

Company
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Address

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Annual Letter to Danish Companies in our Portfolio

Dear ...

This letter reflects our observations on pressing sustainability/ESG themes in 2021 and offers our reflections on the year ahead. Please see this letter as an invitation for mutual exchange of information and collaboration on sustainability. We seek this dialogue, first and foremost to understand how your company manages core sustainability risks and opportunities in order to factor this into our investment decisions - but also to have an opportunity to share our perspective ahead of the next voting and engagement season.

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Our expectations on good corporate governance – 2021 update

To provide information more generally on our positions and expectations we have updated AkademikerPension's 'Expectations on Good Corporate Governance'¹. It describes our expectations over and beyond the updated recommendations from the Danish Committee on Good Corporate Governance, which came into force last year.

Every company is unique and may need to adapt the recommendations, but we would like to express our clear preference for companies that follow the recommendations of the Committee on Good Corporate Governance, rather than those who explain why they deviate. This is reflected in our voting patterns. We may choose to deviate from our voting policy in this regard, but will look for convincing arguments in order to do so.

Sustainability at board level

In our dialogue it is important for us to understand your approach, and in line with the latest update from the Committee on Corporate Governance and current trends in sustainability management thinking, our expectations are that the Board of Directors diligently reviews and develops the company's:

- Assessment of the impact of business activities on society and identification of potentials and limitations concerning sustainable development,

¹ AkademikerPension (2021): "Forventninger til god Selskabsledelse". Available on akademikerpension.dk/publikationer ([link](#))

- overall purpose for business in a societal perspective, and
- consistent integration of relevant aspects of sustainable development into the management and reporting of business opportunities and risks.

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Transparency is paramount and rests primarily on the publication of clear policies, consistent reporting on governance, goals, strategy, dilemmas and robust data points.

Shareholder proposals

In 2020 and 2021, AkademikerPension and LD Fonde in partnership submitted shareholder proposals on two sustainability issues.

One proposal asked boards to consistently address and report on climate related financial risks and opportunities based on the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

The second asked boards to undertake and publish results of a feasibility assessment on tax transparency using the GRI 207 standard. Seven proposals were submitted, and generally boards were supportive, and proposals were adopted.

Remuneration policies and reports

Further, at AGMs we made our positions clear and voted accordingly – not least regarding remuneration policies and reports. For a majority of Danish companies, we have not been able to vote in favour of remuneration reports this year. Reports are valuable if they provide relevant information to recipients in a structured and transparent manner. We encourage companies to present the reader with useful and clear overviews and explanations for the paid remunerations.

Climate change continues to top the agenda in 2022

In 2022, climate change will remain at the very top of the ESG agenda for a growing number of increasingly more active and vocal investors. Hard law and soft law initiatives continue to gather pace this year and focus on driving consistent corporate – and investor - disclosure of emissions data, meaningful targets, and transition strategies.

The TCFD-recommendations are key to moving corporate climate reporting from “do good” reporting to core business, and they are increasingly adopted by Danish companies.

In 2021, 39 Danish companies had signed up to support TCFD, and we understand that many more expect to expand their efforts this year. Only just above half of C25 companies are formal supporters² while 16 reference TCFD in their reporting. Six C25 companies state that climate change is not a risk for their company.

² C25 companies signed up to support TCFD (as of 21 December 2021): Carlsberg, Chr. Hansen, Coloplast, Danske Bank, Jyske Bank, Lundbeck, Mærsk, Novo Nordisk, Novozymes, Ørsted, Pandora, Rockwool, Royal Unibrew, and Vestas.

57 companies have signed up to Science Based Target initiative (SBTi), including 18 C25 companies. The largest listed companies in Denmark are role models for the broader Danish business community in many respects. This makes it even more important to express clear support for the principal international recommendations and standards and lead the way on ambitious implementation.

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Integrating climate risks in risk management and reporting

An important aspect of TCFD is the assessment of climate risk. From our 2021 analysis of the annual reporting of C25 companies it is evident that reporting on climate-related financial risks is still in its infancy for most companies. Climate change risks and opportunities have generally not yet been thoroughly integrated into current risk management reporting.

We encourage companies to adopt best practices and provide a more robust and transparent demonstration of how risks and opportunities are managed, also when these risks are well managed in the short term and also for industries traditionally considered "low impact" like pharma and technology. Such information provides investors with valuable insight and comfort that management is up to speed with the scale of the transition that lies ahead.

Moving forward on people management

We currently experience what is to many business leaders unprecedented challenges when it comes to people and change management – a young generation with new priorities, a shrinking workforce, digitalization, rising wage inflation, hybrid and home work, to name but a few.

In this environment of rapid development, diversity, inclusion and basic cultural norms like equal opportunities and gender equality are not just unmet requirements but part of the solution – and diversity is not just about women on the board.

A growing number of companies in our portfolio have moved the needle on making diversity and sustainability key value drivers, not least when it comes to attracting and retaining top talent. Still, too many companies stick closely to the minimum standards of mandatory policies and targets, and Danish companies continue to lag behind their Nordic peers.

Topics on the rise – biodiversity and human rights due diligence

We are closely following developments regarding mitigation of biodiversity loss around the world. The upcoming UN Biodiversity Conference (COP 15) in April-May 2022 is aiming at an international agreement on how to stop biodiversity loss. In parallel several public and private actors are working on management guidelines.

We recommend companies to proactively approach this issue even though we are lacking consistent data and management tools. Understanding the impact of business activities on biodiversity and ecosystems, as well as the long-term impact on business and markets from biodiversity loss are increasingly important.

In 2021, human rights were elevated to a key focus area alongside climate change at the world's largest investor initiative on ESG, the PRI. Mainstream investors increasingly expect companies to demonstrate due diligence with respect to their human rights impact, even when the company is not causing, contributing or controlling the situation.

Companies should 'know and show' their human rights footprint and how they seek to address or navigate these in line with The UN Guiding Principles on Business and Human Rights (UNGP). UNGP is the backbone of the PRI initiative.

In our assessment, several Danish companies are well under way to managing this complex discipline. However, there is still a distance between leaders and laggards, and policies are not always consistently applied, when concrete issues with suppliers or customers emerge. As a prudent effort, a growing number of companies in our portfolio have taken steps to strengthen their work on human rights in 2021, including the deployment of expert competencies.

The European Union is raising the bar on transparency

As a general rule we always urge companies to be highly transparent, and to disclose relevant and robust ESG data points - also before this becomes mandated by law. In light of this, we would like companies to consider reporting on the coming EU Corporate Sustainability Reporting Directive and Taxonomy Regulation as soon as possible.

We value your feedback

Boards of Directors clearly have a lot on their plate, and the list of topics and challenges highlighted in this letter does not exhaust the list. We very much welcome your feedback and look forward to further strengthening our relationship with your company in 2022.

May it chart the course for long-term prosperity.

Kind regards,

Jens Munch Holst
CEO

Anders Schelde
CIO

Louise Jørring Gev
Head of Equities