Velliv

This is a translation of the Investment terms offered by Velliv, Pension & Livsforsikring A/S – CVR no. 24260577, Lautrupvang 10, 2750 Ballerup, Denmark. In case of any discrepancy between the Danish text and the English translation, the Danish text shall prevail.

Policy on Responsible Investments and Active Ownership

Date of approval: 25 October 2023

Administrator: Sustainable Investments

1. Introduction and objectives

The purpose of this policy is to implement the business model determined by the Board of Directors and to ensure that Velliv's investments and active ownership of these, besides providing the best possible return, also supports a sustainable development. This is part of the overall strategic management for which the Board of Directors is responsible.

This policy applies to the investment of funds managed by Velliv and applies to both internally and externally managed investments. Any funds invested directly by customers in externally managed funds through LinkPension are not covered by this policy. The fund provider's own policies and guidelines apply here.

The Policy on Responsible Investments and Active Ownership applies to all employees in Velliv. The policy is available on Velliv's website, intranet and in Velliv's GRC system, VelRisk.

The Executive Board is responsible for implementing policies and guidelines for responsible investments and active ownership, and must ensure that appropriate procedures, functional descriptions, manuals, contingency plans, and relevant committees are developed.

1.1 International principles on responsibility and sustainability

Velliv's Policy on Responsible Investments and Active Ownership is based on internationally recognised principles for responsible business conduct. Among others, these include:
- The UN Global Compact
- The UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises.

2. Policy

The policy on Responsible Investments and Active Ownership covers the Board's overall strategic sustainability objectives, including identification and classification of the risks Velliv wishes to assume in relation to sustainability in the investment portfolio, and furthermore, instructions on how to reach those strategic targets. Risks include risks affecting investment returns as well as risks affecting Velliv's reputation.

2.1 Strategic objectives

Velliv shares responsibility for the world it is part of and focuses on ensuring that the companies it invests in comply with international guidelines for good corporate governance and social responsibility.

The strategic objective of responsible investments and active ownership is to create sustainable change that can help solve some of society's challenges and at the same time strengthen Velliv's competitiveness. Therefore, it is a strategic objective that sustainability and social responsibility are integrated into all Velliv processes and decisions, including investment decisions. Velliv believes that sustainability and good results go hand in hand, and therefore it is a strategic choice that sustainability factors should be assessed on equal terms with financial factors. Due to Velliv's focus on sustainable change, it is a strategic decision to support the objective of the Paris Agreement to keep the average global temperature increase below 2 degrees and preferably 1.5 degrees. Velliv has therefore committed to having a carbon-neutral investment portfolio by 2050 or sooner.

At the same time, it is a strategic objective to reduce the risks to which the investment assets are exposed, and which may have an adverse impact on returns, and to reduce the adverse impact these may have on the world around us.

Through its work on responsible investments and active ownership, Velliv also aims to identify and implement investment opportunities that improve both customer returns and the investments' impact on the world at large. Velliv's work with active ownership focuses on addressing any adverse impacts of its investments, while also promoting sustainable development by proactively engaging with companies to create a positive change for the climate and society.

2.2 Risks within the area

Velliv believes that the most important risks within the framework of our policy on responsible investment and active ownership are sustainability risks and reputation risks.

Sustainability risks arise as a result of environmental, social or governance (ESG) events that, if they occur, may adversely affect investment returns. It is crucial to understand the sustainability risks associated with an investment and balance risk and return.

Reputational risks will always exist, and therefore it is essential that Velliv is able to manage increased expectations of a responsible investor and keep up with developments in the sustainability field compared to competitors.

Compliance risks arise if Velliv does not comply with the legislation on investment sustainability, including if Velliv does not ensure that the company complies with the obligations it undertakes to customers on an ongoing basis to meet specified targets within responsible investments and active ownership.

Finally, there are operational risks, e.g. due to lack of processes and business procedures to support sufficient hedging of relevant risks.

Velliv's management and measures of the above risks are elaborated in section 2.3.

2.3 Methods and overall processes

2.3.1 integration of sustainability

Velliv's strategic objectives for sustainable change are integrated by, among other things, ensuring that Velliv's products contain a minimum share of sustainable investments in relation to the product's characteristics. Velliv's integration of sustainable investment opportunities is based on the 17 UN Sustainable Development Goals. EU's definition in Article 2(17) of the Disclosure Regulation provides the framework for Velliv's definition of sustainable investments. A sustainable investment in Velliv is an investment in an economic activity with the following criteria:

1) The company's revenue contributes positively to one or more of the 17 UN Sustainable Development Goals.
2) The company does no significant harm to other environmental or social objectives, based on the adverse impacts on sustainability factors defined by the EU/Principal Adverse Impact indicators (PAIs).
3) The company complies with recognised principles of responsible corporate governance.

Velliv identifies and prioritises any adverse effects that investments may have on sustainability factors. This is based on significant adverse effects on the outside world, as stated in the Disclosure Regulation.

Velliv has joined the following initiatives, which contribute to creating transparency and push for the further development of Velliv's approach to sustainability:

1. CDP
2. Climate Action 100+
3. Finance for Biodiversity Pledge
4. UN Global Compact
5. Global Impact Investing Network (GIIN)
6. The Institutional Investors Group on Climate Change (IIGCC)
7. Nature Action 100
8. Net zero engagement initiative
9. Paris Aligned Investment Initiative (PAII)
10. Science Based Targets initiative (SBTi)
11. UN Principles for Responsible Investment (UN PRI)

Velliv's method and process for integrating sustainability are elaborated further in the below sections.

Minimum share of sustainable investments and investments in line with the EU Taxonomy Regulation
Velliv wants to provide products with varied levels of sustainable investments. Based on the Disclosure Regulation, the Board of Directors annually sets the minimum share of market interest products in sustainable investments and investments in accordance with the EU Taxonomy Regulation.

Prioritising negative sustainability factors in investment decisions
Velliv takes into account the main adverse impacts of our investment decisions on sustainability factors. The most significant negative impact is generally understood to mean the negative impact an investment decision can have on environmental, social and management issues.
Velliv has identified a number of areas where the investment portfolio has the greatest impact on climate, environment, and society. The Principal Adverse Impact indicators (PAI indicators) are used to identify which negative impacts on sustainability should be prioritised. The indicators are used both as prioritisation of focus areas and for monitoring the development of the investment portfolio.

The following areas are believed to have a major impact on climate, environment, and society, as well as to have long-term consequences. Therefore, Velliv has decided to have a special focus on these in its investment portfolio and the selection of new investments:

1. Carbon footprint (PAI 1-6)
2. Biodiversity sensitive areas (PAI 7)

3. Violation of UN Global Compact principles and OECD's guidelines (PAI 10)
4. Controversial weapons (PAI 14)
5. Violation of social rights in countries (PAI 16)

Asset managers
The process of selecting funds and asset managers includes an assessment of the external managers' approach and practices in the field of sustainability. It is to ensure that the chosen managers and their investment approaches meet Velliv's requirements for responsibility and sustainability, as well as the sustainability characteristics Velliv has given customers the prospect of with their chosen pension savings product.

Exclusions
Velliv does not in general wish to exclude companies from the investable universe, as it is believed not to contribute to any real change in society. In cases where companies fail to comply with Velliv's policy and do not meet Velliv's expectations for responsible corporate behaviour, Velliv will engage in dialogue with the company. However, exclusion may be a necessary measure in situations where the company exhibits no desire or willingness to change.

Furthermore, Velliv has chosen to completely exclude investments in certain companies, products, and sectors, as Velliv does not believe these to be in accordance with Velliv's aim to contribute to a more sustainable world. The excluded products and sectors are:

- companies where more than 5% of the revenue originates from extraction of thermal coal
- companies where more than 0% of the revenue originates from thermal coal or coal in energy production and with thermal coal expansion plans
- companies where more than 5% of the revenue originates from extraction and production of oil and gas, using unconventional methods which include oil sands mining, oil extraction in the Arctic or fracking
- companies where more than 5% of the revenue comes from exploration, extraction and production of oil and gas, and the use of thermal coal, oil, and gas in energy production, unless Velliv has assessed the company to be on path to a transition that supports the objectives of the Paris Agreement
- companies that produce nuclear weapons or sanctioned weapons such as cluster munition or antipersonnel landmines. Furthermore, Velliv does not want to invest in companies that, through arms trade, violate UN's applicable arms sanctions
- companies where more than 5% of the revenue comes from tobacco production.

Furthermore, Velliv does not wish to invest in government bonds issued by countries that Velliv does not believe to have a satisfactory governance and management approach.

Exclusion criteria apply to Velliv's portfolio of listed shares and corporate bonds that Velliv holds in its own custody account. Velliv cannot demand compliance with the exclusion list for external funds where Velliv does not have controlling influence. For other asset classes, the exclusion list is implemented to the extent possible.

Active ownership
Through active ownership, Velliv will promote sustainability among the companies it invests in, thereby increasing sustainability considerations in the overall investment portfolio. Active ownership is used as a measure both to manage adverse sustainability impacts and to create positive sustainability results.

Velliv also votes at general meetings of listed companies via proxy voting. This means an advisor gets the authority to on behalf of Velliv. Votes are cast for all companies in actively-managed mandates where Velliv has the right to vote, and in passively-managed mandates for companies where the holding is deemed material. Velliv follows a voting policy that aims to mitigate sustainability risks and promote sustainability, however, Velliv may deviate from the voting policy at any time if deemed appropriate for Velliv to achieve its strategic objectives. Velliv does not take part in securities lending and is therefore able to vote in any funds where Velliv does have controlling influence.

Velliv continuously monitors the portfolio companies according to international principles relating to social and environmental issues as well as corporate governance. As part of the active ownership, Velliv engages in dialogue with those companies where monitoring shows inappropriate behaviour, with the intention of having the companies implement any necessary measures to ensure that similar incidents do not happen in the future.

Velliv also engages in proactive dialogues with portfolio companies to support sustainable development and create positive changes for the benefit of the climate and society. Furthermore, Velliv participates in investor collaborations and cooperates with other investors to drive the sustainability agenda, when this is considered beneficial for the achievement of strategic targets.

Climate

In order to support the objective of the Paris Agreement as set out in section 2.1, Velliv has joined PAII and thus committed to having a carbon-neutral investment portfolio by 2050. Velliv has also committed to the Science Based Targets Initiative (SBTi) where the objective is to establish an action plan for carbon neutrality that includes continuous approval of reduction targets by a third party. Velliv will set reduction targets for climate work in accordance with leading scientific recommendations in this field.

Furthermore, Velliv wishes to continuously increase the share of investments supporting the green transition. In pursuit of carbon emission reductions in the investment portfolio, exclusions will not be used as the primary measure. Instead, Velliv will focus on contributing to a sustainable transition of the real economy through active ownership.

Several short-term targets have been set for the investment portfolio:

- A 60% reduction of the investment portfolio's carbon emissions on listed shares and corporate bonds as well as real estate by 2030 compared to 2019
- 20% of AUM in investments supporting the green transition in 2030.

When Velliv determines whether a given investment supports the green transition, the following must be met:

- The requirements of the EU Taxonomy Regulation regarding climate and environmentally sustainable activities, as a minimum, or
- The requirements of Velliv's definition of a sustainable investment cf. Art. 2(17) of the Disclosure Regulation based on climate and environmental-related investments.

Biodiversity

Velliv wishes to protect and restore biodiversity though its investments and has therefore joined the Finance for Biodiversity Pledge. The Finance for Biodiversity Pledge is a global partnership of investors committed to protecting and restoring biodiversity though their financial activities. By joining the initiative, Velliv expresses a wish to cooperate, engage in further dialogue with companies, set targets, evaluate impact, and disclose results and work related to biodiversity.

Tax
Velliv does not tolerate aggressive tax planning and expects companies it invests in to demonstrate responsible tax practices in the countries in which they operate.
Velliv has joined a so-called Tax Code of Conduct with other investors to ensure responsible tax behaviour when investing in unlisted companies through external asset managers.

2.3.2 Integration of sustainability risks

Environmental, social or governance (ESG) events that, if they occur, may have an actual or potential adverse impact on the value of an investment. A distinction is made between different types of sustainability risks, with the following assessed to be the main ones for Velliv:

Climate risks
Climate risks are a significant type of sustainability risk that can affect the return on investment in the form of either physical risks from climate change or transition risks associated with the transition to a low-carbon economy that is not based on fossil fuels to the same extent as today.

Physical climate risks, such as increased frequency and the extent of extreme weather events, may negatively affect the market value of Velliv's directly owned physical assets. In addition, the market value of the financial assets may be adversely affected because the underlying business models rely on physical assets, which may be adversely affected by the mentioned weather events.

Transition risks typically occur in the context of technological changes, regulatory changes, migrations and changing consumption patterns. Transition risks are primarily associated with Velliv's investment exposure to companies in carbon-heavy industries that do not have a business model compatible with the Paris Agreement's objective of limiting the global temperature increase to below 2 degrees. These industries may be subject to charges which may not necessarily be passed on to consumers or which may contribute to the attractiveness of competing industries or technologies. An example of this is coal, oil, and the utilities sector, which are increasingly expected to be challenged by competing alternatives, such as innovation in relation to renewable energy sources. The valuation of these types of companies depends on how well companies are able to transform their business models into more climate-friendly alternatives.

Biodiversity risks
Degradation or loss of any aspect of biologic diversity, also known as biodiversity, can pose an investment risk. Several of the companies in which Velliv invests depend on nature to produce products. For example, some companies depend on water, arable land, raw materials such as wood, or pollination of certain crops. The loss of species or habitats can lead to disruptions in the supply chain or a lack of resources.

Social and governance risks
Social and governance risks can potentially affect the return on investment of assets that fail to take into account the UN Global Compact principles, such as labour and human rights. These may be companies that operate without regard to the rights of indigenous peoples and thus risk reputation loss, regulatory intervention, and fines, all of which lead to financial losses. It may also be companies operating from countries subject to international sanctions or where a fall in demand leads to a fall in market value.

Velliv's identification and integration of sustainability risks in the investment decision-making process is part of Velliv's work to mitigate sustainability risks that may affect investment returns. Velliv cannot eliminate sustainability risks completely and thus balances risks against returns in the investment process.

Identification of sustainability risks is part of the investment process on equal terms with other financial analyses in the investment process and is integrated in Velliv's decision-making process. Velliv seeks to integrate ESG factors in investment risk analyses to ensure that all investment decisions are made on sufficiently informed grounds. Velliv acknowledges that the work on integrating sustainability risks is complex and under constant development, and especially unlisted investments still do not have sufficient data available. When it comes to the individual asset classes, there is a big difference in the level of exposure to sustainability risks as well as the possibility to identify these risks. The integration of sustainability risks in Velliv's decision-making process is thus tailored to the options and relevance within the individual asset class.

Identification and management of climate risks
Climate-related risks are considered significant for Velliv's investment portfolio. To identify and manage these risks in the portfolio, a climate report is prepared each year, based on the recommendations on financial climate reporting prepared by the Task Force on Climate-Related Financial Disclosures (TCFD). The report addresses work in the following areas:

- Governance
- Strategy
- Risk management
- Key figures and objectives

In order to identify climate-related risks, two climate scenarios developed by the International Energy Agency (IEA) are taken as a starting point. One scenario is linked to an average temperature increase below 2 degrees, as stated in the Paris Agreement. The second scenario is linked to a temperature increase of more than 2 degrees, which is not compatible with the Paris Agreement. These scenarios shall be assessed for each asset class in the short and long term. In addition, an analysis of our listed stock portfolio and corporate bonds, as well as real estate, is prepared to illustrate the portfolio's expected development in a transition to low-carbon economy.

External asset managers (alternatives, shares, and bonds)
Velliv primarily invests through external asset managers. The process of selecting funds and asset managers includes an analysis of the external manager's integration of sustainability risks in the investment process. This comprises competencies and standards in responsible investments, and their approach to and management of environmental, social, and governance-related issues in asset selection and risk management. Particular attention is paid to the management of climate change in investment decisions, covering climate-related risk management, reporting, and climate plan.

The external asset managers are monitored annually to ensure that they comply with the approach to integration of sustainability risks that Velliv has outlined. The stocks in the funds are also monitored to ensure compliance with Velliv's policy.

Real estate
When investing in real estate, sustainability risks are integrated both in connection with new constructions and new acquisitions, as well as through ongoing analysis of existing assets.

The physical risk is assessed on the basis of incident analyses and incorporated through prepared action plans for the properties as well as in case of greater requirements for e.g. the design of new buildings. Transition risks are assessed on the basis of the sustainability profile of the assets, such as energy label, building certification and the possibility for the asset to meet the expected sustainability requirements from the authorities and the market.

Social and managerial risks are integrated, for example, in connection with entering into agreements within building operations and in connection with the construction and renovation of properties.

Mortgage credit

The Danish mortgage banks all have a strong focus on the green transition, both in the form of issuance of green bonds and climate improvements in their loan portfolio. In addition, there are only a limited number of (6) issuers that Velliv already closely follows in the form of detailed data and ongoing dialogue, and it is assessed that there is no need to include additional risks associated with these investments. Therefore, no further concrete measures are taken to integrate sustainability risks in connection with decisions to invest in Danish mortgage bonds.

Government bonds

Furthermore, Velliv does not wish to invest in government bonds issued by countries that Velliv does not believe to have a satisfactory approach to governance and management practices. These countries include an increased risk of corruption and a low degree of political stability, which increase the risk of financial losses for investors.

Other types of sustainability risks typically have a more limited risk on government bond issues since the bonds have a fixed maturity date and as an investor, Velliv has an option to reinvest after each repayment. This makes the investment horizon (and thus the risk exposure) more limited.

Active ownership

Active ownership is also used to manage sustainability risks in the portfolio. When violations of international principles are documented among portfolio companies, Velliv engages in dialogue with the aim of correcting the inappropriate behaviour that poses risks to a company in the form of potential litigation, negative reputation and long-term value. Sustainability risks are reduced by companies implementing any necessary measures to ensure that similar incidents do not occur in the future. Exclusion may be a necessary measure in situations where the company exhibits no desire or willingness to change.

Velliv also engages in proactive dialogue with companies with the aim of mitigating sustainability risks. This is for example with the aim of increasing transparency about their impacts and developing carbon reduction targets to transform business models to better manage climate-related risks.

Velliv's voting at general meetings of listed companies is also used to manage sustainability risks. Velliv's voting policy recognises sustainability factors as posing significant risks to investments, as voting is based on promoting compliance with internationally recognised standards of good governance and supporting proposals for increased reporting on companies' impacts, business activities and management for further documentation to identify sustainability risks.

Passively managed strategies

The purpose of passively managed strategies is to reflect broad market indices. As investments in an index follow only the underlying assets, the approach to integrating sustainability risks is not the same in passively managed strategies as it is in actively managed strategies. In passively managed strategies, sustainability risks are primarily managed through exclusion and active ownership. In Velliv, exclusion is primarily used to minimise negative sustainability impacts, but by excluding companies with exposure to activities such as coal, controversial weapons, and breaches of the UN Global Compact, we mitigate sustainability risks associated with these activities.

2.3.3 Conflicts of interest
When exercising active ownership, conflicts of interests may arise. This may be in the relation to Velliv employees, competitors, or customers. Procedures are in place to ensure that the persons involved in the implementation of the company's strategies and policies understand where conflicts of interest may arise and how to deal with them. The procedures put in place shall ensure the safe management of such conflicts where conflicts of interest cannot be avoided.

2.3.4 Transparency
Velliv will show as much transparency as possible in the work on responsible investments and active ownership. Velliv is open to dialogue with relevant stakeholders in relation to specific investments and processes, and Velliv will respond to any related inquiries. Lists of holdings, company dialogues, and information on how we have voted are published and regularly updated on Velliv's website.

3. Guidelines
The guidelines set out the framework for the decisions the Executive Board can make in the area of policy and guidelines for responsible investments and active ownership, and – where relevant – the limitations the Executive Board is subject to in this area, including in relation to risk taking. Furthermore, the guidelines define rules for controls and reporting to the Board of Directors in order to ensure that any risks taken, and decisions made by the Executive Board are in line with the risk appetite of the Board of Directors.

3.1 Framework
The overall framework/limitations set by the Board of the Directors for the Executive Board are put into practice through relevant procedures approved by the Executive Board or persons so authorised.

Integration of sustainability and sustainability risks
The Executive Board shall ensure that:

- the individual pension products at any time comply with the sustainability information, Velliv has given the customer
- the definition of a sustainable investment in accordance with art. 2(17) of the Disclosure Regulation shall be established and implemented correctly in accordance with the methodologies established by the Board of Directors as described in the framework document of the investment policy
- the method and process for calculating the minimum share of sustainable investments and investments in accordance with the taxonomy of Velliv's products is implemented correctly. Minimum shares for sustainable investments and investments in accordance with the taxonomy of Velliv's products are set out in the framework document of the investment policy, which is approved annually by the Board of Directors
- it is decided on which voluntary PAI indicators to report, and the strategic objectives of this policy are taken as a starting point
- sustainability risks are integrated in the decision-making process prior to the approval of any new investment mandates.

Asset managers
The Executive Board shall ensure that:

- an assessment is made of the asset manager's approach to sustainable investments and sustainability risks is carried out as part of due diligence prior to the selection of an asset manager

- the approach to responsibility and sustainability of the various funds are evaluated on an ongoing basis and at least annually. Asset class specific considerations should be taken into account.

Exclusions
The Executive Board shall ensure that:
- the exclusion list is implemented and published on Velliv's website every six months. Any breaches are reported to the Executive Board once a month and to the Board of Directors quarterly.

Climate
The Executive Board shall ensure that:
- Velliv can live up to the commitments of the Paris Aligned Investment Initiative and the Science Based Targets Initiative
- 20 per cent of AUM are invested in assets supporting the green transition by 2030
- 60 per cent reduction of the investment portfolio's carbon emissions on listed shares and corporate bonds as well as real estate by 2030 compared to 2019
- Velliv's work on climate-related risks is based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Biodiversity
The Executive Board ensures that Velliv can live up to the commitments of the Finance for Biodiversity Pledge, which entails that Velliv:
- collaborates and shares knowledge about methods, metrics, targets, etc. with other investors/stakeholders
- engages in dialogue with selected companies on the adverse impacts their business may have on biodiversity
- sets targets, assesses impact, and discloses information on the positive and adverse impact of Velliv's investments on biodiversity, to the extent possible.

Monitoring
The Executive Board shall ensure that:
- that reputable international data providers are used for monitoring investments where data quality and coverage is high
- at least once a quarter a screening is made of the portfolio of listed shares and corporate bonds, and at least once a year of the countries issuing government bonds in order to determine whether any investments are inconsistent with Velliv's Policy on Responsible Investments and Active Ownership. In the event of a breach, necessary measures must be taken.

Voting
The Executive Board shall ensure that:
- Velliv in general follows a voting policy that aims to mitigate sustainability risks and promote sustainability, however, Velliv may deviate from the voting policy at any time if deemed appropriate for Velliv to achieve its strategic objectives.

Transparency
The Executive Board shall ensure that:
- lists of holdings are published twice a year and the dialogue list is published once a year on Velliv's website
- all Velliv votes are publicly available on Velliv's website.

3.2 Monitoring and controls

The policy is put into practice through guidelines on responsible investments and active ownership and is further supported by internal procedures and processes.

The Executive Board is responsible for ensuring that established business procedures ensure that monitoring and controls are carried out at appropriate intervals of all material, risky tasks in the area.

3.3 Reporting

The implementation of the Policy on Responsible Investments and Active Ownership is anchored in the Investments Department. Velliv's Investment Committee assesses the impact of the policy and whether the policy is adequately enforced and communicated. Twice a year, the Board of Directors receives a policy compliance report.

4. Effective date and updating

At its meeting on 25 October 2023, the Board of Directors of Velliv, Pension & Livsforsikring A/S adopted this policy and guidelines for responsible investment and active ownership, replacing Policy on Responsible Investment and Active Ownership of 25 May 2023.

The policy and guidelines will be reviewed regularly and whenever any material changes occur, but at least once a year.

5. References

Legislation etc.	- Consolidated Act. No. 406 of 29 March 2022 on financial business (*the Financial Business Act*) - Executive Order No. 1723 of 16 December 2015 on Management and Control of Insurance Companies etc. (*Ledelsesbekendtgørelsen*) - Regulation 2019/2988 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the Disclosure Regulation).
References to other management documents	- Corporate Social Responsibility Policy - Investment Policy - Product Policy - Anti-Bribery and Anti-Corruption Policy - Rules of Procedure of the Board of Directors.