AP PENSION REPORT ON

THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) RECOMMENDATIONS

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INTRODUCTION AND BACKGROUND

> "For millennia, on a global scale, nature has been largely predictable and stable. But now, in the space of one human life time, indeed, in the space of my lifetime, all that has changed. The Holocene has ended. The Garden of Eden is no more."
>
> *David Attenborough, World Economic Forum, Davos, 2019*

This report will provide AP Pension's climate-related performance, strategy and metrics, according to the disclosure requirements of the TCFD. Before detailing the outcomes of the assessment conducted by ISS ESG, it is important to lay out three elements:

1. **The TCFD** – Background, objectives and requirements.
2. **AP Pension's objective** – Key reasons for producing this report.
3. **Aligning this report with the TCFD Recommendations** – Breakdown of disclosure requirement alignment.

1. AP PENSION'S OBJECTIVE

AP Pension is dedicated towards improving the sustainability reporting of its company and investments. To do this, AP Pension is utilizing the TCFD Recommendations as a framework, demonstrating a forward-thinking and long-term perspective of climate-related factors.

> "At AP Pension we are always aiming at improving the way we run our business. During the last year, one of the areas we have chosen to significantly increase our focus on is ensuring that our customers' saving are managed in an even more responsible way. Specifically we have taken two steps in the direction towards a more responsible investment process. First of all we have increased the degree of conducting what is called active ownership, and second of all we have increased transparency in relation to our investments. While we at the same time have taken various measures to increase the scope of active ownership, a report following the TCFD recommendations is an obvious way of increasing transparency in our investment portfolio. This TCFD report allows us to elevate transparency to a new level while providing a consistent disclosure framework."
>
> *Bo Normann Rasmussen, AP Pension CEO*

As the first TCFD Report being produced by AP Pension, the objective is to be open and transparent about AP Pension's sustainability performance, indicating where areas for improvement are possible and should be targeted.

The ambition is that this first report can act as a baseline for future reports to be compared with in two contexts:

1. **Quantity:** The number of TCFD Recommendations that AP Pension can provide clear and strongly-aligned answers to.
2. **Quality:** The extent to which the responses to the TCFD have improved (in terms of depth) year on year.

2. WHAT IS THE TCFD?

The TCFD, chaired by Michael Bloomberg, aims to increase climate transparency in financial markets through recommendations on disclosure. These recommendations provide a “consistent framework that improves the ease of both producing and using climate-related financial disclosures”. It views climate transparency as key to the future of financial markets. In the wake of the 2015 Paris Agreement, the TCFD was launched by the Financial Stability Board (FSB), chaired by Mark Carney. With over 400 disclosure frameworks for corporates and 12 for investors, the TCFD intends to create a sole standard based on the existing frameworks, understanding that local regulations may require differing levels of compliance.

2.1 THE TCFD RECOMMENDATIONS

The Recommendations Report and supplementary materials were released on 29th June 2017. The Recommendations have been split into four themes:

1. **Governance:** The organization’s governance around climate-related risks and opportunities.
2. **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.
3. **Risk management:** The processes used to identify, assess, and manage climate-related risks.
4. **Metrics and targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Each theme has sub-themes with specific approaches for assessment and disclosure of the associated climate risk. Compliance with the themes and metrics will enable the industry to produce consistent and comparable disclosures, benefitting corporates and investors alike. The TCFD created guidance covering all sectors, with specific guidance for Banking, Insurance, Asset Managers & Owners, Energy, Transport, Materials & Buildings, Agriculture and Food & Forestry. This report’s contents will align to both the general Recommendations and the specific guidance for Asset Managers & Owners.

The recommendations incorporate scenario analysis to help investors understand the resilience of organizations to climate-related risks. These scenarios ensure that investors can support decarbonization efforts by considering companies through a climate lens. The scenarios start at 2^{o}C, matching the Paris Agreement, going lower to 1.5^{o}C and other more ambitious targets.

2.1.1 RECOMMENDATIONS BREAKDOWN

As detailed above, the TCFD Recommendations are segmented into four categories, with both general Recommendations and specific guidance for Asset Managers & Owners. Overall, there are 11 general Recommendations and of these, six have the specific additional guidance. Tables 1 and 2 below show this:

GOVERNANCE	STRATEGY	RISK MANAGEMENT	METRICS & TARGETS
(a) Describe the board's oversight of climate-related risks and opportunities.	(a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	(a) Describe the organization's processes for identifying and assessing climate-related risks.	(a) Disclose the metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process.
(b) Describe management's role in assessing and managing climate-related risks and opportunities.	(b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	(b) Describe the organization's processes for managing climate-related risks.	(b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	(c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	(c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	(c) Describe the targets used by the organization to manage climate-related risks and opportunities

Figure 1 - TCFD general disclosure Recommendations for all companies

STRATEGY	RISK MANAGEMENT	METRICS & TARGETS
(b) Describe how climate-related risks and opportunities are factored into relevant investment strategies. This could be described from the perspective of the total fund or investment strategy or individual investment strategies for various asset classes.	(a) Describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks to improve data availability and asset owners' ability to assess climate-related risks.	(a) Describe metrics used to assess climate-related risks and opportunities in each fund or investment strategy. Where relevant, asset owners should also describe how these metrics have changed over time. Where appropriate, provide metrics considered in investment
(c) Consider providing a discussion of how climate-related scenarios are used, such as to inform investments in specific assets.	(b) Describe how they consider the positioning of their portfolio with respect to the transition to a lower-carbon energy supply, production and use. This could include explaining how asset owners manage their portfolios' positioning relating to the transition.	(b) Provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy. In addition, asset owners should provide other metrics they believe are useful for decision making along with a description of the methodology.

Figure 2 - TCFD specific disclosure Recommendations for Asset Managers & Owners

3. ALIGNING THE REPORT WITH THE TCFD RECOMMENDATIONS

As described previously, there are 11 general disclosure Recommendations and six specific ones for Asset Managers & Owners. Table 3 below lists out the Recommendations (*highlighting those which are under the list specifically targeting asset managers and owners*) and where in the report the assessment is detailed:

TCFD CATEGORY	RECOMMENDATION	REPORT LOCATION
Governance	(a)	TCFD Assessment: Page 20
	(b)	TCFD Assessment: Page 20
Strategy	(a)	TCFD Assessment: Page 21
	(b)	TCFD Assessment: Page 21
	(c)	TCFD Assessment: Page 21
Risk Management	*(a)*	TCFD Assessment: Page 22
	(b)	TCFD Assessment: Page 22
	(c)	TCFD Assessment: Page 22
Metrics & Targets	*(a)*	TCFD Assessment: Page 23
	(b)	TCFD Assessment: Page 23
	(c)	TCFD Assessment: Page 24

Figure 3 - Matrix for TCFD content and Report location

DATA ANALYSIS

The data analysis incorporates three sub-sections:

1. **Carbon footprint assessment:** compared with a benchmark[1], includes Scope 1, 2 & 3 emissions, carbon metrics such as the Weighted Average Carbon Intensity, the Top 10 portfolio emitters and a disclosure breakdown.
2. **Norm-Based Research:** demonstrates AP Pension's adherence to the global norms set by the UN Global Compact according to which controversies have taken place that are counter to these norms.
3. **Decarbonization:** provides an analysis of how AP Pension's portfolio may have performed if certain climate laggards were removed and climate leaders had an increased weight.

Across these three sub-sections, several TCFD Recommendations (particularly those in the Metrics & Targets section) are fulfilled. In addition, certain aspects of the data analysis go beyond what is required by the TCFD but AP Pension see as essential to reporting on their holistic climate impact.

1. CARBON FOOTPRINT ASSESSMENT

This part of the data analysis section focuses on measuring and reporting on the carbon footprint of AP Pension's portfolio, compared with a selected benchmark. This aligns with all three of the TCFD Recommendations under the category "Metrics & Targets". The assessment shows how well AP Pension's portfolio performs from a climate perspective, and which companies and sectors are those contributing highest or lowest to the overall portfolio footprint. The methodology of this entire section is on Page 12.

1.1 CARBON FOOTPRINT ANALYSIS

This analysis of the AP Pension Portfolio[2] compares the carbon emissions and other carbon related characteristics of the underlying portfolio companies with the benchmark. The table below includes absolute and relative figures for portfolio carbon emissions as well as intensity measures. The "Emission Exposure" section measures the carbon footprint of a portfolio taking Scope 1 & 2 as well as Scope 3 emissions into account. The relative carbon footprint is a normalized measure, defined as the total carbon emissions of the portfolio per million DKK invested. Carbon intensity is expressed as the weighted average carbon emissions per million DKK of revenue as a proxy of the carbon efficiency per unit of output.

[1] The benchmark is the MSCI All Country World Index (ACWI). It will be referred to throughout the document as either MSCI ACWI or benchmark.
[2] Includes all listed equities that are held as direct investments and thus doesn't include third party funds such as passively managed index funds.

PORTFOLIO OVERVIEW	Disclosure			Emission Exposure				
	Disclosing Holdings	Share (by number of issuers)	Share (by weight)	Emission Exposure Scope 1&2 [tCO_2e]	Emission Exposure incl. Scope 3 [tCO_2e]	Relative Carbon Footprint [tCO_2e / Mio DKK invested]	Carbon Intensity [tCO_2e / Mio DKK Revenue]	Weighted Average Carbon Intensity [tCO_2e / Mio DKK Revenue]
Portfolio	164	58,8%	73,4%	241.496	1.021.464	10,8	22,9	18,6
Benchmark	1.463	55,5%	76,2%	533.516	2.204.626	23,9	37,0	45,7
Net performance	-	+3,3 p.p.	-2,8 p.p.	+54,7%	+53,7%	+54,7%	+38,1%	+59,2%

*p.p. = Percentage Points

Figure 4 - AP Pension portfolio and benchmark carbon footprint overview

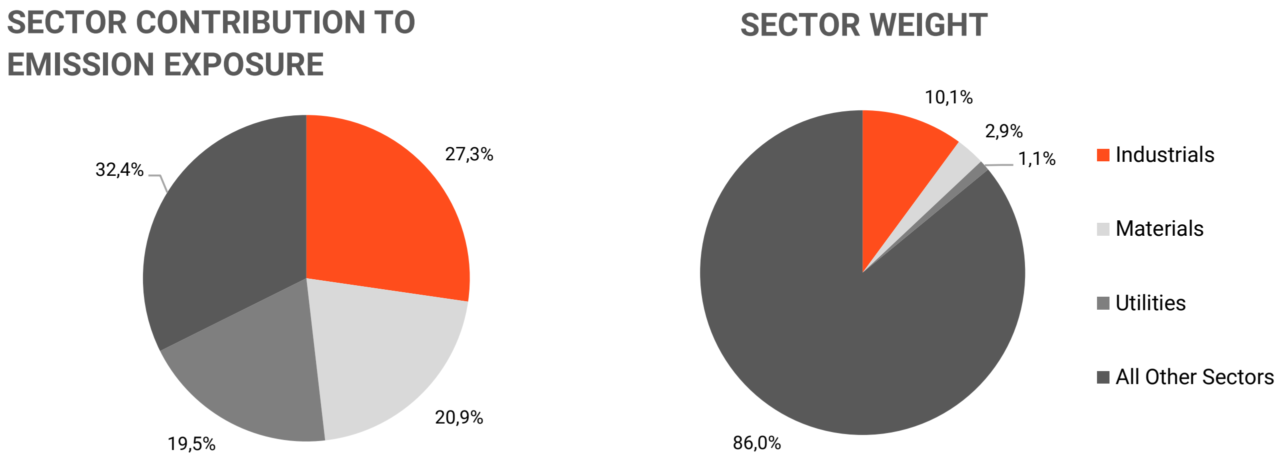

Figure 5 - AP Pension portfolio sector emission breakdown

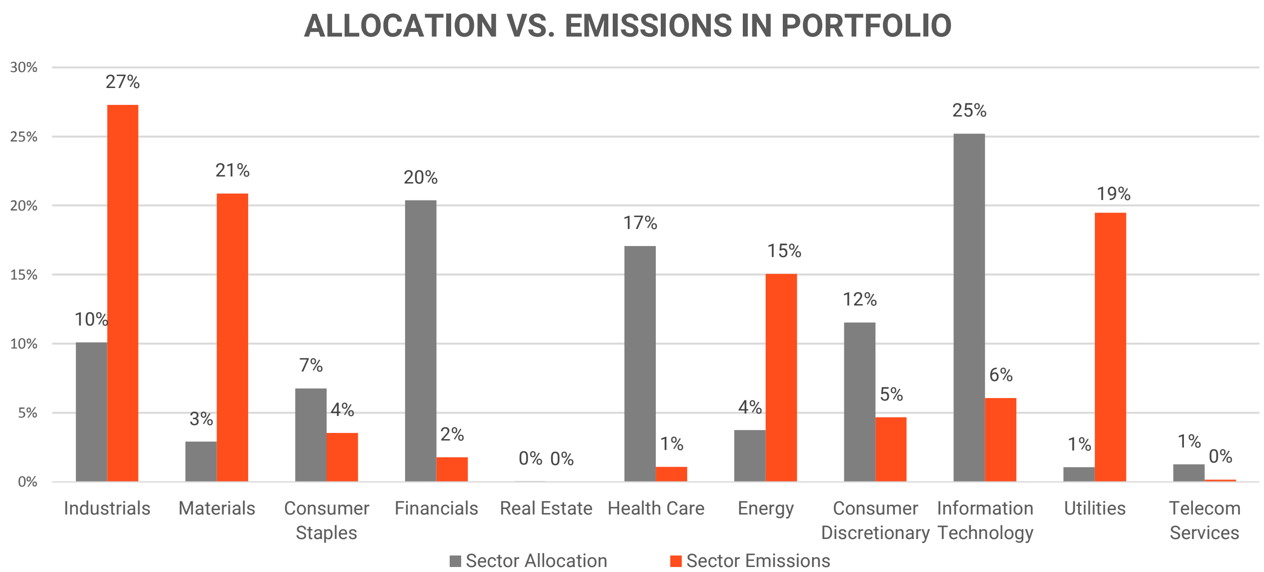

Figure 6 - AP Pension portfolio sector emission vs allocation breakdown

Putting a price on carbon:
If an investor into the AP Pension Portfolio had to pay for the emissions relative to ownership, the potential cost would amount to 1,297 DKK per 1 million invested, or equivalent to 28,979,539 DKK based on the current total value of the portfolio (assuming a price of carbon of 120 DKK / tCO_2e).

Footprint of the biggest issuers by portfolio weight:
The issuers with the highest portfolio weight may have a significant influence on the portfolio's carbon footprint. Thus, the following list provides the carbon footprint of the 10 largest issuers in the portfolio (by weight), their emissions and their contribution to the portfolio emission exposure.

Issuer name	Portfolio weight	Scope 1 & 2 emissions [tCO_2e]	Emission Exposure[tCO_2e]	Contribution to portfolio Emission Exposure
1. MICROSOFT CORP	2,48%	125.573,0	13,5	0,01%
2. ALPHABET INC-CL	2,13%	1.584.861,0	155,1	0,06%
3. SAMSUNG ELECTRONICS	2,02%	11.600.000,0	3.493,9	1,45%
4. ORACLE CORP	1,77%	365.721,0	129,6	0,05%
5. NOVO NORDISK A/S-B	1,55%	102.830,0	47,3	0,02%
6. NESTLE SA-REG	1,48%	7.090.518,0	1.420,6	0,59%
7. MASTERCARD INC	1,47%	37.255,0	9,4	0,00%
8. VESTJYSK BANK A/S	1,36%	1.787,6	301,6	0,12%
9. BAIDU INC - SPON	1,26%	185.039,4	139,3	0,06%
10. TAIWAN SEMICONDUCT	1,26%	7.374.803,0	1.755,9	0,73%
Total for top 10	**16,79%**	**28.468.388,0**	**7.466,2**	**3,09%**

Figure 6 - Top 10 AP Pension portfolio emitters

Portfolio attribution analysis:
The attribution of the carbon footprint to assets can be classified in two steps:

1. The sector allocation of investments, which determines how each sector is weighted within the total portfolio. Higher investments in GHG-heavy sectors thereby generally result in a bigger carbon footprint of the portfolio overall.
2. The stock selection within each of the sectors. Stock selection favoring investments in issuers with lower CO2e can notably lower the carbon footprint of the portfolio.

Sector	Sector Weighting Difference	Sector Allocation Effect	Stock Selection Effect
Industrials	-0,1%	0,1%	-4,9%
Materials	-2,1%	10,9%	5,7%
Consumer Staples	-1,5%	0,5%	0,6%
Financials	3,0%	-0,2%	0,6%
Real Estate	-3,1%	1,0%	0,0%
Health Care	5,4%	-0,2%	0,3%
Energy	-2,6%	7,9%	4,4%
Consumer Discretionary	-0,7%	0,2%	0,3%
Information Technology	6,2%	-0,5%	-0,6%
Utilities	-2,2%	25,1%	3,1%
Telecommunication Services	-1,8%	0,4%	0,2%
Cumulative Performance		45,1%	9,7%
Net Performance		54,7%	

The AP Pension Portfolio considerably outperforms the benchmark in terms of GHG emission exposure. This is the results of lower sector allocation and better stock selection in the GHG-intensive Utilities, Materials and Energy sectors.

Figure 7 - Attribution analysis of AP Pension portfolio and benchmark

1.2 TRANSITION RISK

The political landscape shifts to a state in which reduced GHG emissions are favored. As a consequence, fossil energy faces the risk of emerging policies designed to reduce its market share. This socio-political transition deserves special attention from investors. Companies relying on fossil fuel for their business models face specific regulatory risk, especially the Energy and Utilities sector.

Green / Brown share:

Utility companies are potentially strongly exposed to transitional risks as the production of fossil-based electricity is a key contributor to climate change.

AP Pension Portfolio invested a total of 235.2 Mio. DKK in the Utilities sector, making up 1.1% of the total portfolio. The higher their share of energy production from fossil fuels, the higher the potential investment risk. The brown share in AP Pension Portfolio across all utilities is 52.3%. 19.5% of the annual portfolio greenhouse gas (Scope 1 & 2) exposure stems from the Utilities sector. When including Scope 3 emissions, the Utilities sector's contribution to overall emissions decreases to 8.1%.

The attributed share of capacity dedicated to renewable energy generation ("green share") in AP Pension Portfolio is 13.9%. Moreover, 2.4% of the portfolio is invested into the Clean 200™, a collaboration of As You Sow and Corporate Knights that displays the 200 companies with the largest total clean energy revenues across all activities.

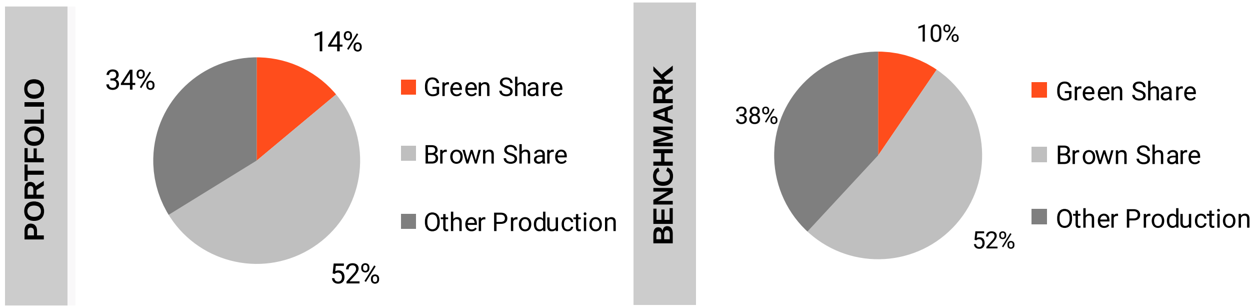

Figure 8 - AP Pension portfolio and benchmark Green/Brown share analysis

Fossil fuel reserves:
Oil, Gas and Coal companies in the Energy sector are strongly exposed to transitional risks. AP Pension Portfolio invested a total of 834.2 Mio. DKK in the Energy sector, accounting for 3.7% of the total investment

Fossil fuel reserves of Energy companies will potentially be exploited and burned in the future and are thus associated with potential future emissions. The companies in the portfolio are associated with a total of 2,678,928 tCO_2e of potential future emissions based on an ownership logic. In order to limit global warming to 2° Celsius, roughly 80% of all the world's fossil fuel reserves need to stay in the ground. Hence, 80% of the value held by AP Pension Portfolio in Energy companies would be at risk. This equals 667.4 Mio. DKK, or 3% of the total assets analyzed.

15.1% of the annual portfolio greenhouse gas (Scope 1 & 2) exposure stems from the Energy sector. When including Scope 3 emissions, the contribution of the energy sector to the overall emission exposure increases to 41.4%. 3.3% of the portfolio is invested into companies owning oil, coal or gas reserves.

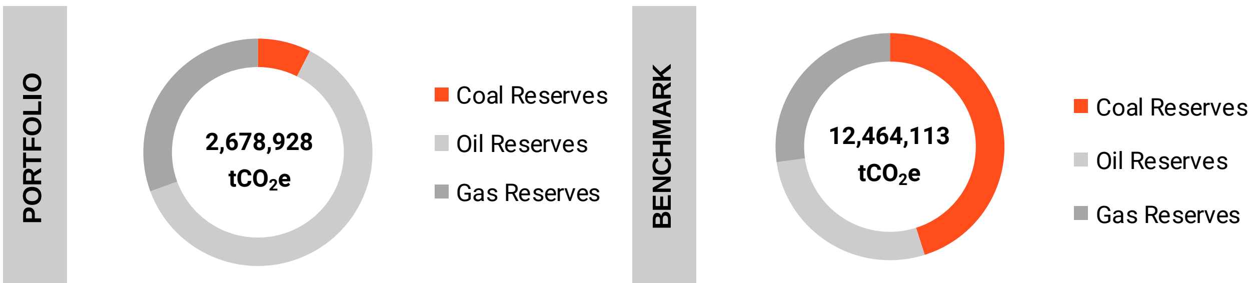

Figure 9 - AP Pension portfolio and benchmark fossil fuel reserves assessment

1.3 PHYSICAL RISK

Rising temperature levels, even if limited to 2°C, will cause changes of the climate system resulting in physical risks. Physical risks can be classified into long term weather changes and extreme weather events such as storms, floods or droughts. Companies' exposure to these two types of physical risk depends on two factors: sector and geographical region they are active in. Companies exposed to high physical risks represent 0% of the value of AP Pension Portfolio, 0.9 percentage points less than the benchmark.

Sector	Share in portfolio	Physical Risk: Long Term	Physical Risk: Acute
Industrials	10%	🟢	🟢
Materials	3%	🟢	🔴
Consumer Staples	7%	🟡	🟢
Financials	20%	🟢	🟢
Real Estate	0%	🟢	🟡
Health Care	17%	🟢	🟢
Energy	4%	🟡	🟡
Consumer Discretionary	12%	🟢	🟢
Information Technology	25%	🟢	🟡
Utilities	1%	🟢	🟡
Telecommunication Services	1%	🟢	🟡

Figure 10 - AP Pension portfolio physical risk analysis by sector

Geographical Region	Share in portfolio	Physical Risk: Long Term	Physical Risk: Acute
Africa	0%	*Not invested*	*Not invested*
Asia	16%	🟡	🟢
Europe	22%	🟡	🔴
North America	60%	🟡	🔴
South America	1%	🟡	🟡
Oceania	1%	🟡	🟡

🟢 Low risk 🟡 Medium risk 🔴 High risk

Figure 11 - AP Pension portfolio physical risk analysis by geography

1.3 CONTRIBUTION TO CLIMATE GOAL

26.6% of AP Pension Portfolio's value is invested in holdings that do not report their greenhouse gas emissions and are, therefore, very likely not contributing to the international climate goal of reducing emissions. 15.8% of the portfolio's value is invested in companies that disclose their emissions, but do so very inconsistently. 57.6% of the portfolio's value is invested in companies that are consistently reporting and have thus taken first steps towards climate policy goals. 11.1% of the issuers in the assessed portfolio have committed to setting a science based target (SBT). Of those, 3.9% are companies that have already set a concrete target. In terms of invested value, companies committed to SBTs are equivalent to 14.9% of the value of the portfolio. This is 0.5 percentage points higher than the benchmark.

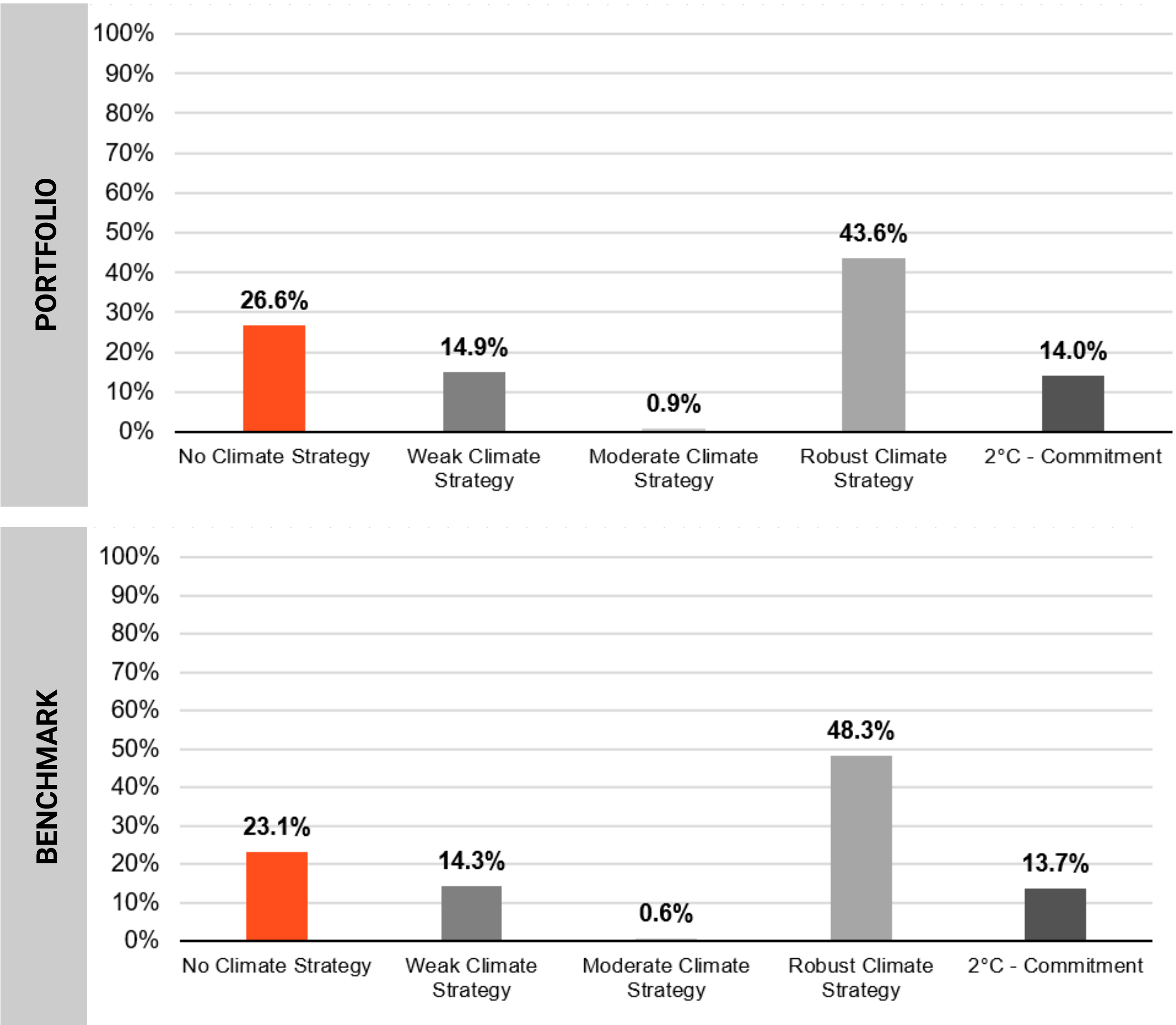

Figure 12 - AP Pension portfolio and benchmark contribution to climate goal analysis

Climate Management Score - Legend:		
●	No Climate Strategy	Companies not disclosing GHG Emissions. Disclosure can be seen as first step of a climate strategy.
●	Weak Climate Strategy	Companies reporting GHG Emissions inconsistently[3]
●	Moderate Climate Strategy	Companies reporting GHG Emissions inconsistently[1], have set an SBT[4]
●	Robust Climate Strategy	Companies reporting GHG Emissions consistently[1]
●	2°C	Issuers reporting GHG Emissions consistently[1], have set an SBT[2]

Methodology

Carbon footprint

ISS-climates's approach to measuring the climate impact of investment portfolios delivers the largest coverage, highest data quality, standardized and customizable and most transparent analysis in the market. It is based on two pillars: (1) collection of self-reported GHG data from all available sources, including CSR reports, CDP and websites. This self-reported data is validated by analysts, with 20-25% dismissed as not trustworthy. (2) For all non-reporting or poorly reporting companies, ISS-climate developed a sophisticated approach for modeling such data with researchers from the Swiss Federal Institute of Technology, allowing a coverage of at least 99% of the entire investable public equity universe. Unlike conventional approaches, which use a single key metric such as revenue to estimate emissions, ISS-climate's approach relies on about 800 subsector specific models, applied on a proprietary, carbon-focused subsector classification system.

Transitional risk

Green Brown Share: A carbon footprint gives a first indication of the utility companies most strongly contributing to a portfolio's Emission Exposure. This needs to be complemented by an analysis of the utilities' CO_2 emitting energy carriers. The share of electricity produced using coal, gas and oil is defined as the Brown Share. The share produced using renewable energy sources is defined as the Green Share.

Reserves Analysis: Fossil Fuel Reserves are analyzed based on the FFI database that covers 97% of reported fossil fuel reserves of listed companies globally. Rankings are constructed using a reserves-based methodology with the underlying core data based on "reported" reserves. Coal reserves are the sum of proven and probable reserves based on the last reported reserves amount by mine. Reserves are allocated to listed companies based on percentage ownership of individual mines. Oil and gas companies are ranked on proven reserves net of royalty payments. The Carbon Underground 200 relies on the IPCC Revised 1996 Guidelines for National GHG Inventories as a methodological framework. The calculation of CO_2 emission potential requires several conversions to the raw reserves figures.

Physical risk

Each sector and region have characteristic physical risk levels relating to their exposure to long term climate change and catastrophic events. Based on regional and sectoral analysis of the portfolio, a general level of exposure to physical risks can be attributed to the portfolio. The sector of each holding's main field of activity is determined and the company is attributed the corresponding risk level. This is done using ISS-

[3] The Consistent/Inconsistent Reporting reflects ISS-climate's Trust Metric, a quantitative rating to assess the reliability of self-reported data.
[4] Companies with a science-based target (SBT) have set themselves and emission reduction target in line with the international climate goal.

climate's proprietary sector classification that determines a company's main field of operations. The same is done for the company's main region of activity, based on the headquarter location of the company. The calculations are based on research by Moody's, the Sustainable Accounting Standard Board (SASB) and CICERO.

Contribution to climate goal

The internationally agreed goal aims to reduce GHG emissions, limiting global warming. To assess the alignment of a portfolio with this climate goal, this analysis determines how many portfolio companies have taken steps towards a climate policy or have set themselves targets in line with the international climate goal. Measuring GHG emissions is the first step for any corporate climate strategy and necessary for setting emission reduction targets. Not measuring GHG emissions is consequently seen as a proxy for not having any climate strategy. Thus, these are companies that are, highly likely, not aligned with the international climate goal. Targets adopted by companies to reduce GHG emissions are considered "science-based" if they are in line with the level of decarbonization required to keep global temperature increase below 2°C.

2. NORM BASED RESEARCH (NBR)

NBR addresses involvement of companies with verified or alleged failures to respect the United Nations' Global Compact (UN GC) principles. It provides research on over 15,000 publicly listed companies (covering constituents of large, mid and small cap global indices). Analysts review and evaluate allegations concerning companies' failure to abide by UN GC norms. The results are categorized and presented according to a traffic-light system and 10-1 rating scores. The methodology for this section can be found on Page 15.

Assessment Signal	Score	Description of Assessment Report Categories
RED	10	Verified failure to respect established norms
AMBER	9	Imminent failure to respect established norms
	8	Alleged failure to respect established norms
	7	Verified failure to respect established norms, undergoing remediation
	6	Fragmentary information
GREEN	5	Under observation
	4	Undergoing remediation
	3	Involvement beyond scope
	2	Past involvement
	1	*(No allegation)*

Figure 13 - Definition of NBR scores

This analysis focuses on three factors: NBR overall score, NBR overall rating and being a UN GC signatory. These support TCFD alignment – in both the Strategy and Risk Management categories – through the identification of climate-related risks and to which of these the portfolio is most exposed.

2.1 NBR OVERALL SCORE

This shows the percentage of constituents that scored a specific number.

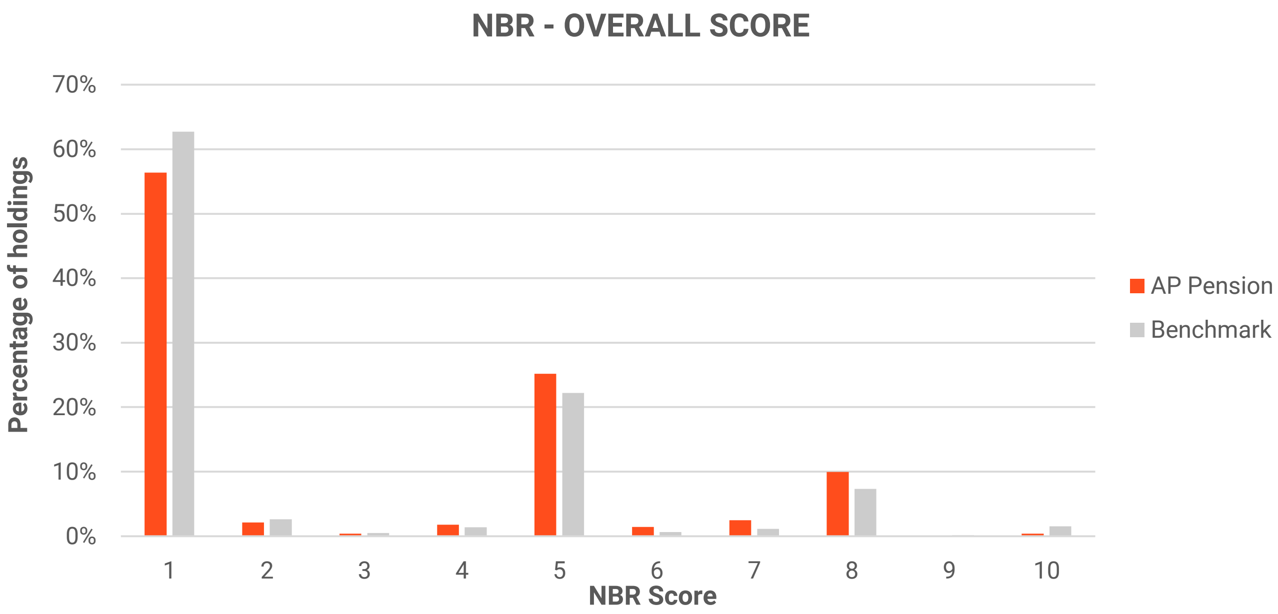

Figure 14 - NBR Overall Score

Over 50% of AP Pension and benchmark companies scored 1, meaning no allegations of norms breaches have been identified, with the benchmark having a higher proportion. However, the benchmark also has a higher percentage of companies scoring 10 (1.5% vs 0.4%). In the AP Pension portfolio, only one company, Samsung, had the top score, with a verified failure to respect established norms in bribery-related issues.

2.2 OVERALL RATING

By aggregating scores across factors, each holding is assigned a Red, Amber or Green level of controversy.

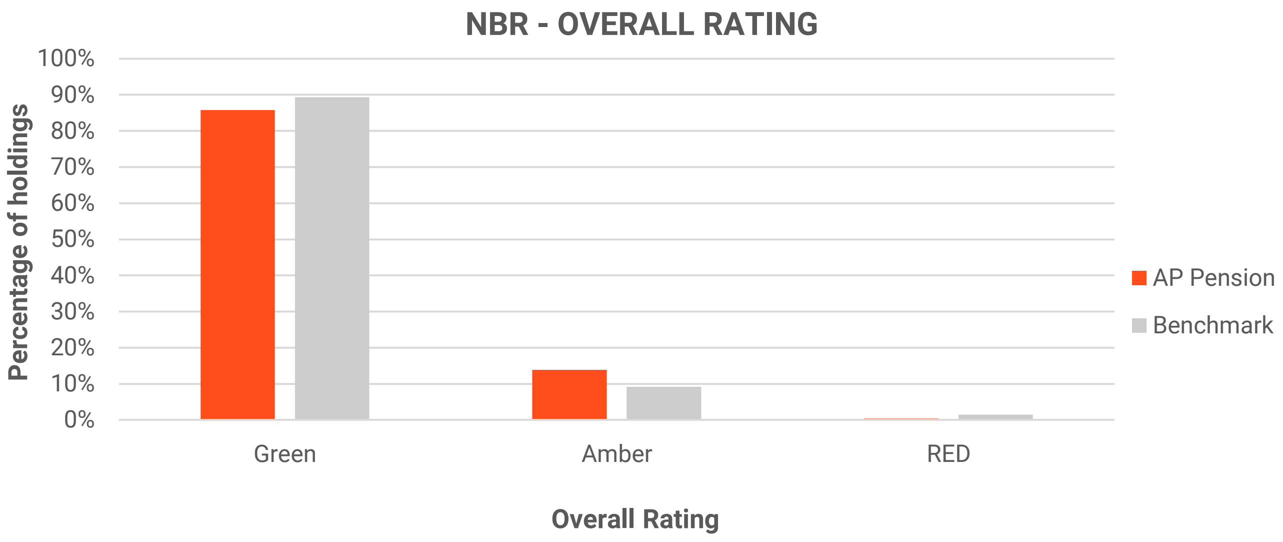

Figure 15 - NBR Overall Rating

AP Pension's portfolio has over 85% Green rated holdings, slightly below the benchmark. The sole Red rated company in the AP Pension portfolio, is under 1% of the portfolio, with the benchmark slightly higher.

2.3 UN GLOBAL COMPACT SIGNATORY

The UN GC encourages businesses to adopt sustainable and socially responsible policies, and to report on status. Three options are available – signatory (Yes), not signatory (No) or no data collected (Not Collected).

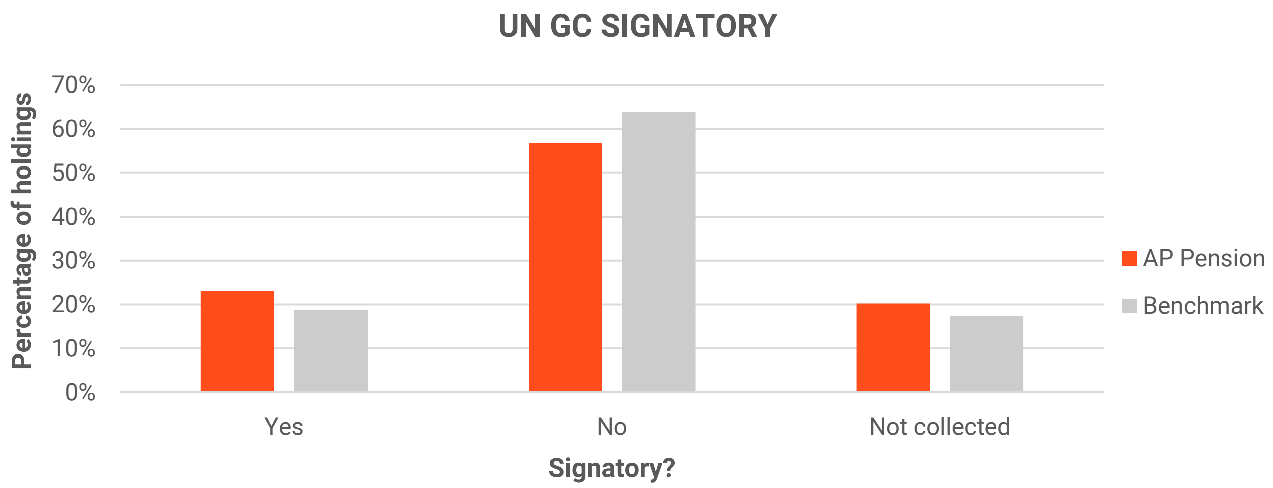

Figure 16 - UN GC Signatory

Over 20% of the AP Pension portfolio is a UN GC signatory, more than the benchmark (19%). Equally, the benchmark has more holdings confirmed as non-signatories (64%) versus the AP Pension portfolio (57%).

NBR Methodology

The methodology contains six stages through which the assessment signal and score are established:

1. Determine if the allegations fall within the scope of Norm Based Research;
2. Confirm allegations concern a severe, systematic or systemic failure to respect international norms;
3. Determine whether the company's association with the controversy can be established through authoritative sources;
4. If the above functions can be determined, establish if the allegations concern an ongoing failure to respect international norms or guidelines;
5. If the allegations are ongoing, review and ensure that the information provided by the source of allegations is credible:
    - Review whether the allegations have been verified by a trusted source
    - If verification cannot be established, evaluate credibility of the source of the allegations itself;
6. If the source is determined to be credible or verification of a company failure to respect international norms, determine whether the company is taking or has taken measures to address its involvement in the controversy.

3. DECARBONIZATION ANALYSIS

This section is a hypothetical analysis of how AP Pension's portfolio's climate impact would differ depending on two potential decarbonization approaches. Through the two approaches described in the methodology, the climate impact was re-assessed against the original portfolio and benchmark. It supports TCFD alignment in both the Governance and Strategy categories with an improved understanding of how the portfolio may perform with a change in climate-related policy. The methodology for this section is on Page 19.

The decarbonization analysis covers three indicators of climate performance and strategy:

1. The carbon intensity by amount invested
2. The weighted average carbon intensity (aligning with the TCFD recommendations)
3. Disclosure

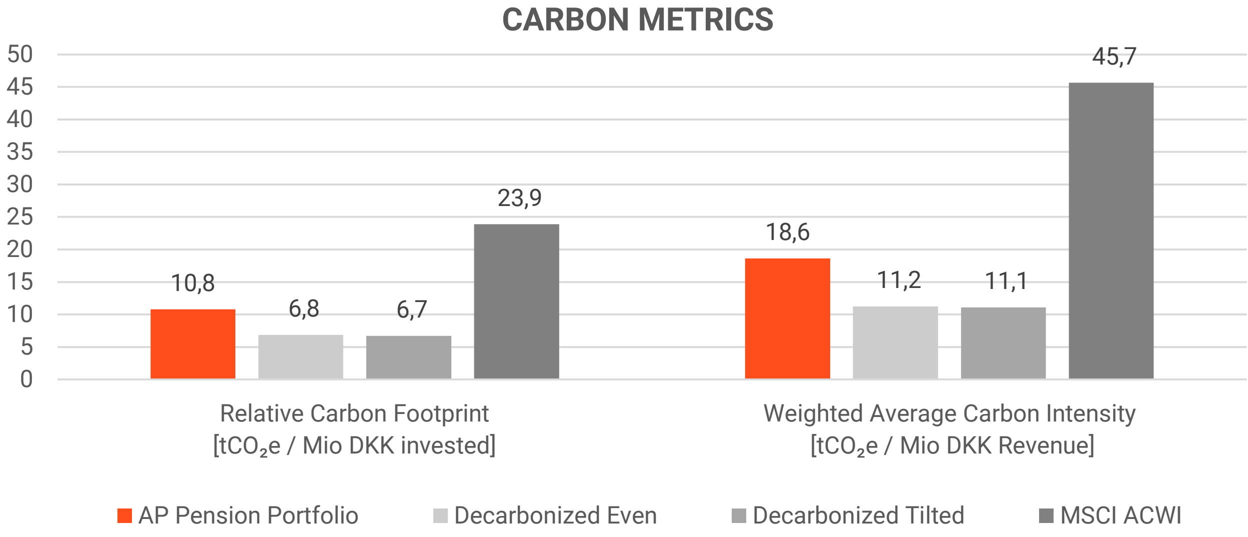

Figure 17 - Decarbonization impact on carbon metrics

The decarbonization of the AP Pension portfolio results in positive climate impacts for both carbon metrics. The carbon footprint per DKK invested drops by 37% and 38% respectively for the two methodologies. The weighted average carbon intensity also sees a reduction by 40% for both methodologies. Due to the original weightings of the "climate leaders" in the original portfolio, there is only a small difference between methodologies. The result is an even greater outperformance against the benchmark.

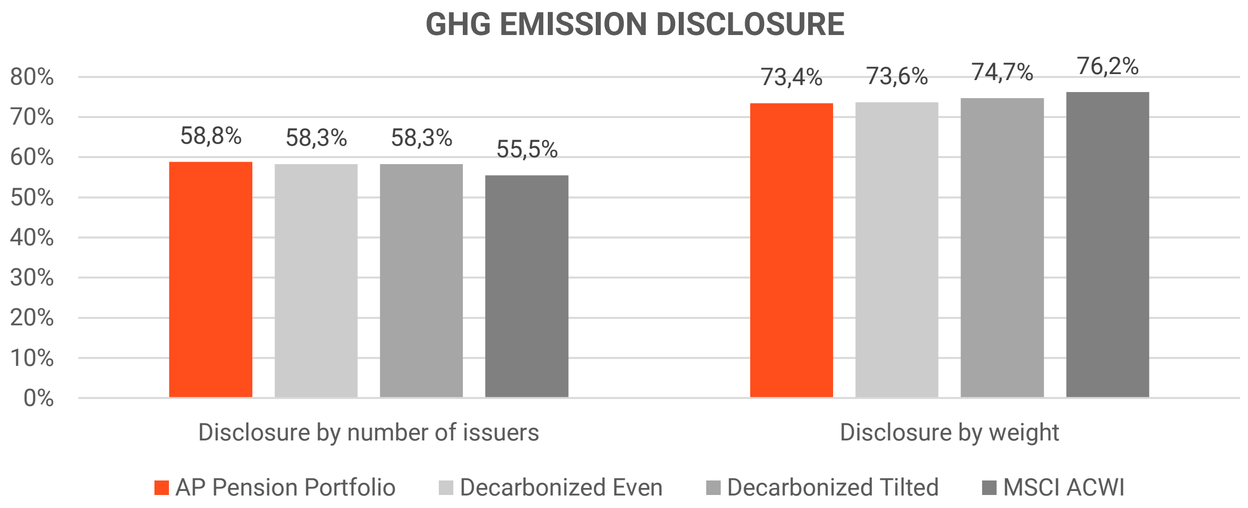

Figure 18 - Decarbonisation impact on disclosure

For the decarbonization analysis on disclosure, there are contrasting outcomes depending on the disclosure metric. For number of issuers, the rate reduces after decarbonizing the portfolio, such that the outperformance against the benchmark is reduced. However, for the weight metric, the outcome of decarbonization is a higher proportion of disclosure, coming closer to the benchmark performance. This shows a higher weighting in companies that do disclose, positively reflecting on the portfolio.

The decarbonization analysis shows that the portfolio could have had an even stronger climate-related performance with specific climate-laggard companies excluded and certain tilts applied to climate-leader companies included, which would have resulted in a greater outperformance against the benchmark.

Due to the already low-carbon nature of the portfolio, this impact would be significantly drastic, further demonstrating the strong climate-alignment of the AP Pension portfolio. Regarding disclosure, the difference between impact of decarbonization by issuer and by weight adds further credence to the allocation given to companies who do disclose their carbon footprint, a highly positive indicator of the portfolio's overall allocation.

Decarbonization Methodology
The process involves two stages:

Stage 1: remove companies according to certain criteria. Applies to Methodologies 1 (*Even*) and 2 (*Tilted*).
Stage 2: re-allocate the weight of these companies to the remaining portfolio. This is applied in two ways, *Methodology 1 - Even* and *Methodology 2 - Tilted*.

Stage	Methodology	Details
1	Both	Remove companies according to these criteria: 1. With 20% or more generation from coal 2. With 20% or more installed capacity from coal 3. With 20% or more revenue generated from fossil fuels 4. Part of the Fossil Free Indexes (FFI) universe[5]
2	*1 – Even*	Re-allocate weight evenly across the remaining universe (proportional to original weights).
	2 – Tilted	Re-allocate weight (according to original weights) among companies that are considered climate leaders through having Science-based Target (SBT) initiative (not including those excluded in Stage 1).

Figure 19 - Decarbonization methodology

[5] FFI delivers research, consulting and investment solutions to investors. It has developed 'The Carbon Underground 200', a list of the 100 largest public oil and gas and the 100 largest public coal companies globally, measured by the potential CO_2 emissions of their reported fossil fuel reserves.

ASSESSMENT ACCORDING TO THE TCFD RECOMMENDATIONS

Through the development and publication of this TCFD-aligned report, AP Pension are demonstrating their ambition regarding climate-related investing and reporting. As the first report of its kind for AP Pension, the objective is to create a format by which the alignment to the TCFD recommendations can be clearly reviewed and assessed. The following section therefore is set out following the four categories and 11 recommendations of the TCFD, such that reference to alignment is conveniently available to view.

1. GOVERNANCE

"Disclose the organization's governance around climate-related risks and opportunities."

1.1 (A) BOARD OVERSIGHT

For AP Pension, the climate-related risks and opportunities relate to the investee companies (current and potential-future) who may be exposed to climate issues, which are incorporated into their overall responsible investment policy: "AP Pension's responsible investment policy is to ensure that the customers' funds are invested responsibly while supporting a sustainable development." The board's oversight is as follows:

1. **The board determines the ESG policy:** this strategy is reviewed once a year and discussed alongside the ESG report (discussed below) produced internally.
2. **Annual ESG report presented to the board:** this report includes the current "blacklisted" and "red-flagged" companies, indicating whether they are currently being excluded or on the verge of exclusion and in need of monitoring respectively. The discussions on the current blacklist and red-flag companies are a significant input into the board discussion on the overall ESG policy. Furthermore, the reporting includes an overview of any ongoing engangement activities. The CEO receives a similar report on a bi-annual basis.

The blacklist and red-flagged companies are identified through norm-based screening conducted by ISS-Ethix, reviewing investees against UN GC norms. Red-flags are identified when norms breaches occur.

1.2 (B) SENIOR MANAGEMENT'S ROLE

Management has a significant role in the development and finalization of the blacklist prior to board presentation and approval. On a quarterly basis, the blacklist is updated and sent to the CIO for review. Once the CIO is satisfied, the list is sent onto the CEO for approval. The companies approved by the CEO on the blacklist will then be divested from by the appropriate team. Any new divestments or changes in the blacklist during the year will be presented to the board as part of the annual meetings. The exclusions include climate-specific issues as defined by the UN GC norms.

2. STRATEGY

"Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material."

2.1 (A) IDENTIFYING CLIMATE-RELATED RISKS AND OPPORTUNITIES

Global norms screening is the primary function used to identify climate-related risks and opportunities. Within the assessment, environmental and social factors are assessed – for climate, this focuses on issues such as arctic drilling, coal mining and fossil fuel reserves. Each of these is given a 'flag' per company, and the level of green, amber or red flags in the environmental factors will determine the climate-related risks identified.

2.2 (B) INCORPORATING CLIMATE-RELATED RISKS AND OPPORTUNITIES INTO INVESTMENT STRATEGIES

AP Pension has 12 factors that make up the stock picking strategy in their internal management. These factors are all scored 0 – 3 and are factored equally in the overall assessment.

ESG (based on the global norms screening) is one of these 12 factors. Therefore, the climate-related risks and opportunities are factored into investment strategies through this mechanism, considering the climate factors that are part of the overall norms indicators. If there are significant red flags in the norms assessment (for environmental or social issues), the overall factor may receive a 0 which in turn will impact the decision as to whether it is investable.

The picking of fund managers themselves impacts the implementation of investment strategies. When selecting an external manager, the minimum requirement has been that the manager is able to implement AP Pension's blacklist – and that has been the only formal requirement.

During their due diligence, the manager selection consultant ensures that managers incorporate all types of risk in their assessment of the companies in their portfolios. This will implicitly include risks related to ESG matters, including but not limited to the risk of a company having to suffer potentially large revenue losses and/or incur significant costs to rectify ill-treatment of its employees, customers, the environment, minority shareholders etc.

Additionally, AP Pension discusses governance with their external managers on an ongoing basis, as companies with bad governance in general are viewed as high risk companies.

Information is collected about managers' approach to ESG on an ongoing basis to monitor that what they are doing in general within this space is aligned with AP Pension's ESG policy.

2.3 (C) USING CLIMATE-RELATED SCENARIOS TO INFORM INVESTMENTS

As seen in the Data Analysis section of this report, there is a sub-section on "Contribution to Climate Goal", which is used as a proxy for indicating the likelihood of aligning to the goal. Thus, going forward, this analysis could be used by AP Pension as an initial way to inform investments via information provided on climate-related scenarios.

3. RISK MANAGEMENT

"Disclose how the organization identifies, assesses, and manages climate-related risks."

3.1 (A) ACTIVE ENGAGEMENT WITH INVESTEE COMPANIES AND PROXY VOTING

AP Pension's engagement activity with investee companies is channeled through Pooled Engagement (procured from ISS-Ethix). Pooled Engagement is a tool for investors to exercise active ownership through focused dialogue with investees on ESG issues. The objective of this is to facilitate a dialogue between investors and companies. AP Pension can monitor to which extent investee companies comply with AP Pension's policy for responsible investments. Through active ownership, AP Pension can get involved with these investees who might not be considering the key components of AP Pension's policies. Based on the results of Norm-Based Screening, investors can channel enquiries and requests for improved disclosure by companies involved in serious controversies (i.e. amber or red flagged) around ESG issues. For occasions where dialogue is ineffective, deemed so if there is no response after 12 months of attempted engagement, if the company is still red flagged, it will be added to the blacklist and as such, be excluded.

Additionally, AP Pension carries out active ownership by voting at general meetings in all the companies in which they are invested and where they have the right to vote. This is done through a proxy voting setup (in partnership with ISS ESG) where the cast of votes is based on a predetermined voting policy, which is in line with AP Pensions policy for responsible investments.

Pooled Engagement and proxy voting supports AP Pension in fulfilling their active ownership commitment as part of the UN Principles for Responsible Investment (PRI).

3.2 (B) POSITIONING THE PORTFOLIO WITH RESPECT TO THE TRANSITION TO A LOWER-CARBON ENERGY SUPPLY, PRODUCTION, AND USE

As shown in the Data Analysis section, the AP Pension portfolio has been assessed for carbon footprint and climate impact metrics against a global equity benchmark, the MSCI ACWI. AP Pension's ambition is to increase their investments in the renewable space, assuming the financial return is sufficiently attractive.

3.3 (C) INTEGRATING CLIMATE-RELATED RISKS INTO AP PENSION'S OVERALL RISK MANAGEMENT

This TCFD report acts as a starting point for AP Pension, with future ambitions including a review of climate-related risks in a number of contexts in the coming year. Armed with this report's data findings from carbon footprinting, climate impact metrics and norm-based research, AP Pension can work to integrate this knowledge into the wider risk management process.

To date, AP Pension have not developed processes for identifying, assessing and managing climate-related risks into the organization's overall risk management. Risks are currently identified through the norms research and the assessment making up this TCFD report will be incorporated into the risk identification.

4. METRICS & TARGETS

"Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material."

4.1 (A) ASSESSING CLIMATE-RELATED RISKS AND OPPORTUNITIES

The metrics used to assess climate-related risks and opportunities are via the norms research. The Data Analysis section of this report includes various metrics (including carbon footprint, disclosure, fossil reserves, see the section for further details) used to assess climate-related risks across AP Pension's portfolio. These metrics will be taken into consideration in future investment decision making and monitoring.

4.2 (B) THE WEIGHTED AVERAGE CARBON INTENSITY AND OTHER METRICS

The weighted average carbon intensity of AP Pension's Portfolio is **18.6tCO_2e per million DKK** invested, less than half of the benchmark. The calculation methodology can be seen in the Data Analysis section.

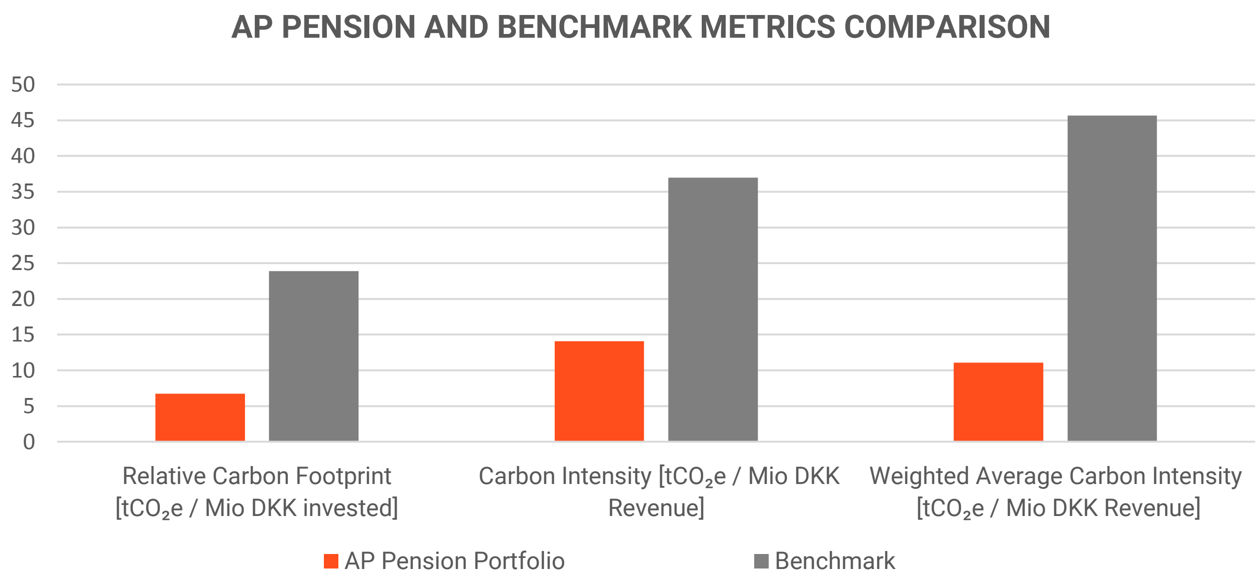

Figure 20 - Comparison of key metrics

4.3 (C) TARGETS FOR CLIMATE-RELATED RISKS AND OPPORTUNITIES

Based on new understanding obtained through this report's assessment, five core targets connected with climate-related risks and opportunities have been identified. This disclosure requirement is aligned with the Metrics TCFD category so as to have a statistical basis to the target setting:

1. Compare carbon metrics with a low-carbon benchmark
2. Incorporate target setting as a tilt for utility investment
3. Engage with utilities who do not report on climate impact
4. Utilize forward-looking indicators in assessment
5. Provide full statements of activity for all TCFD recommendations
    - *This target is connected with reporting on the previous four, ensuring long term and holistic compliance with the TCFD recommendations.*

The full explanation around these can be seen in the final section of this report – "*Conclusions and Targets*".

At this stage, AP Pension has not identified targets for the organization to manage climate-related risks and opportunities.

CONCLUSIONS AND TARGETS

AP Pension strongly feels that they have a responsibility to invest responsibly and to disclose on their activities. Per the saying "*your pension – our responsibility*", AP Pension understands the role it has in ensuring the highest return for customers yet acknowledging the importance of investing responsibly.

> "We are very much aware of the responsibility we have been given when managing our customers' savings. Going forward, we expect this report will allow us to get a better understanding of the climate impact of our investment portfolio and how it contributes to the Paris Agreement. If the return is considered attractive, it is our ambition to continuously increase our investments within renewable energy while supporting responsible behavior within the companies in our investment portfolio."

Bo Normann Rasmussen, AP Pension CEO

This TCFD-aligned sustainability report covers the full scope of the TCFD's four categories and 11 recommendations. It has highlighted areas where AP Pension is performing strongly, particularly from a carbon footprint perspective when compared to the MSCI ACWI benchmark. However, it also demonstrates areas for improvement, with several TCFD indicators currently being disclosed with a comment on inactivity of current policy and strategy.

Through conducting the TCFD assessment and producing this report, ISS-climate have recommended the following targets for AP Pension to consider incorporating into their climate strategy and future reporting.

1. **Compare carbon metrics with a low-carbon benchmark:** with such a strong performance against the MSCI ACWI, AP Pension will also consider an additional future benchmark against a low-carbon index. One example is the Stoxx Climate Leaders Index, who only consider companies with an A rating from the CDP. By also benchmarking against a low-carbon benchmark, AP Pension might be able to better assess their performance and see if further discussions around climate strategy are required. It will be important to maintain the MSCI ACWI benchmark to (a) ensure there is not a reduction in climate-related performance and (b) as it represents the investible universe of AP Pension, whereas the low-carbon benchmarks do not.

2. **Incorporate target setting as a tilt for utility investment:** as total divestment from sectors such as utilities if often difficult and takes time, a medium-term step is to incorporate climate-related targets set by utility investees – using the existence and quality of such targets as an indicator making up part of the investment decision-making process. The Science-Based Target (SBT) initiative is a good platform for indicating which companies are forward-thinking with their climate strategies.

3. **Engage with utilities who do not report on climate impact:** alongside considering which utilities to invest in, AP Pension can engage directly with those who are not currently reporting externally on their carbon footprint and climate impact. Reporting is seen as an essential first step and proxy to wider climate strategy and performance.

4. **Provide full statements of activity for all TCFD recommendations:** it can be seen in this report which TCFD recommendations are not fully satisfied due to a lack of strategy or policy in that area. For next year's report, these gaps can be filled with action on the various areas to ensure a complete adherence to the TCFD.

5. **Utilize forward-looking indicators (beyond targets) in assessment:** for future assessments, in conjunction with the climate impact metrics used in this report, the ISS Carbon Risk Rating (CRR) is a useful tool to understand not only how companies have performed to date but indeed their likely future climate-performance according to the risks they face. This knowledge can be a further factor part of the investment decision-making process.