

# Sustainability Strategy

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# ATP's sustainability strategy

The sustainability challenges facing the world are complex and there are rarely any easy or clear-cut solutions. ATP is committed to being an active partner in addressing sustainability challenges, with the ambition of making a real impact on the world around us. We do so because we want to help drive sustainable improvements, but also because we believe that companies that improve their sustainability performance are better investments for us in the long term.

ATP's sustainability strategy is based on the principle that a pension company like ATP must take responsibility. Responsibility for ensuring good pensions for our members. But also contribute to the world developing in a sustainable direction. This requires us to take a long-term view – and continuously work to ensure that things move in the right direction year after year.

At the same time, we also see a world where agendas such as defence and security are becoming increasingly prominent. This means that the sustainable solutions can come into conflict with other legitimate considerations that must also be balanced.

As a pension company, ATP must provide good pensions for all Danes. As a result, sustainability measures must always go hand in hand with good returns. This is a prerequisite for ATP's sustainability work.

The complexity is high when viewed through a global investment portfolio. The sustainability challenges involve great risks as well as opportunities for an investor – both in terms of the possibility to protect and enhance the value of the investment portfolio and in terms of ways of exerting influence and making a real contribution to sustainable development.

ATP has been working with sustainability in our investments for many years, during which we have gained experience with a range of different ESG levers. This experience comes both from our own work as an investor and from many years of observing companies' sustainability efforts, and we want to leverage on that.

Our experience is that stewardship is the most significant lever for ensuring that value creation goes hand in hand with a real sustainability impact.

Since sustainability challenges are many and complex, it is necessary to set priorities. This does not keep us from addressing other areas, but it means that we have chosen to focus on three sustainability themes in our stewardship: green transition, working conditions and governance practices.

All three topics are key to delivering strong long-term financial results across individual investments. And they are important for building a better world that is sustainable in the long run.

Based on our knowledge of companies' own reporting, it is ATP's assessment that these three themes are material for all companies. The themes are also recognised as financially material in academic papers, and all three are subject to extensive regulation.

For the three focus areas, we want to see improvements in the companies within our portfolio. For ATP, therefore, it is not a question of whether we are invested in one sector or another, but that all companies in our portfolio improve.

Finally, it is our experience that it is important to be specific in our work. This means that we must be able to measure whether the individual companies are on the right track. We therefore need robust data points with wide data coverage that are unambiguous enough to clearly show whether a company is on the right track.

On this basis, we have defined a guideline for each of the three themes allowing us to constantly track and report on the development of our portfolio companies. We will continuously evaluate whether we can introduce additional valid guidelines for the three themes, with the aim of tracking the development of our portfolio companies.

## ATP's sustainability approach

### Who are we?

We are a stable and leading player, leveraging data, knowledge and insight to make a real impact on the world's sustainability challenges guided by our purpose of providing good and stable pensions.

### What is our starting point?

ATP's business model provides the framework for how our investments can contribute to addressing long-term and complex sustainability challenges, with stewardship as the primary tool for driving real improvements that benefit both ATP's investments and society.

### What do we want?

We strive for all of ATP's portfolio companies to improve on ATP's three priority sustainability themes over time from their own starting point. We track the development of the companies using specific, data-supported sustainability guidelines and report annually on progress against these guidelines.

#### Theme

#### Guideline

**Green transition:** The companies' contribution to mitigating climate change and related sustainability issues such as biodiversity and circular economy as well as their work to future-proof their business.

Companies must continuously reduce their absolute CO<sub>2</sub> emissions

**Working conditions:** The company's approach to their employees with a focus on ensuring good and safe conditions through a value-creating approach to employees.

Companies must limit the number of occupational accidents

**Governance practices:** Ensuring responsible and effective management in the companies with a focus on broad recruitment across the board and other management tiers.

Companies must increase diversity in the management tiers

ATP's sustainability strategy should be viewed in the context of ATP's policy for sustainability in investments, policy for stewardship and tax policy for the ATP Group.

# Sustainability in times of change

The need to move our entire society in a sustainable direction is urgent. The goal of the Paris Agreement to limit global warming to below 2°C and preferably 1.5°C has long been the focus of sustainability efforts. However, leading meteorological institutions agree that this is not the direction in which the world is heading.

Looking at projections, energy demand remains high, and in one of its scenarios, the IEA predicts that global energy consumption will double by 2050, driven by increased electrification in households, transport and industry, as well as rising demand in developing countries.

At the same time, other sustainability challenges also demand attention. The environment and climate attracts much focus, but sustainability also involves social and governance issues.

Many societies around the world are facing demographic challenges, with more elderly people and fewer of working age.

This will be a challenge for many societies and may cause tensions and division.

To ensure social cohesion – and at the same time support positive economic development – we must therefore focus on ensuring good working conditions and proper governance practices in our companies. This ensures that everyone's skills and efforts are put to meaningful use – for the benefit of employees, companies and society as a whole.

ATP is committed to contributing to the development of a sustainable society. This must be done with due regard to the Danish ATP Act and ATP's special role in the Danish pension landscape which provide the framework for ATP's sustainability work. Along with ATP's policy for sustainability in investments, policy for stewardship and tax policy for the ATP Group, this strategy provides the framework for ATP's work on sustainability in investments.

## ATP's role in the pension system

ATP's role in the pension system is clear: To provide financial security alongside the state pension with a guaranteed and fixed benefit for life. No matter how old one gets. ATP has an overall investment strategy that takes into account the need to provide guaranteed and lifelong pensions to our members – regardless of interest rate levels and members' life expectancy – while also aiming to increase the real value of the pensions that are paid out.

Almost all Danes are members of ATP. Every month, members and their employer pay an amount to their ATP Livslang Pension (Lifelong Pension), which we manage and invest.

ATP Livslang Pension (Lifelong Pension) is a guaranteed pension product and members are guaranteed a lifelong and monthly payment from ATP for as long as they live.

### Lifelong guarantees and a collective scheme

As an ATP member, you are guaranteed to have the ATP Livslang Pension (Lifelong Pension) paid out from the time you reach the state retirement age to when you die. This lifelong guarantee, which enters into force already from the first contribution, is an essential part of the product, not least because many people in Denmark are living longer and longer.

We make every effort to provide stable pensions and returns which over time can help ensure the real value of the lifelong pensions and create financial security alongside the state pension.

ATP's investment strategy ensures that members always receive the pensions we have guaranteed – whether markets go up or down.

### Investing pension funds

ATP's overall investment strategy takes into account the need to provide guaranteed and lifelong pensions to our members – regardless of interest rate levels and members' life expectancy – while also aiming to ensure the real value of the pensions that are paid out. Sustainability initiatives must always go hand in hand with strong returns. This is a prerequisite for us to deliver on our purpose.

The members' mandatory contributions are divided into what is known as guarantee contribution and bonus contribution, with the guarantee contribution amounting to 80 per cent and the bonus contribution amounting to 20 per cent.

While the guarantee contribution is used to secure the individual member a lifelong and guaranteed pension from the state pension age, the bonus contribution helps to ensure the real value of the lifelong pensions over time and cover for unforeseen events such as, for example, longer life expectancy.

# How can investors act?

In sustainability, the concept of double materiality plays an important role. This reflects how sustainability impacts can be viewed from two different perspectives, depending on motive.

- Financial materiality considers how sustainability challenges affect an investment. For example, if you own properties near the coast, the risk of flooding due to climate change may affect the value of your investment. In addition to actual damage, this may also entail higher insurance premiums or affect the ability to rent out the property.
- Impact materiality considers how an investment affects the wider world or contributes to sustainable development. For example, if a portfolio company emits large amounts of CO<sub>2</sub>, it has a negative impact on the wider world, while investments in renewable energy can help solve sustainability challenges.

As an investor, it is important to consider both types of materiality, ensuring that the negative impacts of one's investments on the wider world are addressed, while also incorporating sustainability risks into ongoing portfolio management.

If a sustainability impact (e.g. CO<sub>2</sub> emissions) affects both, it is said to be of double materiality. This means that it has an impact both on the wider world, but can also have an impact on the company's own financial situation.

In practice, many sustainability impacts are primarily considered to have impact materiality, as companies are not taxed or charged for their externalities, and thus do not face direct financial consequences for their negative impacts.

It is important to distinguish between the different types of materiality as it is essential for understanding the motive of a given action. Institutional investors are typically subject to return requirements or similar provisions. In most countries, pension funds or other asset managers are subject to what is known as a 'fiduciary duty.'

Put simply, this means that one must act in the best interests of the people whose funds are being managed. At its core, the concept is broader than sustainability considerations alone. Therefore, investors should consider returns and risks but may also take sustainability factors into account.

There is a significant difference in whether a given action is carried out with impact materiality or financial materiality in mind. If an investor buys a wind turbine in order to make a difference for the climate, it reflects impact materiality, while buying the same wind turbine because it is considered as a stable and attractive energy infrastructure investment reflects financial materiality. Investors will often naturally seek to combine solid returns with contributing to addressing societal challenges, such as the green transition.

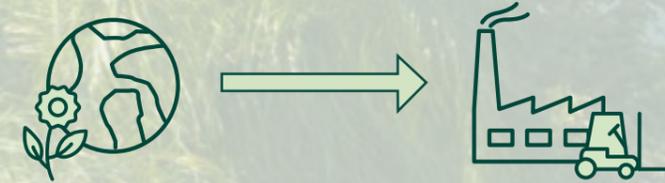
When it comes to impact materiality, investors have different options. Below, four 'levers' are outlined that investors can use to influence impact materiality.

- **Stewardship**
- **Targeted financing**
- **Exclusion**
- **Framework conditions**

Accordingly, investors must consider whether sustainability factors may have financial implications for their investments – both negatively, in the form of risks, and positively, in the form of opportunities for attractive investments.

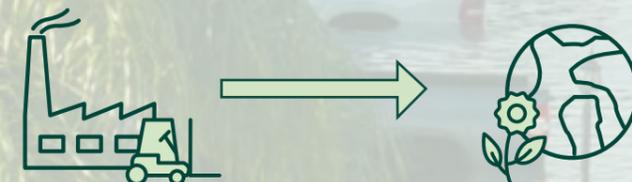
In particular, the understanding of sustainability risks has improved in recent years, and they are increasingly becoming part of the regulatory environment for many investors. Despite these developments, there is still a need to continue working on methods for assessing this type of risk.

## Financial materiality



How do sustainability factors affect an investment in terms of return and risk?

## Impact materiality



How does an investment affect sustainability factors in society and the environment?

# ESG levers: Stewardship

Stewardship is a well-established topic within ESG. Overall, stewardship refers to the practice of a shareholder using their ownership rights to influence a company in a particular direction.

The EU's Shareholder Rights Directive states that 'effective and sustainable shareholder engagement is one of the cornerstones of the corporate governance model of listed companies.'

Stewardship can be used to influence a company's governance practice as well as sustainability matters. Therefore, stewardship can take many forms and serve a variety of purposes, and can thus be used to influence sustainability matters from both an impact and a financial perspective.

General meetings are the most formal form of stewardship, as they are typically governed by the company's articles of association and include a set of standard items on which shareholders must express their views. This may include election of board members, approval of auditors, authorisation of capital increases, etc. Some investors cast their votes themselves, while others use so-called proxy advisors.

In most cases, shareholders also have the right to submit shareholder proposals. This is most common in the US market, but is occasionally seen in Danish companies as well. Here, share-

holders can submit proposals on, for example, the company's strategy and other matters, where sustainability considerations can also be included. Whether the proposal is binding on management depends on the rules of the specific market.

A less formal type of stewardship is the ongoing dialogue with the company regarding its development across various parameters. This may involve ESG issues, as well as corporate governance or strategic matters. Other capital owners, such as bond owners, can also make use of this more informal form of stewardship.

Some investors engage in dialogue with the companies themselves, while others use external consulting agencies that engage in dialogue with the companies on behalf of a group of investors.

This more informal stewardship also depends on the willingness of the individual company to engage in dialogue. Some companies like to engage in dialogue, while others are less inclined to speak with their shareholders outside the established framework.

Stewardship is practiced by some investors behind the scenes, but can also be exercised through the media if, for example, a company's response is not found to be satisfactory.

## ATP's approach to stewardship

For many years, ATP has seen stewardship as a central part of our toolkit, and we widely exercise our rights as shareholders, which we see as an important element in ATP's ability to influence the companies in which we own shares.

Stewardship is not simple; it requires knowledge and thorough preparation. Over time, ATP has therefore developed a set of ESG principles based on our own experience, clarifying how best to exercise stewardship.

ATP manages all stewardship-related matters itself. We do so because we believe that by managing dialogue and stewardship ourselves, we gain special and important insights into a company's affairs. We would not gain these insights if we used an external business partner.

The scope of ATP's stewardship in relation to a specific company generally reflects the value of ATP's investment and ownership interest as well as ATP's possibility of effectively engaging in an active dialogue with the company. ATP also exercises stewardship in relation to issuers of, for example, green bonds.

Stewardship cannot solve every problem, and therefore it is important to take a realistic approach. Our experience is that stewardship is most effective when the dialogue focuses on specific issues rather than larger, more abstract problems, which can be difficult for the company to address. We aim to be pragmatic about the companies' realities and take a holistic approach to the issues.

We believe that stewardship is most effective when the investor can convince companies that the desired changes are in the company's own long-term interest. In our view, stewardship should not foster conflicts between investors and companies, but rather be seen as a valuable collaboration with an exchange of different perspectives. There will be times when the parties disagree about the way forward, but our focus is on trying to resolve it in the interests of both parties.

When companies may be in conflict with ATP's policy on sustainability in investments, we investigate the allegations thoroughly, and if they are deemed valid, we engage in dialogue with the companies with a focus on improvements.

Our patience with the companies is not endless. We expect to be met with a willingness to engage in dialogue and make improvements over time. Our experience is that there is a significant difference in how a shareholder is treated by a company depending on where in the world the company is based, and consequently in how receptive they are to our arguments.

## ESG levers: Targeted financing

Targeted financing refers to initiatives in which specific investments or activities are selected for investment. For example, a specific pool of funds can be earmarked for a particular ESG issue or a specific activity.

There is an element of intent when it comes to targeted financing. Is the investment made because it is a good investment, or is it driven by the intention of supporting a specific activity? Or are both considerations being addressed in the individual investment? In principle, a share in a company can be purchased by two investors, one of whom uses it as part of a sustainable product, while the other treats it like any other investment.

This can be seen on a spectrum with varying degrees of intent regarding the commitment to make a sustainable impact. For some investors – for example, philanthropic foundations – the sustainable activity is a goal in itself, whereas other investors condition their investment on the return meeting certain predetermined requirements.

Over time, there are different themes that investors and society place particular emphasis on. Most recently, we have discussed in Denmark whether investors are contributing sufficiently to the expansion of the Danish defence sector and the development of the European arms industry to support Danish security policy interests.

Targeted financing is typically announced as a specific amount or as a relative value of the assets, where an investor pledges or commits funds to particular areas. This could include climate investments, but it could also focus on, for instance, the UN Sustainable Development Goals or a specific sustainability theme such as water, biodiversity, or social issues. It could also include defining sustainability frontrunners based on certain parameters, and then investing only in the highest-ranked companies.

For institutional investors, the challenge with targeted investing is that it may conflict with the responsibility they have as investors when managing money on behalf of others. Other types of investors, such as philanthropic foundations and family offices, have greater flexibility to invest philanthropically—provided that they have a specific objects clause.

One challenge can be that at certain times, there may be significant societal interest in supporting a particular activity, but suitable instruments to invest in that activity may be lacking. Thus, there may be a lot of capital seeking to invest in few real activities, potentially leading to bubble tendencies. At the same time, definitions of what a given ESG area covers may be vague and change over time.

## ATP's approach to targeted financing

There are different types of targeted funding that can be used for different purposes over time.

ATP recognises the need for investors to support for example the green transition and also expects green investments to be good investments in the long run. Similarly, there may be other investments with other sustainability characteristics where good returns can be achieved while supporting the movement of society in the desired direction.

Due to our business model, the largest area in terms of capital within the green transition at ATP will still be green bonds in the future, and we will report regularly to the public on our holdings of green investments.

We will therefore continue to invest in green activities, provided there are market opportunities with a favourable balance between return and risk. We evaluate these investments as part of our regular screening process, in which an investment is thoroughly examined before a final investment decision is made.

However, we have learned that targeted financing – understood as specific goals or ambitions to maintain a certain volume of given investment types at particular points in time – is not an effective management tool when managing trust funds where return is the primary concern. The value of assets fluctuates, for example due to interest rate developments, and certain investments may be appropriate to sell even if this conflicts with the intention of maintaining a specific amount of investments in, for example, green assets at a given time.

For example, if a green asset is sold just before a given target is to be reached, it counts against the target – even though it does not harm the green transition and even though the sale is in the best interest of the members. This may result in conflicting priorities in the management of ATP's investments, which is inappropriate when ATP's sole purpose is to provide good pensions for Danes.

Therefore, ATP's Supervisory Board does not set targets for what percentage of the portfolio should be allocated to investments with sustainability characteristics at any given time. Ultimately, a specific investment will always be a balancing act of whether the risk ATP assumes matches the expected return.

# ESG levers: Exclusion

Exclusion or divestment is a classic strategy within responsible investment, and it started as an ethical approach, where particularly religiously motivated investors avoided companies that conflicted with their ethical compass.

The practice of excluding entire sectors has generally become more common over the past year, with a particular focus on climate change. This is where a number of investors exclude companies deemed to counteract efforts to stop climate change – typically companies involved in the extraction or combustion of fossil fuels.

The argument for doing so may be that you do not want to be associated with this type of company or that you want to restrict the companies' access to capital via the equity market.

Various academic assessments have been made of whether exclusion has the intended impact on company behaviour and whether there is a real impact on both the company's cost of capital and the company's actual investment behaviour.

When talking about divestment and exclusion, it is important to keep the investor's motive in mind. In this context, exclusion should be understood on the basis of impact materiality, meaning that companies are being excluded because of their impact on society, not because of their financial actions.

In some cases, exclusion can impact the return if you preclude yourself from investing in a large part of the available investment universe. Pension companies and similar investors must therefore also be careful not to go too far in this direction, as they can get in conflict with their purpose if it is only to obtain the best return possible.

## ATP's approach to exclusion

Stewardship is ATP's preferred tool when it comes to negative sustainability impacts, while exclusion is seen as a tool to be used when all other alternatives have been exhausted.

ATP's sustainability policy stipulates that part of its aim is that ATP's sustainability work should benefit the affected employees, companies and local communities and that negative impacts of ATP's investments on people and the environment should be taken into account.

This means, among other things, that ATP does not invest in companies that knowingly and repeatedly violate rules set by national authorities in the markets in which the company operates. The policy also states that portfolio companies must act in accordance with the standards that follow from the international conventions adopted by Denmark.

Companies involved, for example, in the production of sanctioned weapons such as cluster bombs and landmines, are in violation of ATP's policy for sustainability in investments. These are excluded without prior dialogue.

In general, ATP is reluctant to exclude entire legal industries or sectors as we are the pension company of all Danes and since it is assumed that the Danish Parliament would have sanctioned entire sectors if this was their intention.

ATP's committee for sustainability in investments is charged with making exclusion decisions if a company is in violation of ATP's policy for sustainability in investments. The committee's approach is based on the principle that ATP's sustainability work must be characterised by consistency, predictability, openness and must be based on facts rather than subjective assessments, just as ATP's policy for sustainability in investments largely rests on strict criteria as it refers to politically agreed frameworks in the form of national legislation and international agreements. Moreover, ATP recognises that conditions in other parts of the world may require a different framework for the conduct of companies than what applies in Denmark and Western Europe.

ATP has made a number of investment decisions that restrict ATP's investments in a number of sectors. The restrictions overlap with social considerations, but are justified by investment considerations. These restrictions are explained in more detail in the section on *sustainability and investments*.

ATP publishes an updated list of current exclusion decisions on ATP.dk twice a year

## ESG levers: Framework conditions

Impacting framework conditions can be seen as indirect stewardship. Here, a broader perspective is adopted than the individual company, and attempts are made to impact sustainability matters by reaching further out to e.g. policy makers and the wider public via the media.

The work to impact framework conditions can be both broad and narrow.

Impacting framework conditions broadly means that the theme of the debate is not directly related to the investor or its specific investments.

An example of the former is when some investors reach out directly to governments to which they lend money and urge them to change their regulation so that, in the opinion of investors, it aligns better with the investor's wishes in terms of improving sustainability conditions in the country.

Conversely, working to impact framework conditions more narrowly is directly linked to themes that have a more direct impact on the investor and its investments.

This can be in the form of corporate governance rules that ensure better shareholder protection, which is relevant for the entire pool of listed companies and not just the individual company. It may also be reporting rules where a specific reporting item is requested from all companies, meaning that investors have a common interest in changing this framework condition.

Common to both the broad and narrow form of impacting framework conditions is that this work most often takes place through organisations or investor associations. However, in some cases an investor may also try to impact a framework condition directly.

### ATP's approach to framework conditions

ATP notes that framework conditions and regulation are very important in terms of ensuring that various areas of our society move forward such as the green transition. ATP is the pension fund of all Danes. Accordingly, we are generally reluctant to impact framework conditions, as we do not want to act as or be seen as a political player. In other words, we only find it legitimate for ATP to make use of the impact tool in its narrow form.

ATP therefore contributes to debates on framework conditions in areas where it either has a direct impact on ATP and our investments or in areas where ATP has special expertise as an investor. Thus, what applies to ATP's general activity as an investor also applies to ATP's actions within the area of sustainability.

We are members of a number of organisations within responsible investment. However, the primary purpose of our participation is sharing experience and networking with like-minded investors. That is why it is important for ATP that the organisations we are a part of appear apolitical and do not speak on behalf of investors.

# Sustainability risks

Just as companies can influence sustainability conditions, sustainability conditions can also impact the companies' financial conditions. When the EU talks about sustainability risks, it solely concerns the investor's own situation and not the situation of the external environment.

The EU Disclosure Regulation defines a sustainability risk as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment.

A sustainability risk can therefore relate to many different conditions within ESG and is defined broadly.

Climate risks are the most well-described area and involve two different types of risks that can impact companies and therefore also investors.

- Transition risks associated with transitioning to a low-carbon economy, including changes in regulation (e.g. green taxes), technology and market demand.
- Physical risks associated with the physical impact of climate change on companies' operations, including temperature increases (chronic) and extreme weather conditions such as forest fires and floods (acute).

A clear example of this is properties. They may be located in areas that in the future will be at higher risk of flooding, which may limit their value and result in higher insurance premiums. At the same time, potential rental customers may prefer climate-friendly properties, making it harder to rent out old properties, causing the property value to decrease.

Climate risks can also present opportunities in the form of competitive advantages for companies that adapt to physical and transitory climate impacts and provide solutions to mitigate or adapt to climate change.

In recent years, sustainability risks have increasingly been integrated in most regulatory frameworks for investors.

## ATP's approach to sustainability risks

It is ATP's assessment that investments may potentially be negatively affected by sustainability risks and that climate risks are currently the most significant sustainability risk.

We believe that the work to quantify climate-related risks in investment portfolios is still at an early stage compared to other traditional financial risks.

There is no relevant method for measuring the extent of other sustainability risks, nor are they assumed to constitute individual financial risks that are as high as climate-related sustainability risks.

In ATP's opinion, it is difficult to specify how and when a given sustainability risk will materialise and therefore also difficult to assess how ATP's portfolio will be affected. This makes it difficult to take precautions and therefore, we assess that the main protection against sustainability risks at portfolio level is to have a well-diversified portfolio.

At company level, ATP has processes for major unlisted investments where we consider sustainability in connection with both new investments and our ongoing asset management.

Moreover, ATP has continuously imposed a number of investment restrictions to protect the portfolio against climate risks and to opt out of entire or parts of sectors that we do not assess to have long-term potential or sector-specific risks.

- ATP does not invest in the extraction of fossil fuels in illiquid funds such as capital funds.
- ATP does not invest in energy utilities with a CO<sub>2</sub> intensity higher than 575 g CO<sub>2</sub>/kWh and which use more than 45 per cent of coal in their energy mix.
- ATP does not invest in mining companies where thermal coal extraction accounts for more than 5 per cent of revenue.
- ATP also imposes investment restrictions on investments in oil and gas companies, meaning that ATP does not invest in a number of oil companies that do not meet our expectations.

ATP has introduced these restrictions because we do not find that the overall risk of these investments match the potential return. It is ATP's Chief Investment Officer who decides which investment restrictions ATP applies. The restrictions can therefore be adjusted continuously.

ATP's real estate business also continuously takes various precautions to secure the real estate portfolio against climate risks, and climate risks are naturally included as an element when looking for new investment opportunities within real estate.

In general, ATP weighs the expected return on a given investment against the risks, costs and internal resource demands of the investment.

# Focused themes reduce complexity

ATP's primary purpose is to provide guaranteed lifelong old-age pension and, if possible, to maintain the real value of the pensions. The work to ensure sustainability in investments should always be aligned with this purpose. In addition, the focus of our sustainability work is that it must have a real impact on the companies we invest in and therefore also have a positive impact on the external environment.

For ATP as an investor, real impact is about working at company level, because it is in the companies that the changes need to happen. That is why ATP does not set goals at portfolio level as it is our experience that positive and negative movements cannot be translated into a real impact on sustainability challenges.

Real impact must happen in the real economy and not in an investor's balance sheet. A portfolio's carbon footprint may shift if ATP sells its holdings in Mærsk and buys shares in Danske Bank instead. This will neither make Mærsk nor Danske Bank more or less green, but ATP's portfolio will have a lower carbon footprint.

ATP is a pension company for all Danes, and we acknowledge that when it comes to sustainability, there are many subjective opinions on what an investor like ATP should do. These opinions will change over time as the world moves forward. ATP's sustainability work must therefore build on data, knowledge and insights rather than be based on opinions. This enables us to maintain a role as a stable and leading player in sustainability investments where professionalism is at the forefront.

As an institution, ATP has worked with ESG and sustainability in investments for more than 20 years and has therefore continuously gained experience from various actions.

As the review of the various ESG levers shows, it is our experience and therefore clear starting point that stewardship is the best tool to impact companies and in that way work to change the companies' practices. ATP also uses the other ESG levers, but they will serve as a supplement to stewardship.

Sustainability work is complex and as an investor with a diversified portfolio, we are exposed to sustainability challenges in many different companies. In ATP's experience, this work should be prioritised so that we build experience and knowledge within specific themes.

At the same time, we must select ESG areas where we believe that it is both beneficial for the individual company financially and for society that the area develops positively.

Finally, it must be possible to follow up on the de facto developments in the area in order to assess whether progress is actually being made for the individual companies.

By focusing on selected themes, we send clear signals to the companies about our expectations, helping them prioritise the use of their resources. This does not mean that we do not consider other themes, but we have selected three themes based on the above, which have a strategic focus in our work.

The three themes we focus on are:

- **Green transition**
- **Working conditions**
- **Governance practices**

Based on our knowledge of the companies' own reporting, it is ATP's assessment that these three themes are material for virtually all companies. The themes are also recognised as financially material in academic papers, and all three are subject to extensive regulation.

## ATP's focus themes

### Green transition

Focusing on the companies' contribution to mitigating climate change and related sustainability issues such as biodiversity and circular economy as well as their work to future-proof their business. Climate change impacts companies broadly and very differently depending on their business model and the companies will therefore have different courses of action. Biodiversity is closely linked to climate change as something that is bad for the climate often has a negative impact on biodiversity, e.g. deforestation. Similarly, circular economy is about using our resources better, which will ultimately lead to products and consumption having a lower carbon footprint.

### Working conditions

Focusing on the company's approach to their employees with a focus on ensuring good and safe conditions through a value-creating approach to employees. Employees play a value-adding role just as financial and physical capital in terms of their overall competences and productivity, which includes their training and experience but also their motivation and well-being. This means that a company can impact its employees positively, e.g. through training, workplace improvement initiatives or a strong organisational culture but also negatively, such as by treating its staff poorly and thereby harming their motivation and productivity.

### Governance practices

Ensuring responsible and effective management in the companies with a focus on e.g. broad recruitment across the board and other management tiers. A good board makes well-considered and long-term decisions that create long-term value for shareholders. It is therefore important that the boards have a broad composition of profiles with different perspectives and competences as is the case for the company's other management tiers. Governance practices also concern remuneration policy and shareholder communication, meaning that these elements also help ensure long-term value creation in the company.

# Improvements on specific benchmarks

ATP basically wants all our portfolio companies to improve on all three themes over time from their own starting point, while respecting that they have different starting points and challenges.

The dialogue is therefore not about whether the companies have activities in one or the other industry but whether they are improving from their own starting point. A company that comes from a 'bad' starting point can thus develop positively, while a company with a 'better' starting point can develop negatively.

The direction the company takes is important when ATP is prioritising its stewardship. If things go in the wrong direction, the company can benefit from the attention of its investor, while companies developing positively need more peace to work.

In order for us to be able to reliably follow the company's development, specific guidelines must be selected within the three themes where the development can be supported by data. This provides a good basis for dialogue with the companies with a view to following up on their development.

It is important to select the benchmarks carefully so that the companies know exactly what we ask them to improve and so that it is evident to us and the external environment whether the companies actually improve.

In our experience, only very few data points currently have wide coverage within companies, are widely recognised and

allow developments to be tracked. As a central part of this sustainability strategy, ATP will continue to work to improve data coverage on the most central and essential sustainability issues in companies.

ATP will start our work based on three central, data-supported sustainability guidelines that are important across sectors. We continuously track the development in sustainability data and assess whether more sustainability benchmarks are sufficiently mature to become an ATP guideline. The ambition is to be able to add more benchmarks in the future within the individual themes.

We will continuously monitor the development of guidelines and engage in a dialogue with those companies that do not move in a positive direction on a given guideline. In these cases, we will listen to the companies' explanation, including how each company expects to change the development in a positive direction.

A negative development may have a good explanation, and ATP will take this into account in our dialogue with the companies. However, not all explanations are equally good, and they should not become bad excuses. That is why we will regularly compare explanations from different companies, e.g. companies in the same sectors.

ATP's Committee for Sustainability determines which of ATP's portfolios are covered by the sustainability strategy.

## ATP's guidelines

### Green transition

**Companies must continuously reduce their absolute CO<sub>2</sub> emissions.**

This guideline focuses on the companies' absolute emissions rather than relative targets such as carbon footprint, which are normalised based on e.g. revenue. We have chosen this because the relative targets can be obscure. For example, a company's emissions can be increasing but its carbon footprint can be decreasing if its revenue increases accordingly. Although it is typically positive if a company reduces its carbon footprint, the climate issue can only be solved through a global reduction in absolute CO<sub>2</sub> emissions. Increased business scale and lack of regulation can make this guideline challenging for the individual company. In the long term, all companies must move towards carbon neutrality by 2050.

### Working conditions

**Occupational accidents in the companies must be decreasing.**

This guideline focuses on the total annual number of occupational accidents in the company. ATP has chosen this calculation metrics over relative targets such as the occupational accident rate or frequency which may be more difficult to understand and do not show the actual extent of occupational accidents in a company.

The guideline has an intuitive ultimate target for the number of occupational accidents that applies to all companies, but also takes into account that the incidence of occupational accidents varies in different sectors and regions. As part of the guideline, we will also follow up on each of the, thankfully, rare cases where occupational accidents have fatal outcomes.

### Governance practices

**Companies must increase diversity in the management tiers**

The guideline looks at the proportion of the underrepresented gender on the companies' boards and the proportion of the underrepresented gender across all management positions in the companies. If we are to increase diversity in the top management tiers, we must also focus on diversity in the lower management tiers. In creating the guideline, we have applied recent Danish and European regulations, and ATP's expectation is that the companies will gradually approach gender balance at each tier – if this has not already been achieved.

# Six ESG principles set the direction

ATP believes that integrating ESG into our investment work can reduce risks and contribute to long-term value creation. Therefore, we are continually seeking to:

**1** Distinguish between financial materiality and societal materiality and also continually attempt to understand the interaction between financial materiality and societal materiality.

**2** Improve our ESG data basis with a focus on developing the companies' own reporting of data.

**3** Developing ATP's general guidelines and specific expectations for companies' ESG practices.

**4** Mapping the ESG characteristics of ATP's investment portfolios with a view to prioritising ESG initiatives.

**5** Contributing to real improvements being made in individual companies, both for the benefit of ATP's investments and for society at large, based on a preference for active capital stewardship.

**6** Building strong processes for both ESG due diligence and ESG asset management across asset classes tailored to the specific investment processes.