

The ATP Group

# 2021 ESG due diligence

Part of ATP's responsibility



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# ESG due diligence at ATP

We carry out ESG due diligence to ensure that we uncover the current and potential investments that are at risk of violating ATP's policy of responsibility in investments, and we also uncover potential sustainability risks that may have an impact on our returns.

## Basis

Due diligence is at the core of ATP's work with responsibility - this is where we ensure that ATP's investments comply with our Supervisory Board's policy for responsibility in investments which is based on international guidelines for responsible business conduct and international conventions. The policy specifies a number of standards for how our portfolio companies should behave. For example, ATP does not invest in companies that knowingly and repeatedly violate national laws and regulations.

ATP carries out its own due diligence work and does not outsource it to external business partners. We want to anchor

this work in our organisation so that we can apply the lessons learned internally. In the end, it is also ATP's responsibility to ensure proper due diligence processes, and therefore we want to manage the entire process ourselves from the analysis phase to the decision phase.

ATP's due diligence processes are based on the same policy regardless of which asset is being looked at. There is thus no differences in the requirements we impose, but we do have different processes for different asset classes which are intended to ensure that our due diligence work is as effective as possible.

## Processes

ATP's global equity portfolio is relatively dynamic, and we have tailored the screening processes to include risk-based screenings of the surrounding equity pool in addition to screenings of the current portfolio.

ATP also makes direct investments in companies such as, for example, Copenhagen Airport or the battery manufacturer Northvolt. Prior to making such investments, we review the relevant ESG issues and enter into a dialogue with the company. We also ensure that there are clear agreements if our due diligence shows that there are issues that need to be worked upon.

When it comes to our investments in private equity funds, we are focused on ESG processes and policies, as there are no assets in the funds when we commit ourselves to investing in them. Since we really started focusing on ESG in private equity funds in 2018, we have seen clear improvements made by the funds that we work with.

For ATP's real estate investments, we have established processes which ensure that ESG issues are a top priority, whether it be for new construction projects or major renovation projects. Here, the end goal is for the real estate projects to be certified under a sustainability standard.

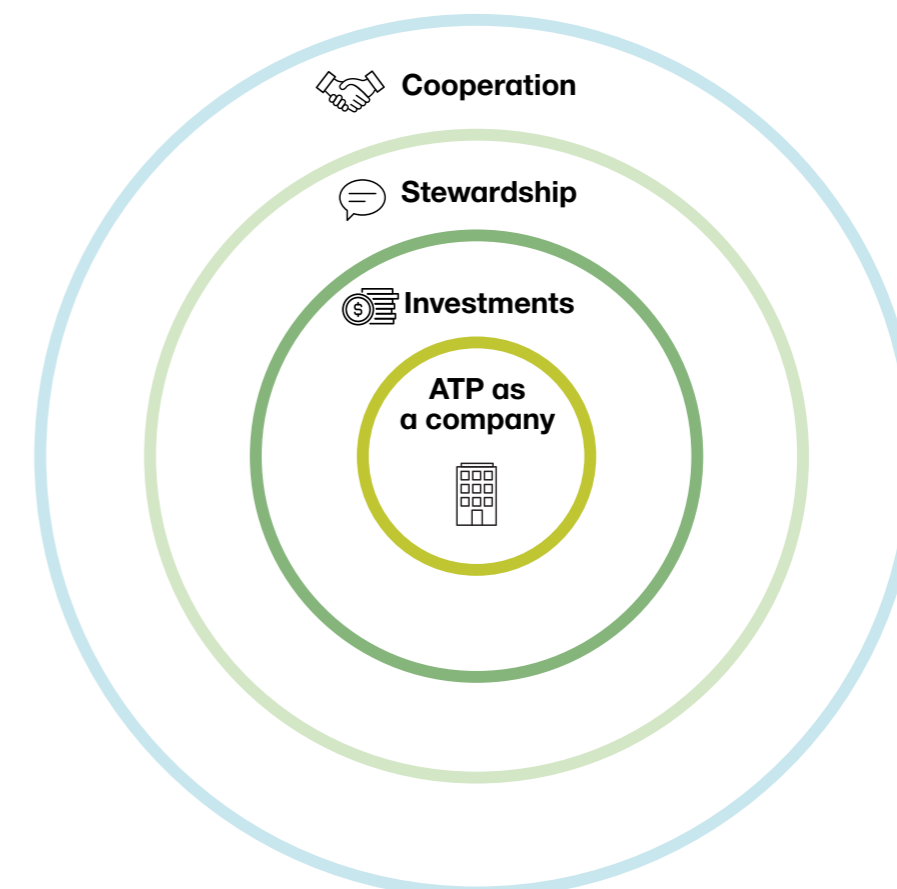
## Activities

The due diligence work is very heavy on processes and it continually demands a lot of resources even if it does not always result in an investment or an exclusion. Investments can be abandoned for other reasons, and when studying a company it may turn out that there are no violations of ATP's policy for responsibility.

In 2021, for example, ATP excluded a cruise liner company that we had previously been in dialogue, but at a certain point,

we decided that a red line had been crossed as the company had once again been in violation of a number of environmental regulations. In total, we have excluded 15 companies.

We have also participated in a fund raising round for the Swedish battery manufacturer Northvolt, which we first invested in during 2019. In that context, we revisited our original due diligence work that was, among other things, focused on Northvolt's relationships with the local Sami tribes that used the area.



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.

+160 concrete analytical assessments of allegations against corporations	+20 in-depth fact-finding processes of allegations made against corporations	15 companies excluded
17 due diligence processes with private equity funds and co-investments	6 due diligence processes relating to direct investments	Screening of 120 issuers of green bonds

# Due diligence is the cornerstone of ATP's work with ESG

ATP's activities related to responsible investments cover a wide area – from integration of climate data in investment processes to voting at the annual general meetings of companies. An absolutely critical part of our efforts is the so-called *ESG due diligence* work, which is about ensuring that we only invest in companies that act in line with ATP's requirements for responsibility.

This work is governed by our policy of responsibility in investments which, among other things, specifies that ATP considers ESG risks just as important as other investment risks and that we view responsibility as a precondition for good long-term earnings and the preservation of the investment's value in real terms. This is because we believe that it benefits both society and ATP's returns and risk management processes when our companies take their responsibility seriously.

ATP's Supervisory Board specifies some basic principles for how our portfolio companies should behave in the policy. For example, it is made absolutely clear that ATP does not invest in companies that knowingly and repeatedly violate national laws and regulations or which act contrary to the norms that follow from international conventions that Denmark is a signatory to.

Besides making it clear what ATP's requirements are for its portfolio companies, the policy is also designed to ensure that ATP is ready for the regulations that will come in this area, for example, the coming EU rules for human rights due diligence. Similarly, the policy also takes into account the key international agreements and guidelines that are relevant for responsible investments such as, for example, the OECD's Guidelines for Multinational Enterprises, the EU and UN human rights conventions, ILO's core conventions, the UN's Paris Agreement and the UN's Sustainable Development Goals (SDGs).

ATP has chosen to handle the due diligence work itself rather than outsourcing it to an external business partner. This allows us to anchor the work as an integrated part of our organisation and to gain more extensive knowledge of companies which we can use in investment processes and decisions. We believe that this is what best serves both society and ATP's members.

As something new, this year we have collected reporting about our ESG due diligence work in a single report rather than reporting on it in multiple reports based on asset types. We would like to illustrate that even though ESG due diligence differs in form when it is for equity investments in a listed global company compared to a direct investment in a unlisted infrastructure asset, the overall logic and aim of our work is the same - the goal is to ensure that all companies and all investments address both the relevant financial and societal ESG risks and opportunities.

## ATP'S WORK WITH RESPONSIBILITY AND THE EU'S DISCLOSURE REGULATION

In 2019, the EU adopted the so-called 'disclosure regulation' which entered into force this year and requires investors to be transparent about, among other things, their due diligence work. The regulation introduces a number of new concepts that investors now need to take into account such as 'sustainability risks' and 'adverse sustainability impacts'. Sustainability risks cover the environmental, social or governance events or circumstances which, if they occur, may have a significantly negative impact on the value of an investment. More or less, this is what we call "ESG-related risks" in ATP's policy for responsibility, which, in addition to sustainability risks, also covers ESG risks that might not necessarily have a material financial impact on an investment but which can still be relevant to take into account.

Negative sustainability impacts in EU's terminology include the harmful impacts of investments on environmental, social or employee-related factors and questions concerning human rights or anti-corruption. This is referred to in ATP's policy as "wider considerations for responsibility", which both covers our ambition to balance considerations for negative impacts of ATP's investments on people and the environment and also to address our desire for ATP's investments and work with responsibility to benefit the impacted employees, companies and local communities.

## TWO ESG TRACKS IN ATP'S INTERNAL GOVERNANCE

**Principled decisions within the framework of ATP's Supervisory Board's policy for responsibility in investments.**

Committee for Responsibility

The Committee for Responsibility discusses principle-based decisions for the ESG area, and it is also via this forum that decisions concerning ATP's policy of responsibility are made. These include decisions about company exclusions and other ESG matters. The Committee for Responsibility is chaired by ATP's CEO with the participation of the Chief Investment Officer, Chief Risk Officer, etc.

**Specific investments**

Investment Forum

ESG is an integral part of ATP's investment processes and therefore all ESG decisions on specific investments are pre-processed in the Investment Forum, after which ATP's Chief Investment Officer makes final investment decision. This ensures that ESG issues are part of the investment due diligence processes, just as the anchoring in the Investment Forum also ensures that specific ESG decisions are archived along with the rest of the investment's documentation so that follow-ups can be made during ATP's period of ownership. The final investment decision is made by ATP's Risk and Investment Committee.

# Systematic screening ensures the correct focus

For investments in listed assets such as equities and corporate bonds, ATP typically has small ownership stakes in a large number of companies. We also have a relatively dynamic equity strategy where the portfolio changes from month to month. We have therefore developed some effective ESG due diligence processes that are adapted to our investment style. We continually screen companies in our portfolio to see if they are in violation of ATP's policy of responsibility and this allows us to spot incidents in both new and existing portfolio companies.

Screening is a good method for selecting listed companies, as there is a good amount of data that describes how listed companies behave - for example, from sources such as media articles, NGOs, legal documents and companies' own reporting. This makes it possible to design systematic screening processes that are focused on sorting through the great deal of available information so that we can prioritise our resources on investigating the most serious charges.

In this context, ATP works together with external data suppliers that monitor the behaviour of many thousands of Danish and international companies based on a long list of indicators. In addition, ATP can also independently get information from external sources - including from other leading investors - about whether portfolio companies are potentially violating our policy of responsibility.

The indicators in or screening work cover a broad spectrum of ESG topics from international conventions and the principles of the Global Compact. They cover environmental topics (such as biodiversity), human rights (such as the rights of indigenous peoples), labour rights (such as anti-discrimination and the right to collective bargaining) and corruption.

**GREEN BONDS**  
In our report on the green transition, we tell about our process for ensuring that green bonds comply with our sustainability requirements.

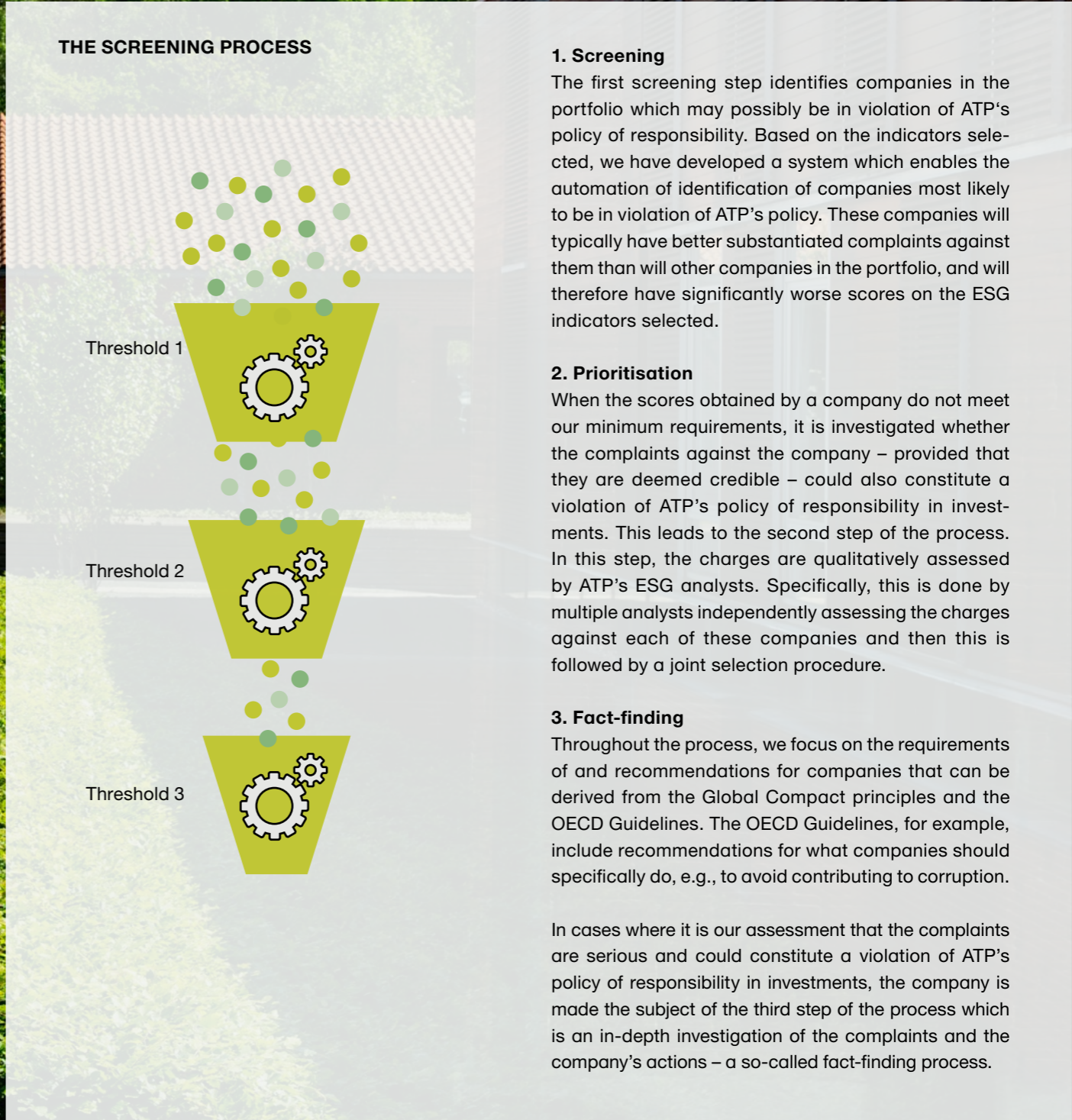
Screening the portfolio for such topics is a major part of ATP's integration of the OECD Guidelines for Multinational Enterprises which specifically recommends that investors have risk-based due diligence processes to identify and prioritise cases where a portfolio company might be having a negative impact on society.

**GOVERNMENT BONDS**

ATP operates separate processes for investments in government bonds. These processes are to ensure that ATP does not invest in government bonds from countries where the EU or UN has implemented targeted sanctions, and this is monitored on a daily basis via a control solution that is integrated into our trading system. We also use the OECD's long-term country risk classification to ensure that ATP only invests in government bonds from countries where ATP assesses that the risk is in line with the expected returns.

**RISK-BASED SCREENINGS OF ATP'S EQUITIES UNIVERSE**

When ATP invests in global equities, we select them from a universe consisting of thousands of companies. Because our portfolio is dynamic, we do not only screen our current investments, we also make risk-based screenings of the surrounding universe of equities. This allows us to identify the potential investments that should be investigated further before pursuing them. In a risk-based screening process, we base our approach on an issue that we want to know our potential exposure to and which, for example, is identified on the basis of previous fact-finding processes or a current media story.



# Serious charges require thorough investigations

If one of ATP's screenings indicate that a company may have violated ATP's policy of responsibility in investments, we start a fact-finding process. A fact-finding process is a flexible investigation where ATP can use various sources such as legal documents, NGO reports or corporate websites. The aim is to allow ATP's Committee for Responsibility to conclude whether ATP's policy has been violated or not.

In the fact finding process, ATP analyses the charges against the company to see if they are supported by facts. Often, there is also initiated a dialogue with the company to hear their version of events. If the study finds questionable behaviour, the company will have the opportunity to explain whether there has been launched organisational or operational initiatives to rectify matters and avoid future problems. A fact-finding process can therefore often take several months.

It is the seriousness of the specific charge and not the size of our investment in the company that guides our work and conclusions. In other words, it does not matter whether our investment in the company in question is small or large.

If a fact-finding process concludes that the company's behaviour does not violate ATP's policy, the process is concluded. However, if the fact-finding process shows that ATP's policy may have been violated, the analysts will present their results to the Committee for Responsibility and recommend that they start a targeted dialogue with the company or exclude it.

Once ATP's Committee for Responsibility has determined that a portfolio company has violated ATP's policy, we will decide whether to exclude the company or enter into a targeted dialogue with it. We will enter into a targeted dialogue with the company if there is reasonable cause to expect that ATP can influence the company to change its behaviour.

The purpose of the dialogue is to make the company correct the problem or, in the words of the OECD Guidelines, discontinue and mitigate its negative influence on society or rights

owners. This also means that we are patient in this process as long as we find that the company is being constructive and demonstrating progress.

If the company is unwilling to change its behaviour, then in the end we will decide to exclude it. ATP's Committee for Responsibility may also choose to exclude the company without first engaging in dialogue with it. Exclusion means that ATP divests itself of its investments in the company and that the company is removed from ATP's investment universe for an indeterminate period of time.

The exclusion applies to the equity investments in the company itself and all majority-owned subsidiaries and loans to the company and its subsidiaries. The current list of excluded companies can be found at [atp.dk](http://atp.dk).

## DUE DILIGENCE ON "NEW" DANISH AND SWEDISH COMPANIES

Currently, the Danish equity portfolio consists of both Danish and Swedish companies. Generally speaking, ATP has a great deal of knowledge about the companies in this portfolio and thus has a closer relationship with them. ATP has ongoing dialogues with the companies - also about ESG issues. In 2021, we have launched a new initiative to strengthen our screening processes for new investments and listings on stock exchanges.

We review the relevant company's policies, processes and performance on environmental and social issues and examine their corporate governance. Just as with the existing Danish portfolio, we tend to find small challenges rather than serious problems. Most often, there is an issue about the company's ESG reporting and relevant policies and then we encourage companies to take steps to make improvements.

## List of exclusions for 2021

### Fact-finding

- Atlantia SpA
- Carnival Corporation
- ONGC
- China Traditional Chinese Medicine Holdings
- Tong Ren Tang Technologies Co
- Beijing Tong Ren Tang Chinese Medicine Co
- China Grand Pharmaceutical and Healthcare Holdings

### Controversial weapons

- American Ordnance LLC
- Korea Defense Industry Co Ltd
- Nauchno-Proizvodstvenny Kontsern Tekhnologii Mashinostroeniya AO
- Gosmbk Raduga Im A Ya Bereznyaka OAO
- Rosoboronexport OJSC
- Sakr Factory for Developed Industries
- Nauchno-Proizvodstvennoye Obyedineniye Bazalt AO
- Sichuan Aerospace Industry Group Co Ltd

## WHEN ADDITIONAL INVESTIGATIONS ARE UNNECESSARY

ATP prioritises the deployment of its resources on investigating companies that we are either invested in or considering investing in - in other words, where there is a real risk that ATP would be linked with a company's problematic behaviour. Companies outside of our equities universe and which we do not consider investing in are generally not something that we independently choose to investigate. However, there are certain types of companies that ATP

wants to be absolutely sure we are not associated with and where additional investigations are also not needed. Specifically, these kinds of companies are those that produce cluster bombs, landmines or nuclear weapons contrary to the non-proliferation treaty or companies that are subject to international sanctions and which ATP cannot invest in. ATP uses research from specialised external data suppliers with a particular insight into the production of weapons.

# Thorough investment process with a strong ESG focus

ATP has significant part of the portfolio allocated to direct investments. This means that we are co-owners of airports, highways, real estate, forests and other assets. These are typically called illiquid or unlisted investments, as we cannot sell them on a stock exchange but rather have to find an outside buyer which involves higher transaction costs.

We also typically own a larger proportion of a company when making such investments, meaning that we have a greater responsibility to ensure that the company is not involved in violations of the OECD's guidelines for multinational enterprises.

Therefore, we are focused on uncovering material ESG risks that would have an impact on our investment before we step in as co-owners. We look at both whether there are risks that are socially material or financially material. Both types of risks need to be uncovered and there must be agreed upon action plans to remedy potential deficiencies when ATP steps in as a co-owner. The ESG due diligence work is an integrated part of our investment due diligence that is carried out in ATP's investment forum.

There is a defined ESG process for the direct investments which are tailored to these kinds of assets specifically. As

these are individual assets, we can narrow down the relevant ESG areas into, for example, geography, industry, etc. and concentrate our focus on these when we investigate the ESG risks of the potential investment.

In order to assess ESG conditions for individual investments, we use ATP's own question bank to target our study of the conditions surrounding a potential investment. This question bank is based on SASB's materiality tool, which identifies the most material ESG issues within all sectors. In the event that there is a need for specialised technical expertise, we can use external specialists to ensure that all details are considered.

With this approach, we cover all of the most important facets of all of our investments. We also assess ESG-related policies, processes and historical performance with a view to ensuring that the company meets our requirements and to identify potential opportunities for improvement.

As an investor, we also have a financial interest in using our influence in our stewardship activities to ensure companies better manage their ESG issues, as this helps to create sustainable growth in the companies and makes them a better long-term investment.

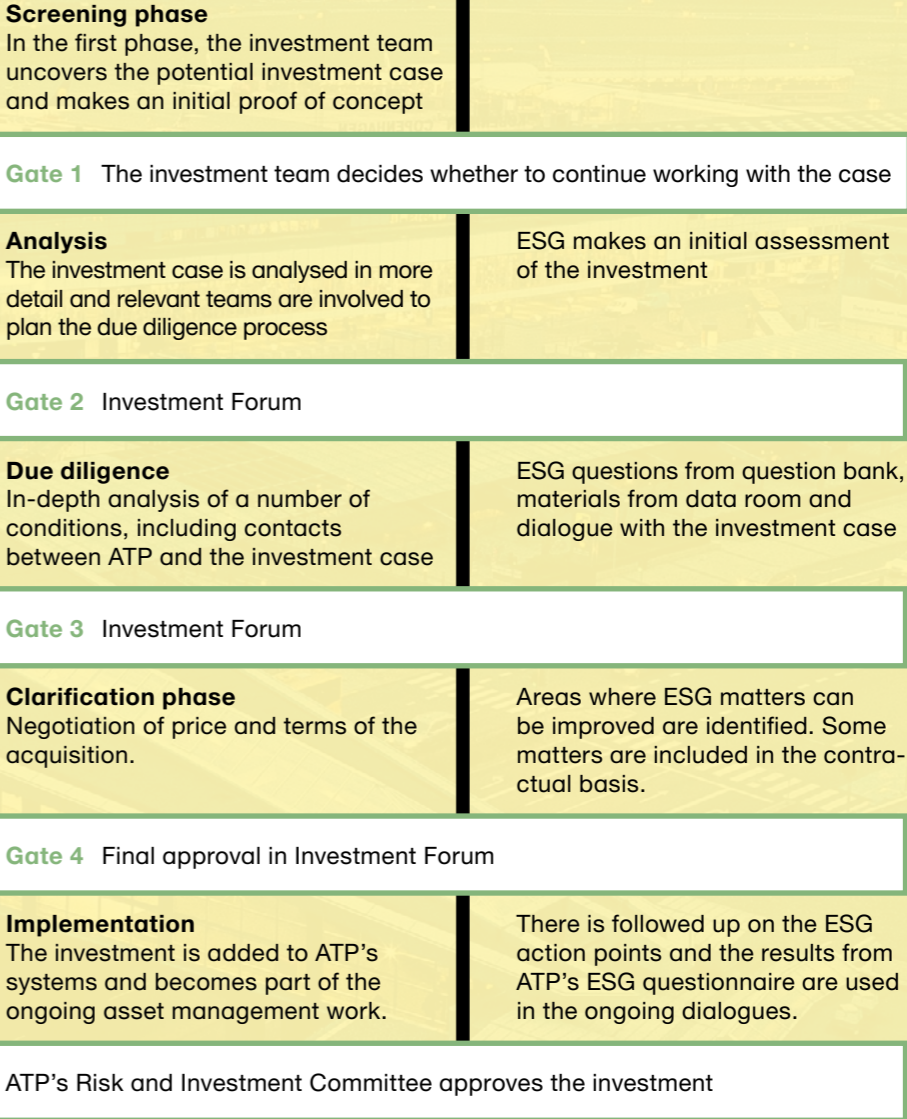


” When performing our due diligence, it is about turning every stone to uncover risks, and therefore we also rely on the expertise of a number of departments at ATP. Due diligence involves a review of factors such as investment risks, legal risks, tax structures, etc. in order to protect ourselves as much as possible from unwelcome surprises during our period of ownership. In this context, ESG is also an important part of our due diligence work. In the end, ESG problems can reduce the value of ATP's investment if we do not have a clear plan for solving them.

Sabine Calmer Braad, Deputy Head, Global Direct Investments

## ATP'S DUE DILIGENCE PROCESS FOR DIRECT INVESTMENTS

ATP's investment forum ensures a thorough and holistic assessment of opportunities and risks. The investment forum is the framework for ATP's investment structure with 'gates' that ensure that all information is gathered, analysed and assessed prior to the final investment decision. The process also helps to ensure that all our decisions are documented in ATP's systems. Each gate is also a “stop or go” decision for the investment. If there are problems related to ESG, tax, legal or other matters, these can halt an investment.



# Notable improvements in how capital funds approach ESG

With fund investments, ATP provides a commitment to the fund manager of being willing to invest a sum over a given investment period. In other words, the specific assets that co-ownership will result in by investing in the fund are not known, but only the sectors, geography and size of the companies that the fund plans to invest in. Therefore, it is not the specific assets that we perform due diligence on, but rather the fund manager itself and its approach to ESG issues once the fund begins investing on behalf of ATP.

ATP has developed an ESG questionnaire which is submitted to a new potential fund. We also review the fund's ESG policy which describes its approach to ESG. In addition, ATP always enters into a dialogue with the fund to clarify issues and get insights into its processes and experiences related to ESG. The assessment of the fund also includes knowledge of the context in which the fund operates, e.g., sectors and countries, climate-related issues and other issues of potential relevance.

The purpose is to uncover the fund's mindset regarding ESG and how ESG is considered relative to the companies invested in. We do this to ensure that the potential funds understand and have processes in place to manage ESG issues in their investments. ATP prefers to see that the fund has processes approximating ATP's own approach to due diligence in illiquid investments.

Since 2018, ATP has worked with ESG due diligence on funds and has observed significant improvements in their engagement with ESG issues surrounding their assets. In 2021 in particular, we have observed a growing focus on ESG issues and many have worked in a targeted manner to improve their ESG integration. The increased focus is, among other things, due to pressure from ATP and like-minded investors, but it is also due to the fact that ESG performance parameters are increasingly seen as valuable when it is time for the fund to sell the assets again.

More funds have also begun asking ATP about sharing knowledge and ideas about ESG issues. Some funds need to work on the development of their own processes and particularly in terms of reporting. Other funds have expressed a desire

to have a close ongoing dialogue to ensure that the focus is maintained and that they keep up with developments.

## DIVERSITY IN THE UNITED STATES

There has generally been major improvements on the ESG area in the United States, which has traditionally lagged behind the EU in this context. It is particularly when it comes to diversity that things have developed in the United States following the "Black Lives Matter" and #MeToo movements which have put diversity and inclusion on the agenda in the United States. The American funds are now increasingly aiming to make positive contributions to diversity in society. However, this is not just politically motivated. Many of the fund also say that the competitive labour market and the fight for talent in some industries (such as the tech industry) have created financial incentives for being a more inclusive workplace.

In one case, an American fund even expanded its initiatives in this area to not only include portfolio companies but also its other close business partners. They have sent a questionnaire to ATP about our work with diversity and the fund wants to learn more about their investors' initiatives to promote diversity.

## EXCLUSION OF AN ITALIAN COMPANY

In 2021, ATP has excluded the Italian company Atlantia S.p.A, which invests in infrastructure companies. Via its subsidiaries ASPI and SPEA, Atlantia has been accused of, among other things, being responsible for the collapse of the Italian bridge Ponte Morandi in 2018 which led to the deaths of 43 people. ASPI and SPEA have allegedly systematically avoided carrying out safety inspections and investing in the maintenance of Italian highways which the company administers. In addition, ASPI and SPEA are alleged to have falsified documents for the purposes of hiding the lack of safety inspections from the Italian authorities.

## IMPROVEMENTS IN HOW FUNDS WORK WITH ESG

As part of monitoring the development of ESG issues in our private equity funds, we have developed four different categories: According to our analysis, the distribution depends on how mature the fund is in terms of handling ESG issues. The distribution was updated in 2021, as ESG developments in private equity funds are moving in a positive direction and therefore we have chosen to tighten our criteria to remain ambitious. This is to ensure that we continue to push the funds in a positive direction and we can see this happening when the funds get back to us with proposals for new funds.

Level	Distribution before 2021	Distribution after 2021
1	Formal policies are in place and there is real engagement with ESG issues. ESG is therefore integrated at all levels.	+ There is an explanation of the value proposition of ESG and a focus on risks and opportunities. There needs to be reporting made on KPIs, best-practice initiatives need to be in place and the process must have been in place in a previous fund.
2	Initiatives are in place in terms of integrating ESG issues into policies and processes in general, but this is not in place at all levels and over the entire investment cycle.	+ Policies are in place to integrate ESG issues into investment processes and there is some evidence of integration. There is a clear understanding of the importance of ESG issues.
3	Sporadic engagement with ESG issues on a general level. No formal policies or processes are in place or if they are, they are very limited/general policies.	+ There is a lack of understanding of the importance of ESG issues and what it means to integrate ESG issues into investment processes.
4	There are no policies or processes in place and no understanding or only a limited understanding of the importance of ESG issues.	No change.

Since ATP invested in their fund in 2019, an American asset manager has improved their processes and policies in a number of areas which meant that the fund could show significant improvements when ATP invested in their new fund in 2021.

	Fund 1 (2019)	→	Fund 2 (2021)
<b>Policies</b>	No policy.		An ESG policy that is reassessed annually.
<b>Due diligence</b>	No ESG framework, and the ESG work was limited to two topics: product safety and the supply chain.		Due diligence framework that covers a number of different ESG topics. ESG questionnaire that is sent to all potential investments.
<b>Asset management</b>	Limit asset management work with ESG issues. It mainly relates to product safety.		Ongoing work with ESG initiatives that are defined and worked upon on a quarterly basis.
<b>Reporting and monitoring</b>	No reporting on or collection of ESG data.		ESG issues are reported on and the portfolio companies are encouraged to focus on collecting ESG data.

# Repeated breaches resulted in the exclusion of a cruise line

In our experience, the best way of influencing a company is via our ownership stake in it. If we sell our ownership stake, we lose influence and risk that those we are selling to do not have the same ESG standards as ATP does.

This means that we will sometimes remain co-owners of a company even if we assess that it has violated our policy of responsibility - but only if the company admits there is a problem and commits itself to making significant improvements.

In 2018, ATP instigated a fact-finding process for the cruise liner Carnival Corporation due to charges of it deliberately polluting the oceans. Allegedly, chief engineers had installed illegal systems that made it possible to emit wastewater with oil in it without it being detectable. The case therefore was only really brought to light when a newly hired engineer on one of the ships discovered the issue and reported it to the authorities.

When ATP became aware of the case, we launched an investigation and entered into a dialogue with the company which revealed that the company had admitted its responsibility for the violations, paid a fine of USD 40 million to the US authorities and agreed to subject itself to a 5-year inspection programme.

However, the company maintained - both to the authorities and at the meeting with ATP - that the violations were made by a small number of employees and that the management team was not aware of it.

At the same time we could find no facts to contradict this, and the management team had fired the employees who were involved, installed surveillance cameras on the machinery used to cheat, introduced a monitoring programme developed by an independent environmental consultancy firm and launched employee training programmes focusing on environmental protection. ATP therefore chose to give the company the benefit of the doubt and keep it in the portfolio while being monitored by ATP's ESG specialists.

Some time after, ATP divested itself of its investment in the company for other reasons, but at the end of 2020 ATP re-invested in Carnival via an external asset manager. When we

subsequently revisited the charges against the company, we found that new serious issues had occurred. In 2019, it was revealed in a US Federal court case that Carnival had systematically violated the terms of the authorities' inspection programme by, among other things, hiding environmental violations from the controllers, forging documents and, most seriously of all, continued polluting from its ships in the form of both plastic waste and polluted wastewater.

Among other things, one single ship in a single month was found to have emitted 98,000 litres of wastewater in the US Glacier Bay National Park, which is protected as a UNESCO World Heritage Site. These violations have meant that Carnival was forced to pay another USD 20 million fine, subject itself to additional inspection measures and restructure its compliance programme.

As a result of all this, ATP has lost patience with Carnival. The company may have admitted its responsibility and promised to make improvements, but this was only done after the Federal judge threatened to forbid the company from docking its ships in American ports.

It is ATP's assessment that Carnival either does not want to or was unable to put an end to the illegal pollution practices on its ships. On that basis, ATP's Committee for Responsibility chose to exclude the company from ATP's investment universe for violating the international environmental and biodiversity conventions.

## EXCLUSION OR STEWARDSHIP?

In line with the OECD's Guidelines and the Danish Business Authority's Guidelines for Responsible Investments, ATP considers exclusion to be a last option approach that is only applied when all other options of influencing the company have been attempted. It is our experience that we are usually better able to influence portfolio companies via stewardship and targeted dialogue than by selling our assets to other investors who may not have the same concerns about the social impacts of their portfolio companies.

## Who protects the oceans?

One of the challenges in terms of preventing the pollution of the global marine environments is that the majority of the world's oceans are international waters that do not belong to any state's jurisdiction and thus have no state actor protecting them. In order to protect the oceans, the international community has therefore adopted a number of conventions, among them, the so-called MARPOL Convention ("International Convention for the Prevention of Pollution from Ships"), the so-called London Convention ("Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter") and the so-called OSPAR or Oslo Convention ("Convention for the Protection of the Marine Environment of the North-East Atlantic").

All of these conventions aim to prevent the pollution of the oceans from ships and via other means and Denmark has signed on to all of them. At the same time, the countries of the world have also set up IMO (International Maritime Organization) under UN auspices and it is, among other things, tasked with preventing pollution from ships. However, in many ways the world's oceans are still vulnerable to pollution, as unlike with pollution on land, there are no states effectively charged with preventing such pollution.





# Green investments must also ensure social sustainability

As more and more projects with a focus on the green transition are begun, we often find ourselves with the dilemma of the project on one hand promoting the green transition while on the other hand creating some other ESG problems that could put the project at risk. These may be considerations for biodiversity when constructing in undeveloped areas or marine areas or there may be social problems related to, for example, neighbours or other users of a particular area.

For some projects, these challenges may in the end amount to a deathblow for a project, which typically comes with major financial costs. Therefore, it is important that project developers and investors make sure that there is a focus on the entire range of ESG issues when a new project is on the drawing board.

This approach is also a recurring principle in the EU's green taxonomy, which is to define what can be classified as a

green investment. The taxonomy points towards a number of activities that contribute to the green transition, but it also imposes requirements concerning so-called "do no significant harm criteria" and "minimum social safeguards". In practice, this means that there are a number of requirements for both environmental and social considerations that a green activity may not violate if it is to be categorised as a green investment.

ATP performs due diligence work on all of our investments, also those that at first glance would be viewed as sustainable. This is because we believe that it is important for our own credibility and for the green transition that we ensure that green projects do not do more harm than good. Similarly, uncertainty about social standards and the like may in the end represent a financial risk for our investments.

## THE THREE REQUIREMENTS OF THE TAXONOMY

In order to comply with the EU's green taxonomy, you do not just have to be green, you also have to meet certain minimum standards.



## ATP's dialogues with a battery manufacturer

In 2021, ATP invested an additional DKK 900 million in the Swedish battery factory Northvolt, bringing ATP's total investment up to DKK 1.5bn. Northvolt's ambition is to produce the world's most sustainable electric car batteries, among other things, by using hydropower for the energy-intensive production processes. Northvolt has also set up an ambitious goal to have recycled batteries treated at its own factories make up half of the raw materials used in production by 2030. At the same time, Northvolt also has a major focus on ensuring that the raw materials are only bought from suppliers whose production processes comply with the OECD's guidelines.

With the additional funds from ATP and other investors, Northvolt will now be able to produce batteries totalling a capacity of 60 GWh annually at its factory in Skellefteå in Northern Sweden. It is precisely the factory's location in Northern Sweden that resulted in a number of questions in our original due diligence process during the first investment in 2019 and again with the additional funds invested in 2021.

This is because Northvolt's factory is built in an area where the indigenous Sami people have grazing areas for their reindeer. We therefore quickly put the spotlight on the relationship with the Sami in our due diligence process with Northvolt to ensure that any potential issues with the Sami were being handled properly.

A new case from Norway has also shown how impactful it can be if you do not take into account indigenous people's rights and ensure that there is a good dialogue before a project begins. Two Norwegian wind parks with a total of 151 turbines risk having to be torn down as the Norwegian Supreme Court has ruled that the concessions for the wind parks are illegal as they violate the Sami people's rights to practice their culture in the form of reindeer herding.

The ruling says nothing about the future of the wind turbines, but now one side wants the wind parks to be torn down due to this ruling. On the other hand, the companies behind the wind parks say that there was a thorough consultation process prior to the permits being granted and that reindeer herding was a particular focus area.

This is an unfortunate case and shows how difficult it is to navigate through such issues. However, while it is difficult, it only underscores the importance of putting in as much effort as possible in a due diligence process. ATP focused on the dialogues with the Sami and the surrounding communities in our due diligence process for both the original investment in 2019 and the expansion of the investment in 2021.

“With Northvolt Ett, we were in close dialogue with the population before construction began and we will of course continue this dialogue as we near the launch phase. We have been in particularly close dialogue with the municipality about the expansion of Skellefteå and its rapidly growing industry which involves the building of homes, schools and facilities.

We are also supporting the integration of international employees moving to Skellefteå via, for example, offering Swedish language lessons to our new international employees and their partners and opening an international school for their children. The northern part of Sweden is also home to the indigenous Sami people.

From the beginning, we met with the local Sami, Mausjaur Sameby, to discuss the placement of Northvolt Ett so that they had the opportunity to give input and thus allow us to reach a mutual agreement. We will continue to be engaged in proactive dialogue with Mausjaur Sameby to maintain our good relationship and to discuss the issues that might exist or arise in the future.

In order to ensure the best possible communication with the municipality, we have also established a whistleblower scheme so that the local municipalities can contact us if they have some issues they would like to discuss with us. We also have a formal stakeholder engagement plan in place that outlines how we engage with our stakeholders.

*Jesper Wigardt, VP Communications & Public Affairs, Northvolt*

# Five questions about due diligence to ATP's Head of ESG

Ole Buhl, Head of ESG at ATP



## 1. WHY IS THE ESG DUE DILIGENCE WORK IMPORTANT FOR ATP?

First and foremost, our Supervisory Board has specified a policy of responsibility in Investments that ATP must comply with. The policy is based on external guidelines and norms and conventions that the Danish state is a signatory to. We need to make sure that we comply with that. You could say that ATP's Supervisory Board has made this policy on behalf of all Danes, as it is virtually the entire population of Denmark who are members. And as it is not possible to choose not to be a member of ATP, it is important to ensure that the pension funds are invested responsibly so that our members can feel that their pension savings are in safe hands. At the same time, we also protect the pension savings from being negatively impacted by unwanted ESG risks. This is why ESG due diligence is part of the basic security that ATP provides to all Danes.

## 2. WHAT IS ATP PARTICULARLY FOCUSED ON IN ITS DUE DILIGENCE WORK?

You need to have a broad focus. If your focus is too narrow, you will overlook important things. It is easy to find problems in companies that have physical production processes such as mining companies, as that might entail environmental problems or problems with human rights. However, in some industries like the tech industry, the problems are outsourced and therefore at arms length from the company. Here, for example, we have seen that tech companies use external consultants to modernise a platform and remove offensive contents, but in some cases, this has resulted in mental problems for the employees due to the sometimes very graphic nature of such content. We would like to focus on the entire value chain in our due diligence work so that a company is not absolved of responsibility just because it outsources some of its business activities.

## 3. DOES ESG DUE DILIGENCE HAVE A NEGATIVE IMPACT ON RETURNS?

For us, due diligence is part of the assurances that we need to have on certain areas such as legal or financial aspects when we invest. This helps us to avoid getting unpleasant surprises when we buy a company. Both because such things can have a negative impact on the value of the company but also because unforeseen problems require time and resources that we could have used on other investments. Of course, we do spend quite a bit of resources on a proper due diligence process, particularly because we have chosen not to outsource parts of the process to external business partners. However, when all is said and done, we believe these resources are well worth spending.

## 4. IS ESG DUE DILIGENCE A BLACK AND WHITE ISSUE?

We look at various guidelines for responsible corporate behaviour, mainly the OECD's Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, but we also take into account conventions that the Danish state is a signatory to. The guidelines are characterised by the fact that they are 'soft laws'. This means that there is no court of law that ultimately decides whether a company has violated the guidelines. Therefore, it is often a matter of judgement on a case by case basis whether we believe that a company has violated some of the guidelines. Precisely because it is a matter of judgement, we are focused on having fixed processes that ensure that the process the cases in a uniform manner and that we document our work.

## 5. DO YOU UNCOVER ALL PROBLEMS BEFORE INVESTING?

No, unfortunately I cannot say that we do. We can find a lot of problems, but there are also limitations in terms of what we can actually do. We do not have unlimited time and resources for reviewing every single investment and new knowledge may also become available after we have already invested that puts the investment in a different light. Therefore, we are continuing to work on ESG parameters for our investments after the end of the due diligence process in order to ensure that the company also complies with our ESG requirements once ATP becomes a co-owner.