Danske Invest Launches Sustainable Investment Fund

Stockholm (HedgeNordic) – Danske Invest announced in a press release last month its launch of a new fund, Danske Invest European Corporate Sustainable Bonds. The fund handpicks its holdings based on the underlying companies' sustainability efforts, investing in corporate bonds of European companies, where bonds are selected on the basis of two criteria: a financial assessment of the company, and an evaluation of the company's sustainability efforts.

"There is growing interest among our clients to invest in a more sustainable and responsible manner in light of the trends and challenges we see around us in the world today," says Thomas H. Kjærgaard, head of Sustainable Investments at Danske Invest.

Continues Kjærgaard: "The fund's philosophy is to have a sustainable profile that is clear about what you should *not* invest in and which simultaneously places high demands on what one *actually* invests in, which is forward-looking and actively scales to support sustainable development."

European Corporate Sustainable Bonds differs from so-called Green Bonds, which have been in focus in recent years, but which are limited to CO2 emissions. ECBS focuses instead on the entire spectrum of sustainability, thereby both environmental governance and social development, with investments in e.g. development of new sustainable technologies, water purification and biotechnology.

Before the investment team selects the bonds the fund will invest in, it first selects a number of sectors to remove from consideration, such as alcohol, tobacco, weapons, military activities, pornography, fossil fuels and games. "European Corporate Sustainable Bonds differs here from similar funds in which fossil fuels are not traditionally screened off," says Kjærgaard.

For Danske Invest to consider investing in a company at all, it is contingent that the company complies with the UN's Principles for Sustainable and Responsible Investment (UNPRI) and the UN Global Compact, whose guidelines consist of 10 principles in the areas of human rights, labour, environment and anti-corruption.

After these basic principles are the met, the management team engages at the sector level and investigates how individual companies stand in relation to the so-called ESG criteria. ESG is a key concept in sustainable and responsible investments, accounting for environmental, social and corporate governance. Based on these factors all potential investments are ranked according to an ESG rating between 1 and 100. ESG criteria differ between different industries.

> *"Environmental requirements for the pharmaceutical sector are not the same as environmental requirements for, e.g., the mining sector. And even if a company is engaged in the manufacture of wind turbines, it is not certain it is a good investment if they are not working continuously to render their energy efficient," says Kjærgaard.*

At least 90% of the fund's portfolio will consist of companies in the top half of the ESG rankings for each relevant sector. In other words, companies already well positioned in terms of ESG criteria. Up to 10% of the fund may also consist of so-called delta cases within ESG. This means companies that have not yet reached the top half in rankings, but which, according to Danske's management team, show healthy developments in their sustainability efforts.

> *"This type of company may for example be at the forefront of the development of new sustainable technologies, or there may be companies working to make*

their production more sustainable," says Kjærgaard.

The management team is also in active dialogue with the companies it invests in, and tries to influence companies to implement a more sustainable business strategy.

Fund holdings should consist of at least 75% corporate bonds with a high credit rating, thus "investment grade," while 25% can be in high yield bonds, e.g. bonds with a higher credit risk, but which in return offer a higher interest rate.

The expected annual return of European Corporate Sustainable Bonds is at 1-1,5% after fees, and 97% of foreign exchange risk is hedged.