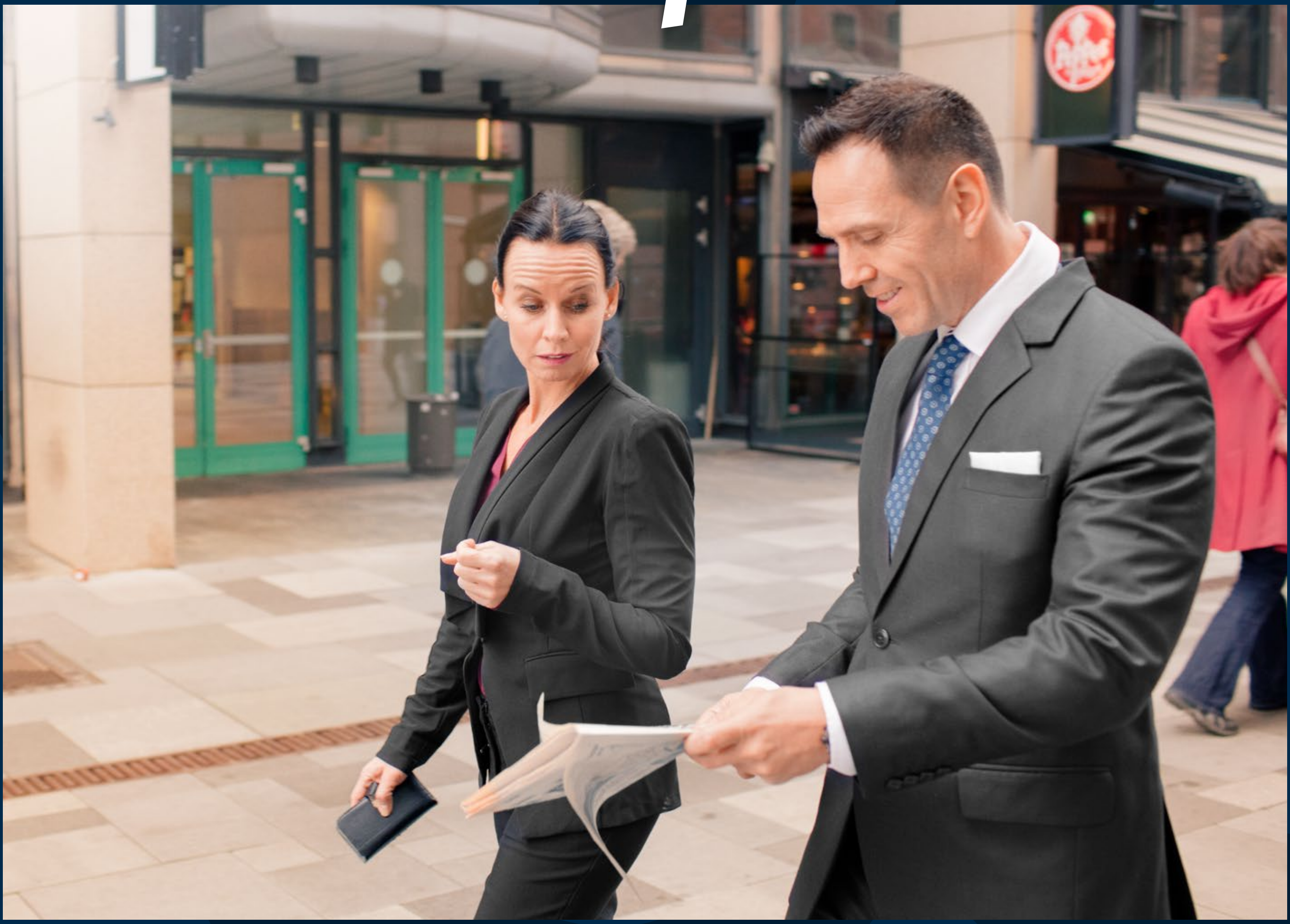
Danske Invest SICAV
European Corporate
Sustainable Bond Class A / Class I

NOVEMBER 2017

Fund focus



A responsible way of investing in bonds

The Danske Invest SICAV European Corporate Sustainable Bond Class A / Class I fund focuses on European corporate bonds with a sustainable profile.

KEYWORDS
- Investment grade & high yield
- Sharp focus on ESG scores
- Screening of industries
- Active dialogue with companies

Danske Invest

Responsible and sustainable bonds

The Danske Invest SICAV European Corporate Sustainable Bond Class A / Class I fund focuses on European corporate bonds with a sustainable profile. The fund addresses a rising demand from both retail and institutional investors for sustainable investments.

Recent years have seen an increase in demand for investment opportunities that focus on responsibility and sustainability, but the range of funds with this focus has been limited, not least with respect to corporate bonds.

In 2016, Danske Invest therefore launched the European Corporate Sustainable Bond fund, comprising corporate bonds from European companies. The bonds are selected according to two main criteria – a financial assessment of the company as a debtor and an assessment of the company's sustainability credentials.

The portfolio consists of at least 75% corporate bonds of investment grade, which is the term for bonds of high creditworthiness, while up to 25% can be 'high yield', which are bonds with a higher credit risk but which, on the other hand, offer higher yields.

Underlying philosophy

The underlying philosophy of the fund arose from a dialogue between the responsible investment team at Danske Bank and the corporate bond investment team and was prompted by the demand we were experiencing from our customers. Customers increasingly want their money to be meaningfully invested in accordance with the trends and challenges they perceive in the world and in relation to the values they espouse. And here sustainability is a key word.

> *Customers increasingly want their money to be meaningfully invested in accordance with the trends and challenges they perceive in the world.*

TEAM BEHIND THE FUND

Andreas Dankel
Chief Portfolio Manager

Tom Mikael Lundsten
Senior Portfolio Manager

FACTS ABOUT THE FUND

Name: Danske Invest SICAV European Corporate Sustainable Bond Class A / Class I

Investment focus: European corporate bonds selected with a particular focus on ESG factors and sustainability.

Ongoing charge: Class A: 1.10%, Class I: 0.56%

Risk indicator (1-7): 3

ISIN: Class A: LU1399304283, Class I: LU1399305330

Currency: Euro

Read more: You will find the Factsheet, Prospectus and Key Investor Information document at danskeinvest.com, where you can also read more about the fund and the risks associated with investing.

▸▸ The product's philosophy is therefore to have a sustainable profile that clearly defines what should not be invested in, that sets a high bar in terms of what it does invest in, that looks ahead and dares to actively support sustainable development.

European Corporate Sustainable Bond is a product where we place ever more stringent requirements on the companies we invest in and also on ourselves as asset managers. Collaboration between the portfolio team and the responsible investment team includes regularly challenging each other on trends, companies and particular events to ensure that a sustainable profile and return go hand in hand.

European Corporate Sustainable Bond is different to investing in so-called green bonds, which have attracted considerable attention in recent years. Green bonds only concern sustainability in relation to CO_2 emissions. In contrast, European Corporate Sustainable Bond occupies an area of increasing interest where there is a much broader sustainability focus. Investments in the fund could, for example, also include the development of new, sustainable technologies, waste water treatments or biotechnology.

FACTS ABOUT THE SUSTAINABILITY OF THE FUND

- The fund has a heightened focus on company ESG scores (ESG is a central concept of sustainable and responsible investment and stands for environmental, social and governance). At least 90% of the companies should have an ESG score in the upper half of their respective sectors.
- The tobacco, fossil fuel, armaments and military activities, pornography and gambling industries are screened out of the fund. However, companies with a very marginal interest in the above industries may be included in the fund (sales from alcohol up to 5%, armaments and military activities up to 5%, gambling up to 5%, tobacco up to 5%, fossil fuels up to 5% and pornography up to 1%).
- The fund has a particular focus on investing in companies at the leading edge of trends within sustainability.
- The team behind the fund proactively try to influence companies to pursue a more sustainable strategy.

Certain industries barred

Danske Invest works with three specialist sustainability consultancies – Sustainalytics, ISS-Ethix and True Cost – when selecting companies for the fund. A number of industries are screened out before the actual work of selecting the bond-issuing companies begins. These sectors are alcohol, tobacco, armaments and military activities, pornography, fossil fuels and gambling.

European Corporate Sustainable Bond is therefore different to other, similar funds where fossil fuels are traditionally not screened out. The fund is expected to have a consistently lower CO_2 footprint than conventional funds.

Companies must have signed up to the UN guidelines, the so-called UN Global Compact, before the team behind the fund even considers investing in them. The UNGC lists 10 guiding principles within the areas of human rights, labour rights, the environment and anti-corruption.

Once a company has signed up to these basic principles we drill down to the sector level and analyse how individual companies score with respect to the so-called ESG criteria. ESG is a central concept of sustainable and responsible investment and stands for environmental, social and governance. We also supplement our ESG research with CO_2 analyses of companies and sectors.

Work with ESG scores

ESG highlights how individual companies tackle issues related to the environment, the social area – such as labour conditions for their employees – and management in the sense of taking optimal care of their shareholders' money. Based on these factors, every potential investment is rated ▸▸

▸▸ with an ESG score from 1-100.

ESG criteria vary from industry to industry. For example, environmental standards in the pharmaceutical industry differ from environmental standards in the mining industry. It is also important to stress that a manufacturer of, for example, windmills will not necessarily hold investment interest if the company does not continually strive to optimise its production in relation to energy-efficient standards.

At least 90% of the portfolio always consists of companies that are placed in the upper half of the ESG scores within a particular sector – and as far as possible the portfolio team will endeavour to invest in companies in the top quarter – in other words, companies that are already highly rated with regard to ESG factors.

Up to 10% of the portfolio can consist of so-called ESG turnaround cases, which are companies that are not yet in the upper half of their sector in ESG terms, but which we estimate are on the right track. These companies could, for example, be at the forefront in the development of a new form of sustainable technology or be in the process of switching to sustainable production. Our view is that investing in such companies makes sense, both in terms of supporting sustainable development and also financially, as yields – risk premium – typically fall when a company improves its ESG profile and thus subsequently result in a capital gain for investors.

Active dialogue with companies

We are in regular dialogue with the companies we invest in as creditors and in this way attempt to influence them to pursue an ever more sustainable business strategy. We also follow up on announcements from companies regarding ESG factors.

For ESG turnaround cases, where the companies do not lie in the top half of their sector with respect to ESG scores, we expect companies to have a tight procedural plan for which steps they should take going forward. And here we demand clear signs of improvement and a considerable commitment to improving and developing the company. If promised improvements are not made, we reconsider whether investing in that particular company still makes sense. Companies have to pursue ambitious targets to be included in a sustainable fund.

For many companies, such as Nordic mid-caps, the fund is so big a creditor that our dialogue with the companies can make a real difference.

Risks associated with the fund

The fund has corporate bonds from around 75 companies in the portfolio divided between mid- and large-cap companies. As a corporate bond investor, you are in reality helping lend money to a company for a time, and as an investor you earn regular interest payments and the possibility of a capital gain if the bonds increase in value. However, investing in corporate bonds is of course not without risk. Credit risk is the most important risk with corporate bonds, as this is the risk that provides investors a higher interest payment compared to traditional government bonds. Credit risk is the risk that a company defaults on its payment obligations, which comprise the regular interest payments and the repayment of the bond's principal at maturity. If the European Corporate Sustainable Bond fund invests in one or more companies that are unable to meet their payment obligations, that will reduce the fund's return, which could be negative.

Interest rate risk is another significant risk factor in the fund. If the general level of interest rises, bond prices will fall and result in a capital loss. Corporate bonds may also experience major price falls and incur losses for the fund's investors during periods of significant market turmoil.

> *Investments in the fund could, for example, also include the development of new, sustainable technology, waste water treatments or biotechnology.*