

# Active Ownership Instruction

March 2021

## 1. Objective

The objective of the Active Ownership Instruction is to describe how and when Danske Bank exercise active ownership as an integral part of the investment strategy when investing in companies.

This section outlines how we live up to the principle 2 of the Responsible Investment Policy and the overall framework and operationalisation of Active Ownership through dialogue, voting, and collaboration, and describes how to:

1. Survey investee companies
2. Manage conflicts of interest in relation to active ownership.
3. Monitor active ownership activities
4. Ways of implementing Active Ownership in practice
  - Dialogue - Interact with investee companies
  - Voting - Exercise voting (and other) rights attached to shares in investee companies
  - Collaborative Engagements - Collaborate and communicate with other shareholders in investee companies

This document provides additional information to what is communicated in the Responsible Investment Policy.

## 2. Definitions

The below definitions apply to the terms used throughout the Instruction

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| <b>Active Ownership</b>                       | means the use of rights and position of ownership to influence the activities or behaviour of investee companies                                       |
| <b>ESG</b>                                    | means environmental, social or governance  |
| <b>Environmental &amp; Social materiality</b> | means external impacts of a company's activities and how the company significantly affects society and environment, including Principal Adverse Impact |
| <b>Financial Materiality</b>                  | means any factor reasonably likely to significantly impact the financial condition or operating performance of a company or investment                 |
| <b>Group</b>                                  | means Danske Bank A/S with its subsidiaries.   |

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|---------------------------------|---|
| <b>Investment Management</b>    | means the management of investments for a financial institution or client   |
| <b>Principal Adverse Impact</b> | means the most significant impacts of investment decisions and advice that result in negative effects on sustainability factors, (i.e. environmental social and employee matters, respect human rights, anti-corruption and anti-bribery matters) |
| <b>Sustainability factors</b>   | means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters  |
| <b>Sustainability risk</b>      | means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment   |
| <b>Target group</b>             | means the group of people, subsidiaries, areas and/or functions, for whom the governing information is intended to be directly applicable.  |

### 3. Scope

The scope of this Instruction is Responsible Investments, and the Active Ownership processes associated.

The Active Ownership Instruction does not apply directly to structured products, derivatives, Danske Bank's capital market activities (including but not limited to market making, securities trading etc.) or externally managed funds.

#### 3.1 Target group

Active ownership in investment management processes can be done either for a) assets managed by Danske Bank A/S, Danske Invest Management A/S or its subsidiaries, as an asset manager or b) assets managed by Danske Bank A/S, Danica Pension A/S or its subsidiaries as an asset owner. Both types of assets are in scope. Assets managed by Danske Bank Group Treasury and Danske Bank's capital market activities are not in scope for this instruction. Active ownership for discretionary mandates will be exercised in accordance with the contractual obligations.

The investment teams invest in a number of different asset classes on behalf of customers. Therefore, the Active Ownership practices will largely be dependent on the asset class and the investment mandate given. It is the responsibility of each investment team to incorporate sustainability risk into the investment process. Through this investment-team-driven approach to Active Ownership, investment teams can manage risks in the portfolio, provide value to investee companies, and meet investors' demands. Active Ownership may be handled differently from one investment team to another in accordance with investors' best interest.

In addition to this Instruction, the Danske Bank Group handles Active Ownership in accordance with Policies and Instructions for Code of Conduct, Conflicts of Interest. Further, the investment teams are required to comply with Danske Bank Group's Ownership Policy and/or specific Active Ownership or Voting Policies whenever relevant.

## 4. Instruction Content

Our Active Ownership approach takes into account internationally recognized corporate governance standards, e.g., the G20/OECD Principles of Corporate Governance, as well as voluntary principles, such as the UN Global Compact and OECD Guidelines for Multinational Enterprises.

We also consider local regulation and/or guidelines such as the Danish Stewardship Code, the Finnish Corporate Governance Code, the Norwegian Code of Practice for Corporate Governance, and the Swedish Corporate Governance Code, as well as variation in legal and regulatory requirements between countries. There are also country variations as to whether corporate governance is regulated by rules-based legislation or by a comply-or-explain principle that needs to be considered in this context.

The Active Ownership approach shall be based on the belief that it is more sustainable to address challenging issues through active ownership and dialogue rather than divesting and thereby refraining from an opportunity to make a positive impact and acting as a responsible investor.

### 4.1 Survey investee companies

There is no 'one size fits all' approach to Active Ownership. In line with different investment strategies and processes, sustainability risks will be considered and applied in different ways depending on the specific case and the relevance to exercise Active Ownership.

Through the sustainability risk integration approach described in the Responsible Investment instruction section 4.1., investment teams shall survey investee companies' financial and ESG information in order to carry out the following:

- a) identify material financial and sustainability factors affecting a company, sector, and/or country and
- b) gain a better understanding of the companies' business models, strategies and ability to mitigate risks and leverage opportunities and to assess the potential positive and negative impact of material financial factors and sustainability factors on performance and society

And thereby identify the relevant active ownership activities that consider all material factors, including sustainability factors, and:

- c) influence companies to manage risks and challenges, and support business growth and development
- d) be able to create long-term value for investee companies and ultimately for the investors

The investment teams shall review financial and ESG information from multiple data sources (including but not limited to company reports and third-party investment research). The investment teams shall have access to required ESG data & research.

Topics and scope are regularly decided upon by the investment teams, based on relevance and financial, environmental and social materiality. Topics include e.g., strategy, financial and non-financial results, risk, capital structure, social and environmental effect, and proper corporate governance.

### 4.2 Managing conflicts of interest

The investment teams shall pay particular attention to possible conflicts of interest when conducting Active Ownership activities. Conflicts of interest may arise from, but are not limited to:

- Affiliations
- Business relationships
- Cross-directorshi

- Diverging interests of customers and beneficiaries
- Employees linked personally or professionally to an investee company

The investment teams must manage conflicts of interest according to the Group's Conflict of Interest policy as well as according to the below requirements:

- Making sure that any engagement is exercised in line with the best interest of the investors
- A forum reviewing voting decisions and engagement activities on a regular basis
- Mapping potential conflicts of interest and corresponding means of mitigation and periodically reviewing these
- Reporting of incidents and potential conflicts
- 'Chinese Walls' and confidentiality between entities responsible for Active Ownership activities, investment management, and other entities to ensure neutrality and independency
- An escalation procedure involving top management for unforeseen conflicts of interest.

#### **4.3 Monitoring Active Ownership activities**

Monitoring of Active Ownership activity is conducted by the Responsible Investment Team using a proprietary tool developed for this purpose. The Active Ownership activities are disclosed in a semi-annual report online, whereas Voting statistics are updated online 2 days after a general meeting has taken place.

#### **4.4 Ways of implementing Active Ownership**

Active Ownership is conducted mainly through: 1) Dialogue; 2) Collaborative engagement, and 3) Voting. Engagement and Voting practices are interrelated and feed into each other and one can be the initiator or the complement of the other:

#### **4.5 Dialogue**

The investment teams engage on a regular basis with investee companies on material ESG matters to seek improvement in performance and processes in order to enhance and protect the value of our investments.

Reasons for Dialogue can be, but are not be limited to, the following:

- Inform about voting decisions and guidelines
- Clarify publicly disclosed information from company
- Conduct research
- Identify and assess quality of available data
- Understand performance and identify potential vulnerabilities
- Develop insights into risks and opportunities
- Identify potential regulatory developments and impacts

Each investment team is responsible for outlining which key ESG issues to engage on and which standards companies are expected to adhere to. This can be done both in a preventive manner, or reactive to address issues that may have already occurred.

The investment teams can interact with companies in different ways (i.e. letters, emails, one-to-one meetings, conferences, site visits, etc.) and with preferred company representatives (e.g., board, chairman, CEO, Investor Relations, Sustainability).

The investment teams must be aware of the risk that they may have obtained insider knowledge. As such, the investment teams follow Danske Bank's Market Abuse Policy and Market Abuse Directive.

If an engagement is unsuccessful, the investment team can decide to escalate the engagement, vote at the GM, or decide to either hold/maintain weighting, decrease weighting, or sell/divest.

#### 4.6 Collaborative Engagements

When appropriate, we collaborate with peers, like-minded investors and other relevant parties to exercise Active Ownership, engage through joint dialogue, and contribute to a positive impact. It might be appropriate in instances where Dialogue has proven to be unsuccessful.

Collaborative engagements capture any interaction between a group of investors joining forces (where Danske Bank is one member) vis-à-vis the investee company on ESG matters, with the goal of improving (or identifying the need to influence) ESG practices and/or disclosure. Collaborative engagements also include reaching out to other investors to get support on engagement activities, discuss voting issues, and make proposals for General Meetings. This can be done on an ad-hoc basis or through formal investor networks or membership forums. Cooperating with other shareholders takes place on a regular basis and is not subject to any frequency targets.

We also participate in investor initiatives to encourage increased transparency and sustainability standards in companies and financial markets, such as e.g. the CDP, Institutional Investors Group on Climate Change, Paris Pledge for Action, The Task Force on Climate-Change Financial Disclosure, The Montreal Pledge, The Task Force on Climate-related Financial Disclosures (TCFD), and the UN-supported Principles for Responsible Investment. The complete list of initiatives that Danske Bank is part of is available on the website.

Decisions regarding Collaborative engagement activities can be taken by an investment team, the Responsible Investment Team, the ESG Integration Council, or the Responsible Investment Committee and is always anchored in our fiduciary responsibility.

Collaborative engagements may, depending on the situation, be subject to market abuse and insider trading regulations and hence should follow Danske Bank's Market Abuse Policy and Market Abuse Directive. Furthermore it is a requirement that legal competence is consulted for each case.

Trading should not be conducted based on knowing another investor's intentions and collective engagement may, depending on the situation, be subject to flagging according to applicable regulation.

#### 4.7 Voting

As investors, the General Meeting (GM) is an opportunity to voice our opinion on issues of key importance to corporate governance, and contribute to a company's sustainability performance. As a general guideline, we support company management; however, we will access our shareholder rights to vote in line with our fiduciary duty to consider what is in the best interests of our customers.

We vote at GMs of companies where we represent relevant holdings in accordance with our outlined Voting Scope. We vote either by ourselves or through a service provider by proxy or in person by attending AGMs (or a combination of both).

Before voting the investment teams shall assess resolutions as well as apply Voting Guidelines of Danske Bank group and market standards to each agenda item.

Our proxy voting advisor provides:

- Notices of general meetings and comprehensive information about the companies, the voting items on the agenda and voting recommendations, and
- Voting recommendations based upon Danske Bank Group's Voting Guidelines.

#### 4.7.1 Voting scope

We seek to vote all shares held while also taking into account preconditions, resources, and the costs of exercising voting rights. The voting scope is therefore based on the following principles:

1. Vote the largest holdings on an aggregated level (in terms of market value), meaning the sum of the voted holdings should exceed 80% of the total equity portfolio value (excluding Voting Scope Exemptions).
2. Vote all shareholdings that have substantial ownership meaning exceeding 0.4% of votes or capital in an investee company.
3. Vote on issues of principal importance meaning exercise voting rights if there are matters of specific concern. Matters of specific concern could be related to, for example, shareholder proposals regarding the environmental area, board diversification, political lobbying or media attention.
4. Vote on issues related to specific present and previous engagements.

The exercising of voting is not conducted in the following situations:

- Voting at General Meetings of companies whose shares are listed on markets involving excessive formalities or administrative costs
- Voting when it is difficult to justify the cost of exercising voting rights
- Voting at General Meetings of companies that require blocking share
- Voting in countries for which custodians used do not offer proxy voting services.
- Voting on loyalty shares

Acting as a fiduciary for customers, incremental income generation from the customers' asset base through securities lending is compared to the costs of abstained voting activity.

#### 4.7.2 Voting Guidelines

We will vote on a variety of management and shareholder resolutions; however, the majority target corporate governance issues required under local listing requirements, including but not limited to: approval of directors; accepting reports and accounts; approval of incentive plans; capital allocation; reorganisations; and mergers. We will vote according to the Voting guidelines.

The Voting Guidelines consists of the following eight overall principles for Corporate Governance, Environmental, and Social matters:

1. The board should act in the best long-term interests of the company for the benefit of shareholders, and take into account relevant stakeholders. The board should have a sufficient mix of directors with adequate competence and independence appropriate to the company's operations. Chair of the board and CEO should not be the same person.
2. Remuneration to executive management should align with company and shareholder interest with the aim to achieve long-term performance and sustainable value creation. Remuneration to non- executive directors (NED) should reflect company size and complexity as well as NEDs expertise and board position requirements.

3. The board should strive to achieve an effective and well-balanced capital structure. Capital exceeding the company's needs in relation to its long-term strategies should be distributed to the company's shareholders.
4. Audit should be carried out by external auditors, independent from the company and its management.
5. Rights of all shareholders should be equal and protected. The principle of one-share-one-vote is recommended. Minority shareholders should have voting rights on key decisions or transactions, which can affect their interest in the company.
6. All shares in a company carrying the same rights to the company's assets and profits should be treated equally in public offers to acquire shares.
7. Companies should seek to establish an open dialogue with their shareholders. Information and disclosure should be clear, correct, and transparent.
8. Companies should seek to manage financial and economic implications of environmental and social matters, which may have an impact not only on the reputation but may also represent operational risks and cost to the business. The most significant impacts of operations that result in negative effects on sustainability factors, (i.e. environmental social and employee matters, respect human rights, anti-corruption and anti-bribery matters) should be addressed by the companies.

The Voting Guidelines are available online.

#### **4.8 Research & Training**

The investment teams must obtain and maintain an appropriate level of competence to carry out their responsibilities and be aware of relevant requirements that is applicable to a specific asset class and investment strategy.

Tools, knowledge, research, education and subject-matter expertise will be provided by the Responsible Investment Team to support Active Ownership processes.

The strength of this bottom-up approach is that our solid foundation of data, tools and resources will enable the investment teams to exercise Active Ownership in a meaningful way.