The ATP Group

2020 Climate

Part of ATP's Responsibility

ATP’s work with climate issues

Climate change offers new investment opportunities, but may also lead to new types of risk. Therefore, we include climate considerations in our investment decisions and influence portfolio companies to pursue a green direction.

Foundation

Climate change is one of the greatest challenges we face today and will have a massive impact on our society and therefore also ATP’s investments. We therefore want to support the transition to a green economy in Denmark and globally by being an active investor and providing capital for green projects.

Climate change has a strong impact on ATP’s investments, since climate change has the potential to affect the long-term risk-adjusted return both positively and negatively. It is impossible to predict how climate change will affect the investment portfolio, and we therefore want to consider climate broadly in our work across our portfolio.

ATP supports the recommendations from the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) and uses them as an overall framework for verifying, challenging and developing our approach to and understanding of climate risks. In 2021, ATP will work in a targeted manner to integrate climate risks in our financial risk management.

Processes

In 2020, we continued our work with mapping carbon-related investments. We have repeated last year’s mapping of investments in fossil fuel extraction companies, whose weighting in the portfolio has been decreased by 22 per cent last year based on market value, and in the equities portfolio investments in fossil fuels have decreased by 58 per cent.

In addition, we have also mapped investments in industries that emit a lot of CO_2 via their production and burning of fossil fuels. This particularly applies to cement, steel and petrochemical companies. For cement, the conclusion has been that ATP’s investments are so small that there is no investment-related risk for ATP, but for both steel and petrochemicals there is a basis for initiating stewardship initiatives aimed at encouraging our portfolio companies to launch CO_2-saving initiatives.

In the global equity portfolio, the selection of shares is based on a quantitative models. we have integrated climate data into these models, so that our selection process also takes into account the companies’ plans for a green transition.

During the past years, ATP has amassed a portfolio of green bonds worth almost DKK 30 billion. This is an area where we want to help develop the market for green bonds by engaging in a dialogue with the issuers of green bonds and that they are transparent and report.

Activities

In 2020, we have created a new rating for oil companies to ensure that ATP does not invest in oil companies whose production processes are the least climate friendly. Even though ATP at present only has limited exposure to oil and gas companies, the rating helps to ensure that the ones we do invest in are not the ones with the highest negative impact on the climate.

Each year we calculate our liquid investments’ carbon footprint based on TCFD’s recommendations. However, ATP believes that there are a number of challenges associated with using CO_2 as a management tool in an investment portfolio.

For the first time this year, ATP has begun collecting data on our illiquid investments and therefore we are now able to give an insight into the carbon footprint of parts of our illiquid investments. For example, our data shows that the majority of the illiquid portfolio’s carbon footprint comes from a single company, but as the company’s waste management activities help to reduce the carbon footprints of other companies. We view this is as somewhat compensating for this, though we would like to see the carbon footprint fall further.

#1 ESG is an Investment Belief

#2 We believe in effective ESG integration via customised processes

#3 Actual integration requires internal ESG competences

#4 We believe in capital stewardship – within limits

In 2020, ATP has:

- **invested DKK 29 billion in green bonds**
- **declined to invest in construction of new coal power plants by utility companies**
- **excluded 25 oil and gas companies due to ATP’s new oil rating system**
- **published the carbon footprint of the illiquid portfolio for the first time**
- **mapped investments in fossil fuel extraction, cement, steel and petrochemical sectors.**

Foundation

A green transition across the portfolio

Climate change is one of the greatest challenges we face today and it increasingly affects our society and therefore also ATP's investments. We therefore want to support the transition to a green economy in Denmark and globally by being an active investor and providing capital for green projects.

2020 has been a year where the COVID-19 pandemic has dominated the headlines, but climate change has not stopped due to the coronavirus. Even though there has been a reduction of CO_2 emissions due to people working from home and disrupted travel patterns, the world is still facing a monumental challenge when it comes to meeting the Paris Agreement's targets. Here investors must also play a role to support the green transition.

ATP supports the recommendations from the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and uses them as an overall framework for verifying, challenging and developing our approach to and understanding of climate risks.

Due to ATP's role in Danish society, we also want to support Denmark's high level of ambition in the climate area and thus contribute to Denmark, and the world in general, reaching the goals of the Paris Agreement.

ATP's work is based on a holistic approach to how climate change and the fight to bring them under control affect both the Danish society and the rest of the world. The integration of climate change in investment analyses and investment decisions is not confined to selected asset classes or investments in particular sectors in society. On the contrary, our position is that climate change can directly or indirectly affect all the investments.

According to the United Nations Climate Panel, climate change will cause changed weather patterns and more extreme climate events such as flooding and drought. This might impact some of our activities. It is, for instance, relevant to consider potential physical risks such as flooding and storms when ATP invests in major infrastructure projects, real estate or forests.

Climate change and the uncertainty about future legislation and technology create a new framework for how companies act. As an investor, we are broadly exposed to such transition risks since they can both have a wide impact, such as prices on CO_2, and affect individual sectors in the form of new technologies, changed consumer preferences and regulatory requirements and prohibitions.

The green transition also provides us with a range of new investment opportunities. This might be investments in new technologies, which will play a key role in the green transition. Accordingly, ATP wants and expects to increase our energy investments significantly in the coming years.

ATP is also working on mapping our investments in sectors that high a high climate impact in order to identify the risks across our portfolio. It is also our intention to investigate how we can include climate risks in our risk analysis work.

In the coming year, ATP expects that the EU's work with sustainable financing will impact how the financial markets work with climate and other sustainability issues in a major way, and therefore we will be monitoring the developments on this area in 2021 closely.

Four focus areas with related recommendations

The Task Force on Climate-related Financial Disclosure has been established by a string of international experts with specialist knowledge about climate and financial reporting. The expert group was established at the request of Financial Stability Board, a body under the G20 holding special responsibility for ensuring global financial stability. The TCFD highlights four areas that companies and investors should focus on when working with and reporting on climate.

Governance	Describe the board's and management's role in the work on climate-related risks.
Strategy	Describe the current and potential impacts of climate-related risks and opportunities on the company's business model.
Risk Management	Describe how the company identifies, assesses and manages climate-related risks.
Metrics & Targets	Describes the targets and metrics the company applies to assess and manage climate-related risks.

WHAT ARE CLIMATE RISKS?

Climate risks can be divided into two overall categories – transition risks and physical risks.

Transition risks are risks that originate from the transition to a green economy. This might be political initiatives that makes new demands on business models or new technology that outcompetes existing technology. It is therefore indirect risks that arise due to political, economic and technological adjustments to climate change.

Physical risks are risks that arise as a consequence of climate change. This might be risks of flooding of buildings, changes in crop yield, drought, forest fires, etc. that directly or indirectly impact a company financially.

INVESTORS AND THE PARIS AGREEMENT

The Paris Agreement is an agreement made between countries – not investors. Under the Paris Agreement, the countries commit to keeping anthropogenic temperature increases below 2 degrees Celsius, preferably 1.5 degrees Celsius. The method for achieving this is that the countries meet every five years and present their successively more ambitious reduction plans.

There is no authoritative way of determining whether investors 'comply with' the Paris Agreement – one reason being that it would require distributing the remaining 'carbon budget' to the world's investors, which is not possible. ATP is instead working to support the Paris Agreement through stewardship and our investments in, for example, green bonds.

Foundation

ATP's work with the Task Force on Climate Related Disclosures (TCFD)

ATP was the first Danish investor to support the TCFD and we have used their recommendations in our work ever since. There are two aspects to ATP's work with the TCFD. Firstly, we work with the TCFD's recommendations for investors, meaning we examine our own role in the context of climate change. Secondly, as an investor we have a number of expectations for how our portfolio companies should work with the TCFD. In 2020, the Danish Government has also expressed its support for the TCFD as part of Denmark's climate strategy.

	Management	Strategy	Risk management	Metrics and targets
The TCFD's recommendations	Publish information on how the management works with climate-related risks and opportunities.	Publish information on the actual and potential impact of climate-related risks and opportunities on the company's operations, strategy and financial management if the impact is significant.	Publish information on how the organisation identifies, measures and manages climate-related risks.	Publish information on the metrics and targets that are used to assess and manage climate-related risks and opportunities if this is information is relevant.
ATP	ATP's Supervisory Board has the overall responsibility for ATP's investment strategy, and this includes the ESG strategy. Each year, the Supervisory Board approves both the investment strategy and the ESG strategy and this is followed up on every six months. ATP's Supervisory Board also receives annual reports on ESG themes, including a climate report. On a day-to-day basis, it is ATP's Committee for Responsibility that oversees the work of integrating climate considerations into our investment and risk processes. The individual teams are also responsible for involving climate considerations in the relevant areas, for example, stewardship, due diligence, etc.	ATP takes into account climate issues in our investment decisions across all asset classes as a natural part of both our due diligence work and our ongoing management work. We consider ESG as an investment belief, and therefore climate issues are also an important input when it comes to creating the best possible risk-adjusted returns. With ATP's role in Danish society, we also want to support Denmark's high level of ambition in the climate area and thus contribute to Denmark, and the world in general, reaching the goals of the Paris Agreement.	ATP has been working on integrating climate issues in recent years where we, among other things, have worked with scenario analyses and risk-based changes to the investment universe. In 2021, we will be looking into how climate risks can be used directly in our risk processes. In the past couple of years we have also used mapping to identify our investments in sector with a heavy climate footprint. We have used this to initiate stewardship initiatives and to make portfolio-related decisions such as, for example, deciding to no longer invest in the extraction of fossil fuels via external illiquid funds.	Since the TCFD was published, ATP has also made public the carbon footprint figures for our equity and bond portfolios. This is despite the fact that we do not believe that carbon footprints are a comprehensive metric on a portfolio level. We are also working on mapping the carbon-related risks in our investment portfolio across asset classes in order to learn more about our exposure to climate risks. In 2019, we mapped our investments in fossil fuels and in 2020 we mapped our investments in petrochemical, steel and cement companies. In 2020 ATP also launched an ESG questionnaire that, among other things, is intended to ensure that we have better CO_2 data from our illiquid investments. Finally, we are also working on reducing the climate impact of our own operations, which are mainly related to running offices.
Companies	We expect that the boards of directors and management teams of companies work seriously with the integration of climate considerations for their business, ensure transparency on climate impacts (TCFD reporting) and set targets for the climate area. Likewise, we also expect that the management teams of companies are keeping up to date on climate developments on an ongoing basis, including future regulation.	We expect that companies continually take into account climate change issues, including how climate change can impact their companies' business models, for example, via new opportunities and risks. A company should also be transparent in its communications on how it impacts the climate and how the company is working on reducing this impact. Climate is a complex topic, and therefore we prefer that companies recognise this complexity in their communications.	ATP expects that companies include climate risks in their general risk management processes and that they have specific plans for the challenges that apply to their industry and locations. This is particularly important for companies whose business activities are heavily impacted by climate change in the form of physical or transition risks.	ATP expects that companies have a basic knowledge about their own climate impacts in the form of data from Scope 1 & 2 emissions. We also expect that companies specify ambitious and meaningful targets for the reduction of their emissions in both the short and long run. We expect that companies have an overview of their scope 3 emissions and are working on reducing them. Finally, we also expect that companies take into account the future regulation from the EU, particularly the green taxonomy.

Mapping uncovers climate risks and focuses stewardship activities

The Financial Stability Board, which helped start the work that led to the TCFD, did so because they believed that it would engender a better understanding of 'the concentration of carbon-related assets in the financial system and the financial sector's exposure to climate-related risks.'

The TCFD recommends using carbon footprints as a metric for identifying climate risks, and this is why ATP also published the carbon footprint from its liquid portfolio and, for the first time this year, also from parts of its illiquid portfolio.

In the reports of recent years, we have dealt with the TCFD's various carbon footprint metrics in detail. As accounted for in this report, are of the opinion that statements of carbon footprints are useful from a company perspective, but for several reasons not meaningful as a management tool for a sophisticated and diversified investment portfolio the like of ATP's.

Therefore, in 2019 we started working on mapping our investments related to extraction of coal, oil and gas in order to better understand our exposure to the supply side of the fossil fuel industry across the portfolio. The mappings provide us with an insight, which we can benefit from in our investing and active ownership processes. For example, in 2019 we - based on our mapping - decided that we would no longer invest in the extraction of fossil fuels via external illiquid funds.

At the same time, we have found that the public has a particular interest in our fossil fuel investments and other investments that heavily impact the climate. With the mapping, we want to be as open as possible about our investments and our work to integrate climate in our investments. We also want to be open about the choices we make on behalf of our members.

In 2019, ATP published its first mapping of our investments in fossil fuel extraction activities across asset classes. This mapping was repeated in 2020, and we can now note that ATP has investments in the extraction of fossil fuels amounting to DKK 4.35bn. This is a decrease of 22 per cent in market value compared to 2019. The decrease is mainly due to the divestment of companies, but some of it is also due to different valuations of oil and gas companies.

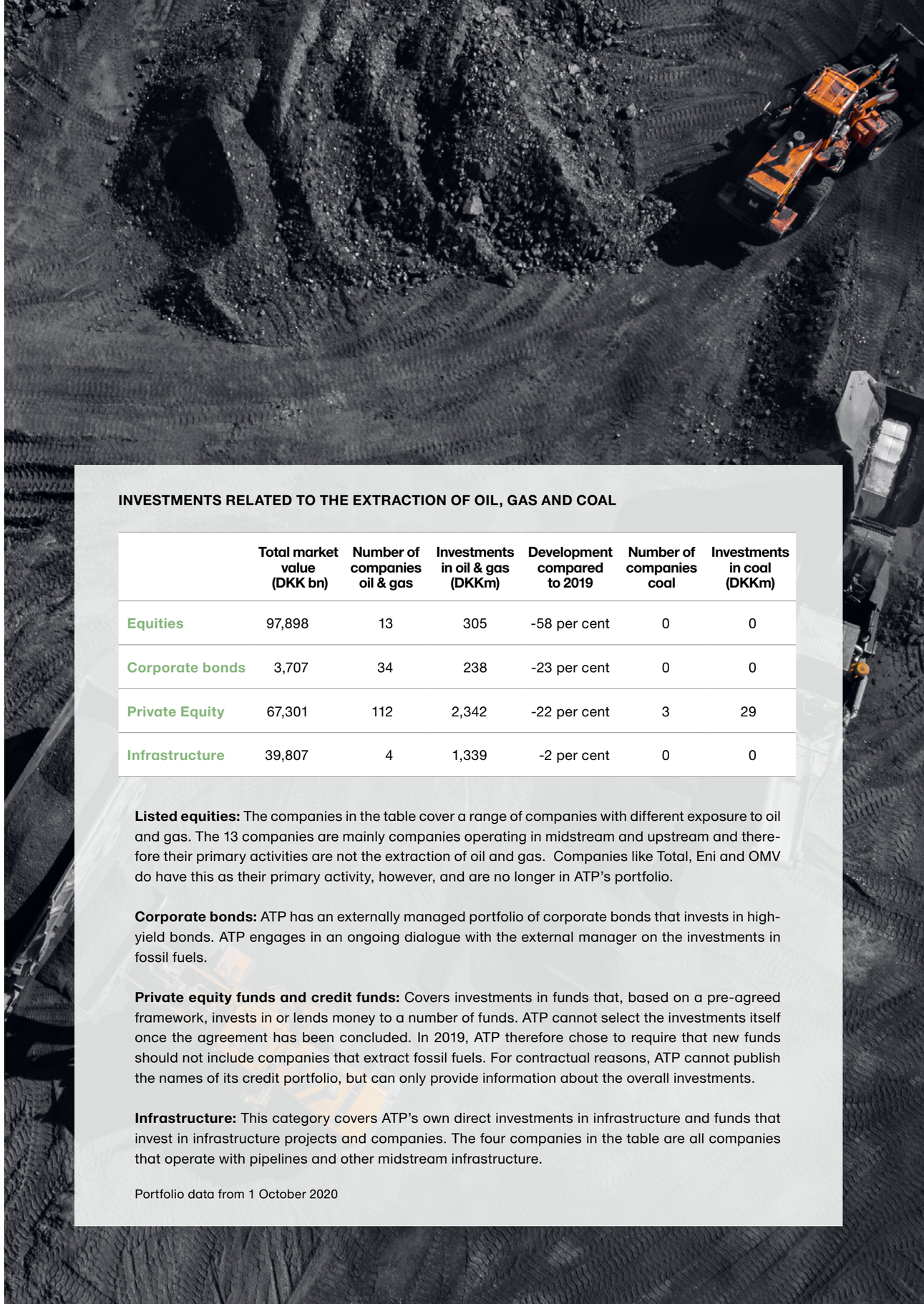
It is particularly in our equity portfolio, where a decrease in oil and gas investments - these have decreased by 58 per cent since 2019, mainly as a result of in our equity portfolio, where of dedicated oil companies. Moreover, oil and gas investments have also decreased in our portfolio of corporate bonds and private equity portfolios.

In our statement, we have not distinguished between oil and gas extraction, since most companies extract both oil and gas, and since gas is often extracted in connection with oil production. Moreover, when it comes to oil and gas, we have chosen to focus on the value chain from extraction to the end user – technically called upstream, midstream and downstream – as well as companies that are based on delivering services to the oil industry. We have done so because most companies will often be involved in the entire value chain and not just part of it. This year we have also made some recategorisations as some companies, which we previously defined as oil- and gas companies, are now defined as petrochemical companies.

In mapping our investments in the oil and gas sector, we have learnt that, for listed companies in particular, excellent data are available that allow a relatively detailed statement of the investments, while for unlisted companies, it is harder to state precisely how a company's activities are distributed along the value chain. Accordingly, in our statement, we have chosen rather to overestimate the investment in fossil fuels where we have not had sufficient data to assess the activities of a given company.

EU'S TAXONOMY FOR SUSTAINABLE INVESTMENTS

Historically, ATP has been reticent about calculating our investments in green technologies. This is not because the data basis was lacking, but mainly because there are different perceptions of what should actually be categorised as 'green'. With EU's taxonomy for sustainable investments, it will now, however, be possible to measure green investments as there will be an authoritative definition of what is regarded as 'green' in an investment context.



INVESTMENTS RELATED TO THE EXTRACTION OF OIL, GAS AND COAL

	Total market value (DKK bn)	Number of companies oil & gas	Investments in oil & gas (DKKm)	Development compared to 2019	Number of companies coal	Investments in coal (DKKm)
Equities	97,898	13	305	-58 per cent	0	0
Corporate bonds	3,707	34	238	-23 per cent	0	0
Private Equity	67,301	112	2,342	-22 per cent	3	29
Infrastructure	39,807	4	1,339	-2 per cent	0	0

Listed equities: The companies in the table cover a range of companies with different exposure to oil and gas. The 13 companies are mainly companies operating in midstream and upstream and therefore their primary activities are not the extraction of oil and gas. Companies like Total, Eni and OMV do have this as their primary activity, however, and are no longer in ATP's portfolio.

Corporate bonds: ATP has an externally managed portfolio of corporate bonds that invests in high-yield bonds. ATP engages in an ongoing dialogue with the external manager on the investments in fossil fuels.

Private equity funds and credit funds: Covers investments in funds that, based on a pre-agreed framework, invests in or lends money to a number of funds. ATP cannot select the investments itself once the agreement has been concluded. In 2019, ATP therefore chose to require that new funds should not include companies that extract fossil fuels. For contractual reasons, ATP cannot publish the names of its credit portfolio, but can only provide information about the overall investments.

Infrastructure: This category covers ATP's own direct investments in infrastructure and funds that invest in infrastructure projects and companies. The four companies in the table are all companies that operate with pipelines and other midstream infrastructure.

Portfolio data from 1 October 2020

The industrial sector's CO_2 emissions

As we with our mapping of investments in oil, gas and coal focused on the supply side in 2020 we chose to focus on the demand for fossil fuels. This was based on data that showed which industrial sectors had the most direct emissions of CO_2.

According to the IEA, 24 per cent of the global CO_2 emissions in 2018 were direct emissions from industrials that either used fossil fuels or emitted CO_2 when processing raw materials.

From 2010 to 2018, the energy use of the industrials sector increased by 0.9 per cent per year, but in the future, the sectors consumption of energy needs to be limited in order to reach the targets of the Paris Agreement. According to the IEA, emissions from industrials need to fall by 1.2 per cent per year between now and 2030 in order to reach the IEA's Sustainable Development Scenario (SDS).

It is particularly developing countries that have had growing demand for energy, while the demand from Europe and the United States has slightly decreased. The challenge is that in the future there will also be a lot demand for raw materials, particularly in India and China, while the SDS only leaves room for annual growth rates in energy consumption of 0.3 per cent.

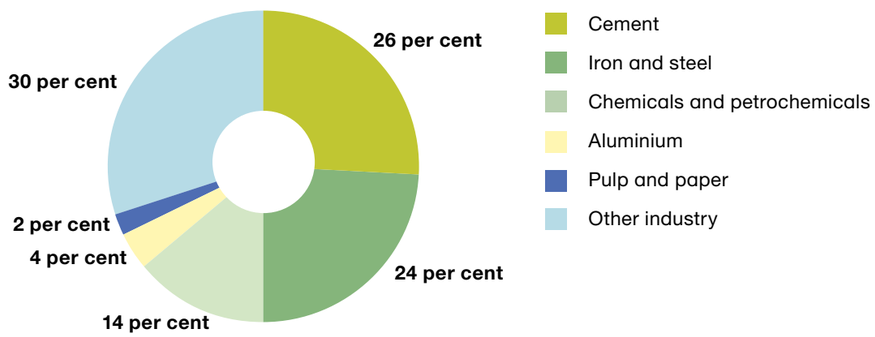
According to the IEA, it is particularly the cement, iron, steel and petrochemical industries that have the most emissions as they use energy-intensive processes and, for example, the production of cement itself also emits CO_2.

In 2020, we have expandedWe have expanded our mapping to also cover an overview of ATP's exposure to these industries across our portfolio.

The petrochemical industry is a complex area, and therefore the mapping of this sector will be shown separately on the next page of the report.

Our mapping has shown that ATP has investments of DKK 38 million in cement producers and DKK 314 million in steel and iron producers.

The industries that emit the most CO_2



Producers of cement, iron and steel, chemicals and petrochemicals generate the most CO_2 emissions on a global level.
Source: IEA, direct emissions from industry in 2018.

Steel

Steel is indispensable for the construction sector as well as for the industrial sector. Steel is a relatively light construction material that can, among other things, result in less fuel being needed by vehicles and longer life expectancies for buildings.

Steel is made by melting iron ore, limestone and scrap steel to reduce the carbon concentration. Coal accounts for about 3/4 of the energy consumption and this makes the process very CO_2 intensive. Steel can be produced both cheaper and in a more environmentally friendly manner by using scrap steel. The supply of scrap steel, however, is nowhere near enough to meet demand, which has been rising steadily for the past many years. This is despite the fact that 80-90 per cent of all steel is recycled.

The demand for steel is expected to continue to rise, particularly due to the economic growth in regions such as India, ASEAN and Africa. The IEA points out that the climate challenges associated with the production of steel must be solved by focusing on using more scrap steel and innovative technologies such as CCUS (carbon capture, utilisation and storage). The EU has also included steel production in its green taxonomy so that steel producers with a low CO_2 intensity can be characterised as green.

The mapping has shown that ATP has investments in 17 companies in the steel and iron production sector worth DKK 314 million. This includes 10 companies with listed shares, two corporate bonds and five companies that are part of fund investments. In 2021, we will be looking at how we can use these results in our active ownership.

Cement

Cement is used throughout our infrastructure and buildings, and as living standards improve, it is expected that the demand for cement will also grow in the future. There is a climate-related challenge with this, however, as the making cement is a very CO_2-intensive process. Cement mainly consists of limestone and clay that needs to be burnt at over 1,450 degrees Celsius in order to produce "cement clinker". These temperatures are hard to achieve without using fossil fuels.

There are not many substitution products for cement, and the IEA predicts that the climate-related challenge needs to be solved using lower "clinkers-to-cement" ratios and innovate technologies such as CCUS.

The cement industry is known for having expensive factories with life expectancies of around 30-40 years. There are thus significant transition risks associated with the industry if the producers do not manage to align their investment cycles with the innovation cycles.

Our mapping has shown that ATP has investments of DKK 38 million in the production of cement via three companies. Therefore, we have decided to not expand our mapping for our active ownership in this context as the investments are very limited. As ATP is involved in the construction sector, we will remain focused on using cement as sustainably as possible.

The chemicals industry plays an important role in the green transition

Petrochemicals are the chemicals, which are produced from fossil fuels, and therefore they account for the vast majority of the sector's energy consumption and emissions. The chemicals sector is the largest industrial consumer of fossil fuels. However, it is only the third-largest industrial emitter of direct CO_2 emissions. This is because fossil fuels are consumed both as raw materials and as energy to power the processes.

Many of our everyday consumer products started out as fossil fuels - for example, plastics, fertiliser and cleaning products. In the years up until 2050, there will be an increasing growth in the demand for petrochemical products and this will also lead to increased demand for fossil fuels. Our mapping revealed that ATP has investments of DKK 2.7bn in the petrochemical industry, and therefore ATP has decided to focus on this area in 2020.

The chemicals industry accounts for approximately 15 per cent of the primary demand for oil and 9 per cent of the primary demand for gas, and demand is expected to grow between now and 2050. Our mapping revealed that ATP has investments of DKK 2.7bn in the petrochemicals industry.

Besides the high direct emissions from producing chemical products, these products are also more likely to pollute the environment in the later stages of their product lifecycles. End products such as fertiliser and plastics, cause a lot of damage to the environment and biodiversity if they are not managed and recycled in a responsible manner.

In ATP's statement of investments in the chemicals sector, we have used three categories divided by their energy intensity:

- Companies that produce primary chemicals
- Companies that have petrochemical plants but who do not produce primary chemicals
- Companies that do not have petrochemical plants but who operate in the later stages of the supply chain

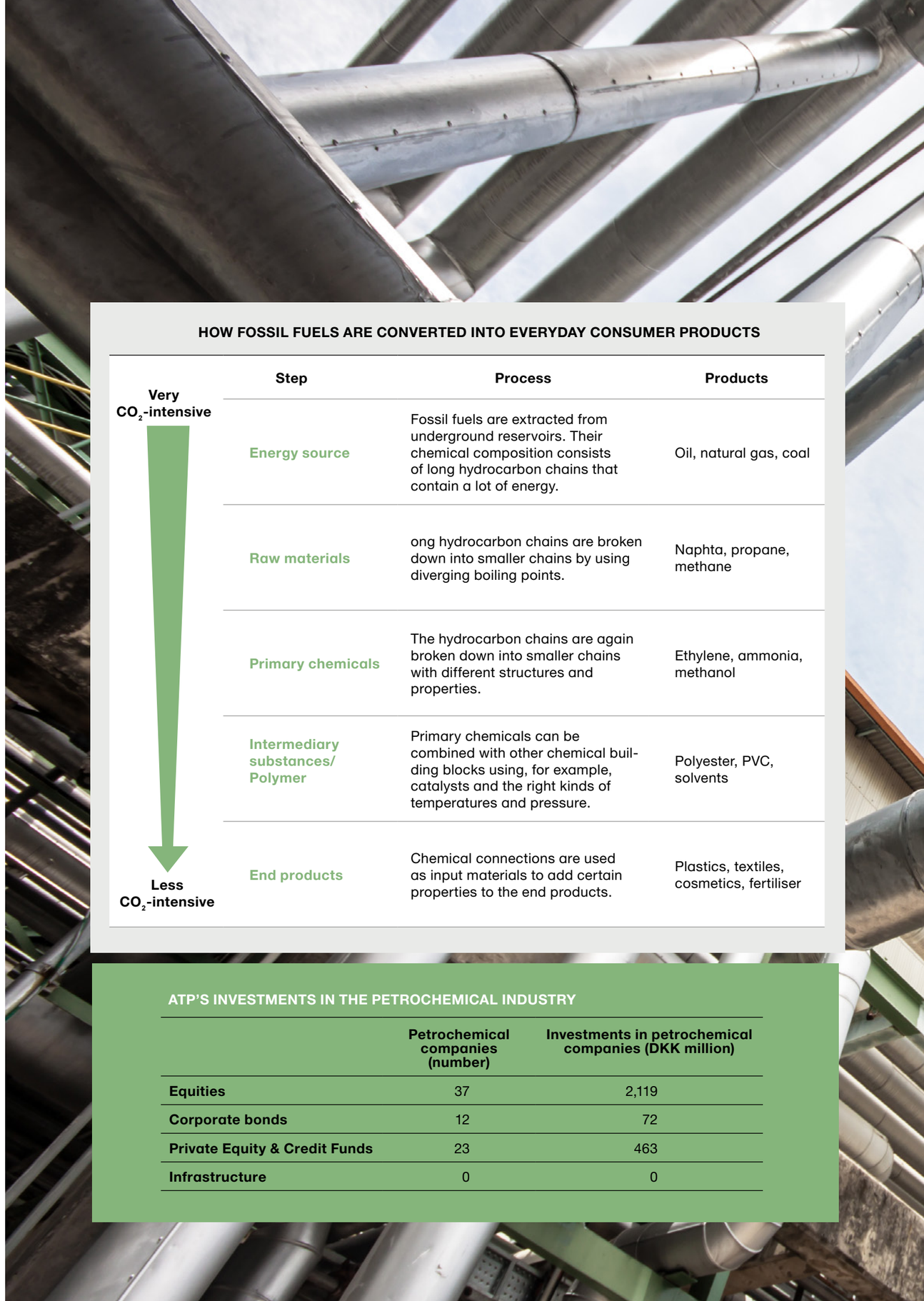
Several companies operate in a large part of the supply chain, and the complexity of the sector makes it difficult to map the cutoff points precisely. We have therefore chosen to err on the side of caution and overestimate the investments in the more energy-intensive parts of this sector. In our definition of the chemicals sector, we have chosen to leave out companies that only work with pharmaceutical products, biotechnology or distribution.

PETROCHEMICAL PLANTS

Petrochemical plants convert natural resources such as refined crude oil (naphta), natural gas and coal into chemical building blocks. The process typically involves breaking down long hydrocarbon chains (for example, from naphta) into smaller chains (for example, ethylene) in a distillation process that uses the diverging boiling points of the chemical building blocks.

PRIMARY CHEMICALS

Primary chemicals include ammonia, methanol, ethylene, propylene, benzene, toluene and xylenes. The last five are called 'high-value chemicals' and are the primary building blocks of most petrochemical processes. The primary chemicals account for roughly 2/3 of the chemicals sector's energy demand and thus also account for the majority of the sector's consumption of fossil fuels.



HOW FOSSIL FUELS ARE CONVERTED INTO EVERYDAY CONSUMER PRODUCTS

Very CO_2-intensive

Less CO_2-intensive

Step	Process	Products
Energy source	Fossil fuels are extracted from underground reservoirs. Their chemical composition consists of long hydrocarbon chains that contain a lot of energy.	Oil, natural gas, coal
Raw materials	ong hydrocarbon chains are broken down into smaller chains by using diverging boiling points.	Naphta, propane, methane
Primary chemicals	The hydrocarbon chains are again broken down into smaller chains with different structures and properties.	Ethylene, ammonia, methanol
Intermediary substances/ Polymer	Primary chemicals can be combined with other chemical building blocks using, for example, catalysts and the right kinds of temperatures and pressure.	Polyester, PVC, solvents
End products	Chemical connections are used as input materials to add certain properties to the end products.	Plastics, textiles, cosmetics, fertiliser

ATP'S INVESTMENTS IN THE PETROCHEMICAL INDUSTRY

	Petrochemical companies (number)	Investments in petrochemical companies (DKK million)
Equities	37	2,119
Corporate bonds	12	72
Private Equity & Credit Funds	23	463
Infrastructure	0	0

Stricter requirements for electricity production

As a long-term investor, it is important for us to take into account climate issues in our investment decisions so that our portfolio is well-equipped to withstand the financial impacts of climate change.

Therefore, in 2020 we revisited our approach to investing in utility companies. This has resulted in a number of new initiatives that are to ensure that ATP's global equities portfolio is robustly equipped to deal with climate change.

Therefore, ATP has four requirements for utility companies:

1. **Preference for companies focusing on the green transition**
   When selecting equities to invest in, we have integrated a new data point that pushes our equity selection process towards picking the companies that have the highest ambitions for the green transition.

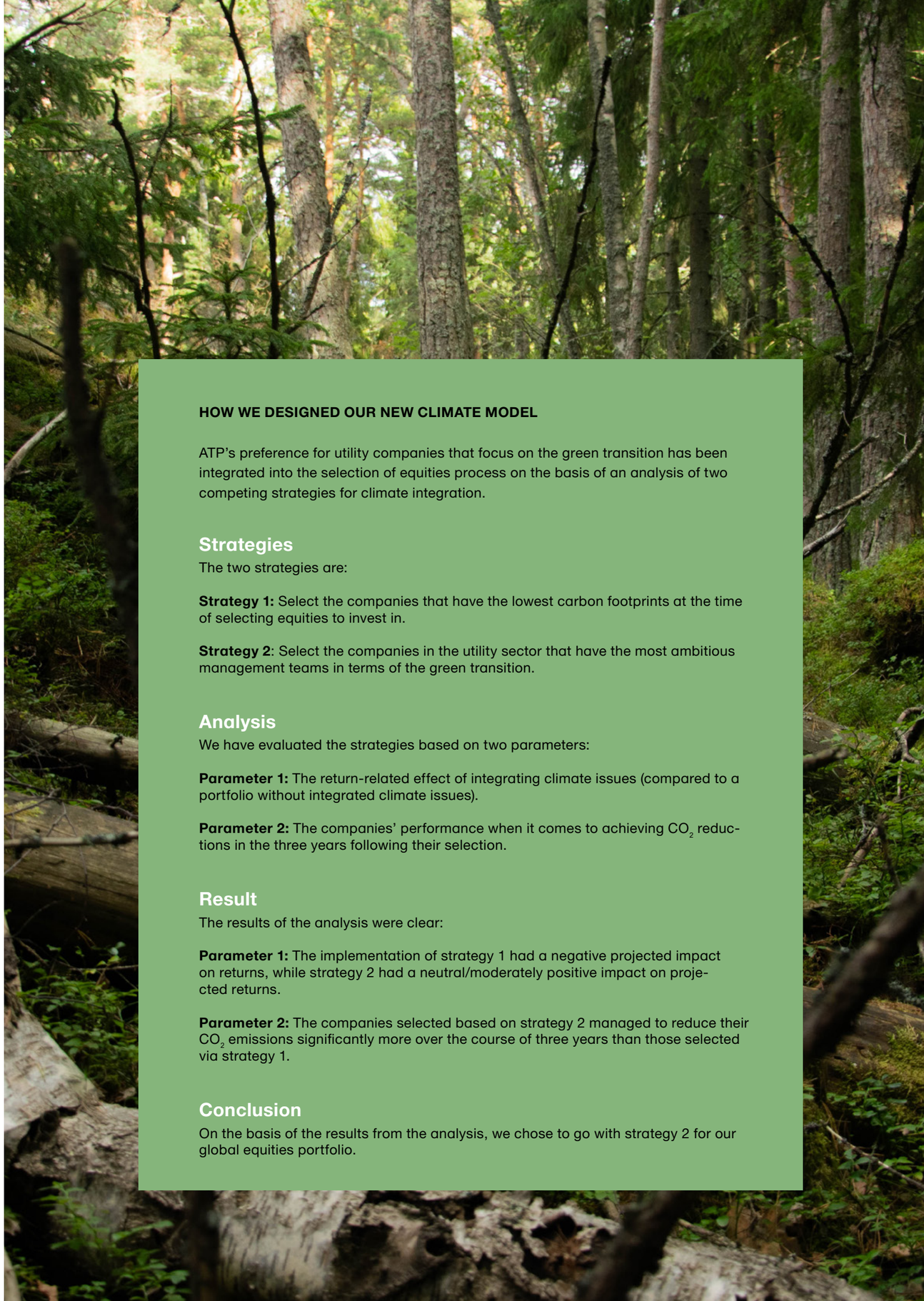
2. **No to new coal plants**
   In 2020, ATP has chosen to exclude utility companies that expand or develop new coal plants from our investment universe. In order to meet the targets of the Paris Agreement, the world must reduce the coal consumption significantly and therefore, ATP believes that there are both financial and climate-related risks in building new coal power plants with life expectancies of 40-50 years.

3. **No to companies with a large of exposure to coal**
   ATP is maintaining its current policy of saying 'No thank you' to companies that generate more than 50 per cent of their electricity from coal plants. If here in 2020 a company has such a large part of their assets tied up in coal, we believe that there is a significant risk of these assets being made redundant over time and thus losing their value.

4. **Dialogue with companies about future CO_2 intensity**
   If companies have a very CO_2-intensive electricity production that indicates that the company is basing its production on fossil fuels, we will enter into a dialogue with the companies and ask to see specific investment plans leading up to 2030 so that we can calculate the future CO_2 intensity. If the companies fail to provide convincing plans, they will not be part of ATP's investment universe. In 2020, we excluded eight companies whose plans we found to be not ambitious enough.

If we wanted to just 'look' greener at first glance, we would invest in companies that are already very green or stop investing in utility companies entirely. This would of course reduce the climate footprint from our equity investments significantly, but it would not change much in terms of reducing global emissions. We believe that we can get better results by using a more balanced approach. The winners of the future may be companies that have heavy carbon footprints today

Christian Kjær, Head of Liquid Markets



HOW WE DESIGNED OUR NEW CLIMATE MODEL

ATP's preference for utility companies that focus on the green transition has been integrated into the selection of equities process on the basis of an analysis of two competing strategies for climate integration.

Strategies

The two strategies are:

Strategy 1: Select the companies that have the lowest carbon footprints at the time of selecting equities to invest in.

Strategy 2: Select the companies in the utility sector that have the most ambitious management teams in terms of the green transition.

Analysis

We have evaluated the strategies based on two parameters:

Parameter 1: The return-related effect of integrating climate issues (compared to a portfolio without integrated climate issues).

Parameter 2: The companies' performance when it comes to achieving CO_2 reductions in the three years following their selection.

Result

The results of the analysis were clear:

Parameter 1: The implementation of strategy 1 had a negative projected impact on returns, while strategy 2 had a neutral/moderately positive impact on projected returns.

Parameter 2: The companies selected based on strategy 2 managed to reduce their CO_2 emissions significantly more over the course of three years than those selected via strategy 1.

Conclusion

On the basis of the results from the analysis, we chose to go with strategy 2 for our global equities portfolio.

Green bonds for DKK 29bn

As one of Europe's largest holders of bonds, we want to use our influence to develop the market for sustainable bonds. When in 2017 we decided to enter the market for green bonds, we also developed our own approach aimed at ensuring that the green bonds we invest in comply with our investment and ESG requirements.

The market for green bonds has grown significantly in the past few years and has now reached a level of maturity where it is more about managing the market, for example in the form of regulatory initiatives.

ATP has been increasing its investments in green bonds on an ongoing basis, and at the end of 2020 we had almost DKK 30bn invested in green bonds.

At ATP, our ESG requirements also need to be met for our investments in green bonds, and we have therefore developed our own standard for the issuers of such bonds that exceeds the recommendations of the Green Bonds Principles. We require transparency of what projects the bonds help to finance and we also have requirements for the quality of the reporting.

In the last few years, we have been impacting the market for green bonds, which has gone through a massive development process. We will continue doing so in 2021, with ATP as an active participant in that development and with a focus on solid reporting and transparency so that the market for sustainable financing continues to develop.

Lars Dreier, Director – Fixed Income.

Besides having increased our investments in 2020, we have also continued to develop our ESG standards. In 2020, ATP developed two metrics to evaluate our green bonds as there are differences between state issuers and non-state issuers.

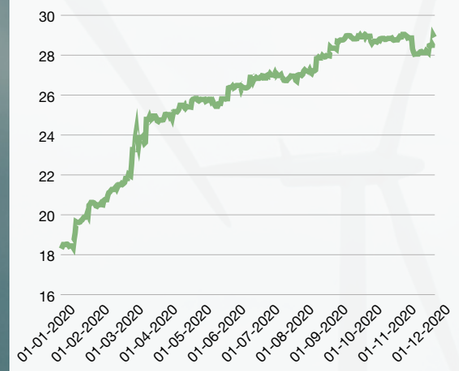
When looking at the regular green bonds, we have strict requirements for transparency. We therefore focus on how much information we as investors can get about how the proceeds from the bond issue are stored and which projects receive financing. We believe that it is best if we can see exactly which projects our bonds have financed and what their impact is. Not all bond issuers are at this level yet, but the trend is moving in the right direction.

This, however, is not possible when we look at state issuers of bonds for two key reasons. Firstly, states cannot track the proceeds in the same way as other issuers, as - from a purely legal perspective - they are not allowed to have a special account for money raised via green bonds. Secondly, states also finance green state expenditures with the proceeds from green bonds. This could include tax cuts and subsidies for certain green investments whose climate impact cannot be measured in the same way as, for example, when investing in wind power. The green government bonds cannot therefore currently reach the same level of transparency.

States are important actors in the market for green bonds but we cannot compare state-issued green bonds with other issuers of green bonds on a 1:1 basis. Instead, we have developed specific criteria for states that allow us to ensure that we pick the best possible state-issued green bonds.

One of the factors that will have a major influence on the market for green bonds in the future is the EU's Taxonomy for Sustainable Activities and EU's standard for green bonds, which is partially based on this taxonomy. We have therefore taken part in the consultation process for the new standard and we have told of our experiences with transparency and reporting. In our ongoing dialogues with issuers of green bonds, we have also asked them how they will integrate the new EU requirements.

THE DEVELOPMENT IN ATP'S GREEN BONDS IN 2020



STRICT REQUIREMENTS FOR CREDITWORTHINESS

ATP invests in green bonds with a creditworthiness corresponding to the bonds that ATP is already investing in. This means that it must be government bonds or bonds with similar credit characteristics. We do so since the green bonds are part of our hedging portfolio and thus also our long-term pension liabilities. We therefore also have a long-term commitment in the green bond market.

What we investigate	Development banks	Government bonds
The framework	Does the bond issuer describe its strategy and how the projects fit into this strategy?	Does the bond issuer describe how the green bonds contribute to national targets as per the Paris Agreement?
Selecting projects	Does the bond issuer describe the process for selecting projects? Does the bond issuer describe what specific requirements there are for the project in the selection process?	Does the bond issuer describe what types of public expenses can be financed via the bond issue? Has there been taken precautions to avoid double counting of green projects? (For example: projects in state-owned companies that issue their own green bonds)
Managing the proceeds	Does the bond issuer track the proceeds until full allocation has been achieved? When are the proceeds expected to be fully allocated to projects?	Does the bond issuer describe what budget periods are financed by the bond issue?
Reporting	Does the bond issuer report on the project level?	Does the bond issuer report on what proportion of the proceeds have gone to either projects or state expenses? (For example, subsidies and tax incentives)

Saying farewell to a number of oil companies

In 2019, ATP made an analysis of how CO_2 intensive oil companies were in their oil extraction processes, and this resulted in a number of oil companies, including tar sands producers, being divested due to investment risks. In 2020, we have refined our approach so that ATP now has its own rating system for oil and gas companies that we use to limit our investment universe.

Specifically, this means that a number of companies have been excluded from ATP's investment universe, including ExxonMobil, Chevron and ConocoPhillips plus a number of other company who operate in the shale oil industry. Even though ATP has not previously invested in these companies, they are now completely cut off from being part of our future portfolio.

With ATP's new investment approach towards oil companies, companies such as ExxonMobil, Chevron and ConocoPhillips are now no longer part of ATP's investment universe.

The rating is based on two factors that together add up to the final rating that determines whether certain companies can remain part of ATP's investment universe. These two factors cover the two parts of oil production that have the heaviest carbon footprint when producing oil.

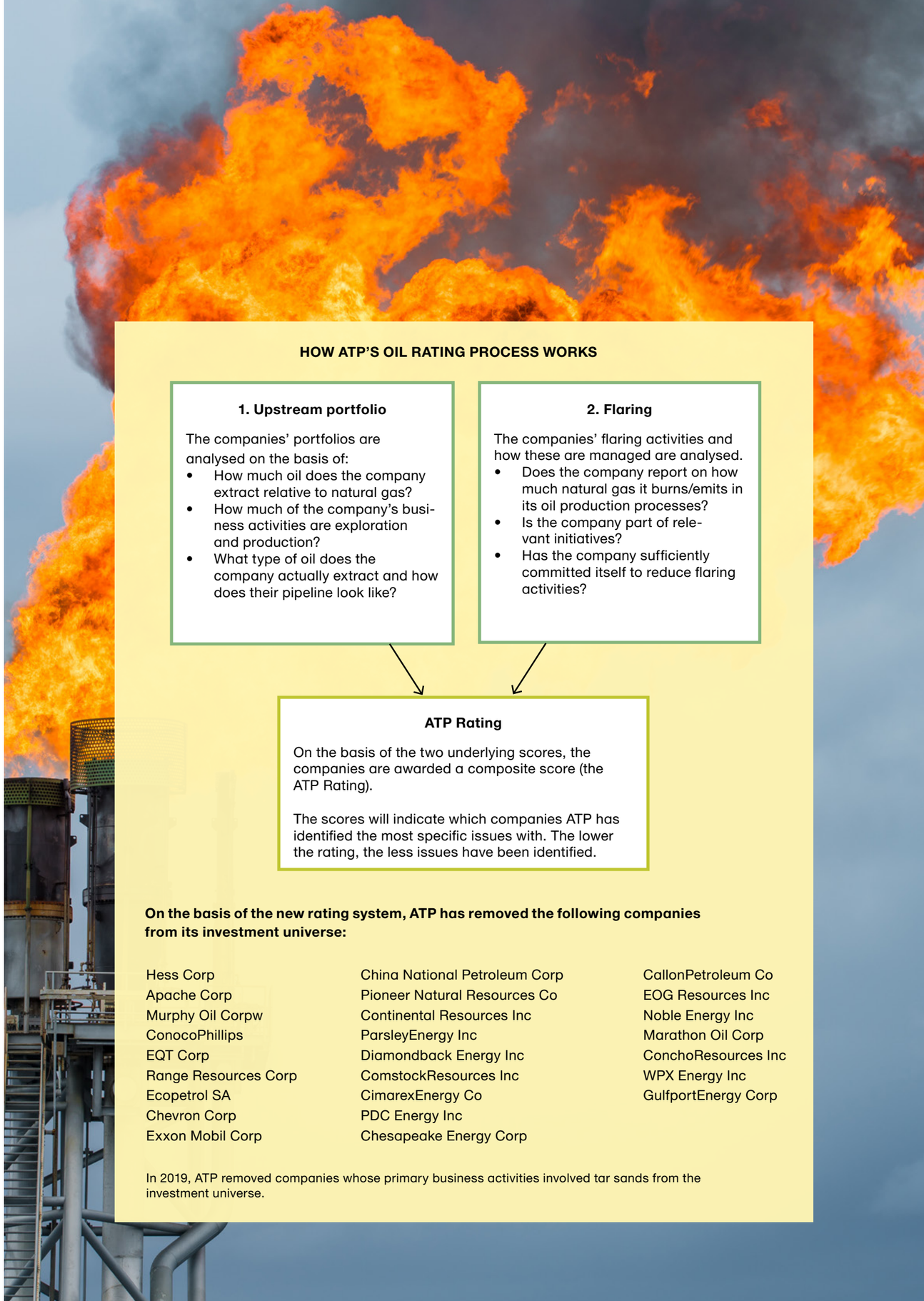
The first factor is the companies' upstream portfolio - in other words, the oil and gas that the companies extract and plan to extract. For example, there are certain kinds of oil that have a lower carbon footprint than others, but the proportion og natural gas extracted compared to oil is also a factor. The rating takes into account the companies' future plans for new projects. ATP has access to data that allows us to make some very precise analyses of the individual companies' portfolios, and this ensures that the companies that extract higher-quality oil and have a greater proportion of natural gas extraction are weighted higher in our investment decisions.

The other factor is the use of flaring - the burning of natural gas when extracting oil. Here we have chosen to look at whether the companies report on flaring and whether they have committed themselves to reduce the use of flaring in their extraction processes by signing up for the World Bank's Zero Routine Flaring Initiative.

It is also important to analyse how strong that obligation is. As the ownership of oil fields is often split between a number of companies and only one company takes care of the operations, the analysis also looks at how many oil fields a company has ownership stakes in but is not itself operating - and where the operator is not part of the Zero Routine Flaring Initiative. For example, it may be that one particular company signs on to the initiative but then is not the one operating some oil fields and the majority of the actual operators of those fields have not signed on to the initiative.

ZERO ROUTINE FLARING BY 2030 INITIATIVE

The Zero Routine Flaring by 2030 Initiative has been created by the World Bank to oblige governments and oil companies to limit their use of routine burning of gas when extracting oil. Denmark is one of the 32 governments that has endorsed the initiative.



HOW ATP'S OIL RATING PROCESS WORKS

1. Upstream portfolio

The companies' portfolios are analysed on the basis of:

- How much oil does the company extract relative to natural gas?
- How much of the company's business activities are exploration and production?
- What type of oil does the company actually extract and how does their pipeline look like?

2. Flaring

The companies' flaring activities and how these are managed are analysed.

- Does the company report on how much natural gas it burns/emits in its oil production processes?
- Is the company part of relevant initiatives?
- Has the company sufficiently committed itself to reduce flaring activities?

ATP Rating

On the basis of the two underlying scores, the companies are awarded a composite score (the ATP Rating).

The scores will indicate which companies ATP has identified the most specific issues with. The lower the rating, the less issues have been identified.

On the basis of the new rating system, ATP has removed the following companies from its investment universe:

Hess Corp
Apache Corp
Murphy Oil Corpw
ConocoPhillips
EQT Corp
Range Resources Corp
Ecopetrol SA
Chevron Corp
Exxon Mobil Corp
China National Petroleum Corp
Pioneer Natural Resources Co
Continental Resources Inc
ParsleyEnergy Inc
Diamondback Energy Inc
ComstockResources Inc
CimarexEnergy Co
PDC Energy Inc
Chesapeake Energy Corp
CallonPetroleum Co
EOG Resources Inc
Noble Energy Inc
Marathon Oil Corp
ConchoResources Inc
WPX Energy Inc
GulfportEnergy Corp

In 2019, ATP removed companies whose primary business activities involved tar sands from the investment universe.

Carbon footprints are still a metric with some challenges

At ATP, we are continually working on getting better at measuring our work with ESG issues - both to show our progress and to learn more about ESG issues and their role in value creation.

One of the metrics that we have worked with for a number of years is the carbon footprint of ATP's investments.

For companies, their CO_2 emissions are a critical management tool that they can use to optimise their operations in a way that minimizes the environmental footprint. Therefore, at ATP has also for a number of years used the CO_2 reporting figures in our dialogues with companies about climate issues, and ATP also measures its own emissions so that they can be reduced.

ATP is, however, careful about concluding that a reduction of a company's carbon footprint is the same as an actual CO_2 reduction in practice.

And as an investor, looking at carbon footprints is associated with some challenges. The main challenge is that carbon footprints are also applied to dynamic portfolios. If a portfolio's carbon footprint has decreased by 5 per cent in a year, it is impossible to say whether this is because of real reductions of CO_2 emissions from the underlying companies or whether it is due to sectoral issues or due to the portfolio's changed composition - for example, if the portfolio replaces a CO_2-intensive sector such as transportation with a less CO_2-intensive sector such as the IT sector. Therefore, as an investor, one has to be careful about reporting on whether a reduction in an investment portfolio's carbon footprint also represents an actual reduction.

In addition, there are a number of other challenges:

- The data is still incomplete and does not cover all asset classes
- The distribution of emissions between shareholders and bond owners
- Double counting - an energy company's scope 1 emissions may be another company's scope 2 emissions
- The carbon footprint is a backwards-looking metric, where the data, as a general rule, is up to a year old, and it does not say anything about the company's future emissions.

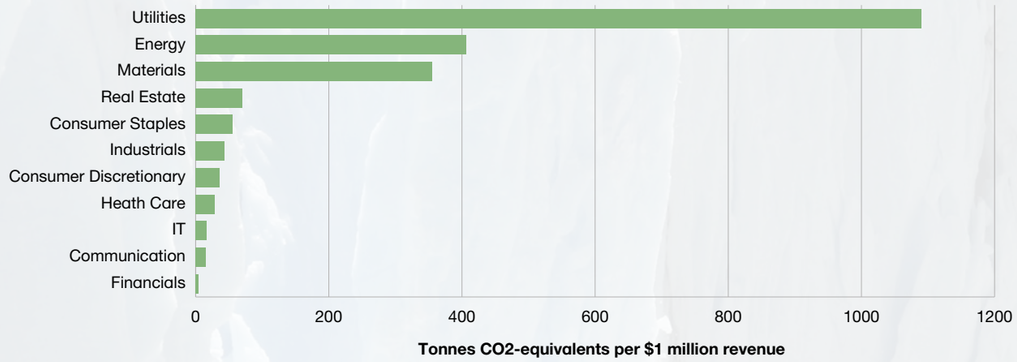
For the Nordic equities, which are mainly Danish companies, the carbon footprint has decreased from 2019 to 2020 as measured by all three methods. It is mainly the scope 1 emissions that have contributed to this decrease. However, Maersk, due to its business model and the size of ATP's investment in it, is by far the largest contributor to ATP's carbon footprint. Therefore, a decrease in Maersk's carbon intensity has had a similarly effect on ATP's Nordic equities portfolio.

For the international portfolio there has been a notable decrease in the carbon footprint measured by all three metrics. One explanation for this is that ATP has divested itself of 31 of the 50 companies with the highest carbon intensity in the global equities portfolio in 2019. At the same time, the carbon intensity and WACI are significantly lower for the new companies in the portfolio than it was for the divested ones, while both figures have decreased slightly for the investments that have been retained.

Generally speaking, a comparison with the end of 2019 portfolio shows that the divested equities in the international portfolio have significantly higher carbon intensities and WACI than the equities that were added. In addition, both the carbon intensity and WACI have slightly decreased for the equities that have been retained. ATP has data about almost 92% of the investments in international equities.

ATP's corporate bonds have seen notable increases in both carbon footprints, carbon intensities and WACI. This is partially due to the fact that ATP's external asset managers have invested in a number of industries and energy companies that have relatively heavy carbon footprints. There is a great deal of uncertainty associated with the statements for corporate bonds, however, as there is only data available for approximately 46% of the investments. In addition, when it comes to corporate bonds, a decreasing share price results in the bond owners having a larger share of the investment's emissions even if they are not actively increasing their investment or the carbon footprint of the investment is increasing.

WHAT COMPANIES HAVE THE HIGHEST CO_2 EMISSIONS?



A portfolio's carbon footprint is very much a reflection of which sectors one is exposed to. If one were to design a portfolio with a low carbon footprint, then the trick would mainly be in staying away from making investments in certain sectors. For example, an average utility company has a CO_2 intensity that is over 250 times higher than a typical financial sector company. However, it is also the companies with the heaviest carbon footprints that have the best opportunities for making positive changes and reducing their CO_2 emissions.

	Total carbon emissions	Carbon Footprint		Carbon Intensity		WACI	
2020	(tonnes CO_2e)	(tonnes CO_2e/DKKm)	Development compared to 2019	(tonnes CO_2e/DKKm)	Development compared to 2019	(tonnes CO_2e/DKKm)	Development compared to 2019
Nordic equities	**462,531**	**12.17**	**(-17%)**	**35.13**	**(-4%)**	**20.20**	**(-22%)**
Scope 1	429,086	11,29	(-16%)	32.59	(-3%)	17.55	(-24%)
Scope 2	33,445	0.88	(-27%)	2.54	(-15%)	2.65	(-11%)
International equities	**556,830**	**7.65**	**(-44%)**	**12.56**	**(-51%)**	**16.34**	**(-57%)**
Scope 1	400,367	5.52	(-51%)	9.03	(-58%)	11.84	(-62%)
Scope 2	156,176	2.15	(-6%)	3.52	(-18)%	4.49	(-33%)
Corporate bonds	**34,520**	**21.92**	**(73%)**	**26.95**	**(51%)**	**38.68**	**(49%)**
Scope 1	27,245	18.20	(92%)	21.27	(60%)	31.33	(62%)
Scope 2	7,275	4.64	(45%)	5.68	(26%)	8.78	(32%)
Explanations	Total carbon emissions ar the emissions that correspond to ATP's ownership stake	The carbon footprint statement is normalised based on the total size of the portfolio.		The carbon intensity method focuses on the companies' CO_2 efficiency, as this is normalised based on the earnings of the portfolio companies.		WACI shows the average CO_2 intensity for all companies in the portfolio, weighted by their respective sizes relative to the portfolio.	

We must not forget the carbon footprint of the illiquid portfolio

As part of a new ESG initiative in 2020, we have started work on collecting better ESG data for our illiquid investments for the purposes of better being able to measure the effect of the ESG efforts. This has meant that ATP has systematically begun collecting emissions data for the individual portfolio companies.

This new kind of ESG data work has therefore allowed ATP to measure its carbon footprint for parts of its illiquid investments (infrastructure and private equity). We support the TCFD's recommendations and we want to be as transparent as possible when it comes to our carbon footprint, and therefore, in the future we will also be publishing our carbon footprints for the illiquid portfolio.

We have prioritised collecting data on the largest and newest investments. However, it is not all of the data that is collected that can be used to measure ATP's carbon footprint. Some companies, for example, report on their emissions using different methods of measurement, while others report total emissions on a group level (parent company) and not for the individual subsidiaries that ATP invests in.

The carbon footprint for ATP's illiquid portfolio is somewhat lower than the carbon footprint of ATP's equities portfolio. Measured by market value, the footprint covers approximately 40 per cent of ATP's total illiquid investments (Private Equity and Infrastructure). However, the carbon footprint has been calculated on the basis o a low number of companies. There are only 38 companies included in the measurement of the carbon footprint of ATP's illiquid portfolio. The low number of companies being measured means that the carbon footprint is very sensitive to individual portfolio companies.

When this is the case, as an investor you need to be careful about drawing conclusions. Companies that are not measured that year can potentially have either very positive or very negative impacts on a future measurement of ATP's carbon footprint. We expect that in the coming years we will be able to report more comprehensively on the carbon footprints.

Carbon footprint of the illiquid portfolio	Companies (Number)	Market value (DKKm)	Total Carbon Emissions (tonnes CO_2e)	Carbon Footprint (tonnes CO_2e/DKKm)
Private Equity	23	4,839	17,646	3.65
Infrastructure	15	25,734	96,403	3.75
Total illiquid	38	30,574	114,048	3.73

OUR METHOD

We want to use similar methods of calculation to measure the carbon footprints of the illiquid portfolio and the liquid portfolio. However, unlike with liquid equities and corporate bonds, standardised market data such as, for example, enterprise value cannot be accessed and the enterprise value is thus based on internal valuations. Likewise, it has not been possible to find accurate numbers for revenue for all portfolio companies. For this reason, ATP has chosen not to measure the carbon footprint of its illiquid portfolio on the basis of metrics that incorporate companies' revenue ('Carbon Intensity' and 'WACI'). Finally, it is also not all portfolio companies that separate their emissions into scope 1 and 2 categories. Instead, they aggregate their emissions into a single figure. This means that ATP is also unable to divide its carbon footprints into scope 1 and 2 and that we have to report a single composite figure.

The three largest emitters of CO_2 in ATP's portfolio are infrastructure and private equity investments

Attero accounts for approximately 60 per cent of the portfolio's total emissions, and measured by market value, it accounts for only approximately 1 per cent of the total portfolio. Attero operates several waste burning plants in the Netherlands where they, for example, use fossil fuels to break down and process waste that is then finally converted to secondary resources and energy. The company's activities actually make an indirect positive contribution to reducing CO_2 emissions elsewhere. Attero itself therefore points out that they emit less CO_2 emissions than they contribute to saving. Still, as indirect effects are not included in the measurements of an investment's carbon footprint, Attero does account for a large part of ATP's carbon footprint.

HES International accounts for approximately 7 per cent of the portfolio's total emissions. Measured by market value, the company represents less than 1 per cent of the total portfolio. HES is one of the largest diversified operators of port terminals in Europe. The company operates several (bulk) cargo terminals where they, among other things, earn money from handling and storing various kinds of bulk goods such as, for example, iron ore, minerals, fuels, etc. Compared with ATP's other infrastructure investments, HES' operations are much more associated with a high direct energy consumption and thus emissions, as it requires a certain amount of energy to transport and move goods.

Redexis represents around 6 per cent of the portfolio's total emissions. The company is one of ATP's largest illiquid investments, and ATP owns 33.3 per cent of the company. Redexis is a Spanish energy and infrastructure company that operates a large network of pipelines to transmit and distribute natural gas to private consumers. The emissions typically come from maintenance activities and the expansion of existing pipeline networks, and machines such as compressor tend to generate emissions. Leaks in the pipeline network also emit a lot of natural gas into the atmosphere. Redexis is constantly working to reduce its carbon footprint and has, for example, implemented various monitoring systems that are aimed at making it easier to identify focus areas. Redexis is the third-largest contributor to the portfolio's overall emissions, as it is one of our largest investments. However, if one looks at the portfolio average for emissions but takes into account the DKK invested, Redexis emits less per crown invested than an average portfolio company.