Policy for responsible investments and active ownership

1. Purpose

PFA Pension's (PFA) policy for responsible investments and active ownership sets the framework for the corporate responsibility that PFA wishes to take as an active investor. Environmental, social and governance criteria as well as financial parameters such as value creation and production and market conditions are assessment criteria that PFA wishes to integrate into its investment processes and exercise of active ownership. It is PFA's belief that, in the long term, we generate the best results for our customers by investing in companies with sustainable business models. Therefore, PFA investment strategy is to invest in companies with good corporate governance and a business model with strong and sustainable value creation. At the same time, it is important that the individual company treats employees, business partners and the environment in a manner that lives up to the OECD Guidelines for Multinational Entities and the UN conventions and guidelines for responsible business conduct.

2. Scope

The policy for responsible investments and active ownership applies to all of PFA's investment decisions and is key to PFA's investment approach. The policy should be read as an addition to PFA's investment strategy in force at the time in question and applies to investments in equities, corporate bonds, properties and unlisted companies and projects. The policy also applies to issuing loans to companies and to the assessment of countries in connection with investments in governments bonds.

3. Responsibility as part of the investment process

PFA wants to ensure that the responsibility principles are integrated throughout the entire investment process – also as a part of the risk assessment of an investment. This form of due diligence is based on available data, ESG analyses, knowledge on special conditions in the individual industries and within the individual companies, projects and countries. In addition, the principles of responsibility in the investment process are based on the following:

3.1. Integration of environmental and climate considerations

PFA wishes to integrate environmental considerations into the investment process by:

- assessing the environmental and sustainable business angle in PFA's investments
- focusing on the energy consumption in the property portfolio
- avoiding investments in companies that oppose the targets from the Paris Agreement resulting from COP21
- evaluating the possibilities for investing in profitable projects within renewable energy or in companies that produce products which contribute to more environmentally-friendly solutions.

3.2. Integration of responsible tax practice

PFA disassociates itself from aggressive tax planning, and we expect companies that we invest in to also disassociate themselves from this.

PFA expects companies to have a wish to be transparent about their tax affairs. PFA supports initiatives on transparency, such as country-by-country reporting, and wishes to be transparent to the extent possible under competitive conditions.

In its work with ensuring responsible tax practice, PFA actively considers:

- whether a jurisdiction accedes to reporting standards such as CRS or FATCA at the time of the investment.
- the EU's blacklist of countries that are unwilling to cooperate on taxation matters.

On listed investments, PFA has a process for screening companies' compliance with the OECD's Base Erosion and Profit Shifting action plan (BEPS) as well as a process for active ownership dialogue, which is coordinated by PFA's Responsible Investment Board (RI Board).

As regards unlisted investments, PFA has a process that includes tax due diligence. Among other things, the process covers the structuring of an investment with the purpose of ensuring that the investment complies with PFA's tax policy and guidelines for implementing responsible tax practice into the investment process.

3.3. Dialogue with business partners about responsible conduct

PFA has drawn up a Code of Conduct, which is forwarded to our financial business partners to initiate a dialogue about the expectations we have for responsible business practice when we invest and enter into partnerships.

4. Rules and basis of principles

PFA's policy for responsible investments is based on international standards and principles. This includes global guidelines for how to address human rights, the climate and the environment as a responsible investor. This is also the case for the UN's 17 Sustainable Development Goals, where PFA as an investor will especially contribute to the realisation of several of the goals. The work is based on:

- The UN-backed principles for responsible investment (PRI).
- The UN Global Compact's 10 principles for compliance with human rights, labour rights, the environment and anti-corruption.
- The UN's Guiding Principles on Business and Human Rights, based on the International Bill of Human Rights.
- The OECD guidelines 'Responsible Business Conduct for Institutional Investors' with a view to implement and prioritise due diligence of negative effects on society.
- The Paris Agreement, which was adopted during COP21 with a view to reducing greenhouse gases.
- The OECD Base Erosion and Profit Shifting (BEPS) action plan, which aims at closing tax loopholes and preventing double taxation and double non-taxation
- The Danish Act on Implementation of the Shareholders' Rights Directive[1], which concerns principles for exercise of active ownership.

5. PFA Responsible Investment Board – (RI Board)

PFA's RI Board oversees compliance with the policy for responsible investments and active ownership. Moreover, the board discusses relevant dilemmas related to PFA's investments and can, in the last resort, recommend to PFA's executive board the exclusion of companies and government bonds. The role and tasks of the RI Board are described in the terms of reference for the RI Board, which is an appendix to this policy.

PFA's RI Board consists of:

- PFA's Group CFO (Chairman)
- Executive members of PFA Asset Management
- VP and Head of Corporate Communications & External Relations
- Corporate Responsibility Manager.

[1]Act 369 of 9 April 2019 on changes to the Danish Companies Act, the Danish Capital Markets Act, the Danish Financial Business Act and various other acts Sections 101a(1) and 159(1)

6. Active ownership

PFA strives to be an active owner that influences the companies it invests in towards long-term sustainable and responsible value creation. PFA's active ownership consists of a number of initiatives that follow up on and influences the conduct and strategy of companies. Among other things, this includes:

6.1. Supervision, monitoring and screening

PFA regularly monitors the companies it has invested in. The monitoring is based on the information that PFA collects on an ongoing basis about a company's ESG data, press releases, annual reports and other reporting.

The purpose of ongoing monitoring is to assess the need for dialogue or evaluation of the company. To make the assessment, we use international principles and conventions as guides for the sustainable development of the portfolio companies. Furthermore, PFA wants to ensure that the companies' strategic, financial, non-financial, organisational, social, evironmental and managerial goals are used as a point of orientation for an active ownership-based intervention.

PFA also screens government bond investments. In PFA's investment universe, the screening is defined on the basis of criteria that are based on the countries' compliance with international principles with the UN Global Compact as the starting point. PFA has set up criteria for the assessment of the countries' development, economic situation, human rights as well as the degree of democracy and corruption. The countries are screened regularly for compliance with the criteria, and, if the country screening results in any doubts about whether a country is suitable for investment or not, a clarifying analysis will be prepared.

The screening of PFA's portfolios and dialogue with companies and external managers may, in full or in part, be carried out by an external business partner. However, PFA is responsible for its investments and any exclusions at all times.

6.2. Active ownership dialogue

PFA initiates active ownership dialogue if the monitoring of the company has shown that the company's activities violates PFA's policy for responsible investments and active ownership. PFA will carry out the dialogue with the company either directly or through an external adviser. The dialogue is the first step to get the company to change its practices. PFA assesses the severity, extent and frequency of the violation. In PFA's experience, a coordinated effort with other investors has the greatest effect. Therefore, PFA readily cooperates with other investors on a joint active ownership dialogue. PFA does not engage in active ownership in connection with investments in government bonds.

In specific cases, the dialogue is initiated by PFA or an external partner contacting the management of the company in question directly about subjects where the company is encouraged to change its conduct. In addition, PFA prioritises to participate in shareholders' meetings or annual general meetings.

6.3. Voting

As a rule, PFA votes at the annual general meeting of all Danish companies where possible. As regards voting at annual general meetings of foreign companies, PFA makes a concrete assessment of the need for voting.

This assessment is based on the size of PFA's equity interest in the company in question, the company's ESG risk and with regard to prompting the company in a sustainable and value-creating direction. Moreover, whether PFA participates in foreign votes depends on the submitted proposals as well as investment-related considerations.

Voting at annual general meetings of Danish companies is managed by PFA internally. Voting at the annual general meetings of foreign companies is undertaken in collaboration with a proxy advisor. Irrespective of whether a proxy advisor is used, PFA decides whether to vote and what to vote in each specific case.

6.4. Cooperation with other shareholders

PFA cooperates with other shareholders in a coordinated effort for the active ownership efforts to have the greatest impact. Cooperation is entered into when deemed relevant. The coordinated effort is carried out by PFA getting involved in co-founded ownership dialogues, which allows PFA to make suggestions for how the company in question can be operated in a more appropriate manner.

6.5. Communication with relevant stakeholders

When deemed necessary, PFA cooperates with relevant stakeholders or shareholders in a coordinated effort for the active ownership efforts to have the greatest impact. Such cooperation is promoted by PFA creating a common agenda with independent organisations such as employee organisations, environmental organisations, interest groups or other parties with an interest in the operation of the company in questions.

6.6. Handling of conflicts of interest

Conflicts of interest that arise as a consequence of PFA exercising active ownership will be handled in accordance with PFA's policy for conflicts of interest as well as internal processes and guidelines hereof.

7. PFA maintains an exclusion list

Companies that systematically and continuously violate PFA's policy are excluded from PFA's investment universe. A company may be reconsidered if it can be proved that the company has changed its practice, cf. item 7.1 below.

PFA does not want to invest in companies that produce controversial weapons such as cluster munitions, anti-personnel landmines or nuclear weapons. Our strategy towards this type of company is non-involvement, and we systematically exclude them from all investment activities. PFA excludes companies that conflict with the following treaties and conventions:

- The UN Convention on Certain Conventional Weapons (CCW, including Protocols I-V)
- The UN Biological Weapons Convention (BWC)
- The UN Chemical Weapons Convention (CWC)
- The UN Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (the Ottawa Convention)
- The UN Convention on Cluster Munitions (the Oslo Convention)

PFA also excludes countries that are subject to international sanctions in connection with national debt or which PFA has assessed to be unsuitable for investment.

The exclusion list is revised every six months and will be updated at pfa.dk in case of any changes.

7.1. Conditions of removal of a company from PFA's exclusion list

A company will be removed from the exclusion list if it fulfils our criteria for inclusion:

1. The non-compliance for which the company was reported has stopped.
2. The company has dealt with the reported non-compliance and its consequences in a responsible manner.
3. The company has taken the necessary steps towards improving routines and preventing future non-compliance.
4. The company is able to document its efforts and improvements.

7.2. Conditions for an excluded country becoming suitable for investment

Minimum requirements that a country must meet to be considered suitable for investment:

1. Any international sanctions in connection with national debt have been lifted.
2. The unacceptable conditions which PFA has identified have been significantly improved and can be documented.

8. Reporting and transparency on the work with responsible investments and active ownership

As a responsible investor, PFA wants to contribute to further the work with responsible investments and active ownership. We do so by participating in networks and industry-specific work within the area, and by annually reporting on the matter in our report 'Corporate Responsibility in PFA' and at pfa.dk.

In order to create increased transparency regarding PFA's work with active ownership and responsible investments, PFA will every six months at pfa.dk publish the total list of:

- Equity investments and bond investments
- Companies where PFA has confirmed non-compliance with this policy and initiated a dialogue with the company.

In addition, PFA will regularly update the following at pfa.dk:

- Exclusion list of companies that PFA has decided to dispose of as well as the reason for the disposal and the exclusion
- Log of the companies that PFA is in active ownership dialogue with as well as the progress of the dialogue
- Voting results where PFA as a shareholder has voted at the annual general meeting[2].

As part of the work with monitoring the implementation of the policy, PFA's RI Board may draw up guidelines that support this policy. The guidelines will be published along with the policy for responsible investments and active ownership at pfa.dk.

This policy has been approved by the Board of Directors of PFA Holding on 12 December 2019.

[2] The results will be published from the financial year beginning on 1 January 2020.