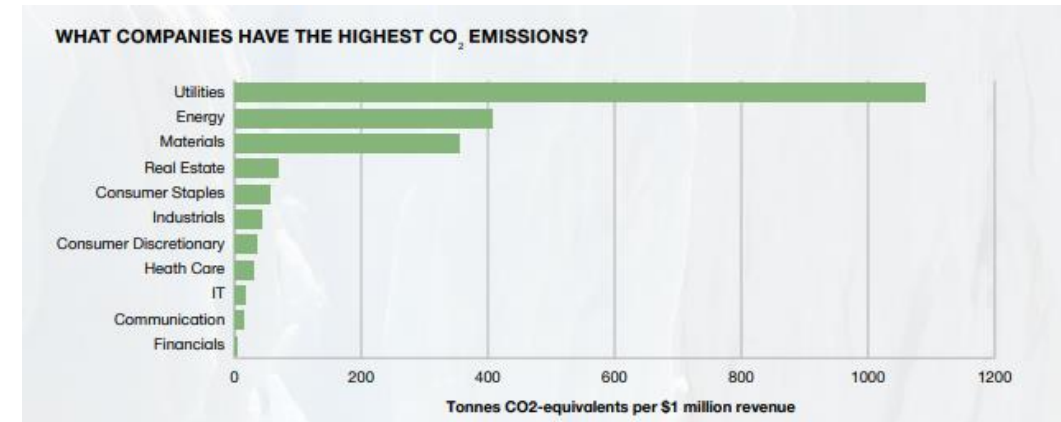


ATP has reduced CO₂ emissions markedly but what does it tell us?

Annual CO₂-emmission from ATP's portfolio of stocks



The carbon footprint from a portfolio mainly reflects the sector exposure

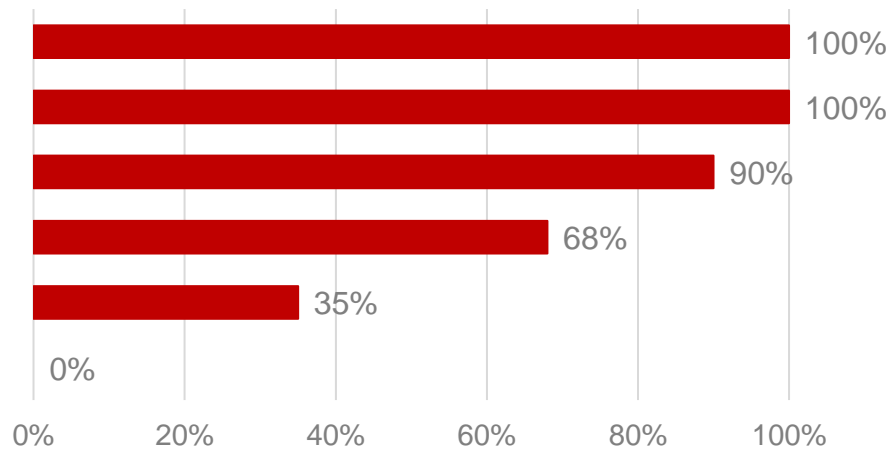


ATP prefers to achieve real reductions through active capital ownership

Dilemma: EU Taxonomy versus CO₂



Estimated Alignment* (% of rev.)

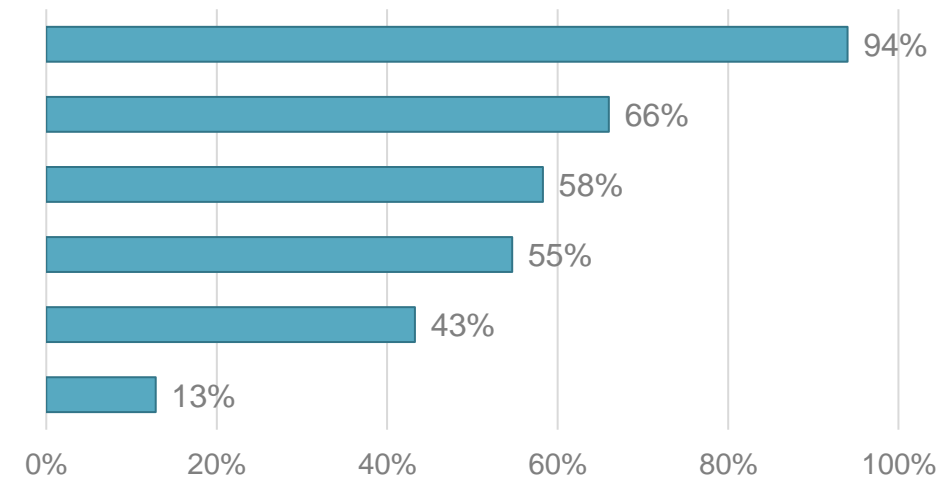


Estimates from data suppliers and banks

Rockwool are expected to get a high score on the alignment with the EU taxonomy but is a very CO₂ intensive company!



Estimated Alignment* (% of rev.)



Estimates from data suppliers and banks

Ørsted has a great share of business activities that are not part of the taxonomy

#4

Q&A

