Policy for responsible investments and active ownership

Approved by:	The Board of Directors of PFA Holding	Approved:	22.06.2022
Responsible department:	ESG - PFA Asset Management A/S	Replaces the policy of:	28.04.2022

Contents

Introduction and purpose

PFA Pension ("PFA") manages pension assets on behalf of more than 1.3 million customers and 6,000 corporate and organisational customers, and based on the 'prudent person principle', they must be invested in a way that best manages the interests of the insured. PFA seeks to generate the highest possible returns while taking into consideration the relevant investment frameworks. PFA's investments must reflect what customers are told to expect from their selections of products. The management must be done while observing the risk frameworks that ensure that the portfolio is robust against fluctuations in the financial markets and PFA must also be able to identify, measure, control and manage the risks associated with the portfolio.

The majority of PFA's customers have allocated their savings to market rate products under "PFA Invests" where the investment risk is reduced as one approaches the retirement age. This is to ensure that customers have more certainty about the assets they will have available to them when they retire. Besides the market rate products, PFA also manages average interest rate products where PFA carries the market risk associated with the customers' pension savings.

As a Danish pension company, PFA has significant investments in Denmark, but to ensure a sufficiently robust portfolio, PFA also invests globally in various sectors and companies. This is done via different financial instruments such as listed shares, corporate bonds, government bonds, infrastructure, properties, private companies and other unlisted assets. As a result, PFA will have exposure towards companies, sectors and geographies associated with higher sustainability risks and with other governance structures than those we know from Denmark.

At PFA, we believe that sustainable business models will, all other things being equal, generate higher returns over time. A sustainability risk is therefore an investment risk in line with traditional risks such as interest rate risks, liquidity risks and market risks. PFA is therefore focusing on integrating ESG (environmental, social and governance) factors into its investment processes in order to map and handle risks and thus protect the value of the investments. PFA's policy for responsible investments and active ownership forms the framework for this work involving sustainability risks in asset management. The purpose of this policy is to describe PFA's overall management of sustainability risks via responsible investments and active ownership. The policy therefore does not focus on individual customers' preferences for sustainability or advisory services in connection with selecting products. This policy applies together with "PFA's strategy for corporate responsibility" and "PFA's policy for corporate responsibility", which set the framework for the Group's corporate responsibility and values, including specifying PFA's role as a company, investor and employer.

Basic rules and principles

PFA's policy for responsible investments and active ownership is, among other things, based on the following legislation:

- The Executive Order on the Danish Financial Business Act[1].
- The prudent person principle, as specified in Article 132 of the Solvency II Directive[2].
- The Disclosure Regulation's[3] provisions on financial market participants and financial advisor's duty to report information in connection with integrations of considerations for environmental, social and governance (ESG) factors and the associated delegated legal acts and implementation legal acts (EU level I).
- The Taxonomy Regulation[4] ("The EU Taxonomy") for sustainable economic activities and associated delegated legal acts and implementation acts (EU level II).
- The EU Commission's delegated regulation concerning the integration of sustainability risks in the governance of insurance and reinsurance undertakings[5].
- The act on the implementation of the shareholder rights directive[6], which deals with principles for exercising active ownership.

PFA's understanding of the integration of sustainability in investments is therefore based on international standards, principles and conventions. Among other things, this involves global guidelines for how a responsible investor should work with human rights, labour rights, good governance, anti-corruption and the climate and environment:

- The UN-backed principles for responsible investments via membership of the UN PRI (*UN Principles for Responsible Investment)* organisation.
- The UN Global Compact's 10 principles for responsible corporate behaviour, with a focus on human rights, labour rights, the environment and anti-corruption work.
- The UN's guidelines for business and human rights, based on the rights covered by the *International Bill of Human Rights*.
- The OECD's guidelines, '*Responsible Business Conduct for Institutional Investors*', which concerns the implementation and prioritisation of due diligence to ascertain whether an investment negatively impacts society.
- The Danish Business Authority's guidelines for responsible investments.

[1]Executive Order no. 2497 of 15 December 2021 concerning financial businesses, Section 101(a)

[2]Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 (with later amendments) on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

[3]Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

[4]Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

[5]Commission Delegated Regulation (EU) 2021/1256 of 21 April 2021 amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings.

[6]The Danish Act no. 369 of 9 April 2019 concerning the amendment of the Danish Companies Act, the Danish Act on Capital Markets, the Danish Financial Business Act and various other acts, Sections 101(a)(1) and 159(1).

In addition, PFA is looking for new investment opportunities that promote the green transition with a view towards supporting the Paris Agreement's global climate targets, as PFA regards CO2 emissions that are a major factor in global warming as being the largest negative externality associated with investments. PFA also supports the UN's 17 Global Goals, where PFA in its investment work is particularly focused on the following SDGs: Affordable and clean energy (Goal 7), Sustainable cities and communities (Goal 11), Responsible consumption and production (Goal 12), Climate Action (Goal 13) and Partnerships for the goals (Goal 17). As part of integrating the sustainability risks described below, PFA also supports the recommendations of the *Task Force on Climate-Related Financial Disclosures* (TCFD) in relation to the integration of climate-related financial risks.

Guidelines and descriptions of methods subject to this policy

This policy is supplemented by more detailed documents, including guidelines and descriptions of methods that can be found at pfa.dk.

Target group and area of application

The policy for responsible investments and active ownership is expected to be known and applied by the PFA Group's employees who work with investments and investment processes, stakeholder management and in customer-facing roles. The policy is also used in dialogues with external asset managers. The policy should be read as a supplement to PFA's current investment strategy. The policy and associated guidelines serve as information for external stakeholders and end investors about how PFA integrates sustainability risks when managing pension funds on behalf of PFA's customers who choose product where PFA invests on their behalf. This applies to PFA Invests, PFA Optional and the PFA-managed funds under You Invest. With You Invest, PFA's customers can independently invest their pension funds in a number of funds that PFA has selected, but the customer is fully responsible for allocating the investments. If a customer chooses to invest in a fund that is not managed by PFA, PFA cannot ensure that this policy is used and complied with.

The policy is approved at the Group level by the Board of Directors of PFA Holding A/S. The policy is adopted by the companies currently in the PFA Group subject to the Disclosure Regulation.

Definitions

Active ownership: PFA understands active ownership as the way in which PFA uses its investments to wield its influence. In its active ownership work, PFA has dialogues with companies and partners about sustainability factors (see the definition below) and votes at companies' annual general meetings in order to influence companies towards a more sustainable direction and thus ensure long-term value creation via a reduction of sustainability risks in PFA's investments.

Responsible investment: PFA defines 'responsible investment' as the way in which PFA ensures long-term value creation and the management of its customers' interests via a reduction of sustainability risks in PFA's investments. PFA achieves this by identifying and managing sustainability risks in its investment processes.

Sustainability risk: Sustainability risk is here to be understood as an environmental, social or governance event or circumstance that, if it materialises, may have a significant negative impact on the value of the investment.

Sustainability factors: Sustainability factors (also called ESG factors) are defined as environmental, social or governance matters. 'Impact on sustainability factors' is here to be understood as companies' impact on ESG factors, i.e., how environmental, social or governance matters are impacted.

The EU Taxonomy: The EU Taxonomy defines six climate and environmental targets that economic activities can significantly contribute to in order to be classified as sustainable in terms of climate and the environment. 1. Climate change mitigation 2. Climate change adaptation 3. Sustainable use and protection of water and marine resources 4. Transition to a circular economy 5. Pollution prevention and control 6. Protection and reestablishment of biodiversity and healthy ecosystems.[7]

The Sustainable Finance Disclosure Regulation: Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. The EU's Sustainable Finance Disclosure Regulation involves, among other things, that financial sector market participants, such as PFA, must provide sustainability-related information about the financial products they offer. In PFA's case, this would be pension products. There is a close correlation between the Disclosure Regulation and the Taxonomy Regulation (see "The EU Taxonomy" above). The latter specifies and expands upon a number of disclosure obligations in the Disclosure Regulation.

Physical risks: Physical risks are here to be understood as risks associated with climate change and its physical impact on companies' operations, for example, temperature increases (chronic) and extreme weather conditions such as forest fires and floods (severe).

Transition risks: Transition risks are here to be understood as risks associated with the transition to a low-emission economy, including changes to the regulatory framework, technology and market demand.

Abbreviations:

CA 100+: Climate Action 100+

ESG: Environmental, Social, Governance

ILO: International Labour Organisation

NZ-AOA: Net-Zero Asset Owner Alliance

OECD: Organisation for Economic Cooperation and Development

RI Board: Responsible Investment Board

SDG: The UN Global Goals for sustainable development (Sustainable Development Goals)

TCFD: Task Force on Climate-related Financial Disclosures

UN PRI: United Nations Principles for Responsible Investment

UN: The United Nations

Strategic goals

PFA wants to preserve the trust that our customers have placed in us and invest with a view towards managing our customers' interests as best as possible. As part of this, PFA wants to act as a responsible social actor and to support a sustainable development of society. Both factors are reflected in PFA's overall strategic goal to be the best at generating sustainable returns. For PFA, this goal is about being the best at administering and managing our customers' funds in terms of addressing both traditional financial risks as well as sustainability risks, while considering what the customers have been told to expect from their selection of products. A more detailed description of this goal can be read in the Group strategy paper "Commercial Responsibility".

[7] For more information: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en or https://www.finanstilsynet.dk/Tilsyn/Information-om-udvalgte-tilsynsomraader/Baeredygtig_finansiering/Taksonomiforordningen

Over time, PFA wants to adopt a more quantitative approach to its overall sustainability risks, where PFA basically seeks to ensure a low-to-medium degree of risk exposure from a broad portfolio point of view. PFA does not use its exclusion approach as the primary means of reducing sustainability risks, but instead, PFA wants to take part in the green transition of the real economy via active ownership. Exclusion is thus only used against companies where it is deemed unrealistic to influence them via active ownership.

The approaches that promote PFA's desired low-to-medium risk profile in relation to sustainability risks vary from asset class to asset class and are described in more detail in PFA's *Guidelines for the integration of sustainability risks.*

ESG integration in investment processes

For a number of years, PFA has worked in a systematic manner with integrating sustainability factors in its investment processes. PFA does this to be able to identify and manage sustainability risks and thus protect the value of its investments and optimise long-term returns.

Sustainability risks

PFA considers sustainability risks to be just as important as other investment risks such as financial risks in the form interest rate risks, liquidity risks and market risks. PFA's mapping and integration of sustainability risks is therefore part of the assessment of to what extent PFA should be compensated via returns. Sustainability risks may materialise in the form of an environmental, social or governance event or circumstance. In order to guard against negative impacts on the value of PFA's investments, PFA therefore integrates sustainability risks in its investment processes. It is also assessed on an ongoing basis whether the investments are in line with the respective product's overall sustainability frameworks that the customers have been told to expect.

Identification of sustainability risks

Climate and environment

PFA views climate-related risks as being the most comprehensive and material sustainability risk across sector and countries. Global warming and the derived physical climate changes can impact the performance and operations of companies, just as transitory changes in the form of more regulation and technological developments can challenge a company's products and services. Both factors impact companies as well as the securities they issue. The emission of greenhouse gases (typically converted into CO_2 equivalents) drive global warming, and therefore they amount to the greatest negative externality for PFA's investment portfolio.

PFA is therefore actively working on reducing the CO_2 emissions from the total investment portfolio based on the target of the Paris Agreement to ensure a limited level of CO_2 emissions to keep global temperature increases below 2 degrees Celsius and to work towards keeping the increase below 1.5 degrees Celsius, and the direction set by the EU's *Action Plan on Financing Sustainable Growth*[8] for transitioning towards a low-emission economy.

[8] https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en#action-plan

In addition, as part of its efforts to reduce risk, PFA has also committed itself to net zero CO2 emissions from PFA's total investment portfolio by no later than 2050 under the auspices of the UN-backed *Net-Zero Asset Owner Alliance* investor initiative, where PFA participates in a coordinated effort to reduce CO2 together with a number of the world's largest investors. Through this initiative, PFA is also seeking to develop methods and approaches to ensure that investors are better informed about sustainability risks.

In order to reach its target, PFA is working on reducing CO2 emissions across PFA's asset classes and in the real economy by, among other things, (i) investing in green bonds with good risk-adjusted returns, including activities that contribute to meeting the EU's climate and environmental targets, cf. the EU Taxonomy's sustainability criteria[9], (ii) reduce the proportion of investments in CO_2-intensive activities associated with a high risk of losing value due to the green transition, (iii) exercising active ownership to achieve CO_2 reductions with a focus on the companies that represent the largest proportion of PFA's total CO_2 emissions. PFA also participates in investor forums such as Dansif, Climate Action 100+, Nordic Engagement Cooperation, Insurance & Pension Denmark (IPD) and the Finance Sector's Climate Partnership with a view to promoting the green transition and the work with sustainability risks.

PFA also bases its work on climate-related sustainability risks on the recommendations from the *Task Force on Climate-related Financial Disclosures* (TCFD) when it comes to integrating climate-related financial risks in investment processes and risk management.

PFA divides climate-related sustainability risks into two categories:

- *Transition risks* associated with the transition to a low-emission economy, including regulatory changes (for example, green flat-rate taxes), technology and market demand.
- *Physical risks* associated with climate change's physical impacts on companies' operations due to, among other things, temperature increases (chronic) and extreme weather conditions such as forest fires and floods (severe).

Climate-related risks can also involve *opportunities* in the form of competitive advantages for companies that adjust to physical and transitory climate effects.

Social and governance factors

In addition to climate and environmental sustainability risks, PFA's investments can also be negatively impacted by social and governance events or circumstances such as there being violations of human rights or labour rights as specified in, for example, ILO's conventions on the abolition of forced labour, etc. and irresponsible taxes practices or corruption cases. As PFA is investing globally in different companies, sectors and countries, PFA will be exposed to companies that operate in countries associated with greater social and governance-related sustainability risks than would be the case if only investing in the EU or in Denmark. Therefore, PFA's investment strategy seeks to ensure that PFA invests in companies with good governance and responsible social conditions by, among other things, looking for compliance with international standards, norms and principles. PFA also views good social and governance factors such as, for example,

[9]The EU Taxonomy is a common European classification system for climate and environmentally sustainable economic activities that actively contribute to meeting the EU's six climate and environmental targets and which comply with the principles of '*Do no significant harm*' and '*Minimum Social Safeguards*'. For more information: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en or https://www.finanstilsynet.dk/Tilsyn/Information-om-udvalgte-tilsynsomraader/Baeredygtig_finansiering/Taksonomiforordningen

good working environments, high levels of employee satisfaction and high levels of diversity as value-creating elements in the companies that PFA invests in.

For a more detailed description of the sustainability risks and opportunities that PFA has identified, please see PFA's *Guidelines for the integration of sustainability risks*, which can be found at pfa.dk.

Risk management for sustainability risks

PFA cannot avoid being exposed to sustainability risks, but it can attempt to weigh risks versus returns through active management and carrying out sustainability risk analyses on the investment portfolios. PFA has a dynamic approach to risk management, where sustainability risks are included in the overall assessment of benchmarks, portfolios and/or the valuation of assets and in the determination of whether a certain investment offers an appropriate risk-adjusted return. Working with sustainability risks is a complex matter, and there are still several data points that are being developed. PFA's focus on reducing its exposure to sustainability risks in a sector will also reduce other financial characteristics associated with the same sector. For example, cutting out certain investments in sectors with inflation-protecting characteristics might result in PFA having to compensate for this via other instruments such as inflation swaps. PFA also uses other kinds of derivatives in its investment approach.

PFA's policy for responsible investments and active ownership is applied across asset classes. However, there are large variations across asset classes and geographies where there might in some cases be very limited data or else sustainability risks are assessed as being less relevant. PFA's approach to sustainability risks is therefore based on a proportionality principle, where the integration of sustainability risks is adjusted to the investment approach for the specific asset class. There is also differentiated between the processes before and after the investment is made.

Before the investment is made

PFA cuts out a number of companies and countries that PFA does not invest in. These companies or countries are assessed as being associated with too high sustainability risks or as having excessively negative impacts on sustainability factors. The criteria for cutting out companies or countries are based on qualitative metrics selected by PFA but supported by independent data suppliers. The quality of supplier data is therefore relevant to the effectiveness of the process. The next step will then be the due diligence process. The integration of ESG factors in the due diligence processes for PFA's investments is based on available data, ESG analyses, knowledge about particular circumstances in the individual sectors and companies, projects and countries.

The specific due diligence process also depends on the asset class in question and the investment approach. For PFA's unlisted investments (Alternative Investments and Properties) that are characterised by a low level of data availability, illiquidity in terms of selling them and long-time horizons, the ESG due diligence process is for example longer and more adapted to the individual investment than it would be for investments in listed shares and corporate bonds. For the two latter asset classes, there is more data available, and the due diligence process will be more based on ESG key figures reported by the companies and external data suppliers. In addition, in connection with the integration of climate-related sustainability risks, it is also possible to include future-oriented scenario analyses and not just historical key figures such as carbon footprints. The description of the specific due diligence process for each asset class can be found in PFA's *Guidelines for the integration of sustainability risks* which can be found at pfa.dk.

After the investment has been made

Besides the due diligence work prior to the decision to invest, PFA also monitors and manages the investment portfolio's exposure to sustainability risks on an ongoing basis after the investment has been made.

The ongoing measuring and management of climate-related sustainability risks, including physical and transition risks, for PFA's unlisted investments (Alternative Investments and Properties) is based on analyses of each individual investment using a risk tool with pre-defined climate risk indicators where physical and transitional risks are weighted the same as traditional financial risks.

The work on managing climate-related sustainability risks, including physical and transition risks, associated with PFA's listed investments (Shares and Corporate Bonds) is based on internal climate-related analyses using external sources of data. The measurement and management of climate-related sustainability risks for the listed investments is based on historical and future analyses due to the higher degree of data availability and higher data quality. PFA monitors and maps CO_2 emissions on an ongoing basis, which provides PFA with snapshot views of the carbon footprint and carbon intensity on the company and portfolio levels. PFA also attempts to work with more future-oriented scenario analyses that, for example, can provide insights into the investments and how they will perform under various global temperature increase scenarios.

In addition, PFA uses regular screenings to continually follow up on whether there are investments in the portfolio that violate international norms and principles for social and governance matters.

For a detailed description of the specific processes and key figures and tools to manage sustainability risks - both before and after the investments are made for each individual asset class - please see *PFA's guidelines for the integration of sustainability risks* which can be found at pfa.dk.

Responsible tax practices

PFA wants to be transparent about its tax conditions and also wishes to encourage others to observe transparency in this area. PFA opposes aggressive tax planning and expects that the companies in which PFA invests demonstrate responsible tax practices in the countries in which they operate.

As part of the work of ensuring responsible tax practices, PFA takes an active stance on:

1. Countries that at the time of the investment are considered "not compliant" in accordance with the assessment process drawn up by the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes[10], or
2. Countries that, at the time of investment, are included on the EU list of non-cooperative tax jurisdictions[11].

[10] Refer to the OECD website: http://www.oecd.org/tax/transparency/documents/exchange-of-information-on-request-ratings.htm

[11] Refer to the EU Commission website: https://ec.europa.eu/taxation_customs/tax-common-eu-list_en

PFA has a process for screening companies' tax practices when it comes to listed investments.

For unlisted investments, PFA has a process for including tax-related due diligence that involves various elements described in greater detail in PFA's guidelines for the implementation of responsible tax practices in the investment process and the common tax code, which was developed together with three other pension companies and subsequently also adopted by several other companies, funds and associations.

PFA's tax policy and guidelines for the implementation of responsible tax practices in investment processes and the common tax code form PFA's framework for working on ensuring responsible tax practices in our investment processes.

Active ownership

PFA's size and investment capacity allows it to influence companies, and this is therefore one of the key factors behind PFA's approach towards active ownership. PFA manages the vast majority of its total investment funds internally, where knowledge-sharing across departments provide good prerequisites for using PFA's investment to wield influence via ownership dialogues.

Fundamentally, PFA does not want to limit its investment opportunities, and it would rather be invested in a transition than waiting for it to have already taken place. PFA's approach is thus based on an assessment of whether one is giving up the opportunity to influence companies by a divestment or excluding them. PFA thus prioritises being an active owner that influences companies to choose a sustainable direction and thus ensure long-term value creation via a reduction of the sustainability risks associated with PFA's investments.

In order for PFA to wield its influence on a company optimally, the work requires depth and persistence, which puts a limit on how many companies PFA can engage in active dialogues with. PFA's approach therefore involves engaging on multiple levels. To have the most impact, PFA will as far as possible work together with other investors and stakeholders, among other things, via global partnerships such as Climate Action 100+. PFA also engages in dialogues with companies independently, and the dialogues are chosen based on a proportionality principle that ensures that the priority is on engaging with companies that have a great deal of exposure to sustainability risks and that the companies selected are the ones where PFA can gain the most insight and wield the most influence. For a more detailed description of PFA's approach to active ownership, please see PFA's *Guidelines for active ownership*, which can be found at pfa.dk.

Ownership dialogues

PFA works with both a reactive and proactive approach to ownership dialogues. Ownership dialogues take place specifically by either PFA or an external manager directly contacting the company about critical sustainability topics where the company is asked to act on PFA's points of criticism.

The reactive approach is used when companies that PFA has invested in have either violated or are suspected of having violated the international norms and principles that PFA's policy for responsible investments and active ownership are based on. In this work, PFA uses data and reports from external business partners and when a violation has been demonstrated, PFA will assess the situation and look at the scope of the violation and the risk of it being repeated before a dialogue is initiated. It has been PFA's experience that a coordinated effort with other investors has the greatest impact. Therefore, PFA is happy to work together with other investors in an active ownership dialogue.

PFA also carries out proactive dialogues with certain listed companies where PFA assesses that there needs to be a special focus on a sustainable transition in order to reduce sustainability risks over time. Proactive ownership dialogues are also an important part of the work on reducing CO_2 emissions from PFA's investment portfolio and in the real economy. When it comes to proactive dialogues, PFA also believes that a focused prioritisation process is important to ensure success, as improving companies' business models and plans requires an in-depth and long-term dialogue. Additionally, PFA focuses on listed equity investments in its proactive ownership dialogues, as the direct ownership allows for more opportunities to impact the company in question. PFA also engages in ongoing dialogues in connection with its unlisted investments. Here, the ownership stake is typically higher and thus the influence PFA can wield is also proportionally higher.

Monitoring and screening

PFA monitors the companies it invests in on an ongoing basis. The monitoring is based on the information that PFA continually collects about a given company's ESG data, press releases, annual reports and other reports. The purpose of the ongoing monitoring is to be able to assess what progress has been made in terms of relevant measurement points and PFA's role and to evaluate to what extent the lack of progress should result in an escalation and, potentially, an exclusion.

Voting

The annual general meetings of companies are another opportunity for PFA to wield its influence. PFA votes at the annual general meetings of Danish and international companies. When voting, PFA makes a specific assessment of the need to participate in the vote. This assessment is based on the size of PFA's investment in the company in question, the company's exposure to sustainability risks and the considerations for wanting to influence the company towards a sustainable and value-creating direction.

Cooperation with other asset managers

PFA cooperates with other asset managers in a coordinated effort to have the most effective active ownership processes. The cooperation takes place when it is deemed relevant. The coordinated effort involves PFA engaging in ownership dialogues with a common basis and where PFA can submit proposals for how the company in question could be managed more appropriately.

Communication with relevant stakeholders

PFA works together with relevant stakeholders or shareholders where it is deemed necessary to have a coordinated effort to achieve the greatest possible active ownership impact. Such partnerships are promoted by PFA creating a common agenda with independent organisations such as employer organisations, environmental organisations, interest groups and other parties with an interest in the operations of the company in question.

Managing stakeholder conflicts

Stakeholder conflicts that result from PFA's exercising of active ownership are managed in accordance with PFA's policy for stakeholder conflicts and internal processes and guidelines governing this.

Exclusion

PFA's approach to excluding companies

The exclusion of individual companies is not normally a constructive or long-term solution, as it means that one gives up on the opportunity to impact the excluded company. Therefore, PFA seeks to exercise its active ownership for the purposes of creating improvement that reduce sustainability risks associated with the investment.

In extreme circumstances, however, it may be necessary to add companies to PFA's exclusion list if the company in question violates the international norms and guidelines that form the basis for this policy and where there are no real prospects for practices improving.

In addition, PFA is also working with threshold values for climate-related high-risk activities associated with the extraction of thermal coal and tar sand. Additional information about this can be found in PFA's *Guidelines for the integration of sustainability risks*, which can be found at pfa.dk.

Based on the international conventions and guidelines, PFA also does not want to invest in companies that produce controversial weapons such as cluster bombs, anti-personnel land mines or nuclear weapons. For these kinds of companies, PFA chooses simply not to get involved and they are excluded systematically based on external data about their involvement with such activities.

PFA bases its exclusions on 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 against anti-personnel landmines (Ottawa Convention)
- The UN convention against cluster bombs (Oslo Convention)

PFA's exclusion list is revised every six months and updated at pfa.dk if there are changes made to it. A company can be reconsidered if it can be demonstrated that the company has changed its practices.

A company can be removed from PFA's exclusion list if it meets PFA's criteria for inclusion:

1. Violations that the company has been reported for have been resolved.
2. The company has handled the reported incident and its consequences in a responsible manner.
3. The company has taken the necessary steps towards improving processes aimed at preventing future violations.
4. The company can document its initiatives and improvements.

PFA's approach to excluding countries

PFA complies with international sanctions and excludes government bonds from countries that PFA has assessed as being unsuitable to invest in. PFA wants to support the foreign policy doctrine that the Danish Government and the EU specify. In addition, PFA also screens government bonds on an ongoing basis based on the EU's *Principal Adverse Impacts* (PAI) indicators[12] to assess and monitor developments in sustainability factors. The compulsory PAI indicators relevant in the context of government bonds include the greenhouse gas intensity of the investment country and whether it has been involved in violations of social rights pursuant to international treaties and conventions and the UN principles and, where relevant, national legislation. If an excluded country is to be included as one that is suitable to invest in again, this at minimum requires that the objectionable circumstances identified by PFA have been significantly improved and that this can be documented.

Assumptions

Ensuring compliance with the policy is to a great degree based on:

- A high level of data quality, including fact-based and consistent data.
- Data coverage and predictability.
- Transparency about the methods used by data suppliers and qualitative inputs.

To ensure the above, PFA uses several recognised data and service suppliers when working with ESG integration and it is continually working on improving methods and data across asset classes. In this context, PFA is aware of the need to ensure that it has the needed internal resources as new data points and methods for the identification, monitoring and management of sustainability risks become available.

Governance and control

PFA's Board of Directors and Group Executive Board

As PFA's top decision-making body, the Board of Directors of PFA Holding approves PFA's policy for responsible investments and active ownership. The implementation and compliance are overseen by PFA's Group Executive Board.
In the work with ensuring the implementation takes place, the Group Executive Board approves guidelines or other documentation and exclusions that promote compliance with this policy. The guidelines are published together with the policy for responsible investments and active ownership at pfa.dk.

PFA's Responsible Investment Board

The Group Executive Board has created a Responsible Investment Board (RI) to serve as the guiding body for PFA's work with responsible investments. The RI Board can discuss relevant dilemmas related to PFA's investments before the proposed decisions are presented to PFA's Group Executive Board. The role, composition and tasks of the RI Board are described in the terms of reference for the RI Board, which is an appendix to this policy.

Control

On an annual basis, the board will assess whether the investment portfolio is sufficiently compliant with PFA's desire for a low-to-medium sustainability risk profile. In addition, the executive board will be presented with an account that seeks to clarify the consequences of the risk level, including which impact

[12]The Disclosure Regulation commits financial market participants to measuring and publishing information on the most adverse impacts on sustainability factors (*Principal Adverse Impacts*) associated with their investments.

broad deselections of investments have on returns. The assessment of this will gradually be improved as the data availability and opportunities increase across the asset classes.

PFA has also created control systems that help to ensure compliance with the policy. As part of PFA''s focus on reducing climate-related sustainability risks, PFA has specified frameworks for CO2 emissions from the equity portfolio and implemented a control function with system support that helps to further ensure that there is a division between the risk taker and the control function. If the framework is violated, this will be reported to the Group Executive Board and the Board of Directors.

PFA also continually seeks to implement similar control systems for other asset classes and topics in the policy.

Reporting and transparency

As a responsible investor, PFA wants to contribute to promoting the work with responsible investments, active ownership and the integration of sustainability risks. This is done by participating in networks and industry-specific work for this area and by annually reporting about this in PFA's CR Report and other report and document that are available at pfa.dk.

To create transparency about PFA's work with active ownership, responsible investments and the integration of sustainability risks, PFA will bi-annually at pfa.dk publish the whole list of:

- Equity investments and bond investments.
- Companies that PFA has determined to be in violation of this policy and where a dialogue with the company has been initiated.

In addition, PFA will also update the following information on an ongoing basis at pfa.dk:

- Exclusion list.
- Log of the companies that PFA is in active ownership dialogues with and how the dialogue is progressing.
- The voting record where PFA as a shareholder has voted at annual general meetings[13].

Effective date

This policy has been adopted by the Board of Directors of PFA Holding on 22 June 2022 with effect from the same date and replaces policy of 28 April 2022.

[13]The results are published from the accounting year that begins on 1 January 2022.