

To: Danish companies in AkademikerPension's portfolio

26 January 2021

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Engagement letter

Dear XXXXX

At regular intervals we approach companies in our portfolio to initiate or deepen existing dialogues on sustainability and good corporate governance. Annually, we seek to clarify our positions on a selection of related key issues in a letter to all Danish companies in our portfolio. As you know, sustainability and corporate governance issues frequently and increasingly turn out to be highly material and to have significant financial impacts on companies and investors alike. In our view, proficiency and transparency in these matters is a foundation without which companies will not succeed in increasingly complex global and local contexts.

As an investor, we ask for clarity and a high level of accountability from companies. We simply need consistent sets of timely, meaningful, high-quality data and narratives to make prudent investment decisions. Fortunately, we observe that sustainability is gradually integrated more profoundly into the business management practices and strategies of our portfolio companies. In the newly updated set of recommendations from the Danish Committee on Good Corporate Governance 'sustainability' is also expressly integrated. We welcome this revision, and hope that Danish companies will quickly embrace the new directions set. The recommendations of the Committee are our point of departure, and we encourage companies to follow them, rather than explain divergences: we value "comply" over "explain". We also encourage companies to raise the bar even higher on a number of issues related to sustainability and good corporate governance. Across our portfolio of Danish companies, we have identified several demanding issues that we deem relevant to all. With this letter for 2021 **we continue our focus on four such issues:**

- diversity,
- remuneration,
- climate change,
- responsible tax

These topics are briefly elaborated on in the **annex**.

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Some companies in our portfolio already manage one or more of these issues with excellence and we applaud them for leading the way. But most companies have room for improvement, as do we at AkademikerPension. Our casting of votes at company AGMs reflect these priorities. Our voting decisions and dialogues with companies are of course context and company specific, and we acknowledge that your company should ultimately make the judgement on what is material now and in the future. Similarly, it is for your company to reflect materiality assessments in strategy and make informed decisions and disclosures on emerging risks and opportunities. We expect companies to provide transparency and real clarity as we strive to navigate the complexity of sustainability ourselves, and appropriately nurture our portfolio in a responsible and increasingly sustainable manner.

As a member of the UN-convened Net-Zero Asset Owner Alliance, AkademikerPension has committed to achieving a net-zero investment portfolio by no later than 2050 and to decarbonize our equity and corporate bond portfolios by 26.8% by 2025 (with the end of 2019 as the baseline). These are science-based targets in line with the IPCC trajectories aiming to keep global warming at no more than 1.5 °C above pre-industrial levels. **We respectfully request your assistance to meet the target** by decarbonising your company in line with a 1.5 °C trajectory.

You already know about the new initiative on our part. In late 2020, AkademikerPension and LD Fonde in partnership began submitting shareholder proposals asking companies to (1) adhere to the recommendations from Task Force on Climate-Related Financial Disclosures (TCFD) and consistently address and report on climate related financial risks and opportunities and (2) undertake and publish tax transparency feasibility assessment. We expect to additionally submit such proposals this year.

We very much welcome your feedback to this letter, and we look forward to further strengthening our relationship with your company in 2021.

Kind regards,



Jens Munch Holst
CEO, AkademikerPension



Anders Schelde
CIO, AkademikerPension



Louise Jørring Gev
Head of Equities

AkademikerPension (formerly MP Pension) is an active investor with DKK 137 bn in assets under management on behalf of our more than 140,000 scheme members. AkademikerPension is invested in Danish companies mainly through Kapitalforeningen MP Invest over which AkademikerPension exercises full control.

Annex

For good reasons, approaches to sustainability and corporate governance differ from one company to another. But still, they should be and are increasingly based on a common set of principles, occasionally supported by guidelines, and acknowledged best practices. From the outset, we expect a thorough materiality assessment. All companies need to identify its material issues and determine their significance based upon valid data and meaningful judgements. Subsequently, timely and accurate disclosures providing transparency is key.

Diversity

There is constantly a need to observe the general principle of non-discrimination and not least the importance of gender equality. Companies must encourage inclusivity, combat unconscious biases and, if needed, radically change organizational cultures. Generally, things are changing for the better but Danish companies still seem to lack behind Nordic peers.

Beyond the basic principles, the Danish Committee on Good Corporate Governance points to the importance of optimizing the organization's shared set of competences by promoting diversity. Further, the Committee recommends regular assessments of diversity and competences of the board of directors to make sure it has the competences to best serve the interests of the company.

We emphasize the importance of diversity across an organization both under the general principle and for value optimization, and we underline the significance of collective competences at an aggregate level alongside individual competences. We expect reporting to include outcomes of diversity assessments, as well as clear and ambitious diversity targets and strategies. We expect companies to indicate clearly if target deadlines are postponed, and to follow the recommendations of the Danish Business Authority with regard to what constitutes gender equality at the board level. We may vote against new board candidates depending on a company's performance in this regard.

Remuneration

The Danish Committee on Good Corporate Governance points to a number of best practices in terms of composition and reporting of remuneration packages. The recommendations support the expanded regulatory requirements which have been developed to safeguard transparency. Together they provide a good set of guidelines for the remuneration policies and for reports to be published on salaries and incentive structures of executive management and other employees.

Broadly speaking, for us as investors, remuneration is about the balance between remuneration and value creation, and about the size of pay seen in context of the societal norms and values.

We evaluate remuneration policies and reports in unison with our analysis of companies and in connection with the annual general meeting. The two documents describe remuneration from two different perspectives and should offer the reader a clear and comprehensive understanding of the link between pay and performance.

Our analysis focuses on three components: transparency, structure, and size. We need policies and reports to provide unambiguous clarity, while size and structure can take many acceptable forms.

In 2020 we have raised the bar for what we expect, as we see room for improvement, particularly with respect to transparency and the link between pay and sustainable, long term business performance. For us, sustainable value is not only about the share price. To follow up on the committee's new sustainability principle, we encourage companies to bring sustainability to life within the area of remuneration. Sustainability KPIs that align pay-out with wider values and business purpose, including "green" business transition is an obvious step while we would also like to see a reasonable balance between remuneration and incentive programmes of different employee groups across the organisation, as well as an outcome cap.

Climate change

Among sustainability issues, climate change is one of the most fundamental challenges. Scientific and political agreement has been obtained globally – problems are defined, and goals are set. The latter is of course a reference to the Paris Agreement and the goal to limit global warming to 1.5 °C. This special standing of climate change must be observed by corporate actors.

Physical changes as well as societal transitions associated to climate change are critical to all companies and there is a need to thoroughly consider opportunities and threats. Driven by the necessity, managing aspects of climate change has matured and some best practices have developed.

We expect companies to set clear, and measurable targets for emission reductions and to aim at net-zero emissions no later than 2050. Further, we consider it best practice for companies to report in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

So far, eight out of 36 Danish companies in our listed equity portfolio have become signatories to the TCFD by end-2020. A year ago, it was only four, and we hope for at least another doubling this year, ideally with 36 out of 36 committing.

We have reiterated our request for TCFD reporting in previous annual letters, company dialogues, and have also begun to submit shareholder resolutions at Danish

and international AGMs to reflect the priority we assign to prudent and transparent management of climate-related financial risks and opportunities. Implementing the recommendations from TCFD will be an ongoing process and, for good reason, it cannot be expected to be perfect from day one. As previously mentioned, climate change is critical to all companies and should be thoroughly considered including for the sake of business.

Responsible tax

Companies should justly contribute to the public finances of host countries by payment of tax liabilities. Companies should comply with the letter and spirit of the tax laws and regulations of the countries in which they operate.

Tax avoidance has decisive impact on the ability of governments to fund services and support sustainable development. Moreover, tax avoidance and lack of transparency undermine level playing field and fair competition.

The Danish Committee on Good Corporate Governance recommends boards to approve a corporate tax policy, and to make it publicly available. It is recommended specifically to state positions on different kinds of tax avoidance.

Along with many other investors and stakeholders, we are convinced that increased transparency will help drive positive change. We encourage companies to undertake an assessment of the viability of voluntary public corporate country-by-country tax reporting. Further, we expect companies to report in line with the Global Reporting Initiative's standard for tax transparency (GRI 207: Tax 2019) while omitting genuinely sensitive business information.

We have published a position paper on responsible tax and have reiterated the request in previous annual letters. We have initiated company dialogues and have also begun to submit shareholder resolutions at Danish AGMs to reflect the priority we assign to responsible and transparent tax behaviour.