

Pay Policy

for

**the Supervisory and Executive Boards, significant risk
takers etc.**

at

**the Danish Labour Market Supplementary Pension
Fund**

Pay Policy for the Supervisory and Executive Boards, significant risk takers etc. at the Danish Labour Market Supplementary Pension Fund (ATP)

1 Purpose, area, persons concerned and general principles

1.1 Purpose

The overarching purpose of the Pay Policy is to support ATP's vision of securing basic financial security, simple administration and high returns.

The Pay Policy also serves to support ATP's business model and commercial objectives, including making it possible, by means of a suitable remuneration structure, to attract and retain the best possible competences on competitive terms of employment, so that ATP's ambitious, long-term performance targets can be achieved.

The Pay Policy must be in accordance with and promote sound, effective risk management, secure a long-term commonality of interests between individual employees and ATP's members, and support ATP's ability to perform its obligations under the Danish ATP Act (*ATP-loven*).

1.2 Pay Policy scope and persons concerned

The Pay Policy covers ATP. The Pay Policy does not cover ATP's consolidated companies, including subsidiaries.

The Pay Policy covers remuneration of:

- Members of the Board of Representatives, the Supervisory Board and the Supervisory Board committees
- The CEO and the Group Executive Board
- Chief Actuary and Chief Auditor
- Key employees identified by the Supervisory Board under section 23a of the Danish ATP Act
- Employees whose activities are considered to have a significant influence on ATP's risk profile
- Managers, portfolio managers and other employees.

The Pay Policy does not cover those employed under a collective agreement, to the extent that schemes with variable pay components are based on agreements included in collective agreements.

1.3 Common principles for the Pay Policy and remuneration

Remuneration and fees are defined on the basis of the market level, both nationally and internationally, taking into account ATP's size and organisation, as well as the scope and complexity of ATP's activities.

Furthermore, remuneration and fees are defined on the basis of ATP's specific needs, including the need to guarantee ATP's ongoing ability to attract and retain the best possible members for the Supervisory Board and as managers and employees. Moreover, remuneration and fees reflect relevant business experience and organisational responsibilities.

Where ATP uses variable pay, it is used as an active tool that supports commercial development by means of focus on target and performance management, and promotes behaviour that creates value. Variable pay also reflects sustainable and extraordinary results.

ATP does not commit to defined-benefit schemes, neither for members of the senior management bodies nor for managers and employees.

ATP observes the prevailing remuneration rules under the Danish ATP Act and the Executive Order on Pay (*Aflønningsbekendtgørelsen*)¹, as well as the prevailing principles on management remuneration set out in the '*Recommendations on Corporate Governance*' issued by the Committee on Corporate Governance, with the adjustments required according to ATP's special circumstances.

ATP prioritises openness and transparency in the Pay Policy, forms of remuneration and the pay level of the senior management. Information about this, including the financial implementation of the Pay Policy, is available via publication in ATP's annual report or at www.atp.dk/en.

2 Process

2.1 Pay Policy

The ATP Supervisory Board adopts the Pay Policy and is responsible for its implementation. The Pay Policy is approved by the Board of Representatives.

The ATP Supervisory Board reviews the Pay Policy at least once a year with a view to adapting it to ATP's performance.

2.2 Persons concerned and suitable cap for significant risk takers

In accordance with section 2(2) of the Executive Order on Pay, ATP's Supervisory Board specifies the persons in ATP who are significant risk takers. The persons concerned are listed in Appendix 1.

ATP's Supervisory Board also defines a suitable cap on variable pay components for significant risk takers to ensure a suitable balance between fixed and variable pay components. This may vary, depending on the recipient's function and ATP's circumstances in general, and it must be set in such a way that the fixed pay component constitutes a sufficiently high proportion of the overall pay so that ATP can apply a flexible pay policy with regard to the use of variable pay. The cap is described in section 3.4.

¹Executive Order on pay and remuneration disclosure requirements in ATP and LD, currently Executive Order no. 283 of 27 March 2014.

2.3 Remuneration and fees

Fees for the current year for members of the Board of Representatives, the Supervisory Board and, if relevant, the Supervisory Board committees are fixed by the Board of Representatives on the recommendation of the Supervisory Board.

Remuneration for the CEO, the Chief Actuary and the Chief Auditor is fixed by the Supervisory Board on the recommendation of the Remuneration Committee.

Remuneration of other members of the ATP Group Executive Board is fixed by the Executive Committee on the recommendation of the CEO.

2.4 Other frameworks

Within the framework of the Pay Policy, the ATP Supervisory Board defines supplementary, overall frameworks for the variable pay schemes in ATP, including:

- Groups of employees who are included
- Types of variable pay schemes
- The expected value of the schemes at the time of allotment
- The time frame over which the various schemes are calculated
- The maximum annual bonus for the various groups of employees.

The ATP Supervisory Board can establish variable pay schemes for persons covered by the Pay Policy, apart from members of the Board of Representatives, the Supervisory Board and the Supervisory Board committees, the CEO and the Group Executive Board as well as the Chief Auditor.

The CEO implements the schemes in accordance with the guidelines set out in the Pay Policy and in accordance with the decisions of the Supervisory Board.

3 Limits and conditions for remuneration of the individual groups of persons

3.1 Members of the Board of Representatives, the Supervisory Board and the Supervisory Board committees

Members of the Board of Representatives, the Supervisory Board and any Supervisory Board committees are paid a fixed annual fee.

No member is covered by any form of variable pay, incentive schemes, pension agreements or severance pay agreements.

When determining the Supervisory Board's fixed annual fee (basic fee), consideration must be given not only to the common principles, but also to the number of Supervisory Board meetings as well as ATP's status as a statutory supplementary pension scheme.

In addition to the basic fee, members of the Executive Committee may receive a committee fee of up to 100 per cent of the Supervisory Board's basic fee.

The Chairman of the Supervisory Board may receive a fee of up to three times the total of the basic fee and the committee fee for the Executive Committee.

In addition to the above fees, members of the Audit Committee and the ORSA Committee are paid a special committee fee for this function of up to 50 per cent – and on the Chairman's part of up to 100 per cent – of the Supervisory Board's basic fee.

Committee fees are fixed according to the same principles as the basic fee.

The fee to a member of the Board of Representatives can be up to 15 per cent of a Supervisory Board member's basic fee and is fixed according to the same principles as the basic fee.

Members of the Board of Representatives, the Supervisory Board and, if relevant, the Supervisory Board committees are reimbursed by ATP for any relevant, documented expenses in connection with meetings, including travel and accommodation expenses, training etc. Mileage allowance when driving own vehicle is paid in accordance with official government rates.

3.2 CEO and members of the Group Executive Board

The CEO and members of the Group Executive Board are paid fixed remuneration, a pension contribution of up to 20 per cent, severance pay in accordance with section 3.9 and a number of employee benefits etc., see section 3.10.

The CEO and members of the Group Executive Board are not covered by any form of variable pay or incentive schemes.

A mutual extension of the periods of notice may be contractually agreed. For the CEO and members of the Group Executive Board, such an extension may constitute a period of notice of up to two years on the part of ATP, including any period of notice applicable under the Danish Salaried Employees Act (*Funktionærloven*).

3.3 Chief Actuary and Chief Auditor

The Chief Actuary and the Chief Auditor are paid fixed remuneration (basic pay), pension contribution, severance pay in accordance with section 3.9 and a number of employee benefits, see section 3.10.

A mutual extension of up to one year on the part of ATP of the periods of notice set out in the Danish Salaried Employees Act may be contractually agreed, including the period of notice applicable under the Danish Salaried Employees Act.

3.4 Significant risk takers and guidelines for their variable pay

In accordance with the Executive Order on Pay, ATP must observe a number of rules on the Pay Policy, remuneration and disclosure requirements, including limits for the awarding and payment of variable pay, in the same way as the rest of the financial industry.

These rules apply to members of the Board of Representatives, the Supervisory Board, the Supervisory Board committees, the CEO and other employees whose activities have a significant influence on ATP's risk profile (*'significant risk takers'*). The persons defined as significant risk takers are described in **Appendix 1**.

The variable pay earned by significant risk takers, see Appendix 1, must not exceed 100 per cent of the basic pay including pension contributions per annum.

Pay agreements with significant risk takers must ensure that the agreements satisfy the requirements set out in sections 10-12 of the Executive Order on Pay in respect of pay. Among other things, agreements on variable pay for significant risk takers must observe the following principles:

- When paying variable pay, at least 40 per cent of the variable pay, and at least 60 per cent in the case of larger amounts, must be paid over a period of at least three years, starting one year after the calculation date, with an equal distribution over the years or with an increasing proportion at the end of the period.
- Calculated variable pay earned for a year of income may – under the prevailing rules on minimum limits – be paid in full to the individual employee without any deferral as described above.
- It must be agreed in the pay agreements that ATP may withhold payment of variable pay if ATP is unable to meet its obligations to its members on the payment date.
- It must be agreed in the pay agreement that the individual has a duty to repay (claw-back) any variable pay received if the variable pay has been paid on the basis of information about performance that can be documented to be incorrect and if the recipients have acted in bad faith.

3.5 Managers, portfolio managers and other employees

Managers, portfolio managers and other employees are paid fixed remuneration (basic pay), pension contribution, severance pay in accordance with section 3.9 and a number of employee benefits etc., see section 3.10.

A mutual extension of up to one year on the part of ATP of the periods of notice set out in the Danish Salaried Employees Act may be contractually agreed for deputy directors, including the periods of notice applicable under the Danish Salaried Employees Act. For other employees, the extension may be for six months in addition to the periods of notice applicable under the Danish Salaried Employees Act.

3.6 Variable pay for portfolio managers in Pensions & Investments

Portfolio managers in Pensions & Investments may be awarded variable pay in the form of bonus schemes in accordance with the principles set out in this section.

When awarding variable pay, the agreement with the individual portfolio manager must en-

sure that the principles set out in section 3.4 on deferral, payment limits and repayment (clawback) are observed.

It must be ensured in the variable pay schemes that there is a long-term commonality of interest between the incentives of the employee and ATP's members.

The variable pay component in the schemes must as a minimum be defined on the basis of the following three components:

- ATP's investment and hedging activity results
- The performance in the individual's department in the form of, for example, returns, investment processes etc. or combinations of these
- The individual's own performance in the form of, for example, the individual's contribution to returns, investment processes, teamwork etc. or combinations of these.

These three components may be applied with different weighting in an individual department's scheme, but the scheme must contain all three components.

The schemes must set a cap on the individual's variable pay for the individual year, see also section 3.4 on caps for significant risk takers.

The scheme must set a cap on the expected value of the scheme per annum in the long term in relation to the individual portfolio manager's annual basic pay.

The actual implementation of the limits defined in this Pay Policy or by the Supervisory Board in accordance with section 2.4 is established by the CEO and CIO of ATP. The most significant elements are: (i) the actual employees in Pensions & Investments covered by the scheme, (ii) definition of the minimum investment results that ATP is to achieve in each of the schemes before bonus starts to be earned, and (iii) the weighting of the individual components of the scheme.

An executive appointed by the CEO makes sure that (i) a comprehensive data basis for use in the annual statement of bonus earnings is available at all times, (ii) there is documentation of the data basis and the calculation formulas applied, (iii) the adopted procedures and checks are reflected in ATP's business procedures at all times, and (iv) business procedures are reviewed and, if necessary, revised on an annual basis and are updated in connection with changes in schemes etc.

3.7 Co-investment schemes

ATP may have co-investment schemes for portfolio managers in Pensions & Investments. Any co-investment schemes are purchased at intrinsic value at the time of allotment; accordingly, there is no gift element included.

When employees invest their own, personal funds, they run the risk of incurring losses, and this provides an incentive to ensure, among other things, that they do not take unnecessarily high risks to achieve higher returns.

3.8 Employees in control functions etc.

For employees in control and audit functions, including employees working with compliance, risk management and internal audit, any variable pay components must not be dependent on the performance in the department or area where such employees carry out controls.

If an employee working as an actuary receives variable pay components, the variable pay components must be dependent on the employee's role only, and the variable pay components must not be dependent on the performance in the department.

3.9 Severance pay

When an employment relationship commences, agreement may be reached on a severance scheme, under which severance pay may be triggered if ATP terminates the employment.

Severance pay for the CEO and CIO may constitute up to one year's remuneration, and in the CEO's case, it may also be agreed that this applies in connection with retirement. For other members of the Group Executive Board, severance pay may constitute a total of nine months' remuneration. The agreed severance pay includes severance pay based on seniority, which replaces the severance pay described in section 2a of the Danish Salaried Employees Act.

For employees on the Supervisory Board, the Chief Auditor and the Chief Actuary, severance pay may constitute a total of up to nine months' remuneration including severance pay based on seniority; this replaces the severance pay described in section 2a of the Danish Salaried Employees Act.

For deputy directors, general managers and department managers, severance pay may constitute a total of up to nine months' remuneration including severance pay based on seniority; this replaces the severance pay described in section 2a of the Danish Salaried Employees Act.

For other managers, portfolio managers, business specialists and employees, severance pay may constitute a total of up to six months' remuneration including severance pay based on seniority; this replaces the severance pay described in section 2a of the Danish Salaried Employees Act.

In connection with actual redundancy situations, the agreed severance pay may in extraordinary circumstances be supplemented by special severance pay, which may constitute up to 50 per cent of the agreed severance pay. If the total value of the severance pay subsequently exceeds one year's total remuneration including pension, the agreement must, as far as the part of the severance pay exceeding one year's remuneration including pension is concerned, meet the requirements set out in section 10 of the Executive Order on Pay, and this part of the severance pay must reflect the results achieved by managing the position concerned for a period of time and must not reward lack of results or negligence. Severance pay (both ordinary and extraordinary) may be fully or partially converted into an extended period of notice in addition to the period of notice set out in the Pay Policy.

3.10 Employee benefits etc.

Basic pay is accompanied by a pay package with flexible employee benefits. Based on allocated payroll costs, the individual employee can opt in and out of priced benefits, depending on the individual employee's situation.

ATP pays relevant documented expenses in connection with meetings and conferences, including travel and accommodation expenses, training etc.

The CEO, other members of the ATP Group Executive Board and deputy directors may be awarded a number of work-related employee benefits, including a company car, business-related journal etc. The scope/size of the individual employee benefits is decided by the Supervisory Board or the CEO by agreement with the individual in question.

4 Governance

4.1 Remuneration Committee

The ATP Supervisory Board appoints a Remuneration Committee, the tasks of which are performed by the ATP Executive Committee. The Remuneration Committee must be appointed in accordance with section 17(3) of the Executive Order on Pay.

The tasks of the Remuneration Committee are to:

- Prepare proposals on the Pay Policy for the Supervisory Board, including guidelines on variable pay
- Carry out preparatory work for the Supervisory Board's decisions on pay that may impact ATP's risk management, including in relation to the Pay Policy etc.
- Prepare proposals for the Supervisory Board's recommendations to the Board of Representatives on fees to members of the Board of Representatives, the Supervisory Board and the Supervisory Board committees for the current financial year
- Submit proposals to the Supervisory Board on the CEO's remuneration
- Ensure that recommendations on remuneration are in compliance with the Pay Policy etc.
- Conduct checks on the Pay Policy and report on an annual basis on implementation, compliance etc.

4.2 Control of the Pay Policy

The Remuneration Committee must monitor developments in ATP's remuneration and variable pay schemes on an ongoing basis and assess whether the schemes and the Pay Policy are in compliance with Danish legislation and the rules laid down by the Supervisory Board.

At least once a year, the Remuneration Committee must check whether the Pay Policy is complied with and report the results to the Supervisory Board.

This control also includes remuneration of the management in the part of the organisation that checks compliance with risk-taking limits as well as the management of the part of the organisation that carries out other controls, including the Internal Chief Auditor.

The control must ensure, among other things, that the establishment of variable pay schemes and the payment of variable pay take place in a proper way and that no one is involved in any recommendation or decision on participation in or the structure of variable pay schemes that involve the individual in question.

The Remuneration Committee monitors that the disclosures in the annual report on the remuneration of members of the Board of Representatives, the Supervisory Board, the Executive Committee, the Audit Committee and the CEO are correct, fair and adequate.

Before a variable pay scheme is initiated, ATP's external auditor must make a statement to the Supervisory Board about the model in respect of (i) whether the value of the proposed schemes is reasonable in relation to the market standard, (ii) whether the same people are involved in several schemes, (iii) to what extent chains might be formed, so that success in one place automatically triggers variable pay in another, (iv) whether the model is based on a clear governance structure, (v) whether implementation takes place in accordance with the limits adopted by the Supervisory Board, (vi) whether the necessary processes and business procedures are present in the management of the bonus schemes and, finally, (vii) whether the calculation of the value of the bonus schemes can be verified.

Once a variable pay scheme has been implemented, the auditor must make a statement once a year on the same conditions as described above. The annual statement must focus on any changes that may have occurred during the period. ATP's auditor must also check whether the schemes are reasonable and are managed in accordance with the agreed limits, and whether the annual calculation of accrued and paid bonus is taking place on the conditions agreed.

The result of the external auditor's control must be presented to the Supervisory Board after having been considered by the Remuneration Committee.

4.3 Reporting

Once a year, the Supervisory Board receives a report from the Remuneration Committee on the implementation of the individual variable pay schemes.

Once a year, the Supervisory Board reports to the Board of Representatives and the Minister for Employment on the remuneration of the Board of Representatives and the Supervisory Board. The report must include information about the remuneration in the previous financial year and about the expected remuneration for the current and next financial years.

5 Publication and reporting to the Danish Financial Supervisory Authority

The Pay Policy is published at www.atp.dk/en.

Furthermore, an annual report on remuneration in ATP is published no later than 1 May at www.atp.dk/en in accordance with the current disclosure requirements under section 19 of the Executive Order on Pay.

The report must be submitted to the Danish Financial Supervisory Authority simultaneously

with publication on the website. The ATP Group's annual report must specify where this information may be found.

The ATP Group's annual report describes the remuneration of each individual member of the Board of Representatives, the Supervisory Board and the Supervisory Board committees. Details of the CEO's remuneration, pension schemes and severance schemes are also published in the annual report. Details of the remuneration of significant risk takers in accordance with the current rules are also published. Publication must comply with the current rules and with the 'Recommendations on Corporate Governance' issued by the Committee on Corporate Governance, with the adjustments required according to ATP's special circumstances.

6 Commencement

The Pay Policy is valid from 1 January 2017.

As regards the supplementary requirements on variable pay to managers, significant risk takers and employees in control functions, as set out in sections 10-12 of the Executive Order on Pay, these rules only apply to agreements concluded, extended or renewed after 1 January 2011.

Adopted by the Supervisory Board on 15 December 2016 and approved by the Board of Representatives on 7 February 2017.

On behalf of the ATP Supervisory Board and the Board of Representatives:

Jørgen Søndergaard (Chairman of ATP)

Significant risk takers and other persons in ATP included in the group of persons covered by the rules – valid from 1 January 2017

As at 1 January 2017, the Supervisory Board has decided that the following employees are significant risk takers:

- Members of the ATP Group Executive Board
- The Chief Actuary (and key employee of the actuarial function)
- The Chief Auditor (and key employee of the internal audit function)
- The Chief Risk Officer (and key employee of the risk management function)
- The Chief Compliance Officer (and key employee of the compliance function)
- Employees in the Investment Committee, Risk Committee and the Operating Committee in Pensions & Investments
- The manager of the unit in Pensions & Investments that performs controls of compliance with risk-taking limits
- Portfolio managers in Pensions & Investments.

The CEO issues instructions defining which specific individuals are included in the categories listed.