

**Nykredit**



## Sustainable Investment Policy

December 2022



Nykredit is customer-owned. Taking responsibility for wider society and creating long-term value for our customers is part of our DNA. We are convinced that investing sustainably is inseparable from our aim of delivering strong, long-term investment returns to our customers.

Our ambition to benefit society and create long-term value for our customers guides our investment, advisory and general business practices. Nykredit is both committed and uniquely positioned to help solve the challenges faced by society and to make a difference. Nykredit wants to be the customer-owned, responsible financial provider for people and businesses all over Denmark. We aspire to be strong custodians of capital and society, for current and future generations. We believe this is how we achieve the best results – for our customers and the world around us.

# Contents

1.	Purpose and target group.....	4
2.	How we invest .....	5
	2.1 Nykredit's climate target and contribution to achieving the UN Sustainable Development Goals .....	6
	2.2 Nykredit has adopted international standards and committed to collaboration .....	7
	2.3 Link to Nykredit's remuneration policy.....	7
	2.4 The policy's significance to returns.....	8
	2.5 Advice based on customer preferences .....	8
3.	ESG integration.....	9
4.	Active stewardship: overview.....	10
5.	Active stewardship: engagement.....	11
	5.1 How do we engage? .....	11
	5.2 Why do we engage?.....	12
	5.3 Escalation policy .....	13
	5.4 Monitoring and reporting on active stewardship .....	14
6.	Stewardship: Voting policy .....	14
	6.1 When do we vote? .....	15
	6.2 How do we make our voting decisions?.....	15
	6.4 Engagement and voting.....	15
	6.5 Voting principles .....	16
7.	Exclusions .....	19
	7.1 Universal exclusion criteria .....	19
	7.2 Fund-specific exclusions .....	20
	7.3 Sanctions .....	21
	7.4 Exclusion decisions and re-inclusion .....	21
8.	Special conditions: Government bonds.....	21
	8.1 How we include sustainability considerations in the process .....	22
	8.2 Reasons for exclusion of government bonds.....	22
9.	Special conditions: Mortgage bonds.....	23
10.	Special conditions: Illiquid alternative investments.....	23
11.	Selection of external asset managers.....	24
12.	Service and data providers .....	24
13.	Transparency.....	25
14.	Governance and reporting .....	25
	14.1 Conflicts of interest .....	25

# **1. PURPOSE AND TARGET GROUP**

This policy sets the framework for our work with sustainable investment and environmental, social and governance issues, commonly referred to as ESG. The policy applies to all Nykredit's investments on behalf of our clients as well as Nykredit's own portfolios. The policy applies to all asset classes. Some asset classes involve special conditions that require further clarification. This is the case for government bonds (chapter 7), mortgage bonds (chapter 8) and illiquid alternatives (chapter 9).

The policy covers investments made by Nykredit as well as by external asset managers appointed by Nykredit. For this reason, selection of external asset managers is described in a separate section. The policy also covers derivative financial instruments such as Exchange Traded Funds (ETF) and the like with underlying investments. If such instruments are used, they must present the best possible match with this policy.

Nykredit serves a wide variety of customers, ranging from private individuals to Danish and international institutional investors. However, our commitment to creating value remains the same, irrespective of which customers we invest for. We take responsibility by helping resolve societal challenges where we can make a difference. This policy constitutes the foundation across all our investments. Some customers may have special wishes and demands for their investments, which we are happy to accommodate, but as a minimum always within the requirements of this policy.

Among our broad range of investments in different asset classes and strategies, each product has its own specific approach, which is described in detail in the guidelines of the individual funds.

In addition to investment management, Nykredit provides portfolio administration services to a number of pension funds, investment managers and investment funds through Nykredit Porteføljeadministration. These funds make investments on behalf of their respective clients and therefore have their own policies to match them. Nykredit offers its insights and expertise to help our administration clients realise our common ambition of contributing to resolving societal challenges. Nykredit Porteføljeadministration has its own separate policy describing how we assist our customers and how we, in this area, want to contribute to sustainable development and respect for international guidelines and conventions.

## **2. HOW WE INVEST**

Nykredit's core values are reflected in the way we invest. To Nykredit, sustainable investment is about incorporating environmental, climate, social and governance issues in investment decisions. It is about creating impact. We are convinced that we provide most benefit to society and to investors by investing in businesses with the greatest potential to move in a more sustainable direction, rather than investing only in those already there.

We take responsibility by incorporating sustainability considerations in our investment processes, both in the selection of companies and the ongoing monitoring and evaluation of investments.

We also believe that we, as owners, can influence the investee companies to change. To this end, we use our influence in the companies to express our views, through engagement and voting.

Some investments are excluded from all strategies. For example, we do not invest in producers or distributors of controversial weapons or in companies persistently failing to comply with the international guidelines, conventions and recommendations adopted by Denmark and where engagement has proved futile. We also exclude a number of energy companies because their plans for transition are either non-existent or unrealistic.

Nykredit believes investing sustainably and creating market returns can go hand in hand. In our view, companies that deliver solutions to the challenges faced by our societies and act appropriately, will also be the companies that are most successful companies in the future. From this perspective our actions as investors should reduce sustainability risks as well as financial risks. In the long term this should result in a positive impact on returns as well as our society. There are, however, cases where the fundamental consideration for society takes precedence and we exclude a company regardless of the return potential. For example, this applies, as noted above, where issuers persistently breach international norms or conventions. In these instances we decide to exclude the company without taking the return potential into consideration. The principles behind these exclusions are described in more detail later in this policy.

However, some of our products go beyond the overarching approach and apply further measures, for instance through more engagement to drive change or through further exclusions.

ESG integration	Stewardship	Exclusions	Transparency
Throughout the stages of our investment processes, we integrate consideration and analysis of ESG issues	We use the tools of active ownership – voting and engagement – to target positive change	We set a baseline, excluding certain investments from all strategies. Some funds add a selection of further exclusion criteria	We provide transparency to all stakeholders on our sustainable investment practices, objectives and results

We recognise that many investors wish not only to know about the performance of their investments, but they also want to understand their impact on broader society. We are committed to providing our investors with that understanding. Using this approach, we want to identify ESG risks and manage principal adverse impacts with the aim of creating value and benefiting society.

### ***2.1 Nykredit's climate target and contribution to achieving the UN Sustainable Development Goals***

Nykredit wants to conduct our investments in alignment with the Paris Agreement and contribute to reaching the UN Sustainable Development Goals (SDGs). We commit our investment activities to be climate neutral by 2050, thereby contributing to limiting global warming to 1.5°C. The primary contributor to this will be the individual companies' efforts to become climate neutral, but there may also be investments both in activities that reduce greenhouse gas (GHG) levels in the atmosphere, and in companies with exposure to GHG emitting activities. This means that our investments will contribute to limiting global warming to 1.5° C in alignment with the International Energy Agency Net Zero Scenario.

Nykredit wishes to reduce the carbon intensity of our investments by 60% from 2020 to 2030. By 2030, 100% of invested funds should be aligned with, aligning with, or subject to engagement to encourage alignment with, a 1.5° C pathway. Nykredit will use the methodology in the Net Zero Investment Framework in our efforts to reach this target.

The world's investors play a central role in guiding society in a more sustainable direction and supporting the 17 SDGs by investing in sustainable measures and encouraging companies to assume responsibility for achieving the goals. Being one of Denmark's largest investment managers, we also have a responsibility for allocating our customers' and our own funds in a manner that supports the sustainable transition. By including considerations of sustainability in our investment processes, Nykredit seeks to contribute to a positive change. Nykredit regularly analyses the degree to which the companies' activities are aligned with the SDGs with the aim

of promoting conduct that is consistent with the SDGs and reducing conduct that is not.

## **2.2 Nykredit has adopted international standards and is committed to collaboration**

Nykredit supports and collaborates with a number of organisations and frameworks that are aligned with our own sustainability approach.

Nykredit adopted the UN Principles for Responsible Investments (UN PRI) in 2009 and has continued working with the six principles in our processes. In addition to this, Nykredit plays an active role in further developing methods in the area of responsible investment.

Nykredit has endorsed the UN Global Compact since 2008 and was one of the founding members of the UN Principles for Responsible Banking in 2019. Furthermore, Nykredit is a member of Dansif, Eurosif and several trade associations, including Finance Denmark. Also, Nykredit has contributed to and supports the Danish Investment Association's sector recommendations on sustainability. Generally, we consider it important to contribute to the development of sector recommendations and shared methods, and often play a key role in this context.

As part of the efforts to realise Nykredit's climate target for investments, Sparinvest is a supporting signatory to the Task Force on Climate-related Financial Disclosures (TCFD). The Task Force's recommendations are a central element of the asks towards the companies that are part of Climate Action 100+, in which Nykredit has been an active participant since inception. Nykredit is also a member of the climate network Institutional Investor Group on Climate Change (IIGCC) and has joined the Net Zero Asset Manager Initiative, which commits asset managers to supporting the goal of climate neutrality by 2050, setting interim targets for 2030, and contributing to the development of methodologies.

We also work with other frameworks and sustainability certifications, including the Nordic Swan Ecolabel and Towards Sustainability.

## **2.3 Link to Nykredit's remuneration policy**

The Sustainable Investment Policy has a direct link with Nykredit's remuneration policy. The individual staff member's compliance with the policies of the Nykredit Group, including this one, is one of the cornerstones of the remuneration policy. Nykredit's ambition to be Denmark's leading customer-owned, responsible financial provider also plays a key role, and this policy has ties with Nykredit's Corporate Responsibility Policy. Nykredit has formulated ESG key figures focused on climate footprint, sustainable solutions as well as customers' and staff's views of Nykredit's performance in terms of sustainable investment. Some Nykredit staff members have bonus schemes or may receive performance awards, and in both cases, the determination is based partly on this policy and their sustainable investment performance. Nykredit's remuneration policy is available on Nykredit's website.

## **2.4 The policy's significance to returns**

The philosophy behind this policy is that environmental, social and governance (ESG) issues and how you deal with them have a major impact on corporate values and on long-term returns. The policy is based on an objective of generating value and making a difference through integration of sustainability in the investment process and by driving positive change. This is, in Nykredit's view, the best way to generate good risk-adjusted returns for our customers and, in a joint effort with our customers, to realise the ambition of a more sustainable development.

Although some consider ESG data to be non-financial, we disagree. ESG issues may have as much, if not more, financial relevance as other types of fundamental information about an investment. Therefore, Nykredit integrates ESG in our investment processes, as we believe it has a bearing on the risks and return potential of an investment. This mindset builds on our own as well as external analyses of the correlation between sustainability risks and potential returns on the investment. These analyses and Nykredit's long experience with sustainable investment show us that there is a correlation between ESG performance and returns. Nykredit conducts ongoing analyses and reports on the issue in our annual reports.

Nykredit's efforts towards contributing to climate transition and reaching our ambition of climate neutrality by 2050 are based on the recommendations of the Task Force on Climate-related Financial Disclosures. In this respect, too, the perspective is that, as the world moves towards climate neutrality, companies from many different sectors will be faced with climate-related risks and opportunities with major impacts on their long-term viability and value. The obvious example is companies involved in fossil fuels, which will be facing special risks, whereas other technologies within energy savings and renewables will have a greater potential. This potential and these risks are considered in the investment process.

Nykredit will make principle-based decisions on exclusions of companies, for example, if these do not respect international norms or agreements. These decisions are based on our values and do not take the return potential of the company into consideration. In spite of this, it is our experience that Nykredit will be able to deliver competitive returns on our investments. This is due to the fact that these exclusions contribute to reducing sustainability risks over time, even though this was not the primary rationale for the exclusion. This could be the case of a coal mining company excluded due to not having any transition plan, and then later this company experiences a decline in demand as a result of the green transition. Another case could be the divestment of a sanctioned company, which experiences limitations to its business due to the sanctions.

## **2.5 Advice based on customer preferences**

Nykredit believes that investing sustainably is inseparable from our aim of delivering strong long-term risk-adjusted investment returns to our customers. We invest to create value and



benefit society. We make our knowledge available to customers when providing investment advice or portfolio management services, so that we can find the right solution together. Our customers are varied and have different demands and needs when it comes to sustainability. We therefore have different solutions that we can put into play. The solution is the customer's choice, but we always provide insight, so that the choices and their consequences are clear. We follow up with reporting both on value creation in the form of financial returns and the impacts on broader society. We do this to make sure that our customers are comfortable and satisfied with the solution chosen.

### **3. ESG INTEGRATION**

Information on ESG strengths and weaknesses, risks and opportunities, is a significant part of the fundamental information we use to select investments, build portfolios, monitor companies and perform stewardship activities.

The exact way we utilise ESG information and monitor our investments, varies by asset class and investment strategy. However, there are commonalities across all funds and products. An actively managed fund, selecting individual equities after detailed analysis, is naturally different from a quantitatively managed fund that systematically builds portfolios, or a passive fund designed to track the returns of an index.

As a baseline, across all funds, all holdings and potential investments are screened on a rolling basis for compliance with international norms in the areas of human rights, labour rights, the environment and climate. This includes widely recognised UN conventions: UN Global Compact, UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises, the Paris Agreement and conventions concerning controversial weapons. This information is used to inform both investment decisions and our stewardship programme. Some companies may be excluded as a result (read more in chapter 6). We also monitor the broader ESG performance of our investments, including relevant measures of climate footprints.

**For our passively managed index strategies**, the primary consideration is to replicate the performance of a specific index. Some of these indices are constructed on the basis of sustainability considerations, while others do not include this aspect. Regardless, monitoring of companies and active stewardship in relation to the policy play an important role.

**For our quantitative strategies**, securities are selected via systematic quantitative processes, and the underlying data considered in these processes include ESG information.

**For our actively managed, fundamental strategies**, ESG information is integrated in both

qualitative and quantitative ways throughout the entire investment process, from screening and analysing potential new investments, to calculating fair values, to making investment decisions, and building and monitoring portfolios.

Our investment team approaches ESG considerations alongside other fundamental considerations, seeking relevant information from company reporting and contact with the company. We consider megatrends such as climate change and other cross-sector issues that may be expected to have material impact across portfolios, as well as company-specific considerations. Depending on the context – such as the sector in which a company operates – certain ESG issues can be considerably more important than others, and we prioritise accordingly in our analysis. Our internal analysis is also informed and augmented by insights from external research providers, including specialised ESG research providers. This includes ESG research covering industry-level, country-level and thematic ESG issues and also company-specific research.

Our ESG work is based on a broad range of ESG information from both internal and external sources. Sources may include internal research, company reporting, service and data providers, screening for compliance with international standards, proxy voting research, climate data, sell-side research, media and NGO investigations.

**For our externally managed strategies**, an important criterion in the selection of asset managers is their ability to integrate ESG considerations in the same way as we do in our internal investment management. Based on the monitoring of investments, we communicate regularly with asset managers about the integration of ESG information and the development of their approach.

## **4. ACTIVE STEWARDSHIP: OVERVIEW**

Nykredit invests sustainably, with a long-term mindset. We recognise that there is no such thing as "perfect" and that sustainability is not as simple as good versus bad. Instead, we believe in the potential for positive change. Whether in terms of delivering investment returns or achieving societal goals.

We also recognise that investing sustainably does not end with the investment decision. In fact, that is just the beginning. Our investment philosophy is an ownership philosophy. We see equity investment, for example, as owning real stakes, in real companies. This means we have the opportunity, but also the responsibility, to be active owners, communicating with the companies in which we invest, and potentially influencing their behaviour. The aim of this cooperation is to foster long-term, sustainable corporate value.

In the following chapters, we describe our approach to active stewardship using two main tools: voting and engagement, which we see as inherently interlinked. We also explain our approach to escalation and ultimately exclusion if engagement does not develop satisfactorily.

In recognition of our role as stewards of our investors' capital and long-term interests, Nykredit complies with the EFAMA Stewardship Code.

## **5. ACTIVE STEWARDSHIP: ENGAGEMENT**

Our approach to sustainability feeds directly into our stewardship programme. We seek to foster the long-term value of our investments, encouraging companies both to mitigate sustainability risks and exploit sustainability opportunities. We are driven by the potential to deliver positive change both in society and in our investments where we believe it goes hand in hand with strong long-term returns.

As described in 4.4 above, we continuously monitor our investments. It provides us with insights into the ESG opportunities and risks our investments are faced with.

As investors, it is natural to have dialogue with holdings. For example, in our active, fundamental strategies, the investment teams communicate with companies as part of the investment process to bolster their understanding and highlight certain issues. We aim to continue the dialogue with our holdings after the initial investment. The ideal is to have a frank but constructive, two-way dialogue with our holdings, and we do not hesitate to give our views on key issues, whether short- or long-term, ESG or otherwise. However, we classify as "engagements" only those dialogues in which we have a specific goal. We take a practical and materiality-based approach: We focus on cases where we see potential for meaningful impact on corporate value and sustainability.

### **5.1 How do we engage?**

Our engagements are usually either direct, collaborative or led by service providers. We often find it can be powerful to combine these methods. Generally, we seek to act as constructive partners to our investee companies, and this means we may also bring third parties into the dialogue – for example, liaising between the company and an NGO regarding best practice on the specific issue.

- **Direct engagements:** These are run by Nykredit alone, but always in collaboration with the relevant teams. In our active, fundamental strategies, the engagement is typically run by members of our investment teams, since our portfolio managers possess solid knowledge of the specific company that may further strengthen the dialogue. It also sends a clear message to the investee company that sustainability is an issue that runs

to the heart of our investment decisions. Our investment teams are supported by our ESG team, who also run engagements on behalf of our quantitative and passive strategies.

- **Collaborative engagements:** These are engagements where we join with other institutional investors via forums such as Climate Action 100+ and PRI to co-ordinate engagement on specific ESG themes. Often, we will assume the role of lead investor where we run the engagement with one company on behalf of various investors, while other investors lead the engagement with other companies on Nykredit's behalf.
- **Service provider engagements:** We also join engagements led by professional service providers. In these cases, we often join the engagement meetings, and we maintain a strong feedback loop with our service providers, for example, advising them of our own engagement experience with the company in question.

## **5.2 Why do we engage?**

We engage with companies on various issues, ranging from specific ESG risks or opportunities identified at the company to broad issues, such as climate change. In deciding which engagements to prioritise, we consider their materiality and the potential for meaningful change.

- **Company-specific ESG risks or opportunities:** We analyse and monitor specific areas where we can encourage companies to mitigate risks or exploit opportunities that can deliver positive societal impacts and corporate value.
- **Climate change:** We see climate change as one of the predominant challenges facing companies and society. The nature of corporate approaches to climate transition can strongly impact corporate value. Our engagement work here fits closely with our climate change analysis of the portfolio, including carbon footprinting.
- **Breach of international standards:** Where our ongoing screening identifies breaches of international standards, we adopt a two-pronged approach to engagement: We push for remediation of the issue and management must ensure change to prevent recurrence of the issue. In our actively managed, fundamental strategies, we engage directly with the company, partly to make it clear to the company that we – as investors – attach significance to the issue, partly because we believe our special knowledge of the company may have particular influence on the course of action. In our quantitatively and passively managed funds, we play an active role in engagements run by a service provider. As for exclusions, Nykredit publishes a list of ongoing engagements with companies in breach of conventions.

- **Voting-related engagement:** We regard voting as a tool in a broader engagement process. When we vote against management recommendations, we always seek to supplement this with dialogue. We aim to do this for all holdings in our actively managed, fundamental strategies. In our quantitatively and passively managed strategies, we aim to communicate with the companies on voting issues of particular significance. Where time permits, this dialogue is started before the relevant general meeting.

### **5.3 Escalation policy**

We see engagement as an opportunity for positive and constructive dialogue between listed companies and their stakeholders, with the aim of enhancing long-term corporate value and sustainability.

Of course, dialogue does not always progress to our satisfaction. In such cases, we consider why, whether it is appropriate to escalate, and if so, which steps would be appropriate. Our aim is to foster a constructive environment for dialogue, while making our expectations clear.

We recognise that each engagement and each company has its own unique characteristics, and therefore the best way to proceed is considered on a case-by-case basis. Similar to the manner in which we initially select issues for engagement, we consider the materiality of the issue, the potential for impact, and an estimation of the resources required engagement. Our approach to escalation may include the following:

- **Further communication:** Continuing the dialogue. This may involve several modes of communication (emails, phone calls, meeting in person, etc).
- **Alternative counterparts within company:** Seeking dialogue with different representatives of the company in question. This could be senior representatives (board members or senior management, independent board members, etc) or more specialised representatives. This may involve considering whether Nykredit's representative has sufficient seniority.
- **Employing a different type of engagement:** In certain cases, it can be constructive to shift from one type of engagement to another, such as shifting from a collaborative engagement together with other institutional investors to one managed solely by Nykredit.
- **Voting:** Where the issue is the subject of a voting agenda item, we will vote in accordance with our voting policy and in the best interests of our clients. Where the issue is not directly linked to a voting agenda item, we may on occasion vote against a director appointment as a way of expressing dissatisfaction.

- **Filing of shareholder resolutions:** In certain circumstances, we may consider filing a shareholder resolution at extraordinary or general meetings of shareholders, or convening a general meeting.
- **Public statements:** We may lend our support to broad investor statements related to certain initiatives which we believe contribute to the company's long-term value. In individual engagements, we do not generally consider public statements to be particularly conducive to a constructive atmosphere for dialogue. We may make our views known if considered appropriate, for instance at general meetings, other public venues or in the media.
- **Sale of position:** The current status of any engagement and insights gained from it are naturally part of the fundamental information we consider as we monitor an investment, assess its fair value, and determine whether to remain invested and whether its position size is appropriate. In certain cases, such as serious and persistent violations of international norms, a lack of satisfactory progress in engagement may lead to us placing a company on our exclusion lists, which apply to all portfolios.
- **Legal remedies:** When considered appropriate we may seek legal remedy, for example seeking damages through participation in class action lawsuits.

#### ***5.4 Monitoring and reporting on active stewardship***

Nykredit continuously monitors our different engagements, using internal tools to share data and knowledge across teams. Progress in the active stewardship in relation to a company is discussed in the relevant investment teams and at internal forums. In respect of breaches of international standards, the Sustainable Investment Forum decides when the target is reached, and if no progress in engagement is achieved and reaching the target is not deemed to be realistic, the company will be excluded.

We report on our stewardship activities in fund-specific reporting and in our annual Transparency Report with the UN PRI. In order to preserve a trusting dialogue with the companies, we usually do not comment in detail on ongoing engagements.

## **6. STEWARDSHIP: VOTING POLICY**

The fact that we as investors may vote at general meetings highlights that our investments represent actual ownership of real companies. At Nykredit, we consider the thoughtful and proper exercise of those voting rights on behalf of investors to be one of our core responsibilities as an asset manager. We are committed to providing transparency in both our

voting process and our actual voting decisions, which we disclose via our website.

### **6.1 When do we vote?**

Nykredit aims to vote at all general meetings where we are entitled to vote, except where our customers and investors have instructed us otherwise. Nykredit does not perform stock lending in Nykredit's investment funds.

### **6.2 How do we make our voting decisions?**

Our voting principles (see 6.4 below) set out key considerations on corporate governance and other areas related to voting. We review all voting agenda items and vote against resolutions which are inconsistent with these principles or which we otherwise consider not to be in the best long-term interests of our clients.

Nykredit uses proxy adviser services to assist with operational aspects of voting. These advisers provide research on voting agendas, based on Nykredit's defined policies and principles for voting. This information is supplemented with other data and own research used in our investment processes.

Our active investment teams play a key role in this process, with voting being an important element in the stewardship of the investments. In the active, fundamental investment strategies, the investment team will analyse agendas against this policy and in the context of dialogue or engagement with the holdings assess how best to vote.

Concurrently, Nykredit's ESG team reviews agendas across investment strategies, assessing them against this policy and other exposures. This is done by systematic analysis of agendas by our proxy advisor based on the principles in this policy combined with a more qualitative internal analysis of AGMs selected due to the size of holdings or controversy that demands extraordinary attention.

In actively managed funds, the investment team and the ESG team will also discuss how to vote in order to best serve the interests of our clients. In case of disagreement, the investment team will make the final decision within the scope of this policy.

To Nykredit, voting is a joint effort between the investment team and the ESG team, with the aim of generating value and complying with Nykredit's policy and objectives.

### **6.3 Engagement and voting**

We consider the exercise of voting rights a central part of our relationship with companies. We see voting as a complementary and supporting opportunity for constructive and positive dialogue with listed companies. Where engagement does not progress satisfactorily, we may

consider voting in order to highlight our concerns.

We regard voting as a tool in a broader engagement process. When we vote against management recommendations, we always seek to supplement this with dialogue. We aim to do this for all holdings in our actively managed, fundamental strategies. In our quantitatively and passively managed strategies, we aim to communicate with the companies on voting issues of particular significance. Where time permits, this dialogue is started before the relevant general meeting.

#### **6.4 Voting principles**

The principles below apply to all investments managed by Nykredit and are used to inform our voting decisions on all voting agenda items and shareholder resolutions. The purpose of the principles is to minimise risk and enhance sustainable long-term corporate value, based on the guiding principle of serving the long-term interests of investors.

In general, we consider a company's board of directors to be responsible for generating sustainable, long-term corporate value, cognisant of its accountability to the company and its shareholders, and its responsibility to other stakeholders such as employees, clients, suppliers and creditors.

Precise thresholds – such as for board independence – may vary by region. Subject to the principles below, Nykredit supports the general principle that companies should as a minimum comply with best practice corporate governance standards applicable in their country of domicile, or explain their non-compliance.

##### **Governance:**

- We support the principle of "one share, one vote"
- We are generally opposed to any kind of "poison pills"
- We support strong protection of minority shareholders' rights
- We support fair access to make shareholder proposals.

##### **Members of the board of directors:**

- The board of directors should include both executive and non-executive directors, but a significant proportion – ideally a majority – should be independent non-executive directors.



- We believe that the roles of chief executive and chair of the board of directors should be separate to ensure board independence and will typically vote against appointments that combine these roles.
- The board should include directors with an appropriate balance of relevant experience and skills.
- The board should consider its diversity. We believe there are long-term benefits to diversity on the board and will generally vote in a manner that encourages this. For example, we will generally vote against the appointment of the chair of the nomination committee and the chair of the board, or other directors as appropriate, at:
  - Companies in developed markets where the board is not comprised of at least 40% underrepresented gender identities (underrepresented gender identities include directors who identify as women or as non-binary), or any higher requirement applicable in the country of domicile (in Japan, 30%).
  - Companies in developing countries in which no member of the underrepresented gender(s) serves on the board of directors.
  - companies in specific markets where the board lacks racial diversity
- Nomination committees should consist of a majority of independent non-executive directors
- Director nominations should include sufficient information regarding the nominee's experience, skills and links with the company to allow shareholders to make informed decisions
- Director nominations should not be bundled under one agenda item
- The board of directors should take steps to measure and ensure its effectiveness. This should include ensuring that directors are able to allocate sufficient time and that directors do not hold excessive numbers of board positions at multiple companies.

**Remuneration:**

- On remuneration committees, the majority of members and the chair should be independent non-executive directors.

- A transparent remuneration policy should align the interests of management with the corporate strategy for the creation of long-term value and the safeguarding of the long-term interests of shareholders.

**Reporting and audit:**

- Companies should be transparent, providing full and meaningful disclosure of relevant information to stakeholders and shareholders
- Such disclosure should include ESG-related information, which may have significant financial implications, particularly over long periods of time.
- Accounts should be audited by independent external auditing firms whose other relationships with the company cannot be considered to impair that independence.
- Audit committees should consist entirely of independent non-executive directors.

**Dividends, share buybacks and capital allocation:**

- Management decisions on capital deployment should be made in the best interests of the long-term corporate value. This consideration may influence our votes on issues such as dividends and share buybacks
- Where measures of capital efficiency are persistently low over a number of years and where we perceive a lack of a clear and effective strategy to remedy that, we may vote against the election of members for the board of directors
- We generally believe that significant levels of cross-shareholdings are unlikely to be conducive to long-term value creation, both from the perspective of corporate governance as well as capital efficiency. In companies with persistently high levels of cross-shareholdings, we may vote against the election of members for the board of directors.

**Climate:**

- We believe that climate change and the transition to a global economy aligned with the Paris Agreement present some of the most significant risks and opportunities for companies. The board of directors should ensure that adequate resources are allocated to understanding, monitoring, formulating and executing a strategy and reporting on these issues.

- Reflecting this, we will consider voting against the election of directors or members for relevant committees, where we perceive a lack of will, effort or ability to address climate-related risks or realise climate-related opportunities.
- We will generally be supportive of constructively-phrased shareholder proposals targeting increased disclosure of climate data, strengthened governance or other actions on climate-related issues.

## 7. EXCLUSIONS

At Nykredit, we recognise that our clients are varied and have differing preferences when it comes to sustainability. This also applies to exclusions where Nykredit has a number of universal exclusions as well as exclusions related to specific products. Generally, Nykredit excludes companies whose activities are contrary to international guidelines, conventions and agreements adopted by Denmark (through the EU and otherwise) and who are unwilling to change their practices. This also applies to companies whose conduct indicates systematic violations of the same. Nykredit also excludes companies lagging behind the green transition because they have major climate risks but no strategy for transition. A current exclusion list is available on Nykredit's website.

### 7.1 Universal exclusion criteria

As described above, Nykredit has set some universal exclusion criteria that apply to all our strategies. The aim is to preserve a broad investment universe, while setting a clear baseline. None of our strategies will invest in:

- **Controversial weapons:** confirmed producers or distributors of controversial weapons.
  - This means anti-personnel mines, cluster munitions, biological weapons, chemical weapons, depleted uranium, white phosphorus, lasers aimed to blind humans, and nuclear weapons outside the Nuclear Non-Proliferation Treaty.
- **Persistent norm violators:** a minority of companies that persistently fail to remedy violations of international norms and are unresponsive to engagement.

This links with our engagement work and escalation policy. If a company violates international guidelines and conventions and is unwilling or unable, despite Nykredit's engagement, to remedy the violation, the company will be excluded. The progress of our dialogue with the company on violation of conventions is evaluated regularly. Progress must be assessed not later than two years after the dialogue for violation of conventions commenced. Based on this assessment, Nykredit will determine whether it is realistic to make the company change its practices. If not, the company will be excluded. This includes tobacco companies.

- **Climate – green laggards:** Nykredit regularly monitors the companies' exposure to climate risks and assess them against the progress of the green transition. This is a key focus in our engagement work and, in some funds, we exclude companies in certain sectors. However, across all funds, we exclude companies if their core business is incompatible with the Paris Agreement 1.5 degree goal and they have no strategy for transition. As the green transition proceeds, the thresholds for excluding companies based on fossil fuel exposure will change. Sparinvest currently has a specific focus on high-emitting sectors like energy and utilities, but more sectors will be added going forward to 2030.

## **7.2 Fund-specific exclusions**

Our sustainable investment philosophy places emphasis on the potential for change, and we see significant benefits to society from working with companies to drive positive change. However, we also offer funds excluding a larger part of the investment universe. Our funds use combinations of the exclusion categories below, and specific details on threshold values, etc can be found in fund-specific documents. Nykredit regularly evaluates fund-specific exclusions. In this connection, Nykredit consults with clients and other market players and considers the general trends in the sector:

- **Climate-based exclusions:** Climate change is perhaps the single most significant ESG issue, whether in terms of its impact on global society and the environment or in terms of its economic and investment impact. This is reflected in our integration of ESG considerations into our investment processes, in our stewardship efforts, in our management and measurement of climate-related risks and in our overarching climate exclusions. Certain funds go further and exclude companies with exposure to industries such as thermal coal, oil and gas as well as utility companies.
- **Norm-based exclusions:** Our regular screening for norm violations feeds into our engagement work and escalation policy. Extreme cases of persistent violation and failure to respond to engagement can lead to companies being excluded from all funds. However, in certain of our funds, the analysis may also lead to exclusion at an earlier stage.
- **Sector-based exclusions:** Certain funds exclude companies on the basis of exposures to industries such as alcohol, gambling, weapons and pornography.

- **Rating-based exclusions:** While we strongly believe in the potential for change, Swan-labelled funds and ESG index-linked funds employ ratings-based exclusions, where companies with quantitative ESG scores at the lowest level are excluded.

### **7.3 Sanctions**

Nykredit complies with EU sanctions and specific US sanctions (see chapter 7 for specific conditions related to government bonds). In cases where sanctions are imposed on new issues only, Nykredit takes it a step further by excluding existing issues as well. This means that Nykredit generally excludes all issues from companies that become subject to financial sanctions from EU member states or the US.

In certain instances Nykredit can choose to exclude an entire country from investments, if the country and its political leadership show contempt for human rights and international agreements. This could be a further escalation in case of international sanctions applied to the country and will be made on the basis of an assessment, whether a company listed in the country can act freely and in a manner such that the company is not indirectly involved in the oppression of the regime.

### **7.4 Exclusion decisions and re-inclusion**

Nykredit's Sustainable Investment Forum decides on the universal exclusions, which apply across all of Nykredit's investments. All decisions on exclusion must be executed as soon as possible after the decision has been made, always provided that it is carried out in an appropriate manner for investment purposes under the given market conditions. If the Sustainable Investment Forum decides to exclude a company, evaluation will be undertaken within two years of the decision in order to determine whether exclusion of the company is still warranted.

All universal exclusions and their reasons are available at Nykredit's website.

## **8. SPECIAL CONDITIONS: GOVERNMENT BONDS**

Nykredit's ambitions of sustainable investments also include government bond investments. The policy for government bonds is based on compliance with Danish, EU and international law as well as consideration of financial risks and opportunities resulting from politico-economic factors in the investment process.

Democracy, political legitimacy, respect for human rights and focus on sustainable development in the form of climate action as well as compliance with the 17 Sustainable Development Goals contribute to economic stability and development in developing and middle-income countries in

particular. In turn, this will have a positive impact on government bond returns. By contrast, unstable political regimes, involvement in acts of war and lack of political legitimacy due to violation of human rights and fundamental democratic principles as well as lacking focus on sustainable development may pose significant financial risks. Countries with a reasonable level of sustainability will generally be assessed as less risky, and a positive trend will therefore have a positive impact on returns. Countries with a high level of sustainability also tend to have a higher level of capital conservation. Government bond investments may contribute positively to the development of a country but require vigilant investors.

### ***8.1 How we include sustainability considerations in the process***

In order for Nykredit's investments in government bonds to generate societal value and make a difference, we include sustainability considerations about the issuer country in our investment processes. That way, Nykredit aims to manage the risks of the investments and exploit the potential of identifying whether a country is developing in a positive direction. Inclusion of sustainability considerations will also push investments in the direction of countries striving to realise the Sustainable Development Goals.

### ***8.2 Reasons for exclusion of government bonds***

Nykredit wants to comply with Danish and European foreign policy. At times, a government's behaviour may mean that placing capital at its disposal by buying the country's government bonds would be contrary to the principle of creating value and benefit society. In such cases, Nykredit will exclude those government bonds from our investment universe.

The exclusion decision will be based on an overall assessment of sanctions adopted by the EU against the country and leading government officials combined with other Danish and European political instruments such as blacklists, aid reduction, embargo and cooperation agreements. Sustainability analyses of the country's development will also be considered together with assessments from broadly recognised international organisations, think tanks and NGOs focusing on development, anti-corruption, freedom of speech and human rights.

As with Nykredit's other exclusion categories, Nykredit's Forum on Sustainable Investments makes the decisions on exclusion and re-inclusion in the investment universe. In ambiguous cases where it is considered important to take a wait-and-see approach, or where more thorough analysis is required, the Sustainable Investment Forum may decide to place the issuer on an observation list. Issuers on the observation list must be reassessed within six months of being placed on the list. Exclusion and observation lists will be published on Nykredit's website. The exclusion will not necessarily cause the exclusion of state-owned companies in the country concerned. It will depend on the company and its circumstances, and the Forum on Sustainable Investments will therefore make a separate decision for the individual company.

## **9. SPECIAL CONDITIONS: MORTGAGE BONDS**

The Danish mortgage system is an asset class that offers a unique type of funding. It enables the provision of long-term funding to Danish homeowners, agriculture and businesses. The precondition is a mortgage on real estate, real estate of a high international standard. Danish homes must meet some of the world's highest energy standards. Danish farmers are subject to environmental requirements that are more extensive than European standards in several areas. Danish businesses are often ranked among the most sustainable businesses in the world.

Mortgage bond issuers display a high level of corporate responsibility through their conduct, in part through their credit policies. The issuers are in the process of improving disclosures on their issues and specifying their objectives. As investor, Nykredit will continue our dialogue with the issuers with a view to further improvements in this area.

Issuers are screened like all other parties for violation of international guidelines and conventions. This information, combined with a sustainability analysis of the issuer, is considered when we invest in mortgage bonds. However, Nykredit takes it a step further and also considers issuers' credit policies, including whether they include sustainability analyses in the investment decisions. We apply data on energy efficiency, energy labelling and climate footprint provided by the capital centres. Moreover, Sparinvest engages with issuers of mortgage bonds on improving carbon footprint and the reporting of this.

## **10. SPECIAL CONDITIONS: ILLIQUID ALTERNATIVE INVESTMENTS**

In respect of alternative investments, for example infrastructure and private equity, sustainability considerations and ESG policies are central elements of the decision-making process. However, special conditions apply to the handling of sustainability considerations in this asset class due to the illiquid nature of the investments. Nykredit's alternative investments generally take place in collaboration with professional asset managers, the selection of which focuses on whether their policies are consistent with Nykredit's views and whether they have a proactive approach to working with the sustainability factors. For example, we expect asset managers to actively endeavour to improve the climate footprints of the underlying companies, but other issues such as health and safety, community impact, etc should also be addressed.

Commitments to private equity funds are subject to a contract that clearly sets out Nykredit's policy and philosophy on sustainability. The contract will also contain any negotiated excuse rights (in a fund structure, the right to opt out of a specific investment).

Upon commitment, Nykredit will regularly monitor the development, including reporting on various ESG criteria, which will also be communicated to clients. If problematic conditions arise in relation to a specific company, Nykredit will engage with the asset manager to monitor and possibly inspire the handling of the situation and to ensure transparency.

## **11. SELECTION OF EXTERNAL ASSET MANAGERS**

When selecting external asset managers, Nykredit considers their ability to create value and benefit society. This policy also extends to their investments. Prior to selection, the asset manager's investment process is analysed, including how it aligns with Nykredit's philosophy. The existing portfolio is analysed in relation to sustainability, violation of international sanctions and climate footprint. This, combined with the asset manager's plans for further process development, is included in the decision. The asset manager is not required to have signed UNPRI, but will be requested to do so, if appointed.

When the asset manager has been appointed, Nykredit will regularly monitor developments in terms of sustainability risks, adverse impacts and climate footprint. This will be part of the ongoing dialogue with the asset manager, and we will share the information with clients. Nykredit's exclusion list will be implemented for these funds, and Nykredit will engage with companies if they violate international conventions, and Nykredit exercises its voting rights for the funds' equity positions.

## **12. SERVICE AND DATA PROVIDERS**

The preconditions for investing with the aim of creating value and benefiting society are knowledge and the ability to execute. In this context, high quality data and reliable service providers play an important role. Nykredit obtains data from a variety of different sources. Nykredit receives information from investee companies and combine it with information from public sources such as authorities, international organisations, NGOs and, of course, the media. In addition to this, Nykredit buys data and research from stock brokers and specialised providers of sustainability databases. Insights from these sources are included in the investment process and our active stewardship through engagement with the company and voting. The latter is executed through our service providers by proxy voting and active stewardship.

Nykredit regularly assesses the suppliers and service providers' ability to supply valid data, accurate research and, in relation to engagements, to deliver on Nykredit's requests. At least once a year, we evaluate the quality of the services and collaboration. Nykredit's website and our annual reports contain a list of our current service providers.



## **13. TRANSPARENCY**

Transparency lies at the heart of Nykredit's approach to sustainable investment, and we are committed to providing clients and other stakeholders with a clear understanding of our policies, processes and activities.

Relevant policies and current reporting on our sustainability activities can be found on our website. This includes our PRI Transparency and Assessment reports. Fund-specific reports and documents provide more details on individual strategies and are also available on the website.

Nykredit's exclusion lists are published on Nykredit's website, as is a list of current engagements in relation to violation of international standards. Nykredit's website also includes a summary of attendance at companies' general meetings.

## **14. GOVERNANCE AND REPORTING**

Nykredit's Sustainable Investment Policy is reviewed annually and is subject to approval by the Board of Directors of Nykredit A/S. The policy contributes to implementing the Nykredit Group's Corporate Responsibility Policy. The Board of Directors is briefed at least annually on Nykredit's corporate responsibility activities, often at the time of publication of the statutory corporate responsibility report. The Group Executive Board makes up Nykredit's Corporate Responsibility Committee.

Nykredit's Forum on Sustainable Investments makes decisions relevant to the implementation of this Sustainable Investment Policy. The Forum will have at least four meetings annually to decide on engagements, possible exclusions and the further develop integration of ESG in the investment processes. The Head of Wealth Management is chair of the Forum, which also has representatives from Asset Management, Group Finance, Sparinvest, Nykredit Portfolio Administration and People and Identity. The Nykredit ESG Team and the Nykredit Asset Management Forum on Sustainable Investments will assist the Forum on Sustainable Investments. The Policy is implemented by the relevant business units, among other things asset management, and these will provide recommendations. The Nykredit Forum on Sustainable Investments as well as the boards of the individual investment funds will annually evaluate the efforts and the need to further develop this policy.

### **14.1 Conflicts of interest**

From time to time, Nykredit may encounter conflicts of interest in respect of fulfilling its stewardship responsibilities. To ensure that such situations are addressed correctly, they are

covered by Nykredit's Conflicts of interest policy.

With a view to treating all customers in an honest, fair and professional manner, Nykredit has initiated the following procedures and precautions to identify situations in which conflicts of interest or suspicions thereof may arise and to avoid these:

1. Business procedures containing provisions to the effect that all staff members must always pay attention to potential and actual conflicts of interest and endeavour to avoid them.
2. Internal training and instruction of relevant staff to identify potential conflicts of interest and endeavour to avoid them.
3. The assignment of responsibilities with staff members in order to ensure that actual and potential conflicts of interest are reported to their supervisors and the compliance function and treated at the appropriate level.

When conflicts of interest in respect of stewardship activities are identified, managers and the compliance function will be notified. The boards of directors of affected investment funds will be informed about the conflict of interest and the way it has been handled to safeguard the fund's interests. Nykredit's Conflicts of Interest Policy is available on Nykredit's website.

The policy also covers voting.

Approved by the Boards of Directors of

- Nykredit A/S, 8 December 2022
- Nykredit Realkredit A/S, 8 December 2022
- Nykredit Bank, 31 October 2022

Document owner: Ralf Magnussen/ Søren Larsen