

# PenSam

## Policy and Guidelines for Responsible Investments and Active Ownership 2021

PenSam  
Jørgen Knudsens Vej 2  
DK-3520 Farum

PenSam

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## Introduction

This document describes PenSam's overall approach to sustainability risks and responsibility and is seen as the Executive Management's policy and guidelines for Responsible Investments and Active Ownership.

PenSam provides labour market pensions to 450,000 pension customers, who carry out core assignments in the Danish welfare society, mainly within elderly care and pedagogical care.

Decency and responsibility are solidly anchored throughout PenSam, and they form an integral part of the way we manage investments.

## Overall approach to sustainability risks and responsibility

The work with responsible investments and ESG<sup>1</sup> is of the essence, since it supports the goal of safeguarding the interests of our members as well as possible and securing a good return, while considering risks and while shouldering PenSam's responsibility to society as an investor. It is thus a condition for the work with ESG that this work supports achieving a satisfactory return. PenSam focuses on ensuring that our investment portfolio is robust given the effect of development of sustainability and responsibility on investments.

The work on responsible investments has the three following elements:

1. Exclusion
2. Active Ownership
3. Impact Investment

Companies and countries/government bonds not wanted in PenSam's portfolios are excluded. Exclusion is carried out if it is assessed that in the long run these introduce sustainability risks which are not compensated via a higher, expected return. Furthermore, investments are excluded if they are deemed not to live up to PenSam's values and attitudes. It is a precondition for all exclusions that they make up such a limited part of the investment universe that they do not influence the possibility of optimising the overall return/risk ratio of the portfolio.

Active ownership is a matter of influencing companies in the desired direction, often in cooperation with other investors. Active ownership may in some cases be seen as an alternative to exclusion of a company. Rather than excluding a company, PenSam may use active ownership to try to influence the company to remove sustainability risks and/or live up to PenSam's values and attitudes.

Impact investments comprise investments supporting a desired direction, such as climate-related investments in the form of solar panel and wind turbine farms. It is a precondition for this type of investment that the expected return is satisfactory seen in relation to the risk.

These three elements are reviewed below.

## Monitoring

PenSam systematically monitors its investment portfolios and the external asset managers who invest on PenSam's behalf.

Monitoring of the investment portfolio is based, among other things, on international agreements and conventions (appendix 1), such as the ten principles of the UN's Global Compact, and the UN's supporting principles for responsible investments, also called PRI (appendix 3).

When new investment pledges are made, and in the ongoing follow-up, PenSam's external asset managers are assessed on how they handle ESG. Read more in the section on Assessment of external capital managers.

### 1. Exclusion

PenSam excludes because:

1. We believe that the problematic business model or behaviour involves risks or negatively impacts the return in the longer run, e.g. if it leads to undesirable sustainability risks.

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<sup>1</sup>Internationally, responsibility is addressed in the form of Environment (E), Social (S), and Governance (G), jointly called ESG.

2. The company's/country's activities go against PenSam's values and attitudes – provided such exclusion does not restrict the investment universe to such an extent that it limits us.

### Exclusion of companies

PenSam cooperates with Sustainalytics, a screening and engagement company offering global, independent analyses and consulting. Sustainalytics carries out ongoing screening of PenSam's portfolios, thereby allowing an assessment of possible exclusion of companies. In addition, separate screening of Nordic companies in the portfolio is made for controversies on collective agreements or working conditions.

If a company carries out activities which involve sustainability risks which are not deemed to be compensated via higher expected return or are not compatible with PenSam's values and attitudes, PenSam will use active ownership to try to make the company change its behaviour before PenSam proceeds to exclusion. Read more in the section on active ownership.

There are a number of business areas in which PenSam does not wish to invest, which is why these are excluded beforehand. This is either because the business model is deemed to lead to undesired risks in the long run, or because it does not square with PenSam's values and attitudes. These business areas are the following:

- Controversial weapons
- Coal – Companies where more than 5% of their revenue relates to coal are excluded. If such companies have a concrete, imminent plan for transition away from coal, an exemption from the 5% limit may be given.
- Oil – Companies in which more than 40% of reserves are at risk of not being extracted (also known as stranded assets).
- Oil sands
- Tobacco

### Exclusion of countries/government bonds

Sustainalytics carries out ESG screening of countries/government bonds. PenSam basically excludes the lowest rated countries based on their ESG score. Exceptions may occur if special circumstances exist, including expectation of improvement/worsening of the ESG score. Furthermore, sanction-affected countries and countries on the EU list of tax havens are excluded.

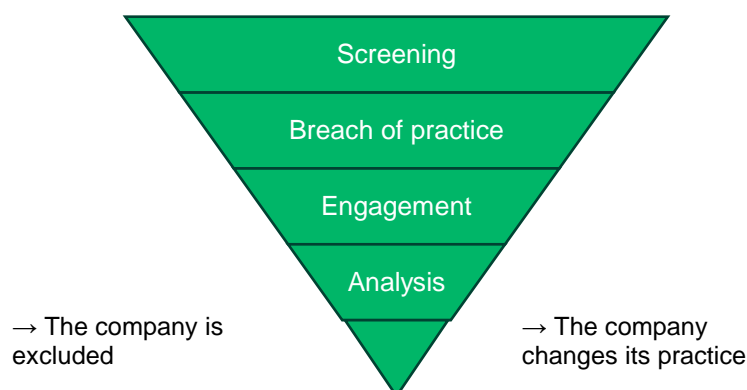
## 2. Active Ownership

### Engagement

Active ownership forms an integral part of PenSam's investment process, seeking to make companies with objectionable practices change their behaviour. If the company does not have the will or ability to change its objectionable practices within an acceptable time horizon, PenSam may, at the end of the day, decide to exclude the company and divest its investment in the company.

### Screening Process

This figure illustrates the overall screening process, explained below.



Sustainalytics carries out screening of PenSam's portfolios. If there is suspicion of breach of practice (infringement of various conventions and international agreements), this is examined in more detail. If a breach of practice is ascertained, Sustainalytics will start an engagement process with the company. An ongoing assessment is made of any positive developments in the company. Based on this engagement, Sustainalytics performs analyses of the

company; these analyses are subject to PenSam's ongoing assessment. The outcome will be one of two scenarios: Either the company changes its practice, or the company is excluded, and a divestment is made.

### Voting

PenSam cooperates with ISS Proxy Voting on voting at general meetings of listed companies. ISS Proxy Voting will vote using PenSam's Principles for voting (appendix 4), based on Pen-Sam's approach to corporate governance, and PenSam's guidelines for responsible investments.

As a matter of principle, PenSam votes at all the general meetings of listed companies, where PenSam is a shareholder in such companies.

Since we wish to be transparent, we publish the votes we cast in listed companies via an online portal, which can be reached via [www.pensam.dk](http://www.pensam.dk).

### Statement on active ownership recommendation

We prepare an annual statement on recommendations concerning active ownership. Appendix 5 summarises PenSam's approach to each of the seven recommendations concerning active ownership from the committee for good corporate governance. Furthermore, PenSam prepares an annual report on Active Ownership. This report is available via [pensam.dk](http://pensam.dk).

Finally, PenSam has a policy for active ownership. See appendix 6.

## 3. Impact investment

Impact investments are made to promote a positive social or environmental development, while generating attractive returns and not leading to undesired sustainability risks.

Today, PenSam carries out impact investments via companies, funds, or projects. Impact investments may be made directly in infrastructure (solar panel or wind turbine farms), green bonds, loans to green projects, "green" shares, etc.

PenSam has set a goal, saying that, by 2025, 10% of its investments are to be made as climate-related investments.

Additionally, PenSam seeks to make socially related investments with attractive risk/return ratios.

## Focus areas

PenSam has defined four areas of particular focus. These areas are climate, fair taxation, sustainable building construction, and labour rights, thereby covering six out of the UN's 17 SDGs, since climate forms part of three of the overall goals. This focus also helps minimise PenSam's sustainability risks, which are closely associated with such elements as climate and sustainable cities.

### Climate



*SDG # 7: Sustainable energy*  
*# 9: Robust infrastructure*  
*# 13: Climate*

Climate change and conversion to a green economy lead to major changes throughout the energy sector. A clear reduction of carbon emissions from coal, oil and gas is required if the goals of the Paris Agreement are to be met.

The decline in demand for the various types of fossil fuels will occur at different speeds. Already now, a lower demand for coal is witnessed; oil is close to its maximum demand, while the demand for gas will continue to grow for some years.

This development will have major financial consequences for many companies.

PenSam wishes to contribute actively to the 2015 Paris Agreement, which says that the average temperature increase is to be kept “well below” 2 degrees. The goal is for the temperature not to increase more than 1.5 degrees. At the same time, PenSam will take account of the financial risks and sustainability risks involved in investing in the fossil industry, e.g., by:

- Minimising exposure to coal; this includes exclusion of companies with more than 5% of their turnover relating to coal and such companies are not in a clear transition process away from coal.
- Continually addressing exposure to oil and gas, and such exposure is today at a very low level. PenSam will primarily invest in companies and projects deemed to be ready for the transition to sustainable development.
- Ensuring that direct investments in infrastructure projects in the fossil industry are deemed to contribute towards the conversion to a green economy.

In Climate, PenSam’s overall approach to responsibility is generally observed; this is divided into three elements:

1. Exclusion  
Investments not wanted in the portfolio, e.g., related to coal, tar sand, oil companies, etc.
2. Active ownership  
PenSam typically cooperates with other investors, trying to influence developments to go in the desired direction, such as Climate Action 100+, engagement via Sustainalytics, voting, etc.
3. Impact investments  
Special focus on making investments which support the SDGs on climate. However, this must be done on condition that returns are competitive compared with other investments.

PenSam has joined PAII (Paris Aligned Investment Initiative), where the goal is for PenSam to be NetZero (zero CO2 emissions) in 2050. Furthermore, a sub-goal has been prepared for CO2 emissions in 2025, when the share and credit portfolio as well as the Danish real estate portfolio are to emit 44% less CO2 than in 2019.

PenSam works continually to integrate climate risks into its investment process and participates in several investment forums promoting green transition:

- TCFD (Task Force on Climate Related Financial Disclosures)
- IIGCC (The Institutional Investors’ Group on Climate Change)
- Climate Action 100+
- PAII (Paris Aligned Investment Initiative)
- PRI (Principles for Responsible Investment)

The climate-related networks above are among PenSam’s associates and networks for responsible investments, cf. appendix 7.

## Fair Taxation



### SDG # 10: Reduced inequalities

PenSam’s tax policy basically says that everybody must pay the taxes due, no more, no less. PenSam also subscribes to a tax code for alternative investments; this is done jointly with a great many Danish players in the pension sector.

In addition, two initiatives relate to the listed investments in the portfolio made in cooperation with Sustainalytics.

These are the two initiatives:

- PenSam’s shares and credit bonds are monitored to identify controversial tax issues to be considered.
- With other institutional investors, PenSam engages with selected multinational companies on tax policies and payments.

When PenSam invests in unlisted companies, a thorough investigation is made to ensure there is no aggressive tax planning involved.

Read more about PenSam's tax policy and tax code in appendices 8 and 9.

### Sustainable building construction



#### SDG # 11: Sustainable cities

Building construction and facility management contribute a significant part of CO<sub>2</sub> emissions in society. Politicians are becoming aware to an increasing extent that our building stock should become more sustainable. With the purpose of being at the forefront of legislation and maintaining and developing financially sound buildings by focusing on sustainable solutions, PenSam has prepared a sustainability strategy for its real estate portfolio.

With this sustainability strategy for real estate, PenSam wishes to:

- Clearly reduce the carbon footprint of its real estate
- Create sustainable solutions through increased focus on prioritising operations and maintenance
- Improve energy efficiency and use greener utility services
- Improve the experience of living and working in our properties

This strategy also means that PenSam's sustainability risk related to the real estate sector is minimised.

### Labour Rights



#### SDG # 8: Decent jobs and financial equality

As a labour market pension company, PenSam naturally focuses on labour rights.

Portfolios are continually monitored to spot objectionable conditions or breaches of conventions or international agreements on labour rights.

Furthermore, a dedicated screening of Nordic companies in the portfolio is made to identify any controversies regarding collective agreements and work conditions.

## Assessment of External Asset Managers

PenSam's external asset managers investing on behalf of PenSam are assessed and granted an ESG score. The score ranges from 0 to 60 points and is based on 15 questions in the three following areas:

- policy and internal resources
- ESG integration
- active ownership.

The score must reach a minimum of 30 points. If the score is below 30 and it is not deemed possible to increase the score to 30 within two years, no agreement is made with the asset manager concerned.

## PenSam's Code of Conduct

PenSam has prepared a Code of Conduct for its associates; the Code deals with PenSam's general expectations regarding responsible corporate governance, cf. appendix 10.

## PenSam's Social Clause for Property Investments

In connection with real property projects, where PenSam is the Developer, the Turnkey Contractor must accept and abide by PenSam's Social clause for property investments, cf. appendix 11.

## Transparency

PenSam wishes to be open and transparent. PenSam's website continually publishes information on responsibility and active ownership, including the following points:

- Lists of holdings of shares and credit bonds
- Exclusion list regarding companies
- Exclusion list regarding countries/government bonds
- Observation list (engagement cases)
- Voting at general meetings
- CSR report
- Reporting on Active Ownership
- Policies and Guidelines for Responsible Investments and Active Ownership

We continually review how transparency about our work with responsible investments can be enhanced.

## Internal reporting

Internally at PenSam, there is ongoing reporting to the Board of Directors and the Executive Management on Responsibility and Active Ownership. Among other things, this includes the following reports:

- Annual ESG reporting in October/November to the Board of Directors on significant events over the last year, as well as planned initiatives for the coming year
- Ad-hoc reporting to the Board of Directors on selected events, including press-related events
- Ongoing reporting/information to the Executive Management on selected events; this includes monthly investment committee meetings



## Conventions and International Agreements

PenSam's investments in companies are monitored in relation to the below-mentioned conventions and international agreements:

- The Ten principles of the UN Global Compact
- The Six Principles for Responsible Investment (PRI)
- OECD Guidelines for Multinational Enterprises
- The Paris Agreement COP21
- International and Danish sanctions
- Universal Declaration on Human Rights
- UN Guiding Principles on Business and Human Rights
- ILO Core Conventions
- ILO Convention 155 Occupational Health and Safety
- Kyoto Protocol
- Montreal Protocol
- Convention on Biological Diversity
- Ottawa Convention on Anti-Personnel Landmines
- UN Convention against Corruption
- Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction
- The Chemical Weapons Convention
- Treaty on the Prohibition of Nuclear Weapons

## The Ten Principles of the UN Global Compact

### Human Rights

1. Businesses should support and respect the protection of internationally proclaimed human rights.
2. Businesses should make sure that they are not complicit in human rights abuses.

### Labour Standards

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.
5. Businesses should uphold the effective abolition of child labour.
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.

### Environment

7. Businesses should support a precautionary approach to environmental challenges.
8. Businesses should undertake initiatives to promote greater environmental responsibility.
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.

### Anti-Corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

## The Six Principles for Responsible Investment (PRI)

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

## Principles for Voting

The overall principles for voting are as follows:

- The annual report is approved, unless there is reason to believe that the annual report is misleading.
- We vote for granting discharge to board and management, unless we find they are no longer reliable.
- We vote for the board's proposal for the appropriation of profits or covering of losses, unless:
  - The dividend is unreasonably low, taking the company's solidity and investment programmes into account
  - The dividend is inappropriately high, given the company's financial position
- We vote in favour of the board candidates proposed by the board, unless:
  - There are conflicts of interest
  - The interests of minority shareholders are seriously disregarded
  - The board does not comply with corporate governance rules
- We vote for candidates unless we find that they will not be able to contribute to the running of the company.
- The remuneration offered must be competitive and reasonable, given the company's size, domicile, line of work, and the results achieved.
- We vote for bonus schemes, option schemes, share warrants and other incentive schemes, provided we find that they contribute towards creating value for shareholders.
- We vote against incentive schemes not deemed to be in the shareholders' interest.
- We vote in favour of proposals to change the capital structure, unless there is reason to believe that this would be against PenSam's interests.
- We vote based on what is deemed to be in the shareholders' interest in each situation.

## Statement on Active Ownership Recommendation 2019

| Recommendation  | Com-<br>plying | Comment   |
|---|----------------|---|
| <b>1. Active ownership policy</b><br>It is recommended that institutional investors should publicly disclose an active ownership policy with respect to investments in shares in companies that are publicly listed in Denmark.                     | Yes            | PenSam's policy for active ownership is available at pensam.dk.   |
| <b>2. Monitoring and dialogue</b><br>It is recommended that institutional investors monitor and engage in a dialogue with the companies in which they invest, taking account of the investment strategy and the principle of proportionality.       | Yes            | PenSam does not have a separate Danish share portfolio; at the end of 2019, we had 4 Danish share investments.<br><a href="https://www.pensam.dk/om-pensam/investering/aktivt-ejerskab/sider/aktivt-ejerskab.aspx">https://www.pensam.dk/om-pensam/investering/aktivt-ejerskab/sider/aktivt-ejerskab.aspx</a> |
| <b>3. Escalation</b><br>It is recommended that, as part of their active ownership policy, institutional investors should determine how they may escalate their active ownership activities beyond regular monitoring and dialogue.                  | Yes            | In case of specific issues, dialogue may be escalated in that PenSam's associate, Sustainalytics, engages with companies to influence them in a positive direction.   |
| <b>4. Collaboration with other investors</b><br>It is recommended that, as part of their active ownership policy, institutional investors should describe how they will act collectively with other investors to achieve greater effect and impact. | Yes            | PenSam participates in various forums with other investors to increase the effect of active ownership.  |
| <b>5. Voting policy</b><br>It is recommended that, as part of their active ownership policy, institutional investors should adopt a voting policy and be willing to publicly disclose whether and how they have voted.                              | Yes            | PenSam cooperates with ISS as its proxy agent and votes at all Danish general meetings.<br><a href="https://www.pensam.dk/om-pensam/investering/aktivt-ejerskab/sider/aktivt-ejerskab.aspx">https://www.pensam.dk/om-pensam/investering/aktivt-ejerskab/sider/aktivt-ejerskab.aspx</a>                        |
| <b>6. Conflicts of interest</b><br>It is recommended that the active ownership policy should contain a description of how conflicts of interest in relation to active ownership are identified and managed.   | Yes            | Since PenSam is a labour market pension insurance company, there is not deemed to be any conflicts of interest.   |
| <b>7. Reporting</b><br>It is recommended that institutional investors should report, at least annually, on their active ownership activities, including voting activity.  | Yes            | PenSam will report annually at pensam.dk on its active ownership.   |

## Active Ownership Policy

### Objectives and strategies

The purpose of this Active ownership policy is to determine how PenSam Pension (life assurance and pension fund) exercise active ownership as part of their investment work in accordance with the Board of Directors' Policy for Investments, including the "Recommendations on active ownership" (as presented by the Committee on Good Corporate Governance).

It is PenSam's goal to be an active owner, influencing companies in the direction of responsible value creation to the benefit of shareholders. This must be done at a level that corresponds to other comparable institutional investors and through active use of PenSam's principles for responsible investments and principles for exercising owner's authority in the Policy for investments, the principles of the current policy, and the preparation and publication of an annual statement explaining how the policy has been used in practice. The policy applies to PenSam Pension, in the following called PenSam. The policy applies to investments in Danish as well as foreign shares.

### Principles for active ownership

The principles for active ownership, cf. above, must be used no matter if the investment decision is made directly by PenSam, or has been outsourced to an external investment manager.

In the case of outsourced activities or activities in underlying investments, compliance with this policy is to be ensured through an agreement with the investment manager concerned.

PenSam may use external service providers to carry out all or parts of the tasks in this policy. In such case it must be ensured that the service provider(s) concerned base their work on the principles laid down in this policy, as well as in PenSam's other policies and guidelines. The role of external service providers regarding specific assignments is detailed below.

#### *Monitoring, dialogue, and escalation*

As part of normal investment work, PenSam's investment department (or the external managers) monitor investor-relevant reporting.

PenSam may use a service provider to monitor investments made. In such case, it must be ensured in the agreement with the service provider that monitoring is based on the principles laid down in PenSam's policies and guidelines.

If a breach of these principles is ascertained, PenSam (or its service provider or external investment manager) will engage with the company concerned. If no progress in the company's behaviour is witnessed, and it is deemed that, by remaining a shareholder, PenSam cannot influence the company's behaviour, the company may be excluded from PenSam's investments, covering all financial instruments, in accordance with the principles for responsible investments laid down in the Policy for investments.

PenSam's investment department must ensure that procedures are established for the handling of internal knowledge if, in the dialogue with the company, PenSam acquires such knowledge.

#### *Cooperation with other investors, voting policy, and conflicts of interest*

If it is found to be beneficial for PenSam, cooperation with other institutional investors may be established with a view to achieving more effect and influence for PenSam's points of view. In this connection it must be ensured that such cooperation does not lead to a conflict with the rules on obligatory take-over offers in current legislation.

PenSam takes part in class action lawsuits, etc., with a view to achieving financial compensation for mistakes made by the companies in which investments have been made; this is done to the extent a financial gain is deemed to be obtainable. Furthermore, PenSam may also participate in class action lawsuits, etc., in cases expected to result in an overall cost to PenSam, provided this is nevertheless deemed to be in PenSam's overall interest considering the objective of promoting responsible value creation.

PenSam may use external service providers to handle voting (based on the voting principles laid down in the Guidelines for Investments) at general meetings in companies where PenSam is a shareholder.

Voting in Danish companies is monitored by PenSam's investment department; where deemed appropriate, PenSam may participate in general meetings of such companies.

With the purpose of preventing conflicts of interest, there must be the required organisational division to ensure that employees making deals and being responsible for risk-taking are not identical to the employees responsible for cooperation agreements, etc., with companies where PenSam is a shareholder.

PenSam's Board members may have a conflict of interest regarding companies where PenSam is/wishes to become a shareholder. In such case, the Board member concerned is deemed to be legally incompetent and may not participate in discussions and/or decision-making regarding the company concerned.

Since PenSam is a labour market pension company, there can be no conflict of interests in relation to its customers.

#### *Reporting*



Once a year, a statement is to be prepared, offering a specific description of how PenSam has worked with the principles of this policy in the past year, seen in relation to Danish shares. This statement must be published on PenSam's website.

Furthermore, as, and when needed, PenSam publishes its voting at specific general meetings. This information may also be obtained by contacting PenSam.

## PenSam's Associates and Networks

| Associates/networks  | Description  |
|--|--|
|  <p>UN Global Compact</p>   | <p>PenSam supports the UN Global Compact initiative, which provides general principles for the work of companies as entities responsible to society. These principles are based on international conventions on human rights, labour standards, the environment, and climate, as well as anti-corruption. Global Compact also facilitates the work of companies as they contribute to the UN's 17 Sustainable Development Goals, the SDGs.</p>                         |
|  <p>Dansif</p>  | <p>PenSam is a member of Dansif, a forum for intuitional investors and organisations with activities in Denmark, involving intuitional investors with a major interest in responsible investments. The purpose is to disseminate information and exchange experience with the other members. Dansif hosts several events and seminars each year, encouraging knowledge exchange and discussions about relevant topics within the field of responsible investments.</p> |
|  <p>Sustainalytics</p>   | <p>PenSam cooperates with Sustainalytics, a screening and engagement company functioning as a globally independent analysis and consulting company. Sustainalytics delivers ESG data and analyses which form part of PenSam's work on responsible investment management. Furthermore, Sustainalytics engages with companies on behalf of PenSam since we wish to influence companies to change their practices in case of problematic issues.</p>                      |
|  <p>ISS Proxy Voting</p>  | <p>PenSam cooperates with ISS Proxy Voting on voting at general meetings in public limited companies in which we invest. As a matter of principle, PenSam votes at all general meetings of these companies. ISS Proxy Voting votes on behalf of PenSam based on a voting policy founded on PenSam's approach to business management and guidelines for responsible investments. PenSam has an online portal showing the votes cast at general meetings.</p>            |
|  <p>The Institutional Investors Group on Climate Change ("IIGCC")</p> | <p>PenSam is a member of IIGCC, a European network organisation for institutional investors cooperating on climate change. IIGCC publishes various analyses, has contact to the EU and local governments, and participates in network events, etc. IIGCC's central task is to participate in political discussions at international level with a view to creating the best possible investment framework in areas of significance regarding the climate.</p>           |
|  <p>Climate Action 100+</p>   | <p>PenSam participates in Climate Action 100+, a global, investor-driven initiative involving IIGCC, PRI, and others; this initiative makes investors join forces to put pressure on the 100 biggest CO2 emitters. The purpose is to make these companies reduce their emissions, increase the level of information on the companies' emissions, and improve the management of climate-related risks.</p>  |



|  |   |
|--|---|
|  <p>Principles for Responsible Investment (PRI)</p>                             | <p>PenSam is a member of the PRI organisation, an UN-supported network organisation comprising institutional investors, investment banks, and investment advisors. PRI is working to disseminate principles for responsible investments in the form of six general guidelines for investors working with social responsibility. These principles were launched by a group of international investors supported by the UN and Global Compact.</p>  |
|  <p>Force on Climate Related Financial Disclosures (TCFD)</p>                   | <p>PenSam supports TCFD, a global forum which has developed several recommendations on how companies should report on climate risks. TCFD's recommendations say that companies should identify and handle actual and potential financial risks and opportunities arising in the transition to an economy emitting fewer greenhouse gases. The background for the TCFD recommendations is an assumption that increased openness and information about risks are a prerequisite for markets to be able to include climate-related risks and opportunities when making calculations.</p> |
| <div style="border: 1px solid black; padding: 5px;"> <p><b>Paris Aligned Investment Initiative</b></p> </div> <p>Paris Allighed Investment Initiative (PAII)</p> | <p>Paris Aligned Investment Initiative (PAII) is a cooperation-oriented forum allowing investors the possibility of adapting their portfolios and activities to goals of the Paris Agreement. PAII was established in 2019 by Institutional Investors Group on Climate Change (IIGCC). From 2021, this initiative has grown to become a global cooperative effort supported by four regional investor networks.</p>   |

## PenSam's Tax Policy

PenSam's overall tax policy is that everybody must pay their taxes – no more, no less.

As a responsible investor, PenSam wishes to see increased transparency and openness in the field of taxation, including the use of country-by-country-reporting (CBCR), and more transparency regarding the countries on the EU blacklist and grey-list.

PenSam's objective is to maximize returns after costs and tax within the legal and actual intensions of tax legislation in the countries where PenSam makes investments.

PenSam will not be a party to tax evasion and expects from its business associates that no investment or investment structure has been organized with the purpose of tax evasion. Furthermore, we expect our business associates not to carry out any deliberate action infringing the OECD's BEPS recommendations.

PenSam expects the companies in which PenSam has invested to have a policy in place which ensures compliance with applicable tax legislation. If PenSam becomes aware that this is not the case, the investment concerned will be reconsidered.

PenSam does not believe that aggressive tax planning contributes towards the long-term return on investments.

PenSam wants the highest possible proportion of the return on PenSam's investments to be taxed in Denmark. In any event, the Danish PAL tax (pension return tax) is always paid on the return on investments. Tax payments are divided according to fair and appropriate principles between the activity country and Denmark.

When PenSam is to make investments, it is a prerequisite that the countries of such investments have an agreement with Denmark on the exchange of tax information.

Before an investment is made, PenSam cooperates with external consultants to make an analysis of the tax situation and transparency of the investment concerned, where relevant. This ensures that PenSam has insight into the tax situation that exists in different countries.

When PenSam invests abroad in cooperation with others, the underlying investments are made via investment companies/funds placed in countries which have the legal infrastructure to handle PenSam's request for tax transparency. In line with the condition that information is to be exchanged, PenSam can only invest in countries which have made an agreement with Denmark on the exchange of tax information; this means that bank information, etc., is made available to the Danish tax authorities.

It must be noted that Denmark also has an agreement on the exchange of information on transparency with countries such as the Cayman Islands, Jersey, and Guernsey, so that in each situation transparency on taxes is ensured.

If, following the conclusion of an investment agreement, PenSam becomes aware of an infringement of PenSam's rules, the issue will be scrutinized. PenSam will enter a dialogue with the business associate concerned to see how the matter can be solved, so that any infringements may be stopped. In a worst-case scenario, future cooperation may be affected.

# Tax Code of Conduct

## Tax Code of Conduct

### FOUNDING PARTNERS



### ADOPTED BY



### PREAMBLE

Tax revenue forms an essential part of a well-functioning society and constitutes a fundamental building block and funding source in achieving the UN's Sustainable Development Goals which focus on improving welfare, justice, education, emergency services, health, and environmental protection in developed and developing countries.

Internationally, there has been a growing focus on preventing aggressive tax planning and achieving increased transparency in the area of tax, resulting in a range of important international initiatives including the OECD's Base Erosion and Profit Shifting project and the EU Anti-Tax Avoidance Directives.

The Danish institutional investors ATP, PFA, PensionDanmark and Industriens Pension and the acceding parties (the "Investors") recognize the importance of tax as an integral measure in achieving the UN's sustainable goals as well as the need for a common framework for responsible tax behavior. The Investors wish to support and contribute to these developments as part of their responsible investment strategy.

The pension funds are subject to a fiduciary duty to their pension members with respect to selecting and managing their investments in the most optimal manner possible. Foundations, associations etc. are in a similar manner subject to a fundamental objective of managing their investments in the most optimal manner.

To facilitate the above principles, ATP, PFA, PensionDanmark and Industriens Pension have developed a mutually agreed set of tax principles for unlisted investments in the form of this Tax Code of Conduct outlining how the external managers (the "Manager") should behave in the area of tax with the aim of ensuring more efficient and sustainable investments from a tax perspective.

The Investors will endeavor to ensure that the Manager act within the framework of the Tax Code of Conduct. However, this cannot be guaranteed as the degree of influence that the Investors have over the Manager varies and depends on various factors including whether the Investors constitute majority or minority investors.

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## 1. Investors' Expectations of the Manager

The Investors expect the Manager to use best efforts to ensure compliance with applicable tax law and regulations within the jurisdictions where the investments are made and in such a way that consideration and foresight is given to tax law developments and international initiatives.

The Investors expect the Manager to use best reasonable efforts to act in accordance with the Tax Code of Conduct and encourage the Manager to implement and/or maintain a tax policy.

## 2. Tax Planning

The Investors welcome the various international tax initiatives aimed at defining a set of coordinated international rules and eliminating tax avoidance such as e.g. OECD's Base Erosion and Profit Shifting project, and encourage the Manager to anticipate these developments, when possible, and seek to implement structures that are sustainable in the long term.

Due to the Investors' fiduciary duties to their pension members and stakeholders with respect to the efficient management of the investments the Investors encourage the Manager to consider tax planning opportunities that prevents double taxation and maximizes the after-tax-return for its investors. However, the Investors urge the Manager to carefully consider such planning and only to undertake non-aggressive tax planning.

The Investors accept non-aggressive tax planning, which aims to ensure fair competition and avoid double taxation, as exemplified below (the list is not exhaustive):

- (a) General use of holding companies
- (b) General use of available double taxation treaties where the business substance justifies the use of a specific double taxation treaty
- (c) General use of current and historic tax losses to reduce taxable income
- (d) General use of debt financing
- (e) Use of hybrid entities for non-aggressive tax planning.

The Investors do not accept aggressive tax planning. The Investors define aggressive tax planning as exploitation of technicalities in a tax regime or as exploitation of inconsistencies between tax regimes in order to reduce tax liability. The Investors expect the Manager to use best reasonable efforts not to engage in aggressive tax planning or structuring as exemplified below, or which conflicts with applicable tax law:

- (a) Abuse of tax treaties, where holding companies which do not have sufficient substance in line with the OECD Principal Purpose Test, are used for the sole purpose of reducing or avoiding withholding tax.
- (b) Transfer pricing planning for tax avoidance purposes
- (c) Use of financial instruments for aggressive tax planning
- (d) Use of hybrid entities for purposes of aggressive tax planning.

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### 3. Restricted Jurisdictions

The Investors support increased transparency and the international initiatives that are implemented at OECD and European level towards increased transparency. In line with these principles, the Investors expect the Manager to also support these initiatives by using caution when investing in portfolio companies and not investing in intermediary holding companies incorporated or tax resident in:

- (a) Jurisdictions that are deemed "not compliant" according to the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes peer review process at the time of the investment<sup>1</sup>, or
- (b) Jurisdictions listed on the EU's list of non-cooperative tax jurisdictions at the time of the investment.<sup>2</sup>

### 4. Investments in Developing Countries

The Investors encourage the Manager to use caution in relation to tax structuring when investing into developing countries.

The Investor recognizes the right of governments to design their tax policies so that specific industries or areas become developed and for the Manager to make use of such generally available incentive schemes, e.g. in the form of depreciation and/or tax credits. However, the Investors encourage the Manager to use caution in the use thereof in developing countries.

Similarly, the Investors encourage the Manager to display caution when using shareholder loans as financing in developing countries and avoid the use of highly leveraged acquisition structures in jurisdictions without general interest limitation rules in line with OECD/US principles with the aim of reducing taxable income not in line with international market standards.

### 5. Transparency and Dialogue

The Investors expect the Manager to be transparent on its approach to tax and further expect the Manager to engage cooperatively in dialogue with the Investors.

The Investors will carry out spot checks on the Manager's general tax practises and expect the Manager to co-operatively enter into a dialogue if the Investors find that the Manager do not act in accordance with this Tax Code of Conduct. The Investors expect the Manager to cooperate and use best efforts to provide relevant information reasonably requested by the Investors.

The Investors expect the Manager to use best efforts to comply with the requirements under the mandatory automatic exchange of information rules contained in European Council Directive (EU) 2018/822.

### 6. Future Developments

Tax matters are dynamic and complex and social norms evolve over time. The Investors continuously monitor the development of international tax practice.

The Investors engage into an active dialogue with other institutional investors and fund managers in order to discuss initiatives to responsibly reduce tax risks associated with investments.

This Code of Conduct will be updated as needed.

<sup>1</sup> Reference is made to the OECD's website: <http://www.oecd.org/tax/transparency/documents/exchange-of-information-on-request-ratings.htm>

<sup>2</sup> Reference is made to the European Commission's website: [https://ec.europa.eu/taxation\\_customs/tax-common-eu-list\\_en](https://ec.europa.eu/taxation_customs/tax-common-eu-list_en)

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## PenSam's Code of Conduct

PenSam provides labour market pensions to 440,000 pension customers working primarily in the public welfare sector, where they provide elderly care and pedagogical care. On behalf of our customers, we as investors want to take social responsibility and contribute towards generating a good return on a responsible basis.

Consequently, values relating to responsibility and decency form an integral part of PenSam's business culture and operations. This also applies when we invest, and we have the same expectations from our associates.

### General expectations

In addition to the above-mentioned values and attitudes, PenSam's Code of Conduct is based on several international guidelines and conventions, including the 10 general principles of the UN's Global Compact for the work of companies with social responsibility.

This means that, in its own operations and when investing, PenSam complies with the guidelines of the UN's Global Compact. We also expect our associates and suppliers to do so.

This also means that we expect human rights to be respected, and we expect compliance with international conventions on the environment and working conditions. Furthermore, we expect our associates and suppliers to always comply with national legislation and provisions, and not to take part in any infringement of the rights of individuals.

We expect our associates and suppliers to be aware of their social, managerial, and financial responsibility. Furthermore, PenSam expects from its associates that no investment or investment structure is organised with the purpose of aggressive tax planning. We also expect our associates not to perform any action which deliberately counteracts the OECD's BEPS recommendations.

### Breach or infringement

To PenSam, direct dialogue with associates and suppliers is of the essence. If PenSam sees or is made aware that associates or suppliers do not live up to PenSam's expectations, PenSam will launch an examination to clarify the degree of such failure to live up to expectations.

PenSam will enter a dialogue with the associate or supplier to find out how the situation can be improved. If PenSam does not find that associates or suppliers show any willingness or ability to change their behaviour, PenSam will reconsider the cooperation that has existed.



## PenSam's Social Clause for Property Investments

1. Turnkey contractors must ensure that the employees engaged by the turnkey contractor, the subcontractors of the turnkey contractor, as well as the subcontractors/suppliers of the subcontractors to perform the turnkey contract (jointly defined as "the employees"), have wage conditions and conditions of employment which are not less favourable than the wage conditions and conditions of employment specified in collective agreements, legislation or administrative provisions applying to work of the same nature within the trade or industry concerned within all of Denmark.
2. To ensure that the turnkey contractor lives up to the implementation of this clause, this matter is to be a separate item on the agenda of each construction meeting, where the turnkey contractor is to provide information about the employees' wage conditions and conditions of employment; the information thus provided is to be entered in the minutes of each construction meeting.
3. The developer may at any time request documentation to verify that wage conditions and conditions of employment of the employees live up to the requirements mentioned above. Such documentation must reach the developer not later than seven days after such request has been forwarded, unless the documentation concerned cannot be delivered physically, e.g., because of processing time for the preparation of wage slips, translation of foreign documents, etc., In such cases, documentation must be made available immediately and not later than five days after the material became available to the turnkey contractor.
4. The turnkey contractor is liable for any cost and/or delay imposed on the developer as a result of employees failing to comply with obligations under this clause.
5. The developer may withhold remuneration to the turnkey contractor, provided the turnkey contractor does not comply with his obligations under this clause, and provided this leads to a warranted claim for additional pay from the employees. Whether such claim is warranted will be decided in accordance with labour legislation rules. The amount of such withheld amount will be determined as the claim advanced or the estimated value of such claim if the claim has not yet been calculated. Such withheld amount will be released without undue delay if the turnkey contractor is able to document that the claim is unwarranted, or when the claim has been met.
6. The turnkey contractor may be held liable to pay a contract penalty if this clause is infringed. The contract penalty per working day or part thereof corresponds to DKK 30,000 per day, until such infringement has been ended. The collection of the contract penalty will be put on hold during the period when the case is being processed based on labour legislation, but collection will be resumed when a labour legislation decision has been made to the effect that the clause has been infringed. In such case, the daily contract penalty will be payable, until the advanced claim has been met. The amount may be offset against the turnkey contractor's remuneration or the guarantee provided by the turnkey contractor as the developer sees fit. If the claim turns out to be unwarranted, the full daily contract penalties will be refunded.
7. Furthermore, the turnkey contractor is obliged to engage 5 full-year interns/apprentices (corresponding to 1,924 hours of work per full-year intern/apprentice, incl. holidays, illness, college stays, etc.) in connection with performance of the turnkey contract.
8. If, when handing over the assignment, the turnkey contractor has not met the required number of full-year interns/apprentices, or does not provide documentation for this, a contract penalty of DKK 50,000 will be payable for each full-year intern/apprentice. Such contract penalty may be offset against payments to the turnkey contractor, including the final invoice from the turnkey contractor, or it may be offset against the guarantee provided by the turnkey contractor, as the developer sees fit.

The maximum liability for the turnkey contractor under item 8 is DKK 250,000.