Akademiker Pension

<<Firmanavn>>
Att. Chair <<Navn>>
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Our priorities and voting policy in 2025

AkademikerPension

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Dear <<Navn>>,

This letter, which is sent to all Danish companies in our portfolio, outlines key aspects of AkademikerPension's voting policy and engagement priorities for 2025.

Every year we seek a more in-depth dialogue with a select number of companies in our portfolio with the aim of understanding how core sustainability risks and opportunities are managed. We seek to engage in dialogue regarding topics of particular importance to our investment portfolio, our stakeholders, and society at large. While we may, or may not, meet your company (again) for a sustainability deep-dive this year, we will, as always, exercise our voting rights on all agenda items at Danish annual general meetings.

Most of our priorities remain current from year to year in steady progress. For convenience, and as a reminder, we repeat our stance on a number of these topics, while we elaborate further where appropriate.

Aligning business with climate and policy goals

Climate action is at a critical juncture and remains a cornerstone of our ESG agenda for 2025. The urgency to address climate change has never been greater, especially as geopolitical events, such as the recent U.S. election and policy shifts, threaten to stall progress on the goals of the Paris Agreement. Investors, like us, are increasingly calling for bold corporate leadership to ensure businesses not only survive but thrive in the green transition that will redefine economies and societies.

With time running out to avert irreversible climate repercussions that could have profound financial consequences, we urge companies to adopt and implement robust climate transition plans. As investors, we will continue to assess companies' climate ambitions and targets during the upcoming AGM season. For medium- and high-emitting companies, as well as banks, we will not support the election of board candidates at firms lacking sufficient Paris-aligned goals, policies, or reporting.

Furthermore, corporate lobbying must actively champion an orderly transition to a low-carbon economy. Companies must publicly commit to aligning their lobbying with the goal of limiting global temperature rise to 1.5 °C and critically evaluate both direct and indirect lobbying activities, including those conducted through business associations. Establishing a framework to address misalignment with the Paris Agreement is essential to safeguarding long-term financial stability and promoting sustainable growth.

Good Corporate Governance

We kindly refer to our publication 'Expectations on Good Corporate Governance'[1], which outlines our expectations in line with, and in some areas beyond, the recommendations from the Danish Committee on Good Corporate Governance.

While we recognize that every company is unique and may need to adapt the recommendations to their specific circumstances, we have a clear preference for companies that follow them rather than those that explain their deviations. This is reflected in our voting patterns. We may choose to deviate from our voting policy in this regard but will require convincing arguments to do so. If we find that there is problematic or poor corporate governance in place, this may result in us not voting in favour of the Chair of the Board.

In some areas, our expectations go beyond the recommendations of the Committee on Good Corporate Governance, particularly regarding remuneration, climate and sustainability concerns, diversity and inclusion, human rights due diligence, and tax transparency.

Remuneration policies and reports

We assess remuneration policies and reports based on transparency, structure, and the size of compensation. We consider remuneration policies and reports as inherently intertwined, and we will not vote for the remuneration report, if we do not support the underlying policy. Policies should be clear and simple, designed to support long-term strategic planning and value creation. Total remuneration should attract suitable talent, while the allocation between fixed and variable pay should encourage appropriate risk-taking. Reports should provide transparency, ensuring a clear link between remuneration and performance.

In 2024, we were again unable to vote in favour of remuneration reports for a majority of Danish companies. While the structuring of remuneration has improved over the years, transparency remains insufficient—four years after remuneration reports became mandatory. A key issue is the lack of transparency in performance measurement. As investors, we must assess whether compensation is justified by performance. When transparency is lacking, this assessment becomes difficult and even impossible at times. Companies must demonstrate a clear and traceable link

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

between variable pay and performance metrics. Transparency does not mean longer or more complex reports—it means providing a precise and accessible explanation of key elements.

Variable remuneration levels are high and continue to rise, in some cases beyond what we consider appropriate. When bonus potential rises, making a larger portion of total remuneration performance-dependent, the need for transparency becomes even more critical. Excessive reliance on performance incentives can distort management's focus, encouraging higher risk-taking at the expense of long-term value creation. We believe that a reasonable level of variable pay generally should not exceed twice the fixed salary. While we support rewarding strong performance and recognize the need for competitive executive compensation, remuneration must be structured in a way that remains balanced and responsible.

Diversity and leadership

A strong and diverse board is essential to a company's success. We continue to vote against the re-election of the nomination committee or the Chair of the Board if the board consists of less than 30% of the underrepresented gender. While we may grant exceptions in justified cases, we maintain that diversity at board level is a key element in ensuring robust decision-making and building forward-looking businesses.

Good corporate governance is not only about governance structures but also about fostering a leadership culture that supports employee well-being. In a world characterized by digital transformation, geopolitical uncertainty, and shifting employee expectations, companies must actively address these challenges. Strong leadership that prioritizes both strategic direction and workplace well-being is crucial for attracting and retaining top talent and ensuring long-term success in an increasingly complex environment.

The Corporate Sustainability Reporting Directive (CSRD)

CSRD represents a pivotal evolution in corporate transparency and sustainability reporting within the EU. As long-term investors, we welcome this regulatory framework as a crucial step toward enhancing the quality and comparability of ESG disclosures.

The CSRD sets a new standard for sustainability reporting, expanding the scope of companies required to report and introducing stricter, more comprehensive disclosure requirements aligned with the European Sustainability Reporting Standards (ESRS). We view this as a significant opportunity for companies to demonstrate their commitment to sustainability, ensure accountability, and build trust with stakeholders.

For companies in our portfolio, we expect not only compliance with CSRD requirements but also a proactive and strategic approach to sustainability reporting. This entails integrating ESG considerations into core business strategies, establishing robust governance structures for ESG oversight, and providing clear, detailed, and forward-looking disclosures that reflect material risks and opportunities.

We recognize, however, that achieving full alignment with CSRD will not happen overnight. The journey toward high-quality and comprehensive sustainability reporting is a process, and we do not expect perfection from the outset. Instead, we encourage companies to approach this transition with a mindset of continuous improvement, leveraging the directive as an opportunity to refine their processes, enhance data quality, and strengthen their overall ESG performance.

While challenges in data collection, process integration, and assurance are inevitable, we also see these as opportunities for growth and innovation. Transparent and consistent reporting under the CSRD framework is not merely a regulatory obligation but a means of fostering accountability and contributing to sustainable economic growth.

Human rights due diligence and risk management

Implementing and reporting on companies' human rights due diligence continues to be an expectation to all companies in our portfolio, and we were pleased to see that the EU reached an agreement on the anticipated Corporate Sustainability Due Diligence Directive (CSDDD) in 2024. The directive will be phased in and take effect from 2027 and onwards.

As investors, we view the CSDDD as more than a regulatory requirement—it is a fundamental component of responsible risk management and long-term value creation. We encourage companies to utilize the transposition period to proactively prepare and ensure effective implementation of the forthcoming requirements.

In 2024, we were pleased to once again witness the successful adoption of a shareholder proposal on human rights due diligence, submitted by AkademikerPension and LD Fonde, with the support of management at a Danish company. While our proposal did not achieve majority approval at another company, we remain engaged in dialogue and look forward to their 2024 reporting.

A final word on EU's coming Omnibus package

As the regulatory landscape evolves, EU's "Omnibus Package" presents an opportunity to enhance clarity and consistency across the EU sustainable finance framework by combining CSRD, CSDDD and other regulation into one common framework. While reducing administrative burdens is important, it must not come at the expense of the integrity of existing requirements. The ambition and intended outcomes of the regulatory framework must be fully preserved to ensure continued progress in sustainability reporting. Despite ongoing regulatory adjustments, we urge companies to remain steadfast in their commitments to human rights and climate action—recognizing that strong ESG performance is not just a compliance exercise but a strategic imperative for long-term value creation.

We welcome your feedback

We know the challenges outlined above are complex, and many require broader systemic solutions beyond any single company or board. This only reinforces the importance of understanding how your company navigates such complexities.

As always, we would welcome your feedback to our letter and look forward to engaging with your company in 2025 or soon thereafter.

Kind regards,

Jens Munch Holst
CEO

Anders Schelde
CIO

AkademikerPension is an active investor with DKK 158bn in assets under management on behalf of our 170,000 scheme members. We also manage a Danish equity mandate on behalf of LD Fonde, and are a signatory to the UN Global Compact, Climate Action 100+, Nature Action 100, UN-convened Net-Zero Asset Owner Alliance, PRI, and the Investor Alliance for Human Rights. AkademikerPension is invested in Danish companies mainly through Kapitalforeningen MP Invest.