



RECOMMENDED

<<Firmanavn>>

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Letter to Danish listed companies in MP Pension's portfolio:**Our focus areas for 2020****MP Pension**
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Dear <<Navn>> ,

MP Pension is an active investor with DKK 130bn in assets under management on behalf of our more than 135,000 scheme members. MP Pension is invested in your company through Kapitalforeningen MP Invest. MP Pension exercises full control over Kapitalforeningen MP Invest.

MP pension seeks to deliver high returns on a responsible basis with a keen focus on sustainable long-term value creation, a culture of integrity and good corporate governance in the companies in which we invest. We believe companies must serve the interest of all their stakeholders, including shareholders, customers, employees and the society as a whole. We firmly believe that only by doing so, companies will create long-term value for their shareholders.

It is a key priority for MP Pension to engage actively with the companies in which we invest. We do this through direct dialogue with management and by exercising our voting rights at all Annual General Meetings (AGM). From time to time we also address the AGM and file shareholder resolutions. When exercising our voting rights with regard to Danish companies, we generally follow the recommendations of the Danish Committee on Corporate Governance ('Komiteen for God Selskabsledelse'). Where the recommendations are not entirely clear, we have clarified our position in our publication "Forventninger til god selskabsledelse hos danske børsnoterede selskaber". We kindly refer you to our homepage for a downloadable copy.

This letter describes, beyond current recommendations and guidelines, our observations relating to certain areas, which MP Pension will give particular attention to, ahead of the upcoming 2020 AGM season.

Generally, we find that companies incorporated in Denmark have high standards and ambitions with regard to sustainable and responsible business conduct. However, across our holdings we have identified five areas that in our view need special attention and future progress:



- **ESG-data quality**
- **Diversity**
- **Remuneration**
- **Climate-related financial risk disclosures**
- **Tax transparency**

During 2019 a number of companies have made progress on these topics, but there is still room and need for improvement.

In the attachment to this letter we detail our views on these topics, including why we find them to be particularly important and what we expect from our portfolio companies. Our aim is to promote meaningful progress, faster.

Time for Climate Action

One issue stands out. The need for urgent climate action. This year, we encourage and expect all the companies in our portfolio to deliver innovative and tangible progress in the efforts to tackle this global challenge and address corporate climate-related financial risks, irrespective of whether your company has already set ambitious targets to become climate neutral by 2050, or is just getting started. As a solid framework, we encourage your company to formally endorse the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), if you haven't already done so. In our view, this is likely to move from soft to hard law within the coming years, so why not start now?

MP Pension and several other Danish pension funds are already providing TCFD disclosure, and we strive hard to ensure our investment strategy is aligned with the goals of the Paris Agreement. Consequently, we have decided to invest a growing share of our assets in climate-friendly solutions and green transition efforts while also divesting from companies engaged in the extraction of oil, coal and tar sands by end of 2020. However, reliable TCFD-data for all our portfolio companies is key for us in order to ensure Paris Agreement-alignment for our broad investment portfolio.

We also wish to engage with companies to speed up corporate green transition efforts and thereby protect the pension savings of our scheme members. In 2020, we will increase our corporate engagement on climate change with our portfolio companies, hoping to spur a constructive and mutually rewarding dialogue on this important issue.

As usual, we welcome your feedback should this letter give rise to any comments or queries.

Kind regards

Jens Munch Holst
CEO, MP Pension

Anders Schelde
CIO, MP Pension



ATTACHMENT

In 2020 MP Pension will award particular attention to the following five focus areas:

1. ESG-data quality
2. Diversity
3. Remuneration
4. Climate-related financial risk disclosures
5. Tax transparency

Re. 1: ESG-data quality

Matters relating to the environment, social factors and corporate governance (ESG) have grown hugely in importance, not just for MP Pension, but among investors across the world over the recent years. We expect this trend to continue, and we would like to point out that **high quality corporate ESG-data is increasingly seen as a prerequisite for making sound investment decisions**. It is also an enabler of good dialogue and positive change albeit within diversity, remuneration, climate change or corporate tax policy.

The current availability and quality of ESG-data and ESG-ratings leave ample room for improvement which is evidently sub-optimal for companies, investors and markets.

In light of this MP Pension supports the initiatives by the EU and Nasdaq Copenhagen¹ respectively to start collecting and distributing a well-defined set of ESG-data, and ***we encourage companies to report a complete set of quality data to Nasdaq and similar initiatives*** to the benefit of companies and investors alike. **That said, we recognise that this may be a large task - in particular in terms of goal setting - and acknowledging that, we do prefer our portfolio companies to report a limited set of data rather than no data.**

Re. 2: Diversity

In a complex and fast changing world, diverse organisations, management teams and boards make better decisions, facilitate long-term value creation, and build resilient corporate cultures. Diversity adds value across all its dimensions - be it gender, age, education, culture and so forth. Gender equality is a value which is deeply entrenched in Danish society. At the same time, it is obvious that Denmark, and Danish companies, lag behind other comparable countries in this regard. For example, the World Economic Forum in the most recent Global Gender Gap Report ranks Denmark as no. 102 out of 153 countries in the world with respect to

¹ <https://www.nasdaq.com/sustainability/offerings/ESG-Data-Portal> and <https://www.fsr.dk/esg>



women in management positions². No wonder, many Danish companies struggle to meet the expected levels of diversity at board-and executive levels as defined by the Danish Business Authority. It is also well documented that Danish companies continue to lag their Nordic peers.

In this context we have a keen focus on gender equality and diversity. We strongly encourage companies in our portfolio to make 2020 the year that bends the curve. It is about time companies achieve more equal gender representation. It is time to move beyond efforts and show tangible results, in order to future-proof your company through a diverse and competent talent pipeline – not only within the top management layers, but at all levels of the organisation.

We encourage companies to set ambitious targets in the area of gender diversity, and to provide transparency on the current stance and progress of your ambitions. Furthermore, we expect companies where applicable to **implement structures that weigh against gender biases and promote and support female talent at all levels of the organisation.**

In 2020, MP Pension will generally not support new board candidates if their election postpones the deadline for meeting the gender diversity target of the company. We may also withhold our support if the board fails to propose candidates that would bring the company closer to meeting its targets (and complying with the guidance on equal gender representation from the Danish Business Authority). We may - again this year - exercise our right to address the annual general assembly in companies we deem to be low performers on diversity.

Re. 3: Remuneration

The remuneration and incentive programmes in Danish companies have grown in number and complexity in recent years. MP Pension supports the recommendations of the Committee on Corporate Governance and encourages companies to disclose the connection between remuneration, strategy, targets and outcomes in an easily understandable way.

MP Pension values transparency and expects companies in our portfolio to manage remuneration and incentive programs with diligence and responsiveness to the growing concern of stakeholders and investors that executive pay is, in certain instances, at odds with the expectations of the society.

In 2019, MP Pension voted against resolutions on remuneration or incentive programs at a number of AGMs in Denmark, where we assessed the programs to be too large in scope or otherwise inappropriate. In 2020, MP Pension will continue to assess the proposed programs for each company in our portfolio and vote – and speak up - in line with our view on what best supports long-term value creation in the interest of the shareholders.

In our view, best practice programmes meet the following criteria:

- Size adjusted to context and maturity of the business (mature company vs. growth company)
- Alignment between business strategy and long-term targets

² Source: World Economic Forum (Dec. 2019): “World Gender Gap Report 2020” (p. 143). Available at: https://reliefweb.int/sites/reliefweb.int/files/resources/WEF_GGGR_2020.pdf



- Favouring long-termism and includes upside growth as well as downside protection
- Limited use of share options
- Reasonable balance between remuneration and incentive programmes of different employee groups across the organisation
- Alignment with wider values and business purpose, including “green” business transition
- Designed with outcome cap from the outset
- Transparent, comprehensible and accessible to corporate stakeholders

We expect our portfolio companies to publish the remuneration report in accordance with the EU Shareholder Rights Directive (implemented in Danish law in June 2019) already this year, and not wait until 2021 even though the law allows this. Furthermore, we strongly encourage companies to **use the voluntary reporting template in the directive** to facilitate better transparency and comparison across companies.

Re. 4: Climate-related financial risk disclosures

MP Pension actively supports the Paris-agreement and the goal to limit global warming to maximum 1.5 degrees. We expect the companies we invest in to act diligently in regard to climate-related physical and financial risks. We encourage companies to assess how their activities, products and services would fare in a scenario compatible with the goals of the Paris-agreement. We consider it good practise for companies to **set clear goals and long-term targets for emissions reductions and to aim for net-zero emissions by no later than 2050**.

Furthermore, **we consider it best practise for companies to report in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and become signatories to this**. In June 2017 TCFD put forward their recommendations for climate-related reporting under the auspices of the Financial Stability Board (FSB). In June 2019, the European Commission issued updated guidelines for non-financial reporting that integrate TCFD reporting. Today TCFD is considered “soft law” but it could become hard law before long. Yet, only four Danish companies in our listed equity portfolio became signatories to the TCFD by end-2019.

Climate change represents a significant long-term risk to our climate, ecosystems and mankind, and thus also to all companies. However, it also represents large business opportunities for companies in all sectors, if they succeed in addressing these global risks. This even holds true for companies for which the products and services are not directly related to climate solutions. The magnitude of change to come may be so profound that the success or failure of companies will hinge on their ability to navigate this green transition.

In light of this, **MP Pension strongly encourages all companies to report in line with the TCFD recommendations as soon as possible**. We fully realise that it can be a daunting task to deliver accurate carbon emissions data and to quantify the potential financial risks for your company in different climate change scenarios. But that is not a firm initial requirement for becoming a TCFD signatory or getting started on a more strategic and risk-based approach to climate reporting.



MP Pension will continue to file and vote in favour of meaningful AGM proposals that would effectively minimise the long-term risks arising from climate change and address global warming.

Re. 5: Tax transparency

To help balance public sector budgets and finance the realisation of the UN Sustainable Development Goals, we are witnessing an increasing call for global tax reform and responsible corporate tax behaviour among multiple stakeholders.

On the one hand, tax is a contribution to public finances for the benefit of citizens, businesses and investors. On the other hand, tax payments are a cost to businesses and investors that should be minimised within the framework of acceptable tax optimisation. Between them is a balance that a responsible tax approach must strive to strike. If not, competitiveness may be affected negatively. Yet, if a company engages in aggressive tax planning, this may also pose financial risks for the company and investors.

Tax fraud and tax evasion are illegal. However, the boundary between acceptable and unacceptable tax planning is less clear. A key to understanding the potential financial risk is better data and more transparency on tax and business operations of companies at a country-by-country level.

Ørsted has already published a tax policy and a form of country-by-country reporting. Vodafone has taken similar steps and A.P. Møller-Mærsk has signed the B Team's Responsible Tax Principles. At MP Pension, we encourage and expect more companies to follow their lead in coming years.

Thus, ***we expect all companies to publish a tax policy or strategy*** approved by the board reflecting the wider business aims of companies including those related to corporate responsibility and sustainability.

We also encourage the board of companies who currently do not report on tax on a country-by-country basis to undertake an assessment already this year of the viability of doing so in line with the Global Reporting Initiative's guideline³ starting with FY 2020.

Throughout 2020 MP Pension will continue to engage with companies and other stakeholders on the issue of tax transparency and responsible corporate tax behaviour.

³ GRI (Dec. 2019): "GRI 207: Tax 2019". Available at: <https://www.globalreporting.org/standards/gri-standards-download-center/gri-207-tax-2019/>