

The ATP Group

Stewardship 2024

- Part of ATP's responsibility

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Introduction

Initiatives with an impact

Does stewardship, where investors engage in dialogue with companies, have an effect at all - and if so, who can be credited for the effect? Is it the individual investor, other investors, or perhaps the company itself?

For ATP, it is not that important who gets the credit. The important thing is that there is an effect, and that this effect has a real impact on the company and the outside world. If there is no real effect, then it does not benefit either the company, ATP as a shareholder or the world at large.

The stewardship process takes time, and ATP has many concrete examples of this. In 2022, ATP put forward a proposal for greater diversity in the Supervisory Board at the annual general meeting of the Japanese company ACOM.

The proposal was voted down at the time, but now, in 2024, the company has elected a woman to the Board for the first time. While this cannot be traced back directly to ATP's proposal, it shows that impact is often due to the sum of the efforts of many parties leading to progress over time.

It is also a good example of the fact that changes do not happen overnight, but take time and persistence. ATP's climate and diversity guidelines are also an expression of this. Few companies change direction immediately, but we would like to see positive developments over time.

Focus on the effects is a recurring theme in much of ATP's work in 2024. Our new guidelines monitor the concrete developments regarding CO₂ emissions and diversity in companies. We monitor these factors because we would like to see things improve over time.

There may be good reasons why a company cannot always live up to our guidelines. For example, it may be that a company is growing its business activities, and this is why its absolute

emissions are increasing. But we need to hear the company's justifications to be able to assess whether the company is still on the right path.

With the new CSRD Sustainability Directive, we expect to see a significant expansion of companies' ESG reporting as a result of the new requirements, although in this context it remains important to have the real effects in mind. Conversely, too much data can make reporting unmanageable, making it impossible to see the woods for the trees. The CSRD must ultimately lead to sustainable improvements. However, investing our efforts in too much reporting will get us nowhere.

For this reason, ATP also has expectations regarding the companies' reporting, which we communicate about continuously in our dialogue with the companies. If you look at the overall CSRD and related thematic standards, it can be an enormous task comprising up to 1,200 reporting requirements.

It is therefore important for ATP to keep in mind that materiality is at the heart of CSRD reporting. In other words, for a company to report on a theme in the CSRD, it must be material - that is to say, substantial - from either a financial or societal point of view. In this context, companies should consider their limits in terms of materiality, and focus on the most significant aspects.

At ATP, however, it is expected that the thematic standards concerning climate change, companies' own workforces and corporate behaviour will be relevant for all companies. In addition, companies should select thematic standards based on a focus on reporting on what is material.

The same applies to the individual disclosure requirements in each of the thematic standards. Companies should carefully consider each disclosure requirement and assess whether it is material information for investors or other stakeholders.

Six ESG principles set the direction

ATP believes that the integration of ESG into our investment work can reduce risks and contribute to long-term value creation. Therefore, we are continually seeking to:

- 1 Distinguish financial materiality and societal materiality from each other and also continually attempt to understand the interaction between financial materiality and societal materiality.
- 2 Improve our ESG data basis with a focus on developing the companies' own reporting of data.
- 3 Developing ATP's general guidelines and specific expectations for companies' ESG practices.
- 4 Mapping the ESG characteristics of ATP's investment portfolios with a view to prioritising ESG initiatives.
- 5 Contributing to real improvements being made in individual companies, both for the benefit of ATP's investments and for society at large, based on a preference for active capital stewardship.
- 6 Building strong processes for both ESG due diligence and ESG asset management across asset classes tailored to the specific investment processes.

Annual general meetings

Focus on the most the most significant aspects when it comes to sustainability reporting

A topic that is given a lot of focus in Danish and European companies is the implementation of the EU's new sustainability reporting directive. With the CSRD (Corporate Sustainability Reporting Directive), the reporting obligations of companies are significantly expanded; the standards include over a thousand separate data points.

Many companies have expressed concern about the extent of the reporting and fear that the burdens it imposes on companies are not proportionate to the value of the information. ATP shares this concern, which is why we have focused on the CSRD in our stewardship work in 2024.

At the annual general meetings of Danish companies, ATP has delivered a brief message regarding the CSRD which can help companies learn more about ATP's position. Companies should keep in mind that the CSRD is about reporting on what is material or significant for each specific company. This applies both to the themes and to individual data points. Our experience is that the message has generally been well received by the companies.

We elaborated on the same message in a letter to the CFOs of our Danish portfolio companies. We would rather see companies reporting on fewer, more significant data points than trying to close as many data gaps as possible. This applies, for

BRIEF OVERVIEW OF THE CSRD

The CSRD is a directive that is implemented in Danish law. The twelve technical standards for the CSRD are called the European Sustainability Reporting Standards (ESRS). Two of them are general and mandatory requirements, while the other ten are thematic standards covering areas such as climate, pollution and the workforce. The thematic standards are selected based on a double materiality analysis, which looks at which sustainability issues a company either impacts or is impacted by.

example, when reporting information from your supply chain - here one should only report on conditions in the value chain that offer significant information to users of the relevant financial statements.

It is important to emphasise that ATP does not give a free pass to simply take the path of least resistance. We expect companies to do a solid double-materiality analysis and report on the issues that the analysis points to.

However, we would like to emphasise that not all information in the CSRD will be relevant to investors, so companies should be cautious about trying to report as much as possible. This would lead to a risk of drowning out the essential information with unimportant data points.

Generally speaking, ATP's clear expectation is that three topics in particular will be important for all companies to report on, regardless of what business sector they operate in. These are the standards for climate change, companies' own workforces and corporate behaviour.

Within these three ESRS topics, we have also specified which data points we would like to see companies report on as we believe that these data points provide investors with valuable insights into the companies.

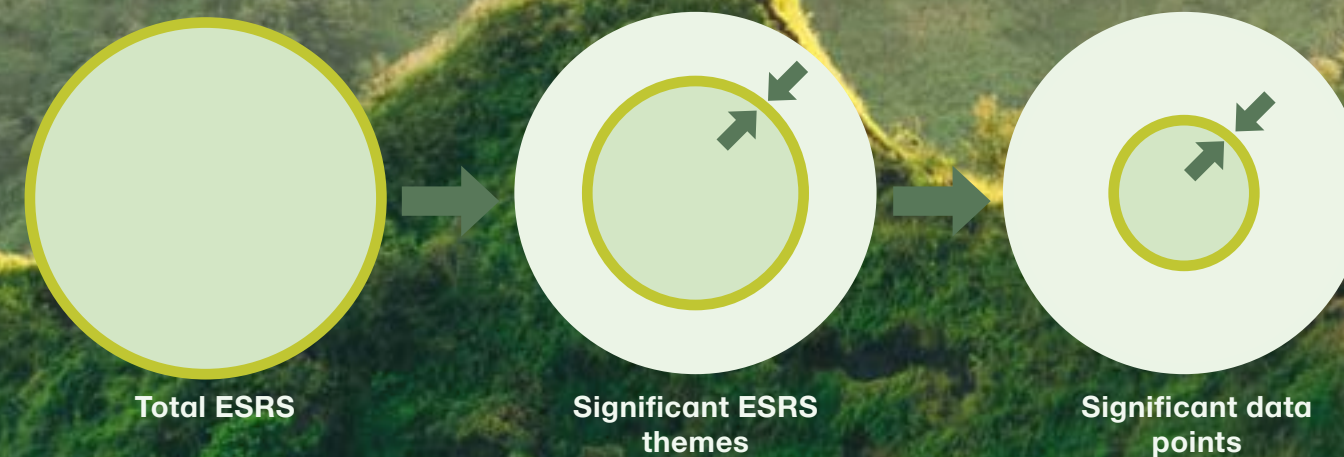


Information is not free of charge to produce, nor do investors and others have unlimited time to read reports. Therefore, it is important for companies to be selective when doing their CSRD reporting. It is about explaining the material

information in a concise way so that it does not get drowned out by other, less important information.

Claus Wiinblad, Head of Domestic Equities

The thematic standards in the CSRD (ESRS) allow for cutting down the reporting based on materiality. No companies are going to answer everything.



Although the standards for the CSRD are comprehensive, they allow companies to reduce their amount of reporting so that, beyond compulsory aspects, they can focus on what is most significant given their specific situ-

ation. If a sustainability theme is not significant, it can be ignored, and individual data points can also be ignored if they are not considered significant.

Expectations

Guidelines specify expectations for companies' ESG performance

ATP's basic position is that it is real improvements in the companies which must drive positive developments in our portfolio and in society at large. Therefore, ATP will provide guidelines for the companies in our portfolio which help us see if the companies improve on the relevant parameters over time.

We do not want to set unrealistic expectations, but instead focus on ensuring that each individual company continuously moves forward and improves its performance - even if the company already performs well on the selected parameters.

ATP also respects the fact that companies have different starting points. For example, there may be general challenges in an industry or specific circumstances in the company's own history.

ATP has selected CO₂ emissions and diversity as the first thematic guidelines. They were chosen because we have a solid basis of data and a clear metric to measure both guidelines. In the future, it is possible for new guidelines to be included if, for example, sufficient data becomes available.

The methodology is similar across the thematic guidelines and involves us collecting data for our portfolio companies on the two themes, which are then analysed to determine whether the companies' development has gone in a positive or negative direction.

Based on the analysis, we engage in dialogue with the companies that have had negative development over time, in order for the companies to explain the reasons behind it. There may be good reasons why developments are going the wrong way, but over time, we would like to be able to see the company reverse the negative trend.

Our approach reflects our usual stewardship practice, where we are closer to the Danish listed companies and our direct investments, while we have a different approach to the global

companies which reflects our ownership stake and geographical proximity.

The guidelines are specified over a two-year period. This allows companies to fluctuate in their performance in the short term; for example, they might increase their emissions one year but decrease their overall emissions over a two-year period. In such cases, a company will not be contacted.

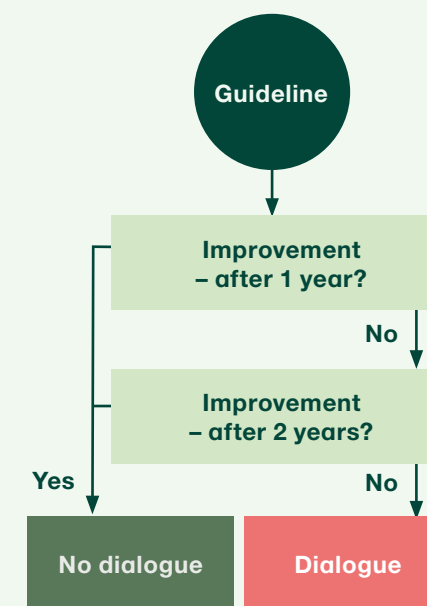
RELATIVE OR ABSOLUTE?

When looking at a development, there is a big difference between using a relative or absolute measurement method.

With a relative method, a development is compared to another metric, for example, revenue or market value. This method may, for example, take into account that a company's turnover might grow, and any growth in emissions might then be seen in relation to this. The weakness of this approach is that if a company's turnover increases due to inflation, then the relative emissions will decrease even if the actual emissions remain constant.

If one wants to look at actual emissions, one needs to use an absolute measurement method, such as looking only at CO₂ emissions. The weakness of this approach is that, for example, if a company gains market share from competitors or is a young company, it will be difficult to grow without an increase in absolute emissions. Therefore, one would have to take into account the reasons for rising emissions when using an absolute metric.

The guideline metrics must show tangible improvements in the companies



The guideline approach looks at companies' improvements over time. If a company has not improved its position within a period of one or two years, we engage with the company in order to understand the reason for the lack of progress. Many problems such as high CO₂ emissions will take more than two years to resolve, but in the short term our focus is on ensuring that the long-term perspective does not simply lead to companies taking no action.

How guidelines are used in practice

ATP has initially selected two guidelines through which we will continuously monitor the companies' improvements. These are CO₂ emissions (scope 1+2) and diversity in companies' management tiers. The two guidelines are selected on the basis of a number of parameters.

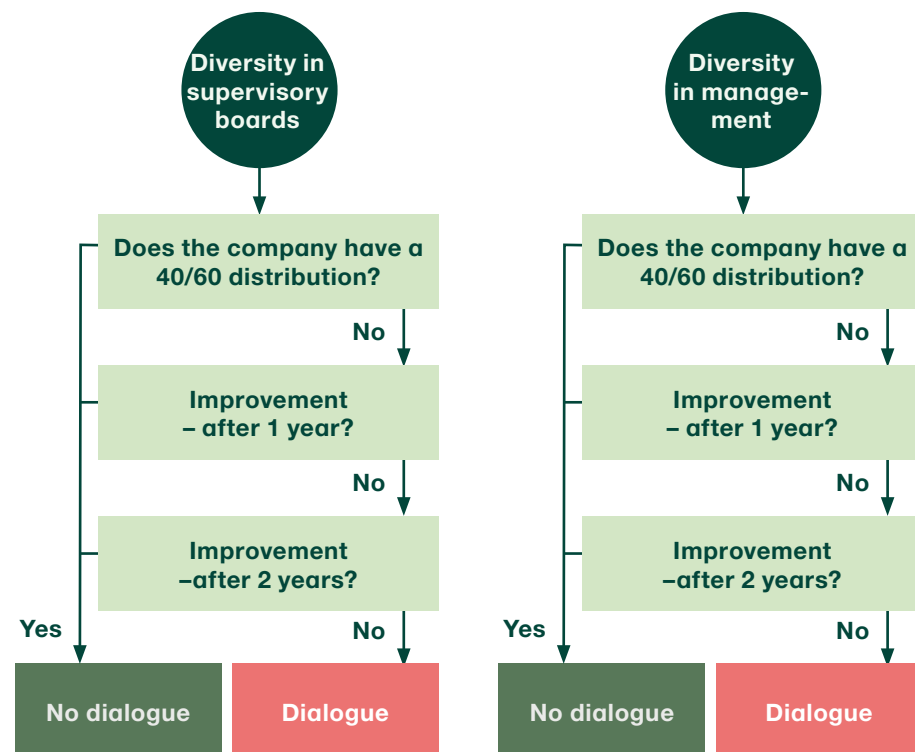
Diversity

For ATP, diversity is about looking broadly at talent development and ensuring that companies have the right candidates for senior positions. Therefore, the diversity guideline also reflects a broader expectation that diversity is taken seriously throughout the entire company.

The diversity guideline aims to ensure that companies either have, or come close to having, a 40/60 gender ratio on the Supervisory Board and across management in the organisation over a two-year period.

ATP also monitors the diversity of executive boards, but since these can be very small groups of people, it is difficult to have a rules-based approach.

Diversity guidelines



CO₂ emissions

With this guideline, ATP will increase its understanding of each company's CO₂ emissions and focus on companies' real reductions by looking at their absolute CO₂ emissions instead of the company's relative emissions (in relation to revenue, etc.).

A company with a lower emission intensity compared to the previous year may still have increasing emissions if their turnover has also increased.

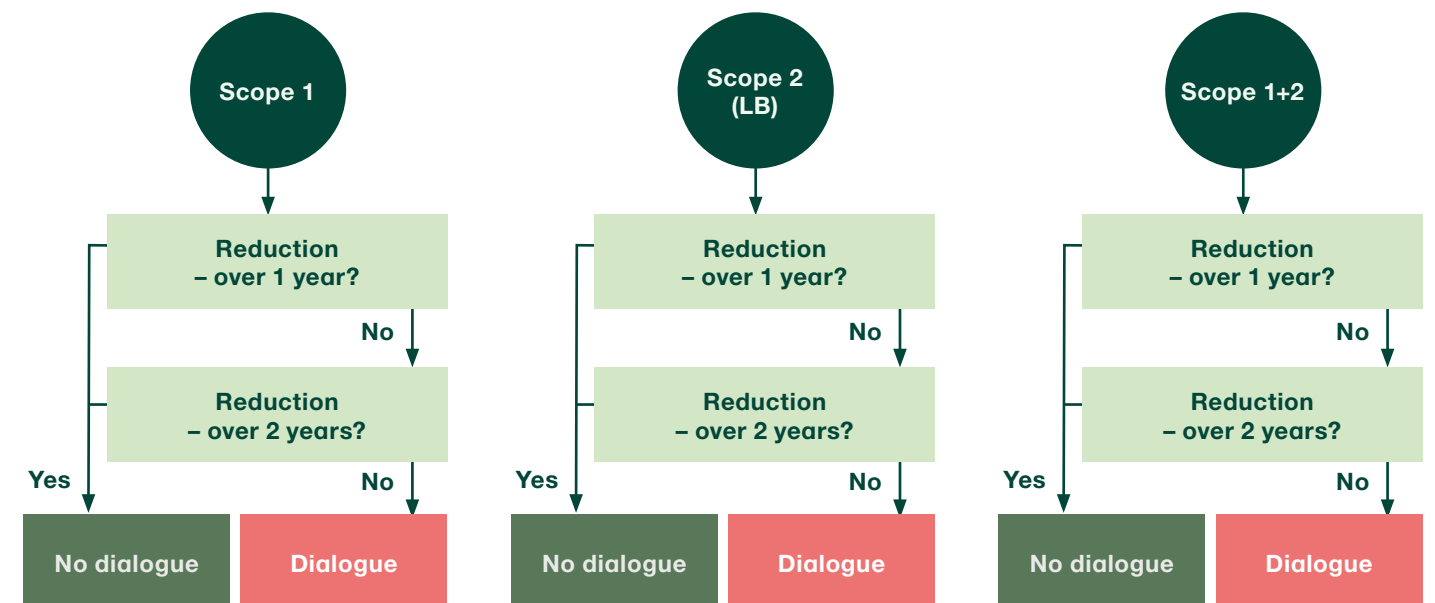
ATP focuses on ensuring that companies reduce their absolute CO₂ emissions over a two-year period on scope 1, scope 2 (location-based) and overall. ATP's guideline is based on the companies' scope 1 and 2 emissions, as these are the emissions that are closely related to the company's operations and where the company can more easily have a direct impact.

The guideline uses location-based, not market-based, CO₂ data, as we believe this provides the clearest understanding of the company's own actions to reduce CO₂ emissions.

Scope 3 CO₂ emissions remain a challenge for many companies. This is because scope 3 covers emissions that are in the company's value chain, where it is more difficult for a company to influence them. Although scope 3 is not included in the guideline, scope 3 data is important for understanding the evolution of a company's emissions. For example, if a company insources or outsources parts of its value chain, this will also affect the emissions. We will continuously consider the extent to which we can more directly include the companies' scope-3 emissions in our guideline. In addition, we encourage our portfolio companies to report on scope 3 data.

Location-based reporting covers the actual emissions from electricity consumption, etc. on the electric grid the company uses. This means that location-based data is a more accurate representation of the company's actual emissions. Market-based reporting calculates emissions based on contracts for green certificates, etc.

Guidelines for CO₂ emissions



Diversity

Making room for diversity secures the talent pool

At a time when labour shortages are one of the biggest challenges that companies are facing, the need to make workplaces attractive has increased in order to draw on the widest possible pool of talent. Therefore, diversity is an important issue for companies in the struggle to be competitive.

Firstly, it makes sense from a financial point of view to put the full pool of talent into play when companies have to appoint their managers and employees. This can involve measures that allow young parents to balance working life with family life, senior schemes, or signals that show minority groups that they are also wanted in the workplace.

Secondly, everyone - men, women and minority groups - has a right to participate in the labour market without facing discrimination, and it is therefore a human rights issue if companies knowingly or unknowingly discriminate during the employment or promotion processes.

ATP has a significant role as one of the largest Danish investors. Over the years, we have used this influence to focus on equal opportunities in companies - both at the top levels of management and at lower levels. This year, we have praised companies that have improved their position, even if they

come from a low level, and taken issue with companies that have stood still or have stepped back. It is both about encouraging companies that need a push to get started, and ensuring that companies that are already performing well maintain their focus.

Although we have not yet seen all our objectives fulfilled, ATP's impression is that the companies in general take a serious approach and work continuously to improve the diversity of their organisation. Supervisory boards and executive boards have a small number of members, which means that a single person can make the difference between exceeding or falling short of the target value. Even if a company exceeds the value, this only signifies success if it reflects an underlying trend in the company.

For this reason, we must also consider the long-term perspective and look more broadly than at just the top management. Moreover, ensuring a broad pool of talent among the lower management tiers also paves the way for future recruitment to senior management positions. This is why we want companies to improve their gender diversity throughout their organisation, so that the right candidates are ready when a need for new recruitment arises.

ATP's expectation is that there should be at least two members of the underrepresented gender in Supervisory Boards of Danish companies, and at least 30 per cent of the underrepresented gender in foreign Supervisory Boards

Selected remarks from ATP on diversity at Danish companies' general meetings

COLOPLAST 2023

"When it comes to ESG, Coloplast has, among other things, a focus on gender diversity which I asked about at last year's annual general meeting when the development with the proportion of women at the Senior Leadership level changed in the wrong direction. The company explained that a number of additional initiatives had been launched to ensure greater diversity. In 2022/23, the trend reversed and the proportion of women at the Senior Leadership level reached 26 per cent, which is 5 percentage points higher than last year and also higher than 2 years ago. The 2030 target is for women to make up at least 40 per cent at the Senior Leadership level, and that now seems realistic. It is good to see that the increased focus on diversity is bearing fruit and delivering the desired results. However, the focus must be maintained to achieve the long-term goal."

Claus Berner Møller, General Manager, Domestic Equities

ØRSTED 2024

"Ørsted has a target of a 40 per cent share of the underrepresented gender by 2030. This regards employees, the wider leadership group and senior directors. It is good to see positive developments in 2023 for both employees and the wider leadership group, while the senior directors group remains at a relatively low level of 22 per cent of the underrepresented gender. I hope we will see the positive work of the wider leadership group contribute to the development of a more diverse pool of talent, which hopefully will also be reflected in the higher management layers in the future." **Claus Wiinblad, Head of Equities**

NTG 2024:

"In general, it has been positive to see NTG's progress in this area since it became a listed company. However, especially in relation to gender diversity, NTG continues to face a challenge. There are no women in the senior management tier, and the target of reaching at least 10 per cent has been postponed for a year. I fully understand that this is a difficult task in your industry. However, for ATP's part, we would appreciate efforts being increased in that area."

Kristian Gaarde, Senior Portfolio Manager

Global Voting

ATP takes responsibility for its votes

In the global companies, there has been counter-pressure in recent years against the significant ESG wave seen four or five years ago, when, for example, there was a tailwind for ESG proposals from the largest companies in the United States.

There is now a push against the ESG agenda, which is expressed in two ways. The first, which is the most significant, is that the big US asset managers are less likely to vote in favour of ESG proposals than in the past. In doing so, they send different signals than they previously did to companies.

The second is that we are now seeing more shareholder proposals aimed at limiting companies' ability to take ESG initiatives. This is also, in part, driven by the polarised political environment in the United States, which is also reflected at annual general meetings.

ATP's approach to annual general meetings has not changed. It remains our approach that business-focused ESG is value

creating for companies over the long term. We evaluate each shareholder proposal on its own terms, and we vote in favour if we believe that the proposal creates value for the company or helps provide material information to shareholders. Conversely, we vote against a proposal if we think it is too prescriptive or tries to micromanage a company.

For the same reason, we do not determine how many shareholder proposals we vote for or against on an annual basis, as this cannot, in itself, be seen as representing either a good or a bad approach since the shareholder proposals themselves are different.

Looking at how ATP has voted in relation to the voting advisor ISS's standard recommendation, we have voted differently from ISS in 23 per cent of cases across all proposal types, while with regard to shareholder proposals specifically, we have voted differently from ISS's standard recommendation in 17 per cent of cases.

very special circumstances. Ongoing retention of key employees and rewards for good performance should be included in the normal parts of the remuneration policy – the fixed salary, short-term incentive programme and long-term incentive programme.

Especially in 2023, there has been a decline in the use of exceptional bonuses among companies in the Danish equity portfolio. FLS, Vestas, Netcompany, Novonosis and Matas have all chosen to award an exceptional bonus to one or more executive board members. Common to the five companies is that the bonus primarily has the character of an ordinary remuneration which is intended to act as a retention bonus. For example, there is no doubt that a major M&A transaction can bring significant extra work, but it is our clear view that this is what the director in question already gets paid well for doing. ATP has chosen to vote against the remuneration report in only a few cases, but we expect to take a somewhat stricter approach if this trend continues.

GIVING EXTRAORDINARY BONUSES MUST NOT BECOME A HABIT

ATP has used the spring 2024 annual general meetings to make its position clear: Extraordinary bonuses should only be used in very special circumstances and not as a means of giving senior executives a higher salary without having to adjust the framework of the remuneration policy.

A large number of Danish companies today have the power in their remuneration policies to grant exceptional bonuses to senior executives. ATP has historically supported such powers, as situations may arise where it is necessary for a company to offer exceptional one-off remuneration in order to be able to attract the right skills, for example, if a new CEO is to be compensated for forgoing an ongoing incentive scheme.

A crucial precondition for ATP's backing of the use of extraordinary bonuses is that they are awarded only in

Behind the ballot: The Home Depot, Inc.

PROPOSALS SUBMITTED BY THE SUPERVISORY BOARD:

Electing Supervisory Board members ATP voted against the chairman of the board, who is also the company's CEO, as we believe these roles should be separate. The Supervisory Board lacks gender diversity, so ATP votes against the members of the nominating committee. Since we vote against the pay package, our practice is to vote against the members of the pay committee. The remaining board members were supported by ATP.

Election of an auditor: ATP voted against the proposed auditor because we prefer the auditor to be replaced at least every 20 years to ensure independence. Home Depot has had the same auditor since 1979.

Pay package for named executive board members: When companies combine the roles of CEO and chairman of the board into one, it means that the pay package must meet our requirements for both directors and board members. The pay in this case exceeds our framework for supervisory boards. Firstly, the amount of money is too high, and secondly, we do not accept board members receiving variable salaries. That is why ATP voted against the pay package.

SHAREHOLDER PROPOSALS

Introduce a policy requiring board members to disclose their personal political donations: ATP does not believe that donations made by private individuals unrelated to their work are relevant public information. ATP did not support the proposal.

Report on the compatibility of political donations with policies: Donations made by the company itself, unlike personal

donations, is information that is relevant to the outside world. The political donations a company makes should not run counter to the company's adopted policies, hence disclosure may be relevant. ATP voted in favour of the proposal.

Report on the company's charitable contributions: In general, ATP considers it beneficial to provide transparency about corporate donations and similar contributions that are not directly linked to the company's operations. ATP voted in favour of the proposal.

Report on civil rights and anti-discrimination reviews: Home Depot has already announced in its existing policies that discrimination and violation of rights based on political beliefs etc. is not acceptable. As the company already adheres to good practice in this area, ATP did not support the proposal.

Publish a biodiversity impact and dependence assessment: Home Depot is the world's largest DIY store chain, and there is a risk that the company is contributing to biodiversity losses through its business activities, for example, through deforestation, waste management or pollution. The proposal recommends that the company publish a biodiversity impact assessment in line with the recommendations of the Taskforce on Nature-Related Financial Disclosures (TNFD). ATP voted in favour of the proposal.

Repayment of incentive-based remuneration: The proposal seeks to toughen existing requirements to claim back incentive-based remuneration previously paid from executive board members if their conduct has broken a number of rules. ATP is generally an advocate of the possibility of requiring variable pay returned under certain conditions. ATP voted in favour of the proposal.

PAY REMAINS A THEME IN THE UNITED STATES

In the US stock market, pay is - as always - a theme, and 2024 is no exception. The big discussion was Elon Musk's USD 56bn pay package at Tesla. ATP is not a shareholder in Tesla, so we have not taken a position on the matter - although we would probably have voted against it. For example, we voted against

a pay package at the IT company Broadcom, where the CEO is paid more than USD 300 million. ATP is not opposed to a skilled CEO being paid a high salary, but the pay at Broadcom goes above what is necessary and reasonable. In 2024, we have voted against 98 out of 151 proposals for pay packages in the United States.