Accounting policies

Accounting policies

The ESG ratios are calculated in accordance with the guidelines issued by FSR – Danish Auditors, Nasdaq and the CFA Society Denmark in June 2019. For a description of the calculation methods applied, visit the website of FSR – Danish Auditors.

For purposes of calculating estimated CO_2e emissions from PensionDanmark's investment portfolio, see environmental data – scope 3, Enterprise Value including Cash (EVIC) is applied in accordance with the recommendations of the EU and the Partnership for Carbon Accounting Financials (PCAF). In 2019, market value was applied. The comparatives were restated in 2020.

Other than that, the accounting policies are consistent with those applied for 2019.

Environmental data

Much of the environmental data is related to CO_2e emissions, which are calculated in accordance with the Greenhouse Gas (GHG) Protocol unless otherwise stated. For reporting purposes, emissions are divided into scopes according to the source of emission:

Scope 1 reflects direct emissions from own office buildings and vehicles.
Scope 2 reflects emissions (at the energy producer) from purchased electricity, district heating and cooling.
Scope 3 reflects all other indirect emissions from, e.g., sub-contractors and, for financial undertakings, CO_2e emissions from investment portfolios.

CO_2e emissions for the three scopes are stated as follows:

Scope 1

Direct emissions generated by the reporting company's own combustion of fuels and materials. Emissions are measured in tonnes of CO_2e and comprise all transportation subject to the tax rules on mileage allowance, all company transportation in company cars and all journeys made by the pension and healthcare advisory buses. Total mileage is converted according to a standard CO_2e emission per kilometre driven in a standard car or bus, as the case may be.

Scope 2

For purposes of calculating scope 2 CO_2e emissions, the conversion of power and district heating into CO_2e emissions is based on the general declaration of Energi Danmark and HOFOR. The market-based principle also takes purchases of sustainable energy into account. By comparison, location-based CO_2e emissions are calculated using average emission factors.

The renewable energy share is the sum of renewable energy, as defined by the general declaration of EnergiDanmark and HOFOR, and energy produced by means of own solar cells. Power supplied by EnergiDanmark is 100% renewable as the company has purchased green energy.

Scope 3

Scope 3 CO_2e emissions are disclosed as a supplement to the guidelines issued by FSR – Danish Auditors, Nasdaq and the CFA Society Denmark. Under the GHG Protocol, scope 3 CO_2e emissions are divided into 15 sub-categories (C1-C15). PensionDanmark does not disclose data for all categories, which is due either to a lack of data or to the fact that the sub-category in question is not relevant to PensionDanmark's activities.

PensionDanmark discloses CO_2e emissions for C1: Purchased goods and services (paper consumption), C5: Waste, C6: Business travel (aircraft) and C15: Investments.

C1: Purchased goods and services (paper)
PensionDanmark's paper consumption is measured in terms of printed paper, which is converted into tonnes of CO_2e emissions.

C5: Waste
The weight of waste disposed of is converted into CO_2e emissions.

C6: Business travel (aircraft and taxi)
Business travel comprises air travel and transportation by taxi. Emissions are measured in tonnes of CO_2e and comprise PensionDanmark's consumption of air travel and transportation by taxi based on supplier statements of CO_2e emissions.

Accounting policies (continued)

C15: Investments

CO_2e emissions are estimated for PensionDanmark's investments in listed equities, corporate bonds, private equity (unlisted equities) and real estate. In 2020, this was just under 50% of PensionDanmark's total investment portfolio. CO_2e emissions are stated in so-called CO_2 equivalents – CO_2e – and measured in tonnes.

CO_2e emissions from the investment portfolio

In measuring CO_2e emissions from the investment portfolios of financial businesses, up to four metrics may be used, as per the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Metric 1: Total CO_2e emissions:

The ratio shows the portfolio's total estimated CO_2e scope 1 and scope 2 emissions, see the GHG Protocol. Under this method, the CO_2e footprint is measured on the basis of the value of the amount invested, EVIC and CO_2e emissions. For the financial sector, CO_2e emissions are calculated based on Enterprise Value (EV). The ratio is computed according to the following formula:

Total CO_2e emissions = $\sum_n^i$ PensionDanmark's ownership relative to $EVIC_i$ * scopes 1 and 2 CO_2e emissions from the investment n_i

Metric 2: CO_2e footprint (carbon footprint):

The measurement builds on metric 1, normalising the CO_2e footprint based on the value of PensionDanmark's holdings in the asset classes included. The ratio is computed according to the following formula:

CO_2e footprint = Total CO_2e emissions (metric 1) / The value of PensionDanmark's holding

Metric 3: CO_2e intensity (carbon intensity):

The measurement builds on metric 1, normalising the CO_2e footprint based on the reporting company's revenue. The carbon intensity method illustrates the portfolio's efficiency in generating revenue relative to the emission of CO_2e. The ratio is computed according to the following formula:

CO_2 intensity = Total CO_2e emissions (metric 1) / $\sum_n^i$ PensionDanmark's ownership share$_i$ relative to EVIC * Revenue of investment$_i$

Metric 4: Weighted average carbon intensity:

The ratio shows the portfolio's exposure to CO_2e-intense companies and thus to potential climate-related financial risks. The ratio is computed according to the following formula:

Weighted avg. carbon intensity = $\sum_n^i$ (Value of ownership share in investment$_i$ relative to EVIC / value of PensionDanmark's holding) * (scopes 1 and 2 CO_2e emissions from the investment$_i$ / Revenue of investment$_i$)

Calculations of estimated CO_2e emissions from the corporate bond and listed equity portfolios are based on MSCI and Bloomberg data. Emission data are collected from both MSCI and Bloomberg (MSCI is preferred in case of discrepancy). Company values are sourced from Bloomberg.

CO_2e emissions from the listed equity portfolio

CO_2e emissions from the equity portfolio are measured on the basis of metrics 1, 2, 3 and 4.

Data are available for 99% of the listed equity investments. CO_2e emissions from the remaining 1% of the total investment in listed equities are estimated based on the climate footprint distributed by geography and sector (according to the Global Industry Classification Standard) using the data available. It is assumed that the climate footprint (CO_2e/EURm) is the same, on average, for all equities within the same sector and geography. This average is applied for that part of the portfolio for which observations are not available. The distribution is made based on 11 sectors (Real Estate, Energy, Consumer Discretionary, Utilities, Industrials, Information Technology, Consumer Staples, Materials, Financials, Healthcare and Telecommunication Services) and two geographical segments (OECD countries and non-OECD countries). Columbia, Chile and Mexico are categorised as non-OECD countries.

Accounting policies (continued)

CO_2e emissions from the corporate bond portfolio

CO_2e emissions from the corporate bond portfolio are measured based on metrics 1 and 2. Metric 2 is calculated for both the total corporate bond portfolio and for the total corporate bond portfolio exclusive of CO_2e emissions from green bonds, the latter being due to the fact that green bonds are dedicated to specific projects that will reduce the reporting company's greenhouse gas emissions through, for instance, transition to renewable energy. At the present time, unambiguous standards have not been adopted for how the CO_2e footprint from green bonds should be calculated. For this reason, PensionDanmark calculates the CO_2e footprint both inclusive and exclusive of emissions from green bonds.

Data are available for 80% of the corporate bond investments. CO_2e emissions from the remaining 20% of the total investment are estimated based on the climate footprint distributed by geography and sector (according to the Global Industry Classification Standard) based on the data available. It is assumed that the climate footprint (CO_2e/EURm) is the same, on average, for all corporate bonds within the same sector and geography. This average is applied for that part of the portfolio for which observations are not available. The distribution is made based on 12 sectors (Real Estate, Energy, Consumer Discretionary, Utilities, Industrials, Information Technology, Consumer Staples, Materials, Financials, Healthcare, Telecommunication Services and State) and two geographical segments (OECD countries and non-OECD countries). Columbia, Chile and Mexico are categorised as non-OECD countries.

CO_2e emissions from the private equity portfolio

CO_2e emissions from the private equity portfolio are measured based on metrics 1 and 2.

As data are not available for CO_2e emissions from the private equity investments, emissions for the entire portfolio are estimated on the basis of the MSCI AC World index according to 11 sectors (Real Estate, Energy, Consumer Discretionary, Utilities, Industrials, Information Technology, Consumer Staples, Materials, Financials, Healthcare and Telecommunication Services) and six geographical areas (Asia (excl. China), OECD Asia, Europe and Oceania, China, North America and other Emerging Markets). The portfolio's CO_2e emissions were calculated at 30 September 2020.

CO_2e emissions from the real estate portfolio

The CO_2e emissions from the real estate portfolio are measured on the basis of total CO_2e emissions and two metrics for footprint and carbon intensity, respectively.

Data are available for approx. 90% of the real estate portfolio. PensionDanmark collects real estate data from property managers DEAS and ATP AM. The remaining 10% of the real estate portfolio has not yet been occupied and is therefore not included. A property's energy consumption is calculated based on its energy certificate and energy area and subsequently multiplied by a weighted emission factor for electricity and district heating in order to estimate its CO_2e emissions.

Metric 1: Total CO_2e emissions from real estate:

The ratio shows the properties' total estimated CO_2e emissions. The ratio is computed according to the following formula:

Total CO_2e emissions = $\sum_n^i$ scopes 1 and 2 CO_2e emissions from real estate$_i$

Partially owned properties are included based on PensionDanmark's ownership share.

Metric 2: CO_2e footprint (carbon footprint) of real estate:

The measurement builds on metric 1, normalising the CO_2e footprint based on the value of PensionDanmark's properties. Property values are calculated according to the same principles as those applied in the financial statements. The ratio is computed according to the following formula:

CO_2e footprint = Total CO_2e- emissions (metric 1) / Property values

Accounting policies (continued)

Metric 3: CO$_2$e intensity (carbon intensity) of real estate:
The ratio shows CO$_2$e emissions relative to the size of the property. The carbon intensity method illustrates the portfolio's efficiency per sqm relative to the emission of CO$_2$e. The ratio is computed according to the following formula:

$$CO_2e \text{ intensity} = \sum{}_n^i kgCO_2e \, / \, sqm$$

Avoided emissions from ownership of green infrastructure
Avoided emissions from ownership of green infrastructure (avoided emissions) are calculated as the volume of CO$_2$e avoided by investing in renewable energy and comprises PensionDanmark's investments in renewable energy infrastructure assets. Power generated by means of energy infrastructure assets is converted into the volume of CO$_2$e that would have been emitted if the same volume of power had been produced by means of fossil sources in the local power grid.

Avoided emissions are calculated based on the actual power production and statistics on the current mix of fossil fuels in local and national power grids. This enables the calculation of the displaced fossil-based power production and the related avoided emissions.

Other ratios
For purposes of measuring gender diversity for other management tiers, a manager is defined as a person with personnel responsibilities. The CEO is not included in the calculation of the ratio.

Customer retention ratios are not disclosed as they would not appropriately represent customer satisfaction due to the high rate of job mobility among PensionDanmark's members and the fact that existing pension schemes are generally transferred in connection with a change of jobs.

Taxes paid, which are not included in the guidelines, are stated as tax on pension returns, VAT, payroll tax, tax at source and corporation tax paid in the year.

ESG-related estimates and judgments
A number of assumptions and judgments are used for purposes of calculating CO$_2$e emissions from the investment portfolio. The numbers are therefore subject to some uncertainty.

A number of assumptions are used for purposes of calculating avoided emissions from ownership of green infrastructure.