

2021 Stewardship

Part of ATP's responsibility

Summary	vs H			S&P Global ESG
Environmental	Neutral	Worse		Sustainalytics R
Social	Better	Better		Bloomberg ESG
Governance	Better	Worse		

98) Analyze Peers		vs History			Low	Range
Metrics	Current	History	Change			
1) Environmental						
11) GHG/Revenue	12.5		-7.8 B	2		◆ Mdn ● Co
12) Energy/Revenue	55.9		1.2 W	9.2		
13) Water/Revenue	17736.8		17716.4 W	33.7		
14) Waste/Revenue	0.3		-0.2 B	0		
15) Water Recycled %	5.2		0	--		
2) Social						
21) Women Empls Mgmt Ratio	0.86		0.02 B	0.56		
22) Women Employees %	33.9		2.1 B	25.4		
23) Employee Turnover %	--		--	13.6		
24) Employees Unionized %	--		--	46		
25) Lost Time Incident Rate	--		--	0.25		
3) Governance						
31) Independent Directors %	92.3		-0.5 W	46.2		
32) Percent of Board Member...	16.7		-11.9 W	21.4		
33) Director Avg Age	63		0 B	53		
34) Director Meeting Attd %	99		3 B	75		
35) Board Size	12		-2 B	8		

ATP's stewardship activities

ATP manages its own stewardship, as we believe that this provides valuable inputs to our investment processes and ensures the highest quality and the greatest amount of credibility.

Basis

Stewardship is a way for investors to use their capital to influence and, in the end, ensure value-creating transformations in our investments. At ATP, we have worked with stewardship for many years, where we have focused on companies' financial, managerial and strategic aspects but also kept an eye on their sustainable development.

ATP has a Policy for Stewardship that specifies the framework for our stewardship activities in listed companies. One of the principles is that the companies should work for the shareholders' long-term interests.

In 2020 there was a proposal from the European Commission that could potentially reduce shareholders' influence without creating a necessary counterweight to the companies' Executive Board.

Therefore, we sent a hearing response that outlined our basic viewpoint: That there is no contradiction between the owners' interests and the company's long-term purpose, including sustainability issues.

Processes

As active owners, we have a long-term view and therefore our work with stewardship is characterised by a number of permanent processes and a continuing engagement with the companies that we have ownership stakes in.

In 2021, we added another layer to our processes involving voting intentions by not only commenting on our voting, but also telling the companies what our expectations are for a number of factors that impact the companies.

During the corona pandemic, we have had to rely on our many years of knowledge about the companies we invest in and their management teams when shareholders have had to step in.

For example, we had to do this with B&O when there was a need for a share issuance at a critical time.

When ATP votes, we do so based on principles, which in practice means that particularly in the international companies we vote against a number of proposals submitted at annual general meetings. For example, the remuneration policies among companies based in the United States and when companies have inappropriate governance structures.

If a company for a long period of time fails to meet ATP's expectations, we have an escalation principle. For example, we will vote against the members of the board that we believe should have contributed to changing their company in terms of salary, climate and diversity policies.

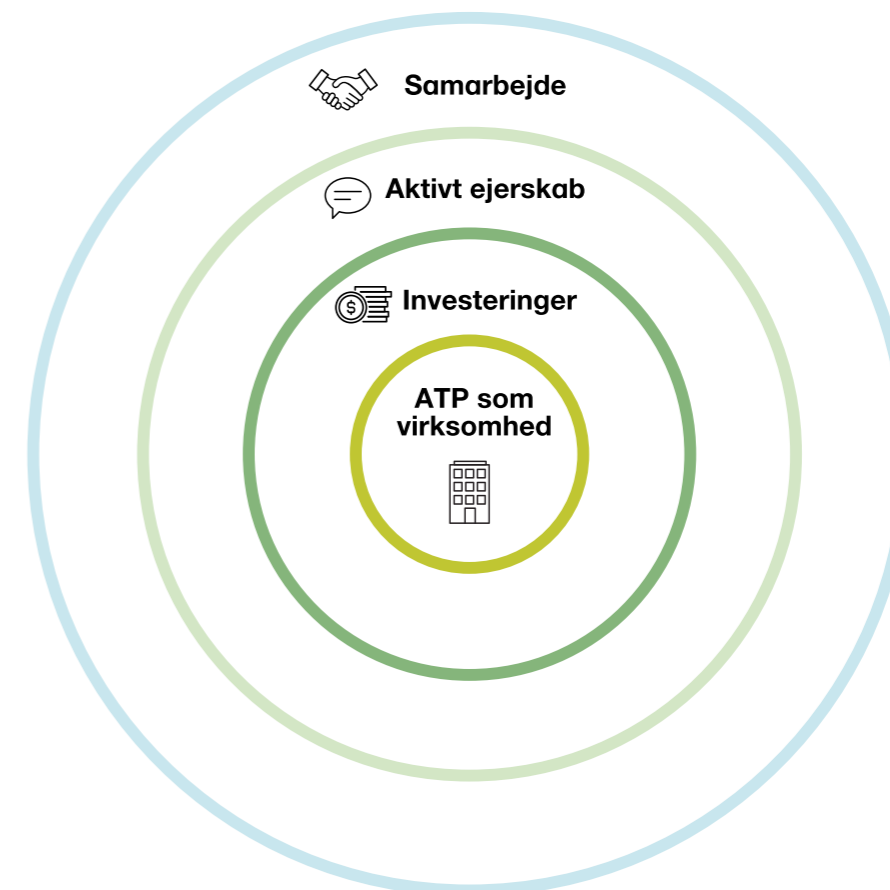
Activities

In 2021, we have put additional focus on the work involved with getting solid ESG data from our companies. ESG ratios are an important part of the valuation process, as ESG can both drive value creation and it can also amount to a political/financial risk if the company does not meet society's expectations. For example, the Danish companies in our portfolio are making good progress on climate reporting, but both Danish and international companies need to implement better reporting on scope 3 emissions.

As part of our focus on reporting, we are also focused on ensuring that the companies specify targets for their work. In this context, we have encouraged companies to specify ambi-

tious targets for their climate footprints. In 2021, we have also - as part of our ongoing dialogues with Danish companies - been focused on how the companies are prepared for the EU's coming green taxonomy.

Remuneration remains a topic that ATP focuses on at the annual general meetings. In the United States, we often see salaries that we believe are too high, and therefore we voted against 60 per cent of the remuneration policies that were submitted. In Denmark, salaries are at a more reasonable level, and therefore it is only in rare cases that we have to state our disapproval.



ATP's responsibility is about what we do ourselves, how we invest, how we manage our stewardship activities and the way we work with others.



For ATP, ESG is about moving companies in a better direction so as to benefit society at large, the company itself and, finally, ATP as an investor. Some companies have made more progress than others, but for us, it is about ensuring that they take their part of the responsibility for the ESG transformation.

ATP voted in companies across **24** countries at **633** annual general meetings on a total of **10,612** submitted proposals.

We voted against the recommendations of our voting advisor, ISS, in **18** per cent of the cases.

We voted in favour of **58 per cent** of shareholder proposals - an increase from **40 per cent** in 2020.

We voted against **60 per cent** of the remuneration proposals in companies based in the United States. For companies based in Europe, this figure was **19 per cent**.

We supported the proposals submitted by boards of directors in **78 per cent** of the cases.

We voted no on re-electing (or electing) **1,300** board members.

Shareholders are the guarantors of sustainable corporate governance

As one of Denmark's largest investors, ATP has a special obligation to promote the long-term value creation in the companies that we invest in. We are happy to take on this responsibility, as an actor in the market for listed companies, we have a strong interest in ensuring that markets operate efficiently and meet the highest standards.

WHAT IS STEWARDSHIP?

As a shareholder in a company, you have certain rights, and stewardship is about how you exercise your rights. Stewardship is mostly about the dialogue with the company and exercising voting rights.

At ATP, we have worked with stewardship for many years, where we have focused on companies' financial, managerial and strategic aspects but also kept an eye on their sustainable development - which is a topic that has in recent years become both more significant and subject to more attention.

For example, we have seen this through increased regulation of sustainability issues. In 2018, the European Commission proposed a number of initiatives to strengthen the work with sustainable financing. As part of the EU's work with sustainable financing, the European Commission has made a report on the future regulatory framework for sustainable corporate governance, which has been met with fierce criticism from several sides, as it proposed fundamental changes in the relationship between shareholders, boards of directors and management teams.

As a responsible shareholder, ATP is worried that a proposal - which may have the best of intentions - pushes influence away from the shareholders and which will in effect end up giving more power to the companies' executive boards. Boards of directors are the shareholders' representatives in a company, and they have to both support and push back against the executive boards depending on the context. Here, sustainability is an important theme, and therefore ATP is also working towards making ESG issues an integral part of board members' competencies.

ATP, as a long-term investor, helps to ensure sustainable policies in companies. Among other things, we do this by encouraging companies to consider ESG targets when making remuneration policies on equal terms with financial targets and thus ensure that the companies' management teams prioritise sustainability.

The British academic, Alex Edmans, writes in his hearing response to the commission that shareholder value is fundamentally long term because shareholders such as ATP consider all future cash flows when they make a valuation for a company. Therefore, in the long run, there is a correlation between shareholder value and stakeholder value.

That same idea has formed the basis for ATP's stewardship for a number of years, and therefore we are working on minimising risks and promoting companies' long-term value creation by wielding our influence to effect changes in both Danish and global companies.

” ATP does not in any way share the belief that there might be a contradiction between owners' interests and the company's long-term purpose. The report seems to rely on the notion that equity owners' interests per definition are short term and only focused on maximising profit. This is not a characterisation that we can recognise in Denmark, where we have a long tradition of making long-term and sustainable investments - for example, by commercial funds and institutional investors such as ATP. We are therefore concerned that the proposal will undermine the Danish model and the tradition of funds and institutional investors exercising stewardship and long-term ownership.

Excerpts from ATP's hearing response to the European Commission

ATP's Policy for Stewardship

- We are an active investor which includes making use of our voting rights.

BOARDS OF DIRECTORS

- A board of directors must act in the long-term interests of all shareholders.
- We work to ensure that the board of directors is independent of the executive board.
- We believe that the board of directors has a control function in respect to the executive board and should actively participate in the preparation of the company's strategy.
- We believe that members of the board of directors (except for any employee representatives) should be elected for a short term so that they are frequently held accountable to the shareholders. The election of members to the board of directors should take place in a transparent procedure, and it should be reported how the evaluation is made.
- We seek to create the best working conditions to ensure a well-functioning board of directors, provided that the members work in the long-term interests of the shareholders. We have an obligation to provide room for the elected board of directors to exercise the duty they have been entrusted.

VALUE CREATION

- We support the work of the board of directors, where we expect this to increase the value of shareholder ownership.
- As a general rule, we support the proposals made by the board of directors, but we do not support proposals which we believe to be detrimental to the rights or financial interests of the shareholders. Where we have a continuous dialogue with a company, we will vote against the proposal made by the board of directors only when we believe that other means of influence have been exhausted.
- We believe that a business-oriented integration of ESG can contribute to increasing the value of our investments. Furthermore, we believe that companies' lack of focus on basic principles and standards on ESG matters constitutes a risk that ultimately threatens the value of our investments.

REMUNERATION

- We believe that companies should have a remuneration policy that ensures that they are able to attract qualified labour.
- The remuneration of the executive board should be carefully adapted to the specific circumstances of the company and include both variable and fixed pay elements which strengthen the commonality of interests between the executive board and the shareholders. Performance-related pay must contribute to ensuring the company's long-term value creation.
- The remuneration of members of the board of directors should be fixed, but we prefer a share of the remuneration to consist of shares in the company. Variable remuneration of members of the board of directors may undermine the control function in respect of the executive board.

INFORMATION

- We work to ensure that companies make all relevant information available to the shareholders wherever possible, while taking into account the company's competitive environment and the confidentiality of the information.

This includes:

- companies providing a comprehensive description of their strategy and detailing how it contributes to long-term value creation.
- companies' executive remuneration, including incentive schemes, being described comprehensively in the financial statements.
- companies reporting comprehensively on their ESG matters.

Voting with convictions

For a number of years, ATP has had a solid principle of voting at all of the annual general meetings where we are owners, regardless of whether this is in Danish or international companies. When we vote, it is not just an automatic exercise, but rather part of our stewardship activities wherein we carefully assess the individual proposals submitted to the annual general meetings.

Voting against a proposal at an annual general meeting is an expression of ATP disagreeing with a specific proposal and does not mean that ATP is generally unhappy with a company. On the contrary, ATP is a long-term owner of companies, and therefore we want them to understand the reasons for why we are voting no.

In Danish companies, we attend the annual general meetings where we typically also give a presentation in which we comment on the company's general development, and if we vote no on a proposal, we will also explain our reasons for doing so.

For the international companies, our practice has been that we have sent the companies a letter explaining our reasoning behind our vote so that the company does not just get a negative vote, but can also understand why. We believe that this offers more opportunities for change.

In 2021, we have chosen to continue to develop this work, so now we are not merely informing companies of ATP's attitudes towards individual items on the voting agenda, but we also use this opportunity to explain our attitudes in more detail. Therefore, we also contact companies where we have decided to vote yes to the board's recommendations, which was not previously the case. This means that we are now in contact with the majority of our portfolio companies on an annual basis.

We contact the companies and tell them what we think of a number of topics based on publicly available data or because

companies operate in a particular industry. We have defined a number of topics that ATP has expectations on for companies, and if our data shows that a company should take action in a given area, we will ask about this in our letter to the company.

We can, for example, see if a company's employee turnover is higher or lower than the industry average or if there is not enough diversity in the company's upper management tiers. Both things may be signs of underlying problems in a company. Typically, we will get a written response from the company or there will be scheduled an online meeting where we can discuss the topics.

ESG TOPICS IN ATP'S DIALOGUES ABOUT VOTING INTENTIONS WITH COMPANIES

- Plastics
- Biodiversity
- Employee turnover
- Diversity
- Salary inequality
- Product safety
- Better reporting in Chinese companies
- TCFD
- Human rights
- Strong climate targets
- Waste management in the mining industry
- Business ethics

Some of the topics cover a lot of ground and a lot of companies, while other topics are only relevant to a handful of companies in our portfolio.

AN EXAMPLE OF A VOTING INTENT FOR AN ANNUAL GENERAL MEETING

Dear Investor Relations,

We wish to inform you on the reasoning behind our votes at your upcoming annual general meeting. At ATP, we believe that the roles of chairman and CEO are best fulfilled separately. Because we believe this to be best practice, we have a voting policy of opposing setups where the roles are combined. Based on this policy, we will be voting against the election of the CEO to the board of directors.

At ATP, we further believe that the chairman of the board should not receive performance-dependent remuneration. This policy also applies to combined chairman/CEO setups, as it underlines the inability of the chairman to independently act as a control function above the executive management. Because your remuneration policy does not live up to our best practice standards, we will be voting against the say-on-pay.

At ATP we have a voting policy on board election terms. We believe it is in the best interest of shareholders, to vote for board members on an annual basis. As some of your directors are elected for a period which is too far from our best practice policy, we believe that it is in the best interest of shareholders to vote against the elections. This is based on what we believe to be current best corporate governance practices.

On the remaining points up for election, our votes are in line with the management recommendations.

At ATP, we believe it to be best practice to inform companies of our voting intentions when they differ from the management's recommendations. We adhere to this practice regardless of the size of our holding in a specific stock.

EXAMPLE OF VOTING INTENTIONS FOCUSING ON HUMAN RIGHTS

ATP expects our portfolio companies to adhere the UN Guiding Principles for Business and Human Rights (UNGPs) which states that businesses have a responsibility to respect human rights and the environment and should undertake effective due diligence.

The European Commission will later this year introduce legislation to make human rights due diligence mandatory for all EU companies. Although details on the proposed legislation are still lacking, ATP expects our portfolio companies to have policies and processes regarding human rights in place including human rights due diligence processes and processes for stakeholder engagement and remedy aligned with UN Guiding Principles.

ATP believes that companies already working on implementing respect for human rights in their organisations are likely to be well-placed to meet the increasing legal requirements including the coming EU legislation.

We hope that you will take our concerns into consideration at future elections.

Stewardship requires deep knowledge of companies - particularly during times of crisis

ATP is one of the largest investors in Denmark, and therefore we have a clear interest in ensuring that there is a well-functioning Danish market for equities. In order to have a well-functioning market for equities, good corporate governance is important, and therefore ATP is strongly committed to ensuring that this is the case.

At the same time, we have an investment strategy for domestic equities which makes it natural for us to have an in-depth knowledge of Danish companies. We are a long-term investor, and therefore we are also not afraid of investing in a company when the share prices are deep in the red as long as we can help to push the company back towards a profitable direction. The corona pandemic in 2020 was one of those times where we could use our knowledge and help the companies that we had faith in through the crisis.

ATP's investments in listed Danish companies is based on in-depth analyses of, among other things, the companies' strategy, products, market position and valuation. Therefore, we know both the companies and their competitors, and this allows us to help move companies in the right direction.

The Danish equity team also uses significant resources on creating and maintaining close relationships with the Danish companies - both at the executive and board of director levels. When this process succeeds, it creates trust in the management teams of the companies we invest in. We call this

process 'continual dialogue'. This continual dialogue helps to validate our investment cases and therefore becomes an integrated part of the value creation in the Danish equity portfolio.

We also use the close relationships we have with executive boards and boards of directors to express our attitudes on, among other things, the company's strategy, management, reporting and work with responsibility. In our experience, the companies tend to accept the criticism and make the necessary changes.

If a company is faced with a major strategic decision, there are many examples of cases where they ask ATP for advice or ensure that we support the decision before it is implemented. ATP can only assume this role if the companies are confident that their dialogues with us are confidential. It has been demonstrated that the continual dialogue works best if both parties have faith that it is completely confidential. During the continual dialogue process, many attitudes will be based on the same reasoning, and therefore ATP is typically in agreement with the proposals put to the annual general meeting by the board of directors. The few times where ATP has disagreed with a proposal from a board of directors, this will typically be addressed by ATP at the annual general meeting. Therefore, there are many cases of annual general meetings where ATP has told the public what we think about the board of directors' proposals and the company's actions in general.



” The corona pandemic has been a stress test for the Danish business community. Even though equity prices quickly went back up after the initial large declines, one must not forget that people out there in the companies have worked really hard to ensure that they can still deliver on their promises to customers. We have been glad to see that there was a strong ability to react to emergency situations out there in the companies, allowing them to hold their ground as the corona pandemic put things to a halt around the world.

Claus Wiinblad, Head of Domestic Equities

Stewardship during times of crisis

As an active owner, you have to continually take into account a number of regular events that occur naturally when you are a responsible owner. These include annual general meetings, capital market days and financial statements where one is continually taking into account both small and large fluctuations in a company's development and where as an owner you are constantly trying to push the company in the direction that you find most value creating.

But sometimes, the normal portfolio management tasks are superseded by far more pressing stewardship issues. In the wake of COVID-19, we at ATP had to take into account the capital structure of B&O, as the company was hit by lockdowns which at the time were a serious threat to B&O's financial wellbeing.

ATP regularly considers the appropriateness of share emissions and a company's capital structure. Most often, we do this when a new company is listed and we decide whether the price we must pay matches what we believe to be the company's value. As one of Denmark's largest investors, we are also aware of the impact it has when we decide to support a company that is newly listed on the stock exchange. However, it is not always that share emissions are in the positive context of a successful company being listed on the stock exchange.

In B&O's case, this was a difficult decision in which we had to weigh a number of factors in order to reach our final decision. As a multi-year owner of B&O, we are aware that for a number of years there has been more disappointing news than positive news for shareholders of that company. The management has had too high a turnover rate and there has also not been delivered on the strategic plans which has resulted in several downside adjustments. All in all, it has not been a pleasant walk in the park being a B&O shareholder.

However, as an investor, you also need a steady hand and you cannot let the past have too much of an impact on decisions impacting the future. At ATP, we have long assessed that B&O as a brand remains valuable and that the board's strategy is the right one for the company - but the failure has been on the execution side.

With the current management, which took over in 2019, we have seen signs that B&O is getting a handle on the execution and therefore we could also see the future justifications for supporting the share issuance with new capital.

At the same time, we had to face the fact that there was a non-trivial risk of B&O not surviving as a company if there share issuance was not successful. As a result, our existing ownership stake in B&O would also be in danger, and this was part of the analysis that in the end resulted in ATP choosing to guarantee the share issuance together with two of B&O's other major shareholders, Chr. Augustinus Fabrikker and the Færch Foundation.

Even though there is still some hard work ahead in order for B&O to regain its former strength, we are seeing initial indications that the company's turn-around is about to succeed. Since the share issuance, the company has begun executing its strategic plan and shareholders have also been rewarded with solid returns.

It requires insight to vote in a serious manner

ATP has a principle that we must vote at all annual general meetings of companies in our portfolio and that we must cast our own votes. This means that it is not some external advisor that decides how ATP should vote. In all cases, ATP's ESG team has considered how ATP should cast its vote. We believe that this is the proper way of managing our responsibilities.

The work involved with voting at companies' annual general meetings is complex and resource intensive. Over time, ATP has gained the experience needed to allow us to focus on the items where something is at stake, but we do not devote too much time to routine proposals.

We make use of the voting advisor ISS to provide inputs to our voting decisions. ISS is good at discovering if there is something particularly important at stake in an annual general meeting, and they also collect the data that is needed to make a decision. However, even though we are seeing the same data as ISS, it is not always that our assessments match theirs. In the first half of the year, ATP voted differently from ISS' recommendations 18 per cent of the time.

ATP voted differently from ISS 18 per cent of the time

In 2021, according to the financial data company, Morningstar, there was record-high support for shareholder proposals concerning the environment and social factors. Of 171 different shareholder proposals, on average 34 per cent were given

shareholder support. Among other things, this is because large American asset managers such as Blackrock, Vanguard and State Street are beginning to pay more attention to virtue and exercising their voting rights.

Unfortunately, the widespread use of different share classes with different voting rights means that many of the proposals were not adopted - but the great results in 2021 are a promising sign for the future. Therefore, ATP also analyses the opportunity to submit shareholder proposals in the future for certain areas and in that way support the development.

ESCALATION PRINCIPLE

ATP has a principle about us also using annual general meetings as a lever if a company does not react to our inquiries. If a company for a long period of time has had a remuneration policy that we find inappropriate, we do not just vote against the remuneration policy. We also vote not to re-elect those board members who are on the remuneration committee and thus part of setting the policy. This allows us to increase the pressure while also writing a letter to the company about our motivations. Other areas that we can use this approach include, for example, climate and diversity issues.



” Stewardship and voting at annual general meetings is a long and difficult process. It may be tempting to demand short-term results, but you can only gradually change the course of a super tanker - you can't turn it on a dime. At ATP, we are constantly working on improving our efforts and adjusting our focus areas. We do this in order to get the best results from our work. It is important to remember that it is a fact of life that sometimes we are more successful at influencing a company than others.

Jakob Skafte, Director, ESG

ATP's considerations when voting at Facebook's annual general meeting

Like with a number of other technology companies, the CEO of Facebook is also the company's founder who has been part of listing the company on the stock exchange. Typically, the founder keeps a number of votes which in effect ensures control of the company's development. At Facebook's annual general meeting, this means that many of the questions are about the control of the company and the independence of the board of directors.

PROPOSALS SUBMITTED BY THE BOARD OF DIRECTORS:

1. Electing board members

ATP voted against five of the nine proposed board members. We voted against Facebook's CEO and Chairman of the Board, Mark Zuckerberg, as we do not believe that a single person should hold both of those posts concurrently. We also did not believe that three of the proposed members were sufficiently independent, as we want at least 50 per cent of the board to be independent. Facebook's remuneration policy also fails to meet our expectations, and therefore we also voted against the members on the board's remuneration committee. As some individuals in these latter two groups overlap, we ended up voting against five board members.

2. Election of auditor

Facebook's auditor fulfils our requirements concerning independence.

3. Remuneration packages for board members

We voted against this proposal as it contained a number of elements that we do not believe are in accordance with market practices, i.e. compensation for the recipient's tax payments and unnecessarily high compensation for expenses for personal security.

SHAREHOLDER PROPOSALS:

1. One share - one vote

We supported a proposal to change Facebook's capital structure so that henceforth there would be one vote for each share, rather than the situation now, where different classes of shares have different voting weights which in the end give the founder control of the company. We believe that it is a healthy principle for listed companies to have a policy that all shareholders have influence proportional to their ownership stake.

2. Independent chairman of the board

ATP feels strongly about the board of directors needing to be independent from the top management team and that it serves as a control function for the executive board. There-

fore, we voted in favour of the proposal that Facebook should have an independent chairman of the board.

3. Reporting on sexual exploitation of minors on Facebook's platform

According to the proposal, in 2019 there was submitted 17 million reports about potential sexual exploitation online, and Facebook's platforms received 94 per cent of the reports. Facebook is working on encrypting all messages on its platforms which will make it harder to investigate cases of exploitation. The proposal asks Facebook to prepare a report that can reveal what consequences this encryption would have on children and young people. As we believe that this is a serious issue for both Facebook and society, we backed the proposal to investigate the problem.

4. An independent board member with human rights experience

ATP voted in favour of this proposal, as we already believed that the board of directors was missing independent board members and that someone who has experience working with human rights will strengthen Facebook's board of directors.

5. Reports on misinformation

The proposal will preserve the reporting initiatives that Facebook introduced in connection with the election in the United States in 2020. As the initiatives have seemingly worked as intended, ATP sees no reason to roll back these initiatives, so we voted in favour of the proposal.

6. Convert Facebook into a Public Benefit Corporation

This proposal wants to convert Facebook from a stock company to a so-called public benefit corporation, which is a special kind of corporation where the company must take extra considerations for the world around it. ATP believes that companies have a duty to take care of their stakeholders' interests on a broad level, but this is still possible under the current type of corporation. Making the change to such an untested form of corporation like a public benefit corporation introduce element of uncertainty and expenses that we do not believe are in line with the potential returns.

ESG data is required in order to take action

One of the most important preconditions for being an active owner is having access to information about the companies we invest in. Of course, we need information about the classic financial ratios that tell us something about the company's financial condition and future opportunities - but ESG figures are also important, as they tell us something about the company's impact on the world and how companies work towards reducing their negative impacts. ESG data allow us to assess whether a company can take advantage of the commercial opportunities that are associated with the green transition.

ESG data from companies is becoming increasingly important for a number of actors, and therefore, ATP views this data just as importantly as a company's annual financial statements - it is just as important that one can monitor the climate impact as it is being able to monitor the earnings from operations.

Companies themselves also need data on ESG issues in order to strengthen their own company. If they do not measure the impact of their business, they will not have the knowledge to analyse and take action in this area. ATP believes that there are a large number of ESG ratios that the company should be measured by, just as we expect that companies will over time become increasingly sophisticated in how they measure their ESG ratios.

Without ESG reporting, investors are blind to what is going on

For investors, ESG data is important for several reasons. First and foremost, ESG data is part of our investment analysis. ESG ratios are an important part of the valuation process, as they can both be a driver of value creation or a financial risk for the company. The data is also an important part of exercising stewardship activities. By looking across industries and our entire portfolio, we can identify where we need to focus our efforts. Here, good data can help point us in the right direction. A company may, at first glance, have lower scope 1 and 2 emissions while the scope 3 emissions are high, and this then is really where the company should focus its efforts.

Finally, there is also a strong interest from the world in general about these figures, which is confirmed by the fact that the EU,

as part of its work with Sustainable Finance, has put the focus on ESG reporting for both companies and investors in the form of, respectively, the Corporate Sustainability Reporting Director (which replaces the Directive for Non-Financial reporting) and the new disclosure regulation (the Sustainable Finance Disclosure Regulation for the financial services sector). In both regulations, the requirements for reporting are expanded for both companies and investors, and the EU's green taxonomy will also impose new disclosure requirements on companies.

There is thus already now a number of good reasons for companies reporting extensively on ESG, and these requirements will not diminish in the future. Therefore, we also encourage companies who have not made much progress with ESG data to focus on measuring, analysing and publishing ESG data.

DANISH COMPANIES HAVE MADE GOOD PROGRESS ON REPORTING

In the Danish equity portfolio, 80 per cent of companies report on the CO₂ emissions for scope 1 and 2, and 45 per cent report on scope 3 emissions to a varying extent. For the international companies, the proportion of companies reporting on, respectively, scope 1 and 2 and scope 3 emissions are 70 per cent and 47 per cent according to our data providers. However, if you take into account that the international portfolio mainly consists of large, well-established companies (while the Danish portfolio contains both large and small companies), the conclusion is that the Danish companies are among the most advanced when it comes to CO₂ reporting. However, there is room for improvement when it comes to reporting on scope 3 emissions across the board.

Scope 1 emissions are the company's direct emissions from production processes, buildings, vehicles, etc. while scope 2 emissions are indirect emissions, primarily from electricity and heating. Scope 3 emissions are indirect emissions from the company's value chain, such as from purchasing commodities, transport, etc.

ATP voted in favour of shareholder proposals regarding climate reporting at the American company, Monster.

With the American food company, Monster Beverage, we voted in favour of a shareholder proposal that would oblige the management team to report on the company's CO₂ emissions and climate plans on an annual basis. Unfortunately, the proposal did not get sufficient support from the rest of the shareholders.

Excerpt from the proposal:

Climate-related decisions by a company have portfolio-wide and economy-wide implications. Disclosing reduction targets, detailing strategies for embedding climate change throughout a company's business models and services, and providing progress therein to shareholders, is an important means of assuring shareholders that management is taking seriously the risks associated with climate change. Shareholders believe that planning and reporting by Monster Beverage Corporation on its climate transition plans and strategies will benefit the company and its investors, as well as global climate change objectives. Monster currently has no reporting of its Scope 1, 2, or 3 greenhouse gas emissions, nor has it disclosed its climate transition planning, if any.

The annual corporate proxy statement shall include a proposal requesting an advisory vote by shareholders expressing non-binding advisory approval or disapproval of the Company's publicly available climate policies and strategies, in consideration of key climate benchmarks.

The Board of Directors is authorized to include in the Company's annual proxy statement, or publish elsewhere, a report that characterizes the scale and pace of its responsive measures associated with climate change, including referring, at Board discretion, to the Company's alignment with climate-related benchmarks.

ESG data is a topic when ATP speaks

“ Finally, I would like to add a comment to Tryg's work with CSR issues. There has been a much-needed boost to the ambitions during 2020, and there has been published a CSR report that is a clear improvement compared to the earlier ones. Among other things, it is positive to see the ambitious targets for 2023, particularly related to the green transition. I would like to suggest that this topic also be prioritised at the coming capital market day.

Claus Wiinblad, Head of Equities, at Tryg's annual general meeting

“ For many years, ATP has encouraged Genmab to deploy more resources and report better on ESG issues. We are pleased with the initiatives they have launched. Genmab has now taken the first important steps in the ESG area. For ATP, it is important that all companies assume their part of the responsibility for ESG issues. In part because it is important all on its own, but also because a company acting responsibly is a competitive parameter for customers and when hiring new employees. These first initiatives must, however, be followed up upon with clearly measurable targets for things such as CO₂ emissions, water consumption and waste management. I expect that Genmab will already in a year be able to fulfil many of these wishes.

Claus Berner Møller, General Manager, at Genmab's annual general meeting

Climate issues are on the agenda in board rooms

In 2021, the world witnessed a series of breakthroughs that highlighted the importance of climate issues to companies and investors among the general public. Shell lost a lawsuit regarding its climate targets and at the American company, Exxon-Mobil, three candidates were elected to the board for the purposes of getting more climate competencies represented. The climate is becoming an increasingly important issue for companies and investors. Previously, it was a question of the so-called “licence to operate”, but now climate issues have been a strategic and regulatory parameter for all companies - not just those heavily involved with fossil fuels.

We expect that in the future the green taxonomy will be a significant guideline for green investors

In both its Danish and international equity portfolios, ATP has been focused on whether companies specify ambitious climate targets when we have encouraged them to do so. However, the most recent conclusions from the UN’s climate panel, IPCC, make it even more urgent for companies to specify ambitious targets, and therefore ATP will now increase the pressure on its portfolio companies to address this.

This is the culmination of a development that has taken place over the past few years, where ATP, together with many other investors, has pushed for this to happen. At ATP, we emphasise climate issues based on a double materiality factor. It is important for us as investors that companies are aware of and managing their climate risks and acting on new business opportunities that the green transition provides. However, it is equally important that companies take their climate impacts seriously, even if the financial impact cannot be seen directly on their bottom lines.

This dual view towards climate issues will be experienced by companies in the future as new legislation concerning sustainable financing becomes a fact of everyday life for many companies. Therefore, ATP believes that companies can already now start preparing for this new reality.

In this context, we also expect that companies specify solid and quantifiable targets for their climate initiatives that are based on real emission reductions.

In 2021, we have also - as part of our ongoing dialogues with Danish companies - been focused on how the companies are prepared for the EU’s coming green taxonomy. We expect that the green taxonomy will in the future serve as a significant guideline for green investors, and therefore it is important for companies with the relevant business activities to ensure that they have data that can confirm that they are following the taxonomy.

In our dialogues, we also encourage companies to ensure that their ESG reporting is correctly issued to the financial data suppliers that the professional investors use to get information from. This ensures that the companies will reach a wider audience and that their data creates value for shareholders.

DANISH COMPANIES HAVE MADE GOOD PROGRESS WITH CLIMATE TARGETS

There are many ways for companies to specify climate targets, and for ATP, what is important is that the companies choose a framework tool that matches the size and maturity of their company, as climate reporting can be very demanding and resource intensive. For many companies, initially it is about mapping their emissions and getting an overview. That said, we also expect large companies to specify ambitious targets. Here, the Science-Based Targets Initiative (SBTi) is one of the initiatives that has become popular recently, and it involves the companies getting their targets verified as ambitious by external parties. The Danish companies in ATP’s portfolio are impressive in the sense that 1 out of 5 companies already have SBTi targets while it is less than 1 in 10 for companies in the international portfolio that have had their climate targets verified by SBTi. In the coming years, even more of ATP’s Danish and international listed companies will have their climate targets verified, as a whole 20 per cent of both the Danish and international companies are in the midst of this process.

Stewardship and the climate

In 2020, ATP updated its approach towards utility companies in our portfolio, as we divested ourselves of eight companies after our analyses showed that their energy production was heavily reliant on coal and therefore very CO₂ intensive. ATP engaged in a dialogue with all of the companies about their future investment plans, but as none of the companies were able to show convincing plans, we divested ourselves of all of them. In the spring of 2021, we were contacted by one of these companies, CMS Energy, that had prepared a new investment plan involving the shutting down of two of their coal powerplants with a total capacity of 1.4 GW in 2023 and 2025, rather than 2031 and 2039. Likewise, an oil powerplant would be closed in 2023 instead of 2031. Instead, the company would, among other things, focus on expanding its solar power generating capacity.

How ATP expects companies to have climate targets:

ATP believes it is important for all companies to set ambitious reduction targets concerning GHG emissions. For this reason, ATP expect all investee companies to have a GHG reduction target in place, which has been validated by an independent third party (e.g. Science Based Targets). According to our various data sources, you do not have such a validated emission reduction target. We acknowledge that our data providers might have inadequate coverage. Nonetheless, we would like to know if you have, or plan to introduce, a GHG emissions reduction target and whether this target is validated by a third party? If not, what is your reason for this?

Strong companies seek out diversity and fight discrimination

At ATP, we believe that how companies manage their human capital will become more and more important as more industries become 'knowledge industries' - which means that companies depend on their employees having the right competencies and enjoying their jobs so that they can both retain and expand upon their human capital. As a result, how companies manage their human capital is an important parameter in our stewardship activities.

More diversity in a company can lead to more innovation and strengthen their competitive advantages and benefit the bottom line.

In 2020, we began laying the foundation for this area by, among other things, mapping the industries where companies' management of their human capital was particularly important and identifying which proportion of ATP's companies operate in such industries. Our survey found that around 22 per cent of all of ATP's portfolio companies operate in industries where human capital plays a significant role.

Some of the initiatives that we developed last year are now permanent. For example, the involvement of companies' so-called "CEO/employee pay ratio" - i.e. the difference between the CEO's salary and the average employee salary - has become a permanent part of our assessment criteria when voting on remuneration policies at annual general meetings.

In other areas, we have continued to develop our approach and introduced new initiatives by involving human capital elements in our permanent processes for stewardship. For example, in 2021 we had dialogues with 21 companies in our equity portfolio that have significantly higher levels of staff

turnover than the rest of their industry, as this might be an indication that the companies might, for example, not be prioritising their human capital and thus not utilising their potential.

One of our special focus areas of 2021 has been diversity. This is because studies show that higher levels of diversity in a company can lead to more innovation, more competitive advantages and also benefit the bottom line. And on the other hand, a lack of focus on this area may result in poor cohesion and lack of novel thinking or, at the far extreme, outright discrimination against certain groups such as women or certain minorities, which can have major consequences on both a human level and a financial level for the company.

HIKMA PHARMACEUTICALS

The British pharmaceutical giant, Hikma Pharmaceuticals, has production facilities in many parts of the world, including the United States, Europe, the Middle East and North Africa. In some of the countries that Hikma operates in - such as Sudan and the United Arab Emirates - there are generally major problems with discrimination at work. This applies both to religious and ethnic minorities and LGBT+ people. In relation to gender equality, in the United Arab Emirates for example, there has been some improvements to the legal framework in recent years, but there is still a long way to go until there is real equality. In ATP's dialogue with the company, we asked, among other things, what the management team is doing specifically to counter discrimination, how the company's policy is clearly communicated to the employees and whether the company has completed any special initiatives in Sudan or the UAE where the risk is greatest.

Three new human capital initiatives in 2021

1. At companies' annual general meetings, we have begun voting against the composition of boards where no women are represented. In part we do this because we believe it is an advantage for a board of directors, as the top decision-making organ of a company, to have a broad composition of members from different backgrounds (both professional and private), and in part because it is important that boards of directors take the lead and serve as a good example for the rest of the company's employees. In 2021, we voted against the composition of boards eight times. However, ATP was in the minority at all eight annual general meetings when it came to these votes.

2. We have analysed our equity portfolio and identified 31 companies that all have significantly lower proportions of women in management roles compared to the company's general gender distribution. If the differences here are large, it may be a sign that the company's hiring or promotion processes contain some unconscious biases among the decision makers or that there are other factors that make male candidates more favoured at the expense of women. In such cases, it is of course a major problem, both when considering fairness but also because it means that it might not be the best-qualified candidate that is chosen for a management role.

In our subsequent dialogues with the companies, we encourage them to keep a close eye on their various diversity targets and to intervene when necessary. We also made it clear to these companies that even though our analysis focused on women in management roles, the companies should also look at all other potentially under-represented groups based on a general guideline of ensuring that any given group's representation in management roles should typically approximately match the proportion of that group working in the company in general.

3. We have done a major survey across our investment universe for both current and potential equity investments in order to chart whether there are companies that, due to their global presence, operate with a high risk of discrimination happening at their workplace. More specifically, based on generalised data, we have charted the companies that have a substantial proportion of their global business activities in countries where discrimination at work is very common. This allowed us to find a total of 14 companies that fit this profile, and our dialogues with them have subsequently varied, depending on whether there is discrimination against, for example, ethnic or religious minorities, women, employees with disabilities or LGBT+ people that is particularly common in the countries where the relevant companies operate. Our overall message to these companies has been that this is an important topic that they should be concerned about - and we have also asked the companies to answer a number of questions about what they are doing to prevent discrimination at their workplaces.

Five questions about remuneration packages to Claus Wiinblad, Head of Danish Equities



sense instead of just comparing the salary to a benchmark. For example, we do not think that one should look to the United States to find salary benchmark figures. After all, in the United States salaries have become wildly inflated and reached a level that is not appropriate in a Danish context.

3. WHAT DOES ATP CONSIDER WHEN ASSESSING A REMUNERATION PACKAGE?

We have a number of principles to guide us when assessing what is in a remuneration package. First and foremost, they should be simple and transparent, so that it is clear what the executive board is paid and why. Then we also want the right proportion between the fixed remuneration and bonus schemes, and we do not like to see bonuses become too high proportionally. The remuneration package should also ideally ensure that the executive board has the same long-term interests as the shareholders and not encourage risky behaviour to trigger high bonus targets. In addition, it must be value-creating KPIs and milestones that trigger bonuses and not just fulfilling predictable targets.

4. WHAT ABOUT SUSTAINABILITY IN REMUNERATION PACKAGES?

Sustainability is increasingly becoming part of companies' financial performance, and therefore, this must also be reflected in the KPIs that remuneration is based on. We believe that it is most appropriate if sustainability KPIs are a precondition for being paid the entire variable salary, and not just a portion of it. There needs to be sustainability targets with financial impacts that can also in the end contribute to strengthening the company.

5. WHY IS TRANSPARENCY IMPORTANT?

Our mantra for salaries is to keep it simple. It is important that all stakeholders can understand what any individual earns and what the money is being paid out for. If there is no clear correlation between the salary and the value creation, it makes people doubt the fairness of the remuneration package and this is not something that either the executive board, board of directors or shareholders want to happen.

1. DO CEOS IN DENMARK MAKE TOO MUCH MONEY?

It is important for us as shareholders and for Denmark as a country that we can attract the right kinds of people to lead our companies. Therefore, there needs to be made allowances for the boards of companies to pay the salaries needed to attract the right candidates. ATP supports this notion. However, sometimes we also see cases where the candidate might be the right person for the job, but where one might ask oneself if the price is too high and if there were other candidates who could have taken on the role. Even gold is sometimes too expensive.

2. HOW DOES ATP ASSESS WHETHER A CERTAIN SALARY IS AT A FAIR LEVEL?

You need to look around to find out what the market price is. In a way, this is the same as when you look to hire a plumber for a job at your house. What we emphasise is that salaries should be compared to relevant markets and companies. Here, it is important that the boards of directors use common

The corona pandemic should not change the KPIs of remuneration packages

When ATP takes a critical stance towards companies, it is often because we disagree on the principles for remuneration, and not necessarily because they are either too generous or too low. This year, we have sometimes had to say a few words to companies at their annual general meetings. At Pandora, we disagreed with the board who used the corona pandemic as a justification for changing the ratios that annual bonuses were to be based on.

Excerpt from ATP's presentation at Pandora's annual general meeting:

However, ATP will vote against the submitted remuneration report. This is because there has been paid 100 per cent of short-term bonus to the executive board.

Due to the corona pandemic, the board of directors has chosen to adjust the KPIs that are used to trigger the short-term bonus during the year, which has allowed 100 per cent of the bonus programme to be paid out. It should be noted that due to the corona pandemic, the company failed to meet its original guidance.

As a general principle, we believe that a company should stick to the KPIs that were specified at the start of the year even if unforeseen events like the corona pandemic occur. If Pandora felt it necessary to adjust the KPIs, it should at least have similarly adjusted the maximum possible bonus so as to, for example, reflect that the bonus programme was for a 7-month period instead of a 12-month period that is the normal duration of the short-term bonus programme.

The problem with this kind of adjustment is that it is one-sided. I doubt that Pandora's board of directors would adjust the KPIs in the opposite direction if there were an unusually positive development in Pandora's markets and the management team might lose their entire short-term bonuses in the final seven months of a year even if they would have qualified for the full amount based on the old KPIs.

In conclusion, I would like to note that this is an entirely principle-based criticism of how Pandora's board of directors has handled the way in which bonuses are triggered and is in no way a hidden criticism of Pandora's executive board. Furthermore, it is important that a board of directors takes responsibility for ensuring that the overall remuneration development is fair and that one does not contribute to the general wage spiral just continuing.