



Sustainable Investment Policy

Sparinvest S.A.

Approved by the Board of Directors 26th of February 2021

Sparinvest S.A. (hereafter “Sparinvest”) is a Luxembourgish Management Company of UCITS and Alternative Investment Fund Manager of AIFs, with a branch (ID-Sparinvest, Filial af Sparinvest S.A., Luxembourg) in Denmark, the Company. Sparinvest is part of the Nykredit Group, as Nykredit Bank A/S holds more than 75% of the shares of Sparinvest’s parent company. It is an important part of our DNA to take responsibility for wider society and create long-term value for our customers. We are convinced that investing sustainably is inseparable from our aim of delivering robust, long-term investment returns to our clients.

Our ambition to benefit society and create long-term value for our customers is central to how we invest our clients’ capital, how we advise our clients, and how we run our business. As a sustainable financial company, Sparinvest is both committed and uniquely positioned to help solve the challenges faced by society. We aspire to be strong custodians of capital and society, for current and future generations. We believe this is how we achieve the best results – for our customers and the world around us.

Content

1.	Purpose and scope	4
2.	How we Invest.....	4
2.1	Sparinvest's climate target and contribution to achieving the UN Sustainable Development Goals .	5
2.2	Sparinvest has adopted international standards and committed to collaboration.....	6
2.3	Link to Sparinvest's remuneration policy	6
2.4	The policy's significance to returns	7
2.5	Advice based on customer preferences.....	7
3.	ESG Integration	8
4.	Stewardship: Overview	9
5.	Stewardship: Engagement.....	9
5.1	How do we engage?	10
5.2	Why do we engage?	11
5.3	Escalation policy	11
5.4	Monitoring and reporting on engagements	13
6.	Stewardship: Voting Policy	13
6.1	When do we vote?.....	13
6.2	How do we make our voting decisions?	13
6.3	Engagement and voting.....	14
6.4	Voting principles	14
7.	Exclusions	17
7.1	Universal exclusion criteria	17
7.2	Fund-specific exclusions.....	18
7.3	Sanctions	19
7.4	Exclusion decisions and re-inclusion	19
8.	Asset class specifics: Government bonds.....	19
8.1	How we include sustainability considerations in the process	20
8.2	Reasons for exclusion of government bonds	20
9.	Asset class specifics: Mortgage bonds	21
10.	Service and data providers	21
11.	Transparency.....	22
12.	Governance and reporting.....	22
12.1	Conflicts of interest	22

1. Purpose and scope

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

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

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

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

2. How we Invest

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

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

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

Some investments are excluded from all strategies. For example, we do not invest in producers or distributors of controversial weapons or in companies persistently failing to comply with international norms,

conventions and recommendations and where engagement has proved futile. We also exclude a number of energy companies because their plans for transition are either non-existent or unrealistic.

However, many of our products go beyond this and take further measures, for instance through more engagement to drive change, or through further exclusions.

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

We recognise that many investors wish to have information about the financial returns of their investments, while also wanting to understand their impact on broader society. We are committed to providing our investors with that understanding.

Using this approach, we aspire to identify ESG risks and manage principal adverse impacts with the aim of creating value and benefiting society.

2.1 Sparinvest's climate target and contribution to achieving the UN Sustainable Development Goals

Sparinvest wants to conduct our investments in alignment with the Paris Agreement and contribute to reaching the UN Sustainable Development Goals (SDGs). Our ambition is to reduce our climate footprint by making our overall investment activities climate neutral by 2050, thereby contributing to limiting global warming to 1.5°C. In our efforts to meet this objective, Sparinvest will contribute to the development of recognised sector-wide methods and influence investee companies to supply relevant data, thereby enabling the attainment of the target across all asset classes.

The world's investors play a central role in guiding society into a more sustainable direction and supporting the 17 SDGs through investing in sustainable measures and encouraging companies to assume responsibility for achieving the goals. Sparinvest also has a responsibility for allocating our customers' and our own funds in a manner that supports the sustainable transition. By including sustainability considera-

tions in our investment processes, Sparinvest seeks to contribute to positive change. Sparinvest regularly analyses the degree to which the investments are aligned with the SDGs with the aim of promoting conduct that is consistent with the SDGs and reducing conduct that is not.

2.2 Sparinvest has adopted international standards and committed to collaboration

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

Sparinvest adopted the UN Principles for Responsible Investments (UN PRI) in 2009 and has continued working with the six principles in our processes. In addition to this, Sparinvest together with Nykredit is fully committed to the UN Global Compact and plays an active role in further developing methods in the area of sustainable investment. Furthermore, Sparinvest and/or Nykredit is a member of Dansif, Eurosif and several trade associations, including Finance Denmark and the Association of the Luxembourg Fund Industry (ALFI). Sparinvest and/or Nykredit has also contributed to and supports the Danish Investment Association's sector recommendations on sustainability. Generally, we consider it important to contribute to the development of sector recommendations and shared methods, and often play a key role in this context.

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

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

2.3 Link to Sparinvest's remuneration policy

The Sustainable Investment Policy is directly linked to Sparinvest's remuneration policy. Sparinvest has formulated ESG key data points focused on climate footprint, sustainable solutions as well as customer and staff views of Sparinvest's performance in terms of sustainable investment. Some Sparinvest staff members are part of bonus schemes or may receive performance awards, and in both cases, the determination is based partly on this policy and their sustainable investment performance. Sparinvest's remuneration policy is available at Sparinvest's website.

2.4 The policy's significance to returns

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

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

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

2.5 Advice based on customer preferences

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

3. ESG Integration

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

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

As a baseline, across all funds, all holdings and potential investments are screened on a rolling basis for compliance with international norms in the areas of human rights, labour rights, the environment and climate. This includes widely recognised UN conventions: the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the Paris Agreement and conventions concerning controversial weapons. This information is used to inform both investment decisions and our stewardship programme. Some companies may be excluded as a result (read more in Section 7). We also monitor the broader ESG performance of our investments, including relevant measures of climate footprints.

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

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

For our actively managed, fundamental strategies, ESG information is integrated in both qualitative and quantitative ways throughout the entire investment process, from screening and analysing potential new investments, to calculating fair values, to making investment decisions, building and monitoring portfolios, and informing our stewardship activities.

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

from external research providers, including specialised ESG research providers. This includes ESG research covering industry-level, country-level, and thematic ESG issues, and also company-specific research.

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

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

4. Stewardship: Overview

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

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

In the following sections, we describe our approach to stewardship using two main tools of active ownership: voting and engagement, which we see as inherently interlinked. We also explain our approach to escalation and, ultimately, exclusion in some cases where engagement does not develop satisfactorily.

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

5. Stewardship: Engagement

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

As described in section 3 above, we continuously monitor our investments. It provides us with insights into the ESG opportunities and risks that face our investments.

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

5.1 How do we engage?

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

- **Direct engagements:** These are run by Sparinvest alone. In our active, fundamental strategies, the engagement is typically run by members of our investment teams, since our portfolio managers possess solid knowledge of the specific company that may further strengthen the dialogue. It also sends a clear message to the investee company that sustainability is an issue that runs to the heart of our investment decisions. Our investment teams are supported by our ESG team, who also run engagements on behalf of our quantitative and passive strategies.
- **Collaborative engagements:** These are engagements where we join with other institutional investors via forums such as Climate Action 100+ and PRI to co-ordinate engagement on specific ESG themes. Often, we will assume the role of lead investor where we run the engagement with one company on behalf of various investors, while other investors lead the engagement with other companies.
- **Service provider engagements:** We also join engagements led by professional service providers. In these cases, we often join the engagement meetings, and we maintain a strong feedback loop with our service providers, for example, advising them of our own engagement experience with the company in question.

5.2 Why do we engage?

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

- **Company-specific ESG risks or opportunities:** We analyse and monitor specific areas where we can encourage companies to mitigate risks or exploit opportunities that can deliver positive societal impacts and corporate value.
- **Climate change:** We see climate change as one of the predominant challenges facing companies and society. The nature of corporate approaches to climate transition can significantly impact corporate value. Our engagement work here fits closely with our climate change analysis of portfolios, including carbon footprinting.
- **Breach of international norms:** Where our ongoing screening identifies breaches of international norms, we adopt a two-pronged approach to engagement: we push for remediation of the issue and change to prevent recurrence of the issue. In our actively managed, fundamental strategies, we engage directly with the company, partly to make it clear to the company that we - as investors - attach significance to the issue, and partly because we believe our knowledge of the company may have particular influence on the course of action. In our quantitatively and passively managed funds, we play an active role in engagements run by a service provider. As for exclusions, Sparinvest publishes a list of ongoing engagements with companies in breach of norms.
- **Voting-related engagement:** We regard voting as a tool in a broader dialogue. When we vote against management recommendations, we seek to supplement this with dialogue. We aim to do this for all holdings in our actively managed, fundamental strategies. In our quantitatively and passively managed strategies, we aim to communicate with the companies on voting issues of particular significance. Where time permits, this dialogue is started before the relevant general meeting.

5.3 Escalation policy

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

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

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

- **Further communication:** Continuing the dialogue. This may involve several modes of communication (emails, phone calls, meeting in person, etc).
- **Alternative counterparts within company:** Seeking dialogue with different representatives of the company in question. This could be senior representatives (board members or senior management, independent board members, etc) or more specialised representatives. This may involve considering whether Sparinvest's representative has sufficient seniority.
- **Employing a different type of engagement:** In certain cases, it can be constructive to shift between one type of engagement to another, such as shifting from a collaborative engagement together with other institutional investors to one managed solely by Sparinvest.
- **Voting:** Where the issue is the subject of a voting agenda item, we will vote in accordance with our voting policy and in the best interests of our clients. Where the issue is not directly linked to a voting agenda item, we may on occasion vote against a director appointment as a way of expressing dissatisfaction.
- **Filing of shareholder resolutions:** In certain circumstances, we may consider filing a shareholder resolution at extraordinary or general meetings of shareholders, or requesting a general meeting.
- **Public statements:** We may lend our support to broad investor statements related to certain initiatives that we believe contribute to the company's long-term value. In individual engagements, we do not generally consider public statements to be particularly conducive to a constructive atmosphere for dialogue. We may make our views known if considered appropriate, for instance at general meetings, other public venues or in the media.
- **Sale of position:** The current status of any engagement and insights gained from it are naturally part of the fundamental information we consider as we monitor an investment, assess its fair value, and determine whether to remain invested and its appropriate position size. In certain

cases, such as serious and persistent violations of international norms, a lack of satisfactory progress in engagement may lead to us placing a company on our exclusion lists, which apply to all portfolios.

- **Legal remedies:** When considered appropriate we may seek legal remedy, for example seeking damages through participation in class action lawsuits.

5.4 Monitoring and reporting on engagements

Sparinvest continuously monitors our different engagements, using internal tools to share data and knowledge across teams. Progress in engagement in relation to a company is discussed in the relevant investment teams and at internal forums. In respect of breaches of international norms, the Sustainable Investment Forum decides whether objectives have been achieved, and decides on potential exclusion of companies where engagement progress is unsatisfactory and achievement of the objectives is not deemed to be realistic.

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

6. Stewardship: Voting Policy

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

6.1 When do we vote?

In our actively managed strategies, we aim to vote at all general meetings where we are entitled to exercise voting rights, except where the beneficial owners have instructed us otherwise. In our passively managed strategies, we aim to vote at a large proportion of general meetings, except where it is considered not to be cost effective. Note that Sparinvest does not perform stock lending in Sparinvest's investment funds.

6.2 How do we make our voting decisions?

Our voting principles (see 6.4 below) set out key considerations on corporate governance and other areas related to voting. We review all voting agenda items and vote against resolutions which are inconsistent

with these principles or which we otherwise consider not to be in the best long-term interests of our clients.

Sparinvest uses proxy adviser services to assist with operational aspects of voting. These advisers provide research on voting agendas, based on customised criteria reflecting Sparinvest's voting principles. This information is supplemented with other data and our own research from our investment processes.

Our active investment teams play a key role in this process, with voting an important element in the stewardship of the investments. In the active, fundamental investment strategies, the investment team will analyse the agenda and assess how best to vote.

Concurrently, Sparinvest's ESG team reviews agendas across investment strategies, assessing them against this policy and in the context of dialogue. On that basis, the investment team and the ESG team discuss how best to vote to serve the interests of our clients. In case of disagreement, the investment team will make the final decision within the scope of this policy.

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

6.3 Engagement and voting

We consider the exercise of voting rights to be a central part of our broader relationship with companies: a complementary and supporting element in constructive and positive dialogue with listed companies. Where engagement does not progress satisfactorily, we may consider voting in order to highlight our concerns.

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

6.4 Voting principles

The below principles apply to all equity investments managed by Sparinvest and are used to inform our voting decisions on all voting agenda items, including both management and shareholder proposals. The purpose of the principles is to enhance sustainable long-term corporate value while limiting risk, based on the guiding principle of serving the long-term interests of investors in our funds.

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

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

Governance:

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

Members of board of directors:

- The board of directors may include both executive and non-executive directors, but a significant proportion - ideally a majority - should be independent non-executive directors.
- We believe that the roles of chief executive and chair of the board of directors should be separate to ensure board independence, and will typically vote against appointments that combine these roles.
- The board should include directors with an appropriate balance of relevant experience and skills.
- The board should consider its diversity. We believe there are long-term benefits to diversity on the board, and will generally vote in a manner that encourages this. For example, we may vote against the appointment of the chair of the nomination committee, or the chair of the board, or other directors as appropriate, at:
 - companies in developed markets where either gender represents less than 30% of the board (or less than a higher requirement applicable in the country of domicile)
 - companies in emerging markets where one gender is unrepresented on the board
 - companies in specific markets where the board lacks racial diversity
- Nomination committees should consist of a majority of independent non-executive directors

- Director nominations should include sufficient information regarding the nominee's experience, skills and links with the company to allow shareholders to make informed decisions
- Director nominations should not be bundled under one agenda item
- The board of directors should take steps to measure and ensure its effectiveness. This should include ensuring that directors are able to allocate sufficient time, and that directors do not hold excessive numbers of board positions at multiple companies

Remuneration:

- Remuneration committees should consist of a majority of independent non-executive directors
- A transparent remuneration policy should align the interests of management with the corporate strategy for the creation of long-term value and the safeguarding of the long-term interests of shareholders.

Reporting and audit:

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

Dividends, share buybacks and capital allocation:

- Management decisions on capital deployment should be made in the best interests of the long-term corporate value. This consideration may influence our votes on issues such as dividends and share buybacks
- Where measures of capital efficiency are persistently low over a number of years and where we perceive a lack of a clear and effective strategy to remedy that, we may vote against the appointment of certain directors

- We generally believe that significant levels of cross-shareholdings are unlikely to be conducive to long-term value creation, both from the perspective of corporate governance as well as capital efficiency. In companies with persistently high levels of cross-shareholdings, we may vote against the appointment of certain directors

Climate:

- We believe that climate change and the transition to a global economy aligned with the Paris Agreement present some of the most significant risks and opportunities for companies. The board of directors should ensure that adequate resources are allocated to understanding, monitoring, formulating and executing a strategy and reporting on these issues.
- Reflecting this, we will consider voting against the election of directors or members of relevant committees, where we perceive a lack of will, effort or ability to address climate-related risks or realise climate-related opportunities.
- We will generally be supportive of constructively-phrased shareholder proposals targeting increased disclosure of climate data, strengthened governance, or other actions on climate-related issues.

7. Exclusions

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

7.1 Universal exclusion criteria

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

- **Controversial weapons:** confirmed producers or distributors of controversial weapons.
 - This means anti-personnel mines, cluster munitions, biological weapons, chemical weapons, depleted uranium and nuclear weapons outside the Nuclear Non-Proliferation Treaty.

- **Persistent norm violators:** a minority of companies that persistently fail to remedy violations of international norms and are unresponsive to engagement.
 - This links with our engagement work and escalation policy. If a company violates international guidelines and conventions and is unwilling or unable, despite Sparinvest's engagement, to remedy the violation, the company will be excluded. The progress of our dialogue with the company on violation of conventions is evaluated regularly. Progress must be assessed not later than two years after the dialogue for violation of conventions commenced. Based on this assessment, Sparinvest will determine whether it is realistic to make the company change its practices. If not, the company will be excluded. This includes tobacco companies, where the core business is considered inherently incompatible with international norms, and which the UN Global Compact finds incompatible with responsible conduct.

- **Climate - extreme laggards:** Sparinvest regularly monitors companies' exposure to climate risks and assesses them in the context of the transition to a lower carbon economy. This is a key focus in our engagement work and, in some funds, we exclude companies in certain sectors. However, across all funds, we exclude companies which are unaligned with the goals of the Paris Agreement and which have no strategy for transition. This includes companies with significant exposure to thermal coal or oil sands and a poor record of managing transition and climate-related risks.

7.2 Fund-specific exclusions

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

- **Climate-based exclusions:** Climate change is perhaps the single most significant ESG issue, whether in terms of its impact on global society and the environment or in terms of its economic and investment impact. This is reflected in our integration of ESG considerations into our investment processes, in our stewardship efforts, in our management and measurement of climate-related risks and in our overarching climate exclusions. Certain funds go further and exclude companies with certain exposures within industries such as thermal coal, oil and gas, and electric utilities.

- **Norm-based exclusions:** Our regular screening for norm violations feeds into our engagement work and escalation policy. Extreme cases of persistent violation and failure to respond to engagement can lead to companies being excluded from all funds. However, in certain of our funds, the analysis may also lead to exclusion at an earlier stage.
- **Sector-based exclusions:** Certain funds exclude companies on the basis of exposures to industries such as alcohol, gambling, weapons, and pornography.
- **Rating-based exclusions:** While we strongly believe in the potential for change, certain of our strategies employ ratings-based exclusions, where companies with quantitative ESG scores below a certain level are excluded.

7.3 Sanctions

Sparinvest complies with all financial sanctions applied by the EU to government bonds and specific companies (see Section 8 for specific conditions related to government bonds). In cases where sanctions are imposed only on securities newly issued after a certain date, Sparinvest goes further and typically also excludes pre-existing security issues. This means that Sparinvest generally excludes all securities issued by companies that become subject to financial sanctions from the EU.

However, in special cases, exemptions from the above exclusion rules may be permitted, based on consideration of the intention of the sanctions, and where the company otherwise contributes to sustainable development, and has a sustainability profile suggestion that exclusion would be inappropriate. These exemptions can only apply to securities which are themselves not directly subject to sanction, for example because they are pre-existing securities where the sanction only applies to newly issued securities.

7.4 Exclusion decisions and re-inclusion

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

All universal exclusions and the reasons are available on Sparinvest's website.

8. Asset class specifics: Government bonds

Sparinvest's ambitions in sustainable investment also cover government bond investments. The policy for government bonds is based on compliance with Danish, Luxembourgish, EU and international law as well

as consideration of financial risks and opportunities resulting from politico-economic factors in the investment process.

Democracy, political legitimacy, respect for human rights and focus on climate action as well as compliance with the 17 Sustainable Development Goals contribute to economic stability and development in developing and middle-income countries in particular. In turn, this will have a positive impact on government bond returns. By contrast, instable political regimes, involvement in acts of war and lack of political legitimacy due to violation of human rights and fundamental democratic principles as well as lacking focus on sustainable development may pose significant financial risks. Countries with a reasonable level of sustainability will generally be assessed as less risky, and a positive trend will therefore have a positive impact on returns. Countries with a high level of sustainability also tend to have a higher level of capital conservation. Government bond investments may contribute positively to the development of a country but require vigilant investors.

8.1 How we include sustainability considerations in the process

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

8.2 Reasons for exclusion of government bonds

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

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

As with Sparinvest's other exclusion categories, Sparinvest's Sustainable Development Forum makes the decisions on exclusion and re-inclusion in the investment universe. In ambiguous cases where it is considered important to take a wait-and-see approach, or where more thorough analysis is required, the Sus-

tainable Investment Forum may decide to place the issuer on an observation list. Issuers on the observation list must be reassessed within six months of being placed on the list. Exclusion and observation lists will be published on Sparinvest's website. The exclusion will not necessarily cause the exclusion of state-owned companies in the country concerned. It will depend on the company and its circumstances, and the Sustainable Development Forum will therefore make a separate decision for the individual company.

9. Asset class specifics: Mortgage bonds

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

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

Issuers are subject to screening like all other counterparties and assets for violation of international norms and conventions. This information, combined with a sustainability analysis of the issuer, is considered when we invest in mortgage bonds. However, Sparinvest also considers issuers' credit policies, including whether they include sustainability analyses in the investment decisions. As more data are published, such data will also be considered. In this context, Sparinvest communicates with issuers about the sustainability risks potentially involved in the mortgaged assets.

10. Service and data providers

The preconditions for investing with the aim to create value and benefit society are knowledge and the ability to execute. In this context, high quality data and reliable service providers play an important role. Sparinvest obtains data from a variety of different sources. Sparinvest receives information from investee companies and combine it with information from public sources such as public authorities, international organisations, NGOs and the media. In addition, Sparinvest buys data and research from sell-side providers and specialised providers of sustainability data. Insights from these sources are considered in the investment process and in our stewardship work, consisting of engagement and voting. The latter is executed in conjunction with service providers for proxy voting and stewardship.

Sparinvest regularly assesses the suppliers' and service providers' ability to supply valid data, accurate research and, for those engagements carried out via service provider, to deliver on Sparinvest's requests. At least annually, we evaluate the quality of the services and collaboration. Sparinvest's website and our annual reports contain a list of our current service providers.

11. Transparency

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

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

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

12. Governance and reporting

Sparinvest's Sustainable Investment Policy is reviewed annually and is subject to approval by the Board of Directors of Sparinvest. The policy contributes to implementing Sparinvest's Corporate Responsibility Policy. The Board of Directors is briefed at least annually on Sparinvest's corporate responsibility activities.

12.1 Conflicts of interest

From time to time, Sparinvest may encounter conflicts of interest in respect of fulfilling its stewardship responsibilities. To ensure that such situations are addressed correctly, they are covered by Sparinvest's Conflicts of interest policy.

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

1. Business procedures containing provisions to the effect that all staff members must always pay attention to potential and actual conflicts of interest and endeavour to avoid them.
2. Internal training and instruction of relevant staff to identify potential conflicts of interest and endeavour to avoid them.

3. The assignment of responsibilities to staff members in order to ensure that actual and potential conflicts of interest are reported to their supervisors and the compliance function and treated at the appropriate level.

When conflicts of interest in respect of active stewardship are identified, managers and the compliance function will be notified. The Boards of Directors of affected investment funds will be informed about the conflict of interest and the way it has been handled to safeguard the fund's interests. Sparinvest's Conflicts of interest policy is available at Sparinvest's website.

The policy also covers voting.

Luxembourg 26 February 2021

Board of Directors:

Martin Udbye Madsen, Chairman

Michaela Winther

Steen Foldberg