ATP as a responsible investor

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Preface

ATP = responsible investor

At ATP, we have a special responsibility because almost the entire Danish population is saving up for their pensions with ATP. Therefore, investing these pension savings is one of our most important tasks. We make every effort to take care of the Danish people's money and to grow their savings responsibly.

This publication is called "ATP as a responsible investor". But what does that really mean, being a responsible investor? That is what we would like to highlight here. We will be diving into some of the themes that are high on the Danish and international agendas – and by extension, therefore also very important to us in ensuring that we are working in a socially responsible manner.

It applies to the climate and what we as an investor is doing to support the Paris Agreement and Denmark's target of reducing CO2 emissions by 70 per cent in 2030. It applies to the companies we invest in and how we engage them inactive dialogues when, for example, there is no climate action plan or when the executive salaries are no longer in line with the value creation. It also applies to our work against aggressive tax planning which is hollowing out state finances around the world and it is about how we can set the bar just a little higher when we make investments.

We are ambitious – but at the same time, we are realistic. We are happy to shoulder our part of the responsibility, though we are aware that we cannot reach the targets by ourselves and that it will take time. Therefore, our priority is to use our influence where we can so that each day we progressively get a bit closer to reaching the targets.

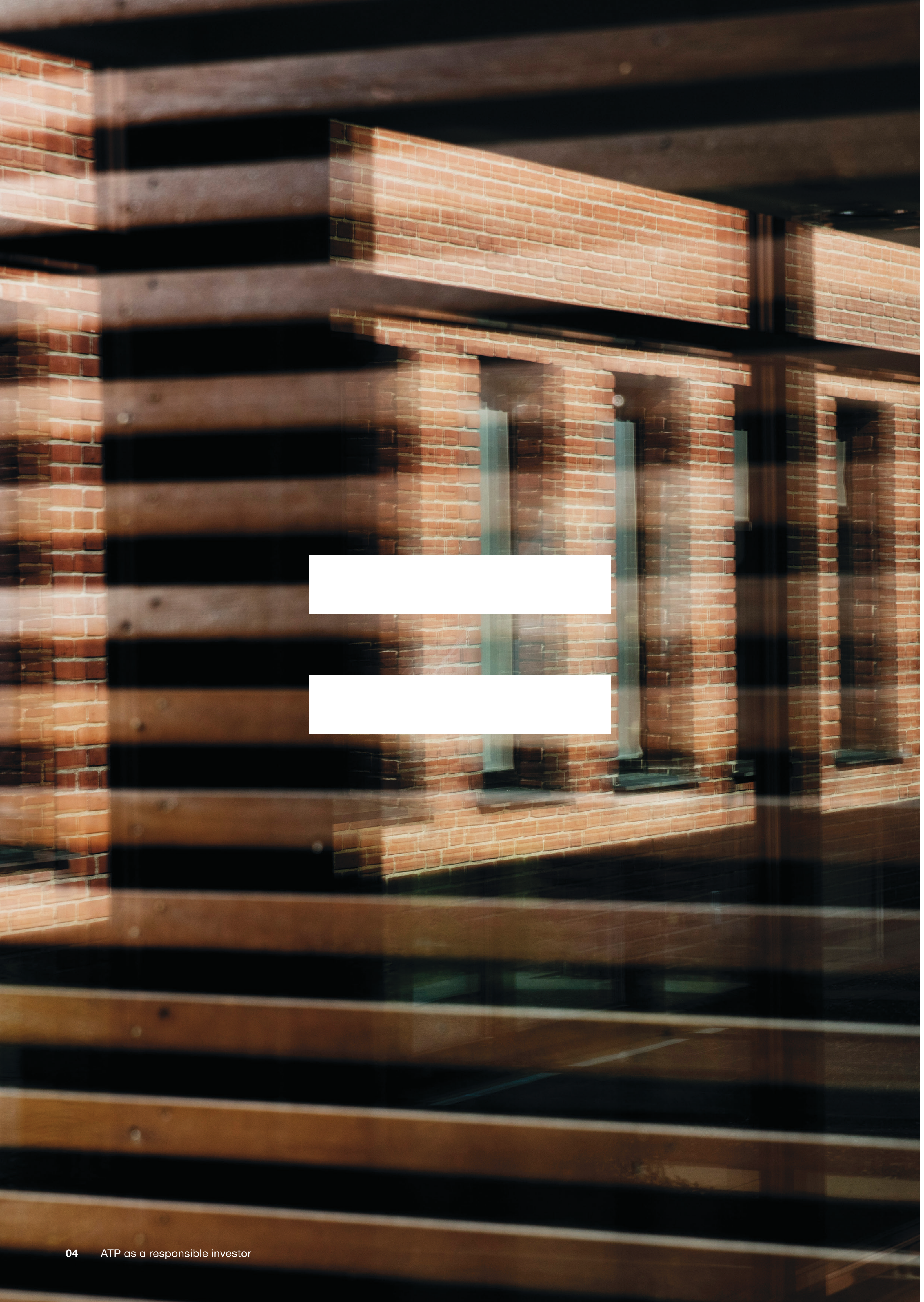
Responsibility is, among other things, about making the right decisions. It is no use making short-term decisions, as the decisions we make today should also ideally benefit future generations.

However, it is not always easy making the right decisions. At ATP, social responsibility is part of everything we do and we do our utmost to navigate an area that is characterised by different expectations, dilemmas and complex issues related to the framework of ATP's policies on responsibility in our investments, tax policies and active ownership. That means that responsibility is characterised by consistency, predictability, seriousness and transparency and based on facts rather subjective interpretations.

Whether you are very familiar or only slightly familiar with ATP, I hope that this publication will give you greater insight into both our deliberations and what we do to invest the Danish public's money responsibly.

I hope you enjoy the read.

Bo Foged,
CEO at ATP



You know that?

ATP was one of the creators of a common set of tax principles about responsible tax behaviour together with three other Danish pension companies

-25%

ATP reduced the CO_2 footprint by 25% for its international portfolio via the introduction of ESG principles

ATP has paid out approximately DKK 90bn in taxes from our returns to the Danish state over the past 10 years

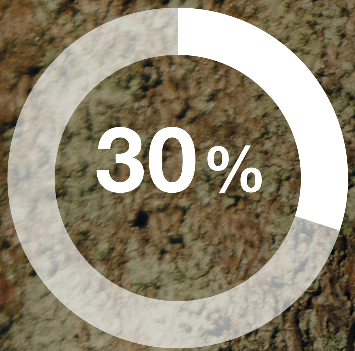
ATP has invested approximately DKK 20bn in green bonds

DKK 900bn

ATP manages assets of around DKK 900bn

DKK 460bn

ATP has invested approximately DKK 460bn in Denmark



ATP owns approximately 30 % of Copenhagen Airport

Other investors: Danish state 39%, OTPP 30%, small shareholders 1%

ATP itself votes on almost 6,000 proposals per year at annual general meetings around the world

ATP declines to pursue investments that are based on a tax structure that includes aggressive tax planning

ATP works with more than seven billion data points for more than 10,000 companies when we select international equities

450

ATP has approximately 450 international companies in its portfolio


climate

> The goal is to have a sustainable society. This requires a major transition in which we both need to come up with novel ways of thinking and at the same time optimise everything we are already doing

Ulrik Dan Weuder,
Head of Alternative Investments at ATP

Introduction

Focus on climate

Global warming will greatly impact a huge number of areas – including the financial markets. As a long-term investor, ATP aims to create good returns and pensions for our members both today and in the future. If we are to succeed in that, we must also ensure that the world and the economy is developing sustainably.

We support the objective of a 70 per cent reduction of Denmark's CO2 emissions in 2030, and we support the Paris Agreement's target of limiting the rise in world temperatures to at most 2 degrees, though ideally 1.5. To meet both of these objectives, it will be necessary for a significant reduction in the use of fossil fuels and the development of new sustainable climate solutions.

This is a task that can only be solved if we all work together, and we here at ATP also have an important part to play. As an investor, we support the transition from oil, coal and gas towards renewable sources of energy such as solar, wind and hydroelectric. This transition will be critical in ensuring a more sustainable energy consumption.

But how can we as a company and investor help to push things forward so that the transition from using fossil fuels to renewable sources of energy is made as soon as possible? And how can we help to ensure that companies are focusing on developing new sustainable technologies? For one thing, we can make a difference by insisting that energy-intensive companies recognise the climate challenges and have a concrete plan for making a green transition.

The transition away from fossil fuels is well underway. This is also the case at ATP. However, even though fossil fuels are not the energy of the future, according to the United Nation's climate panel, oil and gas will still be part of the near-term future energy mix – even within the framework of the Paris Agreement's 1.5 degree max increase scenario. In other words – fossil fuels will remain part of the energy mix until alternatives are found that can do the same job.

At ATP, we have generally been reducing our exposure to fossil fuels. In addition, we have reduced the investment horizon on our fossil fuel investments and we are also focusing our investments on the areas that have the smallest possible climate impact. This is because there is a huge difference in CO2 emissions depending on where and how the oil is extracted.

In a study by Stanford University in California, researchers have estimated the climate footprint of each country's oil production. We have continued working with those results, and we have ranked the oil companies in our portfolio based on how much CO2 they emit when extracting and producing oil. The oil companies in our portfolio with the most CO2-intensive extraction processes and thus those with the greatest climate impact have been divested immediately. What remains is a group of companies that we are still evaluating and in dialogue with in order to determine if we can see any will and potential for improvements or if we should pull out our investment. We expect to complete this process over the course of 2020.

Our experience has been that we manage our responsibility best by motivating companies to embrace a more sustainable business model and continually remind them to keep their promises. If ATP instead were to just pull out its investments in the CO2-intensive companies, other and less responsible investors would presumably just take our place and keep the companies running without making the same requirements for a sustainable development.

We are well aware that there are different kinds of investors and that others have chosen a different approach. What is critical is that everyone is focused on creating positive changes and reducing CO2 emissions so that the world can meet the targets of the Paris Agreement.

> It is ATP's policy for social responsibility and active ownership that sets the overall framework for our work with climate issues and that determines how ATP should behave as a responsible investor.
> *For more information, see www.atp.dk/en/policies*

ATP's climate investments – examples of contributions to the green transition

= green energy

One of the biggest questions in this green transition is how to get the most populous countries in the world to join it.

One of the answers is to invest in green energy solutions in developing countries. **ATP has invested just under DKK 2bn in a fund via Copenhagen Infrastructure Partner**s which is aimed at creating green energy projects in developing partners.

= CO2-savings

When oil companies extract oil, natural gas is often a byproduct. In many places, that gas is burnt off as a waste product. **ATP has invested in a gas pipeline in Texas** that transports this natural gas instead of burning it up at the oil fields. The gas pipeline can replace coal and oil and achieves the same CO2 savings as 12 major offshore wind farms like those by Anholt in Denmark.

= sustainable batteries

Electric cars use batteries, and batteries cost a lot of energy to produce and impact the environment. **ATP has invested DKK 650 million in the Swedish energy company Northvolt** – this company's vision is to produce the most sustainable electric car batteries in the world. The energy used by the factory is from hydroelectric power, the focus is on buying raw materials from responsible sources and the company has an ambition to increasingly be able to reuse old batteries.

= green financing

The green transition will cost money. A lot of money. In order to create better and easier opportunities for financing the many green projects around the world, so-called 'green bonds' have been created to make it easier to access credit. **With approximately DKK 20bn in green bonds, ATP is Denmark's largest investor in this space.**

= recycling

Who would believe that frying oil and the green transition were somehow related?

ATP has invested in a company that collects used frying oil from, among others, the many thousands of McDonald's restaurants in the United States and recycles the used frying oil and turns it into, for example, biofuel.

= The UN's Sustainable Development Goals

A lot of positive forces are working to realise the green transition. With its 17 Sustainable Development Goals, the UN is one of the very active and trendsetting actors. **ATP has committed itself to contribute DKK 400 million to the Danish SDG Investment Fund** which is to contribute to realising the UN's SDGs. The fund is a collaboration between Danish investors and IFU, and it is mainly focused on investing in renewable energy and infrastructure, water and sanitation.

climate

Case

Copenhagen Airport manages green ambitions together with investors

The world is connected by an intricate network and this network depends on air transport. Today, the aviation industry generates approximately three per cent of the global CO2 emissions. A green transition of the aviation industry is therefore an important goal for sustainable air travel. As an investor and co-owner of Copenhagen Airport, ATP has been part of preparing a climate plan aimed at future-proofing the airport.

In 2017, we at ATP made the biggest single investment in our history and became co-owners of Copenhagen Airport, Denmark's most important traffic hub. As a major investor, we joined the board of directors and thus became involved in the strategic deliberations on the airport's future. A key focal point from the start was to ensure that the airport prepared a long-term climate plan that would benefit the airport, the passengers, Denmark as a whole and the world at large.

Increased focus on climate with new owners
For many years, Copenhagen Airport has worked in a targeted manner with climate initiatives, but an actual climate strategy with long-term objectives was only prepared when the airport got new owners. Today, the owners are the Danish state, ATP and the Canadian pension company Ontario Teachers' Pension Plan (OTTP).

> **Without a doubt, the focus on the climate has increased in our circle of owners after ATP came onboard**
>
> **Thomas Woldbye,**
> **CEO at Copenhagen Airport**

As co-owner of the airport, ATP has an influence on the commercial decisions that are made and on how different initiatives should be priorities in order to reach the shareholders' and company's common goals.

"We are in the fortunate situation of being owned by long-term investors who allow us to think from a long-term perspective together. This means that we have a shared interest and ambition for making the aviation industry sustainable. In order for us to implement the green transition, it is critical that we have the support of the circle of owners – both in terms of deciding on ambitious objectives, but also, even more critically, in relation to actually being able to realise our climate vision that involves Copenhagen Airport being an emission-free airport in 2030," says Thomas Woldbye.

Partnerships are helping the green transition to get underway
As a long-term investor, ATP has for a long time now had climate issues as an integrated focus area in our investment process, and that experience was also used when it came to the airport. For example, employees from ATP's Environment, Social & Governance (ESG) team were for a period lent out to the airport in order to coordinate the initiatives and determine the processes for climate reporting.

"We greatly appreciate the partnership with ATP and the other owners. Air travel has a great social and economic value for individuals and society at large, but we need to reduce the climate footprint of air travel. Therefore, our goal is to have the entire airport – including the air traffic – be emission free by 2050. The great undertaking involved in the climate strategy was greatly helped by ATP, which contributed with a strong process-related and analytical framework which ensured that there was a correlation between the owners' ambitions and the airport's climate strategy," Thomas Woldbye concludes.

> **We are in the fortunate position of being owned by long-term investors who allow us think from a long-term perspective together**
>
> **Thomas Woldbye,**
> **CEO at Copenhagen Airport**

Copenhagen Airport's climate strategy includes three concrete objectives

- **In 2019, Copenhagen Airport became a carbon neutral airport**
  This has been achieved via an ongoing effort to reduce the emissions that Copenhagen Airport has control over (i.e., the airport's own energy and fuel consumption and employee business travel) and also by implementing a climate compensation initiative that neutralises Copenhagen Airport's emissions by supporting CO2-reducing projects in Denmark and other countries.
- **In 2030 the operation of the airport and transport to and from the airport is to be emission free**
  continuing its investments in solar power units and supporting the green transition of the land-based modes of transport by improving the charging infrastructure for electric vehicles in and around the airport's area.
- **In 2050, the airport is to be entirely emission free**
  Copenhagen Airport is to be entirely emission free – this includes the airport itself, the air traffic, the companies that operate in the airport and the land-based forms of transport to and from the airport. This is to be achieved via strategic partnerships across the aviation industry and via decision-makers and researchers that focus on making sustainable sources of fuel more widespread and developing climate-friendly technologies.

Climate categorisation of ATP's direct investments

All of ATP's direct investments are categorised in relation to the green transition:

- Companies that are already part of the green transition. For example, wind farms and Northvolt's electric car batteries are in this category.
- Companies that are not yet part of the green transition but which could be. This includes airlines, for example, which are right now flying on fossil fuels but which may transition towards using biofuels in the future.
- Companies that will not be able to transition to the green economy but which ATP believes play a necessary part in the transition itself. These companies are not expected to fit into the green economy in 20, 30 or 40 years – for example, this would include the gas pipeline from the Delaware Basin and the oil field in Texas.
- Companies that ATP views as incompatible with a long-term investor, among other things, due to the risk of stranded assets, i.e. assets that are no longer in demand due to the green transition. Such companies therefore are too risky for our long-term portfolio – for example, shale oil companies.

Dilemma

Should one cry over spilled gas?

In the spring of 2019, ATP invested over DKK 700 million in a gas pipeline that will transport waste gas from one of the world's largest oil fields in Texas. The gas is now no longer just burned on site, but will instead by used to, for example, produce electricity. But the question is, does this investment strengthen the green transition? Greenpeace says no, ATP says yes.

When drilling for oil, as a general rule, natural gas is also found. In the Delaware Basin oil field in western Texas, the gas has for decades been burnt on site as a waste product. By investing in a natural gas pipeline, that gas will now be used to supply electricity to industries and consumers instead of going to waste.

The gas therefore replaced some of the need for electricity from coal plants in Texas and in Mexico it replaces some of the oil used to produce energy.

"The world needs transitional solutions when transitioning to a fossil free society. We are in a transitional phase where there is still a need for energy from other sources than solar, wind and hydro-electricity as long as those sources cannot provide sufficient and stable levels of electricity to meet the demand. Until we resolve the problem of efficiently storing electricity from, for example, wind farms or solar power units, fossil fuels will remain a part of the energy mix if we are to ensure a stable supply of electricity for all of us," explains Ulrik Dan Weuder, Head of Alternative Investments at ATP.

At Delaware Basin rather than simply burning it on site, the same CO2 savings are achieved as would have been gained by building 12 offshore wind farms like one of Denmark's biggest, the one by Anholt.

"The expectation is that the gas from the pipeline from the Delaware Basin will help to support Mexico's and Texas' transition away from using, respectively, oil and coal. We have chosen to invest in this gas pipeline because we view it as a step on the road towards a greener electricity production," says Ulrik Dan Weuder.

Is this investment black or green?

The investment in the gas pipeline is a great illustration of the dilemmas that will often arise when you want to change the world. Because how do you best seek to meet the Paris Agreement's objective of the world's energy supply being carbon neutral in 2050? There are many different opinions on the matter, and in 2019, ATP discussed it with Greenpeace, the environmental protection organisation.

Greenpeace criticised the investment for contributing to extending the life expectancy of the oil field.

"It may well be that there is a waste product from the current oil production processes that one could do something about in the short run, but by investing in this kind of infrastructure, ATP is part of locking us into a fossil fuel future because it becomes more attractive to extract oil from the oil fields," says Jens Mattias Clausen, Head of Climate Policy at Greenpeace in Denmark.

According to one of the leading experts in Denmark, there is no clear unequivocal answer as to whether the investment is black or green.

"There is no getting around the fact that there will be a period of transition, and of course, we need to do things as cleverly as possible. In that context, it is too simple just to say that we should abruptly stop using fossil fuels, as we need to have time to get the alternative options in place. Conversely, of course we must ensure that we do not delay investments in clean and green types of energy," says Kenneth Karlsson, Head of DTU's Management Energy System Analysis group.

Kenneth Karlsson is not familiar with ATP's specific investment in the gas pipeline in Texas, but he believes that gas may be a good intermediate solution in the green transition. This is because the CO2 emissions are almost halved when you use gas instead of coal to produce electricity.

Insight

Mathematics and data are mapping climate initiatives

When ATP decides to invest in international equities, the supply is so enormous that mathematical analyses using large datasets are used in the selection process. As something new, ATP has begun assessing possible investments based on the companies' climate initiatives in its calculations.

It is complicated enough on its own to put together an attractive and robust investment portfolio of Danish companies – but it becomes even more complicated when it comes to international equities with thousands of companies to choose from. In order to have the best basis for deciding, we use mathematical analysis, computer power and large datasets to select the right investments. This is a nuanced approached, as when selecting equities we work with over seven billion data points from more than 10,000 companies.

Integration of climate data

Traditionally, we have been evaluating international equities based on the classic key financial figures such stable earnings, an attractive pricing and momentum – but as climate issues become increasing important, the traditional metrics are no longer sufficient. ATP has therefore begun integrating data that can reveal how a company is managing its climate challenges.

"What we are zooming in on in particular is the approach the companies' management teams take in relation to CO2 emissions. How do they work with climate issues, and what performance-based targets are they coming up with? We believe companies in climate-challenged sectors such as, for example, energy production, utility companies and the transport sector take that into account," says Christian Kjær, Head of Liquid Markets at ATP, and continues: "Our assessment is that the companies that are addressing climate change in the right manner create opportunities for themselves, while companies that don't will face challenges. By integrating climate data, we are therefore now basing our selection of equities on climate initiatives to the same degree that we base it on financial performance in terms of how the company adds value and thus generates returns for investors."

Does it work?

Since we only started integrating climate data from the start of 2019, it is still too soon to say anything conclusive about the results. However, we have been able to note that the carbon footprint from our international equity portfolio has decreased by around 25 per cent after we implemented the new climate approach. In reality though, there is an additional bonus in terms of the actual intention behind the new climate focus, as it means that we are now selecting the companies that are moving in the right direction in this area.

> **The goal is to create a future-proof portfolio, where climate is a fully integrated parameter on equal terms with other financial goals. Our analysis shows that screening for relevant climate data can improve our returns**
>
> **Christian Kjær,**
> **Head of Liquid Markets at ATP**

> **The global climate challenges are so great and so near the top of the agenda that they will continue to impact companies**
>
> **Christian Kjær,**
> **Head of Liquid Markets at ATP**

77 DKKm shares sold off

Until January 2019, ATP owned shares in the Canadian oil company, Husky Energy. However, as part of the integration of climate data, ATP has divested itself of these shares as the company, in our view, was not properly managing its climate issues.

What is ESG?

E – Environmental
S – Social
G – Governance

At ATP, we use ESG information when selecting our investments. ESG information is a term that covers all the knowledge and data we have on how a company works with environmental and climate-related issues (Environmental), social issues (Social) and corporate governance (Governance)

ATP's ESG team analyses the ESG status of companies and countries as part of an important component of ATP's work with opportunity and risk management. It is our experience that better decisions are made when integrating ESG information in the decision-making process for the investments.

The climate is a factor when ATP decides on investments

We are actively looking for investment opportunities that have a positive impact on the climate.

We do not invest in oil companies that generate a lot of CO_2 emissions when extracting oil.

We have divested ourselves of all utility companies in our portfolio that base more than half of their energy production on coal and which have not prepared a convincing strategy to transition away from coal.

We have excluded companies that extract shale oil with the open pit method, as ATP views this as a breach of the UN's biodiversity convention.

We involve climate considerations in our investment processes in order to, among other things, future proof our investments by pushing the companies towards a greener direction.

Generally speaking, we believe that the fastest way to achieve the green transition is to influence companies to move in the right direction – not by passing on the responsibility to others.

We also do not find it attractive to invest in coal mines, and therefore we have chosen not to have any in our portfolio.

This year, we have decided to say no to illiquid funds that invest in fossil fuel extraction, as we view such investments as being incompatible with a sustainable future.

active ownership

"The best way to achieve change is to have the dialogue with those who are making the decisions

**Claus Wiinblad,
Head of Danish Equities at ATP**

Introduction

Focus on active ownership

Copenhagen Airport, Danske Bank, Ørsted, Volvo and Fujitsu are just some of the many listed companies that ATP has invested in. What all of our investments have in common is that we always actively investigate how companies act and develop. We are looking for knowledge and insight on our companies and we use our influence – both via direct dialogues with the companies and by voting at their annual general meetings. This is what we call active ownership.

When we actively work with our investments, it is because it is our experience that this contributes to the long-term value creation of the companies and provides good and stable returns that benefit our members.

Our most important tool is a continual dialogue about the subjects that matter to the individual companies and thus in turn to our investment. This may be related to strategy, results, risks, good corporate governance, management remuneration, diversity and acting responsibly in general.

Via the dialogue with the companies, we are gaining a fundamental insight into and understanding of their business, including their challenges and risks. We use this knowledge and understanding to assess the companies' position and potential and to push them towards a more sustainable direction. The companies can also benefit from our insight by using ATP as a sounding board.

It is only to be expected that companies – and thus also ATP as an investor – will face challenges and problems. That is inevitable. However, in such cases it makes particularly good sense that ATP is a long-term investor that can be in this for the long and tough haul and influence companies to implement long-term changes and improvements.

It is ATP's policy for active ownership that determines the framework and principles that we work by when we seek to influence listed companies.
For more information, see www.atp.dk/en/policies

Insight

Green bonds without greenwashing

The green transition is not going to 'just happen'. It need to be financed. At ATP, we are working with climate-friendly investments in many areas, for example, by investing in green bonds. Our active ownership is all about ensuring that we are contributing to the green transition and avoiding greenwashing.

At ATP, we use a lot of resources to assess how we can create good, stable returns to our members while at the same time supporting the green transition. We are convinced that the green agenda has many opportunities for making green investments, but we are also attentive to the risks. After all, not everything that looks green actually is, and not everything generates returns either.

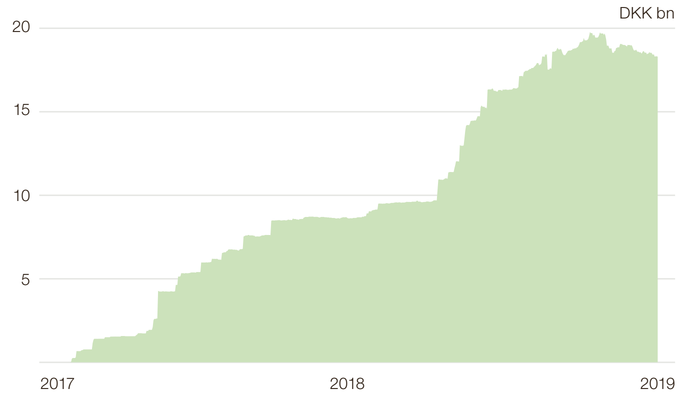
A growing market
The market for green bonds that finance climate-friendly investments has rapidly developed as the global focus on sustainable investments has increased, and the numbers are proof of how quickly this has occurred. In 2017, we had zero – but today, we are the Danish company holding the largest amount of green bonds.

"At first, we were just dipping our toes and bought some green bonds to learn more about what kind of asset this was. However, we quickly discovered that it was both a financially sound and also a sustainable asset to invest in. Therefore, we have on an ongoing basis been increasing our holdings of green bonds and today we have invested approximately 20bn Danish kroner in them," says Jan Ritter, Head of Hedging & Treasury at ATP.

Dialogue clarifies issues
Unfortunately, as investors we sometimes see examples of greenwashing, i.e. when companies and projects say that they are more green than they actually are. Therefore, each time we have bought green bonds we have been in touch with the issuing party of the green bonds in order to be as sure as we can that what is called green is actually green in reality.

> The decisive factor for us is knowing what we are buying and what climate-friendly projects we are part of financing. We need to be able to stand behind the investment and not participate in greenwashing
>
> Jan Ritter,
> Head of Hedging & Treasury at ATP

Development of the market value of ATP's green bonds



> With its significant involvement in the market for green bonds, ATP has become a strategic partner when it comes to developing best practices for how to manage green investments.
>
> Aldo M. Romani,
> Head of Sustainability Funding
> at the European Investment Bank

Green progress via the European Investment Bank
In 2007, The European Investment Bank (EIB) issued the world's first green bond in and they are currently the largest global issuer of such green bonds. With its issue of these green bonds, the EIB has helped to accelerate the development of climate-friendly projects around the world, and ATP has been an investor in several of them.

Examples of green projects that ATP has helped finance via its investments in green bonds

- The construction and operation of solar parks and wind farms in India.
- The construction and operation of solar parks in Mexico.
- The construction and operation of a floating offshore wind farm in Portugal.

The European Investment Bank

- EIB is the lender of the European Union.
- EIB is the world's largest multilateral provider of credit and the largest provider of financing for climate projects.
- In 2019, 29% of EIB's financing was devoted to climate initiatives.
- EIB is financially independent and does not invest money from EU member states – it raises its own capital by issuing bonds on the international credit markets.

Source: The European Investment Bank

Case

The CEO's salary cannot be allowed to become disproportionate

The salary packages for top executives in Danish companies have been a recurring theme in the business news media. Not least due to a number of specific cases where many deemed that the salary packages were no longer a reflection of the effort put in. At ATP, we also have a view on such salaries.

The salary must be in line with the value creation
When speaking of salary packages, we at ATP first and foremost want to see an appropriate correlation between the value creation of the company and the salaries of the top management team. In other words, we are willing to accept that a CEO has a great salary package if he or she has earned that by increasing the value of the company. That said, there are limits – even for the best executives.

At ATP, we do not want to contribute to salaries rising drastically or weakening the requirements in remuneration policies. There must be a healthy culture surrounding remuneration, where, among other things, benchmarking must be done in relation to salaries in the Nordic region and Northern Europe and not, for example, benchmarking using salaries in the United States, the United Kingdom or Switzerland where salaries are significantly higher.

"We have monitored the development of top executive salaries in recent years, and we have seen remuneration programmes that we view as unsustainable. As a responsible investor, ATP maintains that there are limits for what is reasonable in a Danish context, and that even gold can still be too expensive to be worth buying. We believe that it is possible to find extremely competent top executives for Danish companies without salary packages going through the roof. Therefore, we are on an ongoing basis discussing both salary levels and benchmarks with the companies," says Claus Wiinblad, Head of Danish Equities at ATP, and continues:

"It may be difficult to document the results of our active ownership to the public, however, as constructive dialogues often involve them being held in confidence. Still, we have been met with significant support and understanding for our efforts and we have seen that some boards have used ATP's standpoints as a platform for putting the lid on salary developments in their own respective companies."

Salary packages in the United States are a problem
Besides being focused on remuneration of executives in Danish companies, in the last few years ATP has also been focused on the executive salary packages in the international listed companies. It is generally speaking the high salary packages in the United States that challenge ATP's principles for salaries. In such cases, voting at the companies' annual general meetings is a core part of ATP's active ownership and it is how we express our opinions on the individual items on the agenda, including salaries.

"

In the international companies, ATP takes a concrete stance on each individual salary package and ensures that each company knows how we feel about it. When votes on salaries have come up in the last few years, we have typically voted against the management's recommendations in more than 50 per cent of the votes in companies listed in the United States while we have only done so 20-30 per cent of the time in all the other countries

Christian Kjær,
Head of Liquid Markets at ATP

Besides voting at the annual general meetings of the international companies, we also work with other investors to put additional pressure on companies.

"We have chosen to participate in a collaboration with a number of major European investors to enter into a dialogue with both European and American companies about problematically structured salary packages. In several cases, we have succeeded in entering into a direct dialogue with board members and thereby increase the impact we have on companies. We want to continue and expand upon that dialogue," says Christian Kjær.

"

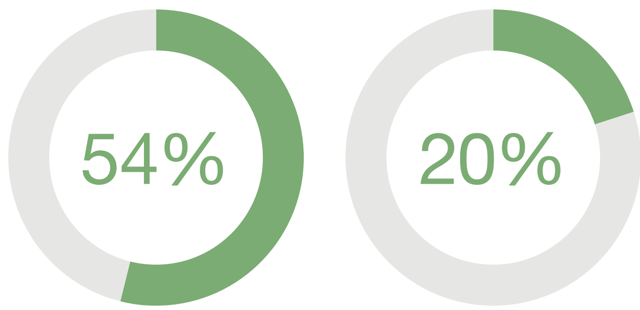
When it comes down to choosing to divest an asset or enter into a dialogue, we choose dialogue – as long as we see a realistic potential for improvement.

Claus Wiinblad,
Head of Danish Equities at ATP

At ATP, we release data on all of our voting activities at annual general meetings around the world.

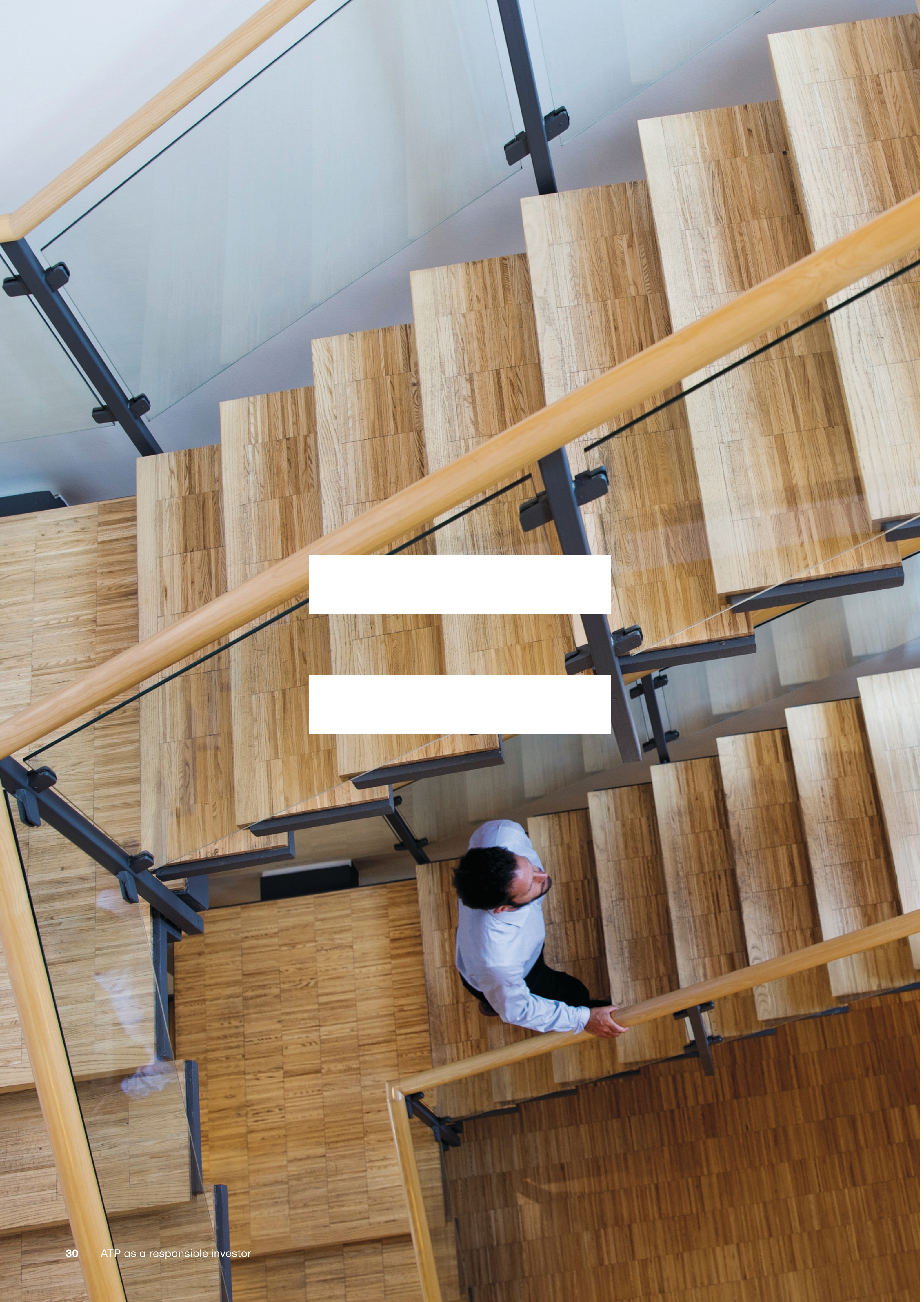
Votes were ATP has voted against the management's salaries

1H 2019



In the United States | Outside of the United States

You can find our voting record at www.atp.dk/en/voting



Dilemma

Should we stay or should we go?

In politics, there is a well-known piece of advice that says you should never threaten to leave – you should threaten to stay. And the principle of staying and wielding your influence instead of just walking out and thereby having no influence easily applies to ATP's way of working with active ownership as well. After all, when the challenges pile up, we would rather stay and have a dialogue with companies rather than divest ourselves of them. We believe that this creates the best opportunities for using our influence and encouraging change.

When should ATP as an investor stay with a company and wield our influence? And when do we need to realise that no more can be done and that the best solution from an investment perspective is to sell our shares in the company?

We choose dialogue

At ATP, it has definitely been our experience that active ownership is the best and most constructive way of contributing to the value creation of companies and to make long-term changes. When it comes down to either divestment or dialogue, our preferred choice is to choose dialogue – at least, as long as we see a realistic potential for improvement.

In Danish companies, we tend to exercise our active ownership via an ongoing and confidential dialogue where we are heard and can help to move the development towards a direction that we think best serves the company, our investment and, by extension, our members.

As part of the ongoing dialogue, we often use the annual general meetings of companies to voice our views – both positive and critical. If we find that we are not being listened to on specific matters, we can vote no to the management's suggestions at the annual general meeting. This is not something that we do every day or every second day, but it does happen, for example, when it comes to overly generous salary packages.

In international companies, the majority of our active ownership activities involves voting at the companies' annual general meetings. Here we are far more likely to vote against the management's proposals – not because we want to be contrary, but rather because more of the recommendations tend to not be in line with our views.

Divestment may become necessary

As part of our ownership, we of course need to know and see that things are in motion. Even though we are long-term owners, a lack of change or action can in the end result in us choosing to divest ourselves of the company.

We do not want it to come to that, but sometimes it is necessary – because if our experience is that we are not being listened to or that the company is moving in the wrong direction, we may have to finally say 'No'. There are things we will not be a party to as they go against our policies. And then there are things that we believe would be damaging to our investment and thus the opportunity to generate the required returns for our members.

Therefore, among other things, we have sold off shares in utility companies that did not wish to engage in a dialogue about their climate risks and showed no indication of beginning to work on preparing for a green transition. In special cases, this might involve a full-on exclusion, which is a principled and more serious decision involving blacklisting the company from future investments.

Examples of how ATP in 2019 has voted no to management proposals at annual general meetings of Danish companies

At Coloplast, we voted no to the management's suggestion for the new chair of the board of directors which we believed was against the Recommendations on Corporate Governance.

At Ambu, we voted no to the management's suggestion to adjust the remuneration policy, as we believe that the proposed options programmes went too far and were too complex.

In Genmab, we voted no to the management's suggestion for new remuneration rules as we could not accept the higher and more aggressive salary packages.

Case

A push towards a sustainable direction

The Danish manufacturer of construction materials, H+H, has with ATP as its sounding board increased the pace of the professionalisation of the company's work with sustainability.

A controlled acceleration – this is how the past year's work at H+H can be described when it comes to the increased focus on sustainability in the company.

Dialogue as a tool
Back in 2017, the Danish equity team at ATP was in the process of making the fixed periodic evaluation of which companies had the potential for improvements on the ESG area, including in relation to developing and reporting on sustainability. H+H, which produces both gas concrete and sand-lime brick for the construction industry, came to their attention.

The potential for improvements was quickly followed by a close dialogue. Since then, H+H has taken more steps to improve their work with sustainability. In part, they have fleshed out the work involved in integrating sustainability as a factor in the company's operations and they have also begun to report more extensively on the area. This means that, for example, reporting on how the sustainability work is progressing is now a more visible part of H+H's annual report.

Do not miss the train
At ATP we are seeing – just like other investors – that there is a growing focus on the environment and climate in many different types of industries, and the importance of this is also growing as the global development and attention to the area increases. Therefore companies cannot simply do nothing. After all, when the world is moving forward, remaining still is the same as losing ground.

"The sustainability train is departing the station, and it is important for both companies themselves and us as investors that they do not miss the train – they should be like H+H and make an active effort to support this area," says Claus Wiinblad.

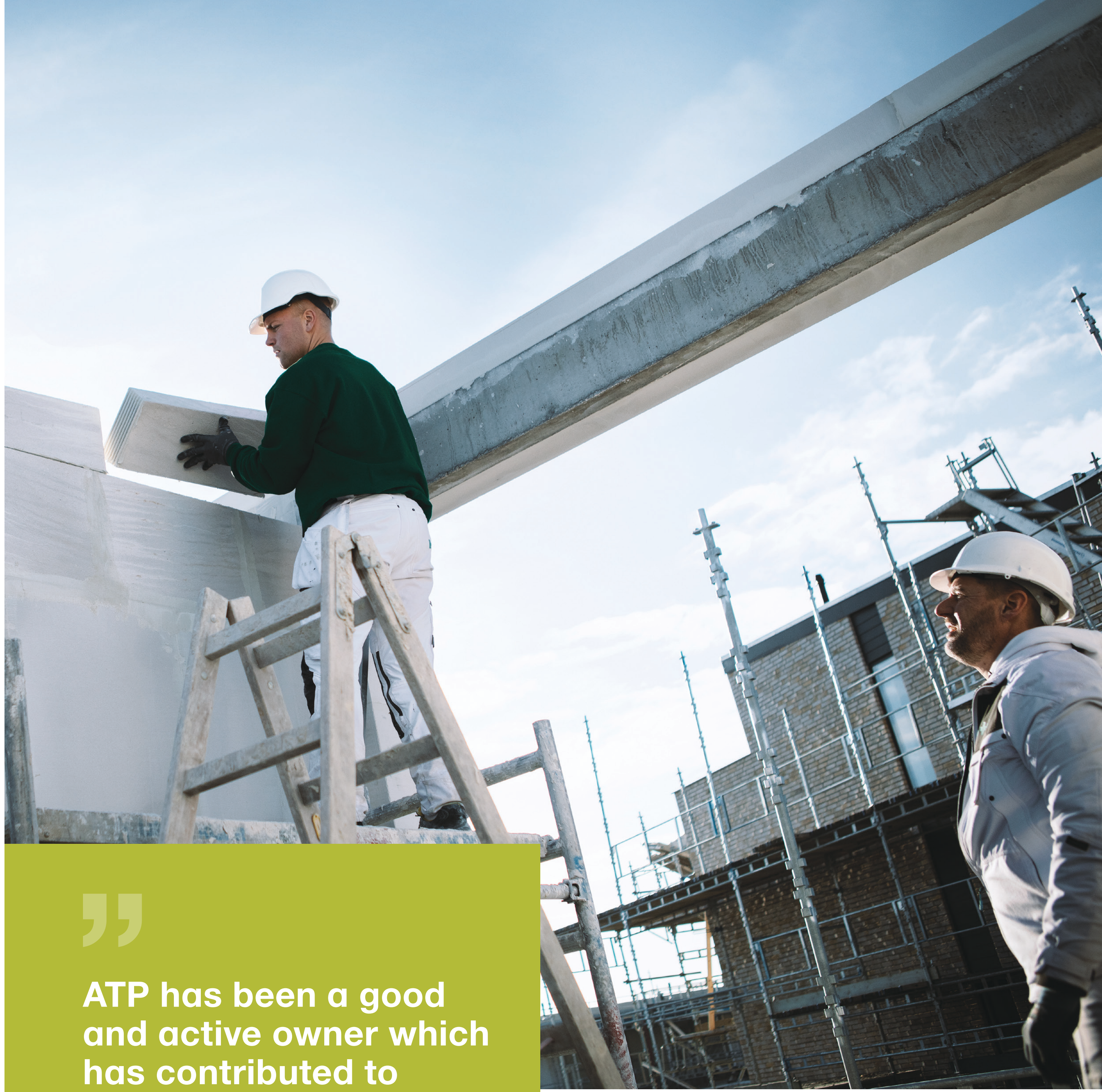
"As part of this development, there is no doubt that, as H+H has done, when you begin reporting on a structured basis on sustainability, this creates more knowledge and transparency in the company. That is something which we as investors appreciate, as it helps us to better understand the company's business and thereby makes us better able to make decisions on investments," Claus Wiinblad continues.

Used ATP's experience from other large companies
At H+H, they are pleased about the collaboration with ATP and notes that ATP's role as a sounding board has been an important aspect in terms of developing the company.

"ATP has been a good and active owner that has helped promote sustainability in H+H. As a smaller company, it has been very valuable for us to have a dialogue with ATP about how we were to qualify our work on sustainability. They have a great deal of experience from their work with other companies, and that experience has helped give us a push in the right direction," says Kent Arentoft, chairman of the board at H+H.

It has been a really great process, being challenged, especially when at the same time it has resulted in us being able to work together with ATP to better integrate sustainability. There is always more work to do, and we are looking forward to taking the next steps on this area and to continue our dialogue with ATP

**Kent Arentoft,
Chair of the Board of Directors at H+H**



ATP has been a good and active owner which has contributed to promoting sustainability at H+H

**Kent Arentoft,
Chair of the Board of Directors at H+H**

Sustainability initiatives at H+H

- Reduce the carbon footprint in the value chain by, among other things, reducing the water content of finished products.
- Implementation of external reporting.
- Allocation of resources for ESG and implementation of ESG in the strategy work.
- Beginning to work with ESG targets.


tax

It is part of the social contract that people pay their fair share of taxes. Therefore, we have requirements for what we will or will not accept when it comes to responsible tax behaviour

Bo Foged,
CEO at ATP

Introduction

Focus on tax

At ATP, we have increased our ambitions for the tax area on an ongoing basis. Our supervisory board has thus adopted a tax policy with the clear purpose of counteracting aggressive tax planning in unlisted investments. This applies both to the investments that we ourselves have and those that we share with others – but on a general level, it also applies to the industry as a whole where we can inspire and influence others to do as we do.

Already in 2016, ATP's supervisory board made its first proper tax policy. And since then, things have really moved fast. Today, a number of Danish pension companies are united in their common principles for responsible tax behaviour.

The debate and views on international taxation are rapidly changing, and ATP's tax policy has as a result also been updated twice in just four years. Specifically, we are imposing requirements on external managers and co-investors in terms of how the investments are structured, and we are insisting on the right to carry out spot checks to ensure that the tax policy is being followed.

Our approach to responsible tax behaviour is often met with both appreciation and curiosity. Our focus on tax issues have contributed to constructive dialogues being held, and ATP is continually invited to talk about our work and experiences in enforcing our tax policy both by investors, conferences and the major audit firms in Denmark and abroad. However, not everyone is willing to go along when we put our foot down about aggressive tax planning. This has meant that in some cases we have had to refrain from making investments.

We have not met all of our objectives yet, but our ambition is clear: ATP will continue to do our part to ensure a more sustainable tax agenda when it comes to paying taxes responsibly. We will use our influence where we can and continue to put the spotlight on the tax challenges that we can have a positive impact on.

ATP's tax policy forms the basis for what is acceptable and unacceptable tax behaviour and what our expectations are for external managers and co-investors when it comes to paying taxes.
For more information, see www.atp.dk/en/policies

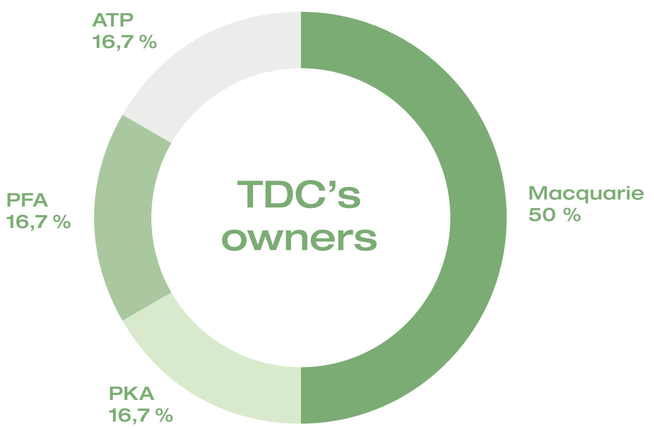
Case

Tax policy raises the bar

At ATP, we want to act responsibly. In terms of taxes, this means that with our tax policy we are imposing a number of requirements on the investments we pursue. At the same time, we are making an effort to influence our co-investors and external asset managers to adopt a more responsible tax behaviour. This is an important agenda – both for society at large and ATP.

ATP's tax policy plays an important role in ensuring responsibility when it comes to correct tax payments and responsible tax behaviour. The tax policy played a key role when three Danish pension funds (ATP, PFA and PKA) joined together with the Australian Macquarie to buy TDC.

In order to ensure that the correct taxes were paid in Denmark, the four TDC investors agreed to introduce stipulations that meant that funds from profits could only be pulled out of the investment once taxes had been settled with the Danish tax authorities. This partnership agreement means that all investors are paying the correct amount of taxes in line with the objective of the tax policy.

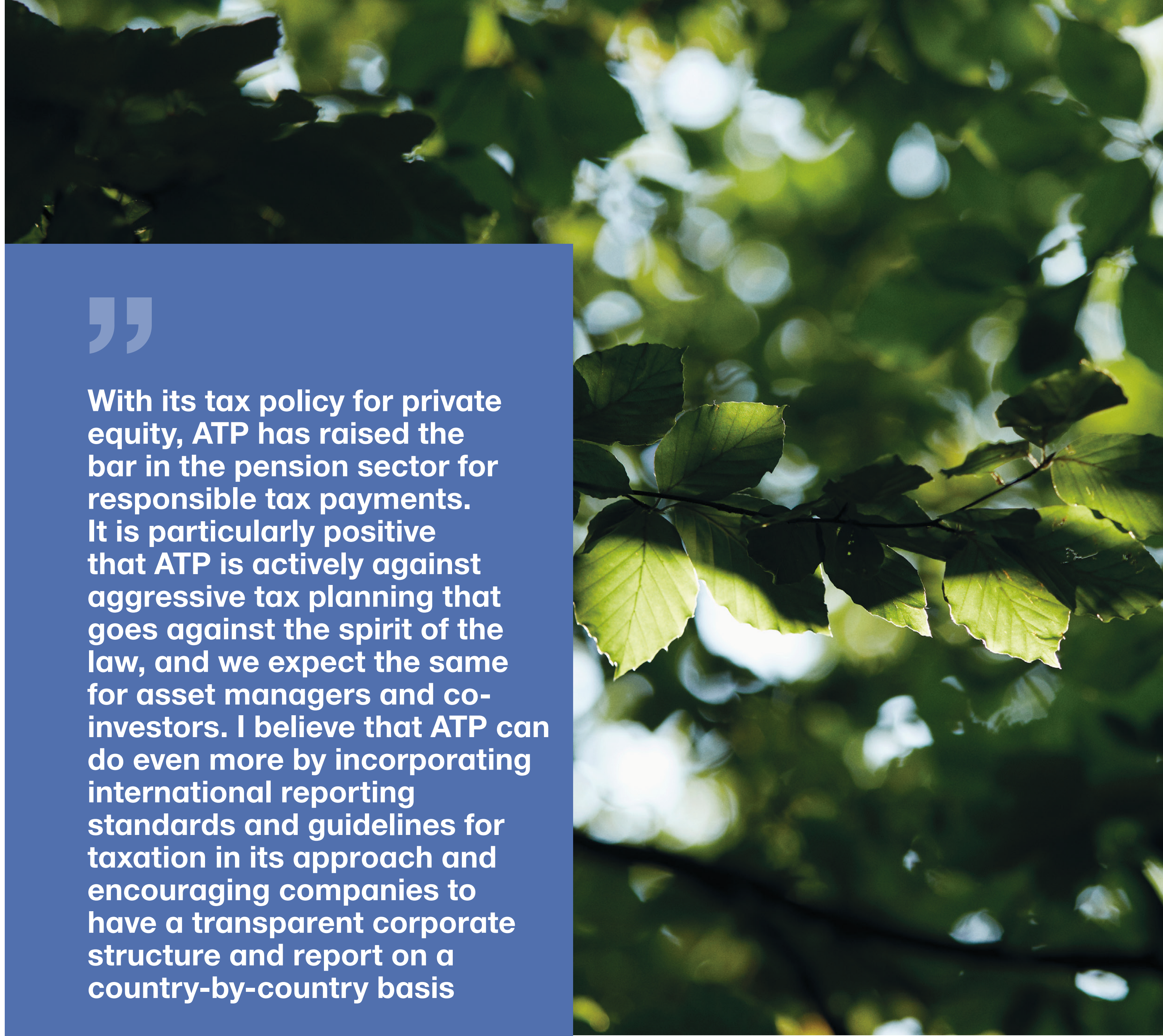


A united front is focusing on taxes

We are stronger when we stand together. That is the motto behind the common tax codex that ATP, Industriens Pension, PFA and PensionDanmark have taken the initiative to use to put additional pressure on external investment fund asset managers. The partnership is a natural progression of the work with ATP's tax policy.

The tax codex is an important steppingstone towards an actual industry standard where external investment fund managers have no doubt as to what they can expect from a partnership with a responsible investor.

> **With our own tax policy, we can accomplish quite a bit – but when multiple major players impose the same requirements for responsible tax behaviour, we strengthen our negotiating position and thus the likelihood of getting our requirements accepted**
>
> **Bo Foged,**
> **CEO at ATP**



> **With its tax policy for private equity, ATP has raised the bar in the pension sector for responsible tax payments. It is particularly positive that ATP is actively against aggressive tax planning that goes against the spirit of the law, and we expect the same for asset managers and co-investors. I believe that ATP can do even more by incorporating international reporting standards and guidelines for taxation in its approach and encouraging companies to have a transparent corporate structure and report on a country-by-country basis**
>
> **Lars Koch,**
> **Policy Director at ActionAid Denmark**

ATP's tax policy for unlisted investments has four objectives

- To ensure the correct payment of taxes.
- To reduce tax risk.
- To present external managers, co-investors and companies with clear expectations.
- To support increased transparency in the tax area.

The essence of the common tax codex is that

- We do not accept aggressive tax planning.
- We reserve the right to make spot checks to verify that the external manager is not practicing aggressive tax planning.
- We appeal for transparency in the tax area.
- We appeal to external managers to adopt their own tax policy.
- External managers must monitor and manage relevant tax risks responsibly.

What is tax transparency?

A large part of ATP's investments is via investment funds. The funds are set up as independent legal entities that encompass multiple investors and regulate the relationship between the investors and the fund managers. The funds are characterised by normally having investors from many different countries and being tax neutral – these are called tax transparent funds.

The tax transparency means that the investors are not taxed in the country where the fund is registered, the taxation depends on where the investors live. This ensures that investors are taxed where their activities are and where they use the national infrastructure, welfare services, etc. For ATP, this means that the greatest possible amount of ATP's investment returns are taxed in Denmark. If the funds were not set up as tax transparent funds, a greater proportion of ATP's investment returns would risk being taxed abroad rather than in Denmark.

In terms of taxes, it does not matter whether a tax transparent fund is domiciled in a low-tax country or in Denmark. The location of the fund is generally based on history, as investors have experience working with the countries that are most frequently used and which offer a stable regulatory framework for the investment funds. This reduces the amount of complexity and helps to keep costs down. Even though some countries are known for being so-called tax havens, the fact that a company is domiciled there does not necessarily indicate it is pursuing aggressive tax planning. Aggressive tax planning is more about behaviour than geography.

The use of tax transparent investment funds does not impact the taxation of the companies that the funds invest in. Companies will still be paying taxes on their profits based on the local rules in the countries they operate in.

What is aggressive tax planning?

ATP defines aggressive tax planning as taking advantage of technicalities in a tax system or inconsistencies between several tax systems for the purposes of reducing tax liability which goes against the spirit of the law. In addition, ATP considers it to be aggressive tax planning if a company's structure is mainly used to gain tax advantages and there is a mismatch between the substance and form of its structure.

The key issue is that it is not permitted to make transactions that take advantage of the tax rules to gain unwarranted tax advantages. For example, aggressive behaviour may be when you attempt to stretch the definition of an expression in legislation.

Dilemma

Investment at any price?

An investment in Bermuda with a dubious tax structure meant that ATP declined to get involved. The investment was based on an underlying tax structure that we could not accept. When we decline an investment, it may in the end result in us losing out on potential returns for our members. However, as we see it, aggressive tax planning is a risk that we are not willing to take and therefore we will not invest at any price.

'All that glitters is not gold', as the old aphorism goes. In our investment universe, this could be translated as meaning that we go through every investment with a fine-tooth comb before we decide whether it is worth putting money into.

Therefore, one of our biggest and most important tasks is to evaluate whether we can or will invest in one of the many projects that we are continually being presented with. When we decide to decline to invest, it might be because of the tax structure behind the investment being something that we as a responsible investor will not be party to. It sounds simple enough, but in practice, it is complex.

When we talk about the tax structure behind an investment, we are talking about behaviour. It is about the choices that are made in connection with the investment – for example, the choice of company type and the country that taxes are settled in. The use of low-tax nations is not in itself a sign of aggressive tax planning, unless the country is deliberately used to reduce or avoid being taxed on the investment. We do not accept such behaviour.

No thank you to aggressive tax planning
If an investment is based on a tax structure which contains aggressive tax planning, ATP will have to say 'No thank you.' That was what we did when we were invited to enter into an investment in Bermuda.

We were offered the chance to invest in a fund that would own an insurance group in Bermuda with a number of subsidiaries in countries such as the United Kingdom and Germany. As part of the investment, a portion of the German and British subsidiaries' so-called insurance risk would be transferred from the United Kingdom and Germany to Bermuda. In tax terms, the transfer of the insurance risk to Bermuda meant that part of the group's earnings were transferred to Bermuda.

Insurance risk is an area that is often looked at in transfer pricing regulations, and it was clear that the structure was a way of moving profits from high-tax countries to a low-tax country in order to pay lower taxes. And since we do not wish to be involved in structures with that kind of tax behaviour, we declined the investment opportunity.

What risks are we willing to take?
Sometimes it will happen that we miss a short-term potential return because we are increasing the requirements we impose on our external investment managers and co-investors. We use a lot of resources to identify which risks there might be associated with any given investment, and we make our choices as to whether invest or not deliberately. After all, in the long run, such investments are not solid or sustainable – neither in terms of purely financial returns or the damage they can do to our reputation.

Global perspective

We have come a long way, but there is still a long way to go

Even though the viewpoints on taxation have changed significantly in recent years, there are still challenges involved in getting uniform tax rules imposed on a global level and to get everyone to accept them. As a responsible investor, we have to do what we can to promote a responsible tax agenda.

The world is constantly changing – what worked yesterday may not necessarily work tomorrow. This also applies to taxes and tax payments. What was a completely ordinary practice 20 years ago might not be the case today.

When it comes to responsible taxes and corporate tax payments, actors such as ATP have high expectations. People, politicians and institutional investors have made it clear: Aggressive tax behaviour is unacceptable. And it is more important than ever that we have uniform rules and practices across borders – not least when it comes to paying taxes.

However, tax legislation is a complex area, and the constant changes make it difficult for legislation to keep up with developments, no matter how hard one tries. For example, how should a developing nation proceed when its national tax legislation and tax rules are not properly adapted to a globalised world? And where investments are based on some different types of tax structures than those we want? The consequence of this is that aggressive tax planning remains an international challenge.

It will take time

Even though ATP is a significant investor in Denmark and one of the largest pension funds in Europe, we cannot complete the work on our own. In order to succeed, we need other major investors – also those larger than ATP – to go along. This requires more international cooperation, political decision and common standards on the area. And it also requires that there is continually being worked on ensuring that investments across national borders are based on the same basic principles – also in developing countries.

We have already come a long way, and today, we are in a very different place than we were just a few decades ago. However, the further we go, the more ambitious we become. New requirements for how to manage taxes will be decided upon as the world at large begins having higher expectations and stricter requirements for organisations behaving responsibly, and only time will tell when the ambitions have been realised.

About ATP

The ATP Group is Denmark's largest pension company and processing business. We solve tasks for almost all Danish citizens and companies.

ATP Livslang Pension (Lifelong Pension) is a collective scheme with more than five million members and pension assets of DKK 900bn. Our task is to ensure good, stable pensions so that Danes will have a bit more money to live on when they retire.

In addition, we ensure payment of a number of welfare and social security benefits. Two out of three Danish kroner paid in welfare benefits in Denmark come from the ATP Group. We pay a total of DKK 250bn a year to 2.4 million citizens on behalf of the state, the municipalities and the social partners.

Would you like to know more?

Read more about ATP and ATP's work with responsibility at www.atp.dk/en

Read more about ATP's policies in full at www.atp.dk/en/policies

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