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Principal Adverse Impact Statement

PFA considers its investment decisions' principal adverse impacts on sustainability factors (PAI). This statement is the PFA Group's declaration on due diligence policies regarding its investment decisions' PAI. The statement covers the period from 10 March 2021 to 31 December 2022.

Description of the principal adverse impacts on sustainability factors (PAIs)
PAIs are to be understood as impacts on factors such as the environment, climate, society and governance, including human rights and corruption and bribery. PFA bases its work on these factors when assessing PAI. Almost all economic activities can have either a positive or a negative impact on sustainability factors. As a responsible investor, PFA assesses and screens its investments based on a wide range of sustainability factors.

The primary impacts, as defined by the EU Sustainable Finance Disclosure Regulation are described below.

Indicators applicable to investments in investee companies

1. GHG emissions
2. Carbon footprint
3. GHG intensity of investee companies
4. Exposure to companies active in the fossil fuel sector
5. Share of non-renewable energy consumption and production
6. Energy consumption intensity per high impact climate sector
7. Activities negatively affecting biodiversity-sensitive areas
8. Emissions to water
9. Hazardous waste ratio
10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational
11. Enterprises
12. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
13. Unadjusted gender pay gap
14. Board gender diversity
15. Exposure to controversi
16. al weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)

Indicators applicable to investments in sovereigns and supranationals

17. GHG intensity

18. Investee countries subject to social violations

Indicators applicable to investments in real estate assets

19. Exposure to fossil fuels through real estate assets

20. Exposure to energy-inefficient real estate assets

Our screening of these indicators depends on data availability and quality, which is expected to improve over time. Other PAIs factors will be added for the next revision.

Initiatives implemented to avoid or reduce PAIs

Companies that are assessed as outliers on one or more PAI indicators are analysed by PFA's ESG and investment teams. Potential initiatives aimed at minimising the impacts will be decided upon by PFA's investment teams, the Responsible Investment Board or the Board of Directors, depending on the nature of the initiative.

As a responsible investor, PFA has a number of initiatives aimed at minimising PAI of its investments. Among other things, we want to contribute to the green transition of the economy and as we joined the UN-supported Net Zero Asset Owner Alliance, we committed ourselves to making our investments compatible with a scenario in which the temperature increases are kept to a maximum of 1.5 degrees Celsius this century. Therefore, climate considerations are integrated in our general investment process, and we are working systematically towards reducing the carbon footprint of our portfolio and we are also actively investing in green solutions. In addition, we investigate the risk of the company violating human rights or labour rights and the risk of the company violating the OECD's guidelines for multinational corporations. In the event of violations, our first priority is to enter into a critical dialogue with companies to influence them to pursue a more responsible and sustainable path.

The assessment of companies' adverse impacts can ultimately result in an exclusion from PFA's invest ment universe. PFA maintains an exclusion list and adds companies that have violated PFA's Policy for Responsible Investments and Active Ownership and which have not wanted to remediate problematic issues.

Read more about our approach and focus areas for responsible investments here.

Policies for identifying and prioritising PAIs

PAIs can result in negative impacts on the value of an investment. Due to this close relationship between adverse impacts and sustainability risks1, PAIs are identified using the same processes that are used to integrate sustainability risks into the investment process. PFA's Policy for Responsible Investments and Active Ownership forms the framework for PFA's work with sustainability risks. PFA's Responsible Investment Board has the overall responsibility for implementing the policy, which is revised and approved by PFA's Board of Directors annually.

PFA identifies, assesses and prioritises its investments' PAIs on an ongoing basis. Relevant adjustments are made based on asset classes and the opportunities and data that PFA has available. PFA uses various sources of information to identify and prioritise the negative sustainability impacts of its investments. These sources include data purchased from external data suppliers, publicly available information (for example, annual reports of companies and NGO reports), and the expertise of our ESG team. The data market for adverse indicators on sustainability factors is still being developed. The assessment of PAIs will therefore always depend on the quality of the data and whether there is access to sufficient data amounts. PFA is continually working towards optimising the data collection and the data quality in the areas that are relevant for the management of the company's assets.

PFA views climate-related risks as being the most comprehensive and material sustainability risk across sector and countries. Global warming and the derived physical climate changes can impact the performance and operations of companies, just as transitory changes in the form of more regulation and technological developments can challenge a company's products and services. Both factors impact companies as well as the securities they issue. The emission of greenhouse gases (typically converted into CO2 equivalents) drive global warming, and therefore they amount to the greatest negative externality for PFA's investment portfolio. Therefore, PFA particularly prioritises PAI indicators 1 – 4.

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1. A sustainability risk is an environmental, social or governance event or circumstance that, if it materialises, may have a significant negative impact on the value of the investment.

PFA's investments can also be negatively impacted by social and governance events or circumstances such as there being violations of human rights or labour rights as well as inferior employee relations, irresponsible taxes practices or corruption cases. As PFA is investing globally in different companies, sectors and countries, PFA will be exposed to companies that operate in countries associated with greater social and governance-related sustainability risks than would be the case if only investing in the EU or in Denmark.

Therefore, PFA's investment strategy seeks to ensure that PFA invests in companies with good governance and responsible social conditions by, among other things, looking for compliance with international standards, norms and principles. Based on the international conventions and guidelines, PFA also does not want to invest in companies that produce controversial weapons such as cluster bombs, anti-personnel land mines or nuclear weapons. For these kinds of companies, PFA chooses simply not to get involved and they are excluded systematically based on external data about their involvement with such activities. Thus, PFA also particularly prioritise PAI indicator 10 and 14.

Further prioritising of the principal adverse indicators depends on the investment in question.

Policy for Active Ownership

PFA's Policy for Responsible Investments and Active Ownership forms the framework for PFA's work with active ownership. PFA's size and investment capacity allows it to influence companies, and this is therefore one of the key factors behind PFA's approach towards active ownership. PFA manages the vast majority of its total investment funds internally, where knowledge-sharing across departments provide good prerequisites for using PFA's investment to wield influence via ownership dialogues.

Fundamentally, PFA does not want to limit its investment opportunities, and it would rather be invested in a transition than waiting for it to have already taken place. PFA's approach is thus based on an assessment of whether one is giving up the opportunity to influence companies by a divestment or excluding them. PFA thus prioritises being an active owner that influences companies to choose a sustainable direction and thus ensure long-term value creation via a reduction of the sustainability risks associated with PFA's investments.

In order for PFA to wield its influence on a company optimally, the work requires depth and persistence, which puts a limit on how many companies PFA can engage in active dialogues with. PFA's approach therefore involves engaging on multiple levels. To have the most impact, PFA will as far as possible work together with other investors and stakeholders, among other things, via global partnerships such as Climate Action 100+. PFA also engages in dialogues with companies independently, and the dialogues are chosen based on a proportionality principle that ensures that the priority is on engaging with companies that have a great deal of exposure to sustainability risks and that the companies selected are the ones where PFA can gain the most insight and wield the most influence. For a more detailed description of PFA's approach to active ownership, please see PFA's Guidelines for active ownership, which can be found at pfa.dk.

References to international standards

PFA's understanding of the integration of sustainability in investments is therefore based on international standards, principles and conventions. Among other things, this involves global guidelines for how a responsible investor should work with human rights, labour rights, good governance, anti-corruption and the climate and environment:

- The UN-backed principles for responsible investments via membership of the UN PRI (UN Principles for Responsible Investment) organisation.
- The UN Global Compact's 10 principles for responsible corporate behaviour, with a focus on human rights, labour rights, the environment and anti-corruption work.
- The UN's guidelines for business and human rights, based on the rights covered by the International Bill of Human Rights.
- The OECD's guidelines, 'Responsible Business Conduct for Institutional Investors', which concerns the implementation and prioritisation of due diligence to ascertain whether an investment negatively impacts society.
- The Danish Business Authority's guidelines for responsible investments.