Active Ownership Stories

March 2020

Danske Bank

Content

Active ownership is paving the way for sustainable businesses

Active ownership is part of our fiduciary duty to deliver attractive, long-term, risk-adjusted returns to our customers. We engage with companies through dialogue, we vote at their annual general meetings, and we participate in joint investor initiatives to e.g. encourage companies to take action on climate change. Hence, this is an integral part of our firm commitment to sustainable investment and our efforts to create value for our customers, the companies we invest in, and the society.

Embedding environmental, social and governance (ESG) matters in our investment processes helps us address risks and dilemmas, identify opportunities, and make better-informed investment decisions. When we then engage with our portfolio companies, we seek to influence developments, challenge positions, and encourage improvements, which we believe also contributes positively to society.

Every year, we publish our **Active Ownership Report** with data and analytics of our company dialogues, voting, engagement topics, themes, and scope. In this publication – **Active Ownership Stories** – our portfolio managers share examples of their specific company engagements, the dialogue focus, the interaction with company management, and the expected outcome. The stories provide a narrative to the data and analytics and support our ambition to be transparent about what we do and how we progress.

Creating value
There are several approaches to sustainable investment and active ownership. For us, sustainable investing is sound investing. We base it on incorporating quality ESG data and analysis into our investment processes and decision-making. As a responsible investor, we want to understand and address risks or problems through constructive dialogue, rather than divesting and leaving the problem to someone else to solve. It is in our role as investors, where we can contribute most effectively to both change and improvements. In essence, it is about creating value for customers, companies and society, taking responsibility, and being part of the change, the transformation, and the solution.

Portfolio-manager-driven dialogue
In Danske Bank, active ownership is conducted by our portfolio managers. Based on their expertise and insights, they influence, encourage, and support companies to address the environmental, social or governance risks and opportunities facing them. In this publication, your will meet portfolio managers Anders Grønning, Cecilie Hoffmeyer, Jesper Neergaard Poll, Joel Backesten, Petter Löfqvist, and Rami Hakola who share their active ownership stories. We hope you enjoy the stories and look forward to hear from you.

Ulrika Hasselgren
Global Head of Sustainability & Impact Investment
Danske Bank Wealth Management

Danske Bank's sustainable investment strategy is called 'ESG Inside' and is all about bringing sustainability inside our investments. We integrate environmental, social and governance (ESG) factors into our investment processes across strategies and asset classes. We engage with companies on material matters to contribute to change and improvement. 'ESG Inside' our products also adheres to our overall restrictions to invest in controversial weapons, tar sands, thermal coal and tobacco.

Introduction to engagement

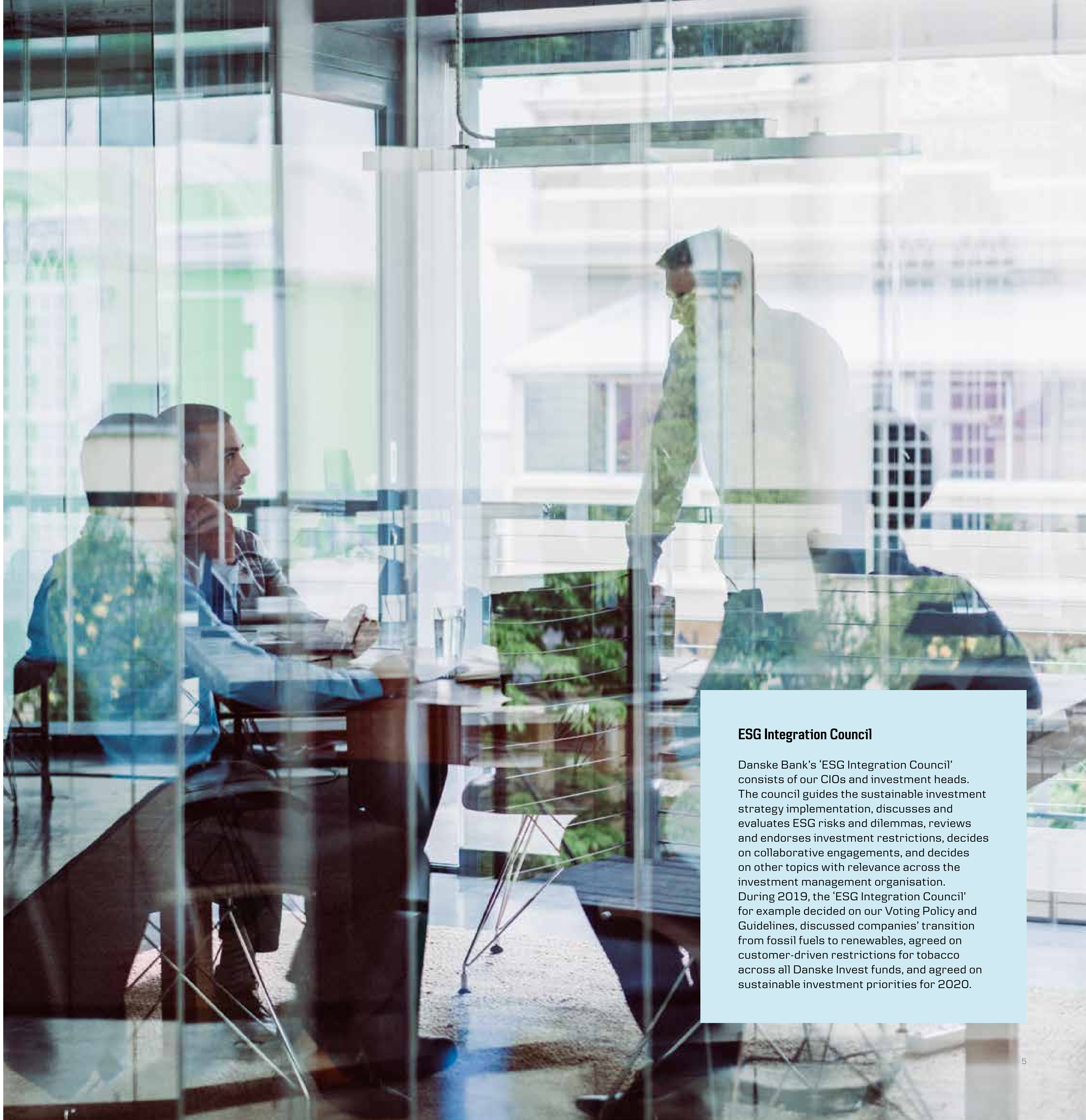
The engagement stories presented in this publication are examples of how our portfolio managers engage directly with companies with a clear investment and business focus. We believe that a portfolio-manager-driven dialogue is the most effective way of influencing companies and derive investment value, as the portfolio managers are the experts of their respective investment strategies and portfolio companies, and tasked with the buy/sell decision.

The ultimate goal with our engagements is to support companies' performance and long-term value creation. Our portfolio managers use their position as investors to make a difference and to have a real impact by contributing to change and improvements, which is part of our ambition to protect and enhance our customers' investments. Engagements may also focus on clarification of disclosed information, discussion of voting decisions or getting a deeper insight into companies' business strategies.

Our portfolio managers regularly engage with companies where they address those ESG matters that can impact the financial performance of companies. This approach enables our portfolio managers to manage ESG risks and unlock opportunities in their portfolios as well as support and influence companies in improving aspects that impact the business, and thereby support their growth and development.

From time to time, we collaborate with peers, like-minded investors and other relevant parties to exert active ownership, engage through joint dialogue, and contribute to a positive impact. This may also be approriate in instances where engagement on our own has not led to the preferred outcome.

We participate in and support a number of different investor initiatives to encourage increased transparency and sustainability standards in companies and financial markets, such as the Carbon Disclosure Project, Climate Action 100+, Institutional Investors Group on Climate Change, Paris Pledge for Action, The Task Force on Climate-related Financial Disclosure, The Montreal Pledge, and the UN-supported Principles for Responsible Investment.



ESG Integration Council

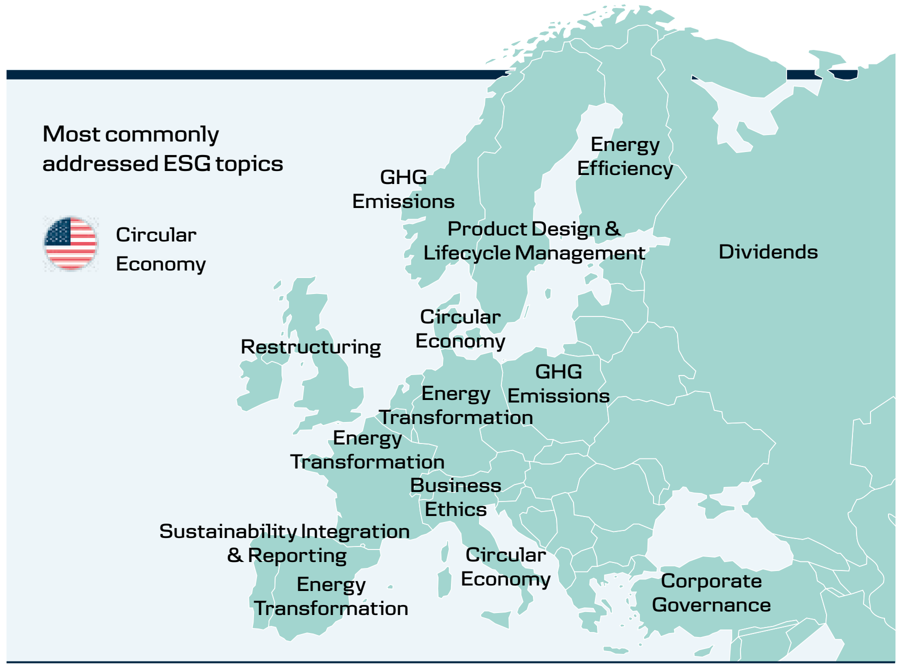
Danske Bank's 'ESG Integration Council' consists of our CIOs and investment heads. The council guides the sustainable investment strategy implementation, discusses and evaluates ESG risks and dilemmas, reviews and endorses investment restrictions, decides on collaborative engagements, and decides on other topics with relevance across the investment management organisation. During 2019, the 'ESG Integration Council' for example decided on our Voting Policy and Guidelines, discussed companies' transition from fossil fuels to renewables, agreed on customer-driven restrictions for tobacco across all Danske Invest funds, and agreed on sustainable investment priorities for 2020.

Engagements in 2019

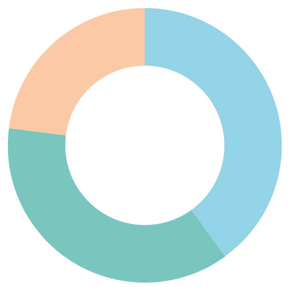
Learn more about our engagement activities in our Active Ownership Report at danskebank.com/sustainable-investment.

In 2019, our investment teams increased their number of interactions with companies they invest in compared to 2018. The increase illustrates the maturing of our processes, the importance of sustainability matters and its potential impact on company performance, and thereby the potential return to Danske Bank's customers. In 2019, we had the following engagement activities.

Companies	Country domiciles	ESG engagement topics	Interactions
544	**37**	**105**	**909**
422 in 2018.	*34 in 2018.*	*59 in 2018.*	*643 in 2018.*

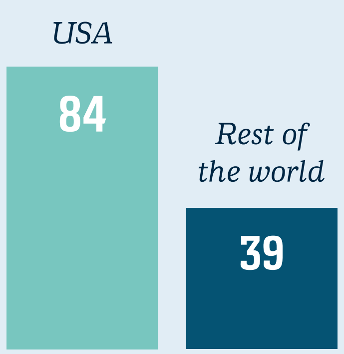


Split between ESG engagement themes

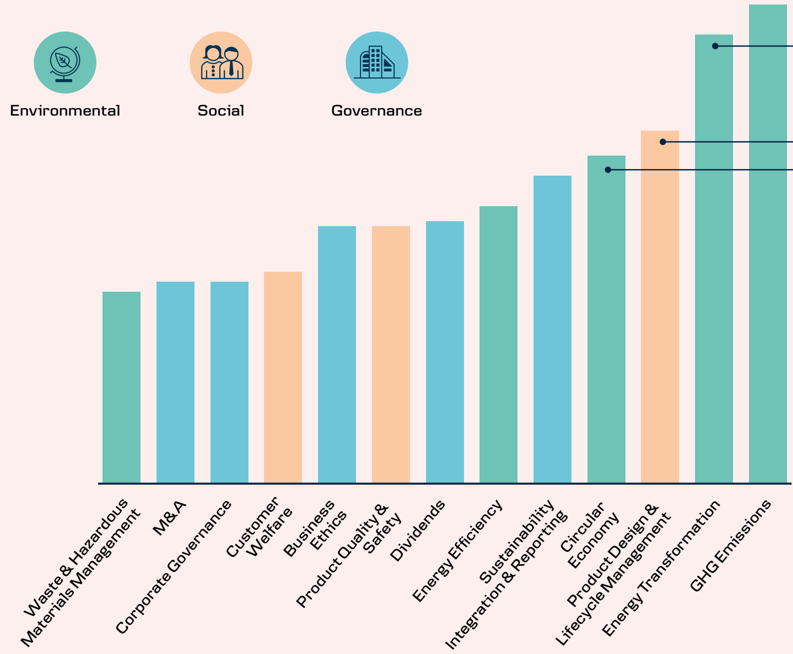


- Environmental
- Social
- Governance

We engaged with companies in 37 different country domiciles.



Among the 105 ESG engagement topics, energy-related matters continued to be the most discussed topics in 2019, which accentuates the green transition's business impact. In addition, circular economy moved into top ten in 2019, and that development is a result of both our investment teams' and companies' increased focus on addressing business sustainability in a holistic way.



Energy transformation is a shift from fossil energy resources to "greener" energy alternatives entailing a lower carbon footprint. A company's approach to energy and carbon emissions can directly impact its cost structure, risk profile, resilience and brand value with its stakeholders.

Product design and lifecycle management includes e.g. the managing of impacts of products and services, such as those related to packaging, distribution, use-phase resource intensity, and other environmental and social externalities that may occur during their use-phase or at the end of the life.

Circular economy is a system of closed loops in which the usage of raw materials, components or products are reduced, reused or recycled. It can also bring positive impacts on social and climate aspects and increase resource efficiency. Companies taking a circular approach to their business by aiming at maximising the value of their assets can achieve competitive advantages and benefit financially.

Sustainability as a growth driver

How can companies use sustainability to grow their business and achieve a competitive advantage? That is a focal point when Danske Bank's Swedish small cap fund engages with smaller Swedish companies, where sustainability plays a key role for their business potential – and our return potential as investors.

Obviously, large, global companies have a longer track record in working with sustainability from a business perspective compared to the smaller companies. However, across the board they are all raising the bar and looking to gain a competitive advantage by embedding sustainability into their business model.

Petter Löfqvist

The so-called small cap segment of the Swedish stock market consists of smaller companies in terms of market capitalization. Their activities span widely from transportation to medical technology and from real estate to high-tech and computer games development.

"The common denominator for smaller Swedish companies is their general focus on sustainability, but during the last couple of years, their focus on leveraging sustainability as a business driver in order to capitalise on it, has increased," says Petter Löfqvist, Senior Portfolio Manager and responsible for Danske Bank's Swedish small cap fund. He continues:

"Obviously, large, global companies have a longer track record in working with sustainability from a business perspective compared to the smaller companies. However, across the board they are all raising the bar and looking to gain a competitive advantage by embedding sustainability into their business model."

The small cap fund consists of 43 companies, and Petter Löfqvist and his colleague Joel Backesten, regularly discuss with the companies how they can grow their bottom line by leveraging sustainability.

Sustainability should be embedded in business development

Petter Löfqvist and Joel Backesten are looking for the future winners that can deliver competitive returns to Danske Bank's customers. In this quest, they see sustainability as a crucial part of the recipe to become a successful company.

"Companies that fully integrate sustainability into their businesses can to a greater extent use it as a business enabler and be better positioned than competitors to create growth and development. Smaller companies typically have a more focused business model and are more agile than larger companies, which enables them to adjust products and services faster or launch new ones that live up to the rising sustainability requirements from governments as well as the growing demand from consumers for green solutions," says Joel Backesten, Portfolio Manager.

Green transformation putting new demands on the transport sector

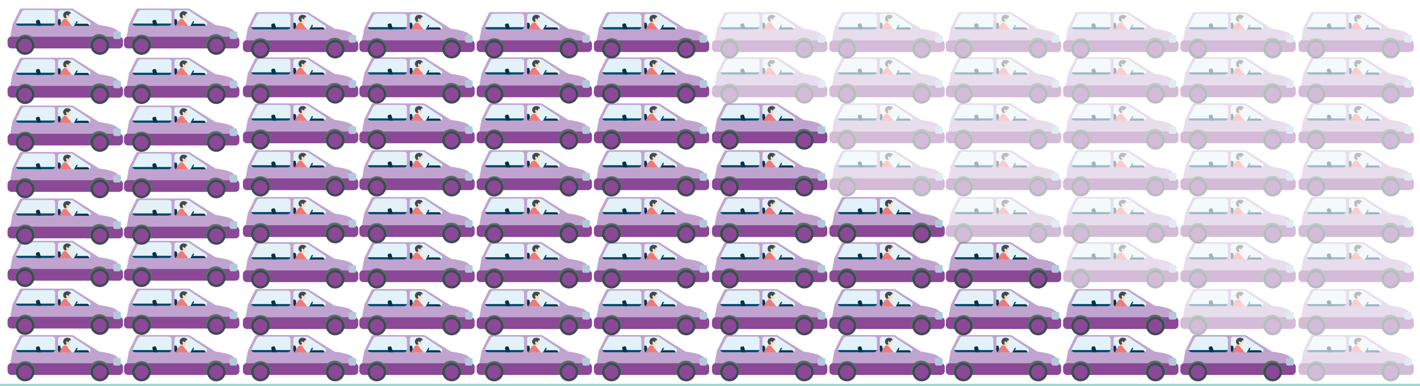
The transportation sector plays a key role in the transition to a low-carbon society, with electrification and biofuels gaining ground as a means of reducing the sector's carbon emission impact. Swedish firm Nobina is the largest operator of public bus transportation in the Nordics, and it has a clear strategy to increase energy efficiency and transition from diesel to biogas and electricity. The company has increased its share of green energy in recent years, and in 2018 some 81% of the buses' energy consumption came from renewable energy. Nobina's initiatives included putting 19 electrically driven buses into service in Landskrona in 2018 and they expected to have 44 electric buses in Oslo in 2019. At the end of 2019, they expected to operate a total of 147 electric buses.

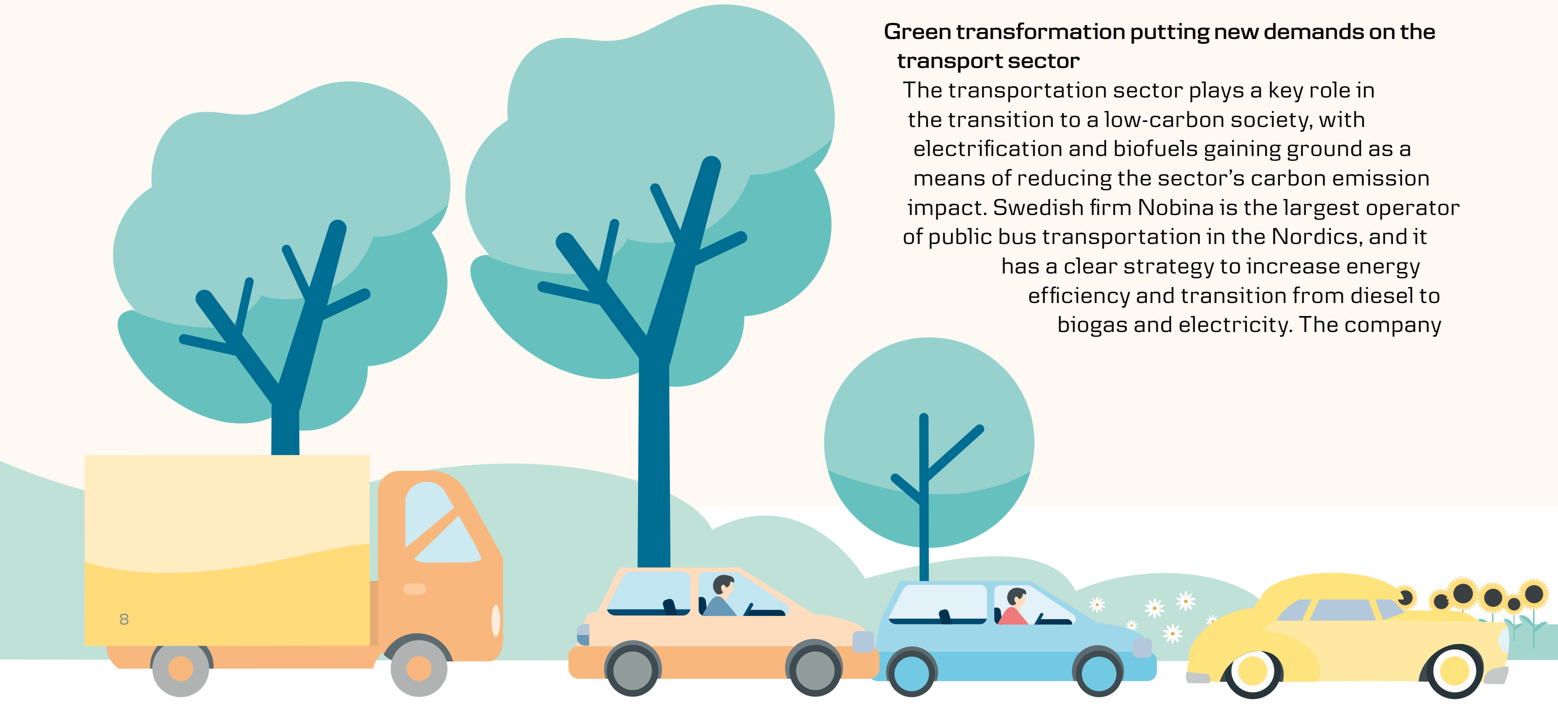
"Nobina sees the transition to a green economy as a business opportunity and a means to strengthen its market position. Many cities are already demanding that buses only run on green energy, and we expect that more cities will make similar or stricter contractual demands for bus transport in the future. That is why it is important that Nobina future-proofs its buses at an early stage, and we discuss this regularly with Nobina," says Petter Löfqvist.

Petter and Joel have for instance advocated that Nobina improved the level of transparency and the communication of their climate and environmental impacts and how that benefit Nobina's long-term growth as well as society as a whole. As a result, Nobina now discloses e.g. their net carbon emissions per passenger and reduction in air pollution.

Nobina's work with sustainability is not only of importance to Danske Bank's small cap equity team but also to the corporate bond team. In 2019, Danske Bank's corporate bond team was one of the investors in Nobina's green bond issue of SEK 500 million. That was the first time a green bond was used to support the green transformation of public transport in the Nordics, with proceeds used to finance e.g. more fossil-free and electric Nobina buses.

Nobina has reduced its carbon dioxide emissions by 37 per cent in 2018/2019 compared to their emissions in 2017/2018. The reduction corresponds to 464,187 tonnes carbon dioxide, which is equivalent to the greenhouse gas emissions from 89,406 passenger vehicles driven for a year or the carbon dioxide emissions from 48,593 homes' energy use for one year.*





**Calculations are based on Nobina's Annual Report 2018/2019 and the Greenhouse Gas Equivalencies Calculator from United States Environmental Protection Agency.*

Balco's build-in glazed balconies brings several benefits for the customers. The windows and air in the balcony act as insulation, meaning that incoming air is warmed up before it reaches the apartment. The result is fewer drafts and a higher indoor temperature, which reduce energy consumption. Additionally, the solution contributes to lower maintenance costs and increased property value.

Balco's production process is ISO 14001 certified, which means that they follow all the international standards regarding ecolabelling, environmental audits and environmental management systems.

Companies that fully integrate sustainability into their businesses can to a greater extent use it as a business enabler and be better positioned than competitors to create growth and development.

Joel Backesten

Before investing in Nobina, The Danish-based corporate bond team discussed Nobina's financial and sustainability perspectives with Joel Backesten and Petter Löfqvist to leverage their deep understanding of the company. It is an example of how Danske Bank's investment teams collaborate and share company insights with each other in order to make the best possible investment decision to the benefit of Danske Bank's customers.

"There was considerable and broad interest in investing in the green bond, and that resulted in lower loan costs for Nobina, which can benefit our potential return as shareholders. The level of demand shows that the financial markets is supportive of Nobina's approach to fusing climate and profit, and that is one of the company's great strengths," says Joel Backesten.

Energy-saving balconies have growth potential
Another example is Swedish-based Balco, which is one of the Nordic market leaders in glazed balconies and also growing in the northern European markets. The company's glazed balconies have a lifespan that is up to five times longer than traditional concrete balconies, and they have lower maintenance costs. In addition, Balco has a balcony solution where the building's entire facade is built together with the balcony, which gives significant savings of up to 15% on the apartment's energy consumption.

"We see that Balco's sustainability focus gives the company a potential competitive advantage and a good chance to increase market share in the growing northern European market for installing new balconies and replacing old ones," explains Joel Backesten.

In the dialogue with Balco, Joel Backesten and Petter Löfqvist have emphasised that a lifecycle analysis of the balconies could be a good tool to further their sales and earnings. The longer lifetime of Balco's balconies compared to concrete balconies means that a lifecycle analysis would make the sustainability and cost benefits of Balco's balconies more transparent and tangible to potential new customers.

The dialogue is constructive on Balco's future prospects and development options, and the company is in the process of developing a method for lifecycle analysis. Balco views dialogue with investors as an important way to gain input and new ideas for the development and release of business potential.

"It is very important to discuss the different ways that we raise the bar in terms of sustainability, and the ongoing dialogue with Danske Bank's investment team carries weight in our roadmap to capitalize on sustainability. We get valuable insight into how the team perceives sustainability and which aspects are important to them as investors," says Kenneth Lundahl, Balco's CEO.

Petter and Joel will continue their dialogue with Balco to support its work with sustainable balconies and its expansion into new markets.

Pushback to protect investors' return

Danske Bank's corporate bond team is ensuring that private equity funds do not extract value from acquired companies at the expense of bondholders. Assets should remain in the company rather being divested, to avoid negative consequences for the investment as the company's financial stability could be weakened.

As an active and responsible investor, we put pressure on the private equity fund as part of safeguarding our customers' investments.

Cecilie Hoffmeyer

Private equity funds take up an increasing share of the financial landscape, acquiring companies with funds raised from various types of investors, primarily institutional investors. Their strategy is often to optimise a company's capital structure, extract synergies, act as industry consolidator or invest in developing the company.

The acquisition and execution of the private equity fund's new strategy is partly financed by incurring debt. One financing option for private equity funds is to issue corporate bonds. Danske Bank's corporate bond team regularly invests in this type of corporate bonds and so in effect lends money against receiving an interest rate that reflects the risks related to the investment. Significant negative consequences can arise for the investment if the terms and conditions of the bond are not clearly stipulated and, for example, fail to address issues such as how proceeds from divestment of business areas should be utilized.

Cecilie Hoffmeyer is Senior Portfolio Manager in Danske Bank's corporate bond team, and she and her colleagues put spotlight on this as part of their active ownership.

"We see favourable return possibilities in corporate bonds, but before investing we evaluate the terms and conditions thoroughly alongside legal experts, as specific wording can be critically important. Private equity funds often seek to have maximum flexibility in the bond terms, in order for them to, for example, extract proceeds when they divest certain business areas of the acquired companies and pay an extraordinary dividend to their investors. These potential terms are of great significance for us as bond investors," says Cecilie Hoffmeyer.

A bond's terms are a key part of the analysis conducted by the corporate bond team along with the strategy and financial position of the acquired company. The purpose is to ensure that the company is capable of making the regular interest payments and repay the bond principal to Danske Bank and other investors.

Protecting the investment

During the period of private equity ownership, the fund can sell business areas that do not fit into the strategy and pay out proceeds to investors. This is one of the ways private equity funds can create returns before they, typically after five to seven years of ownership, for example, list the company on a stock exchange, or sell it to another private equity fund or industry player.

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>
> *Cecilie Hoffmeyer*

When Cecilie Hoffmeyer and the bond team assess whether a corporate bond is attractive or not, the company's current and expected future earnings, cash flow, assets and debt are analysed. If the private equity fund's strategy is to divest business areas, the team carefully examines the potential impact on the company's ability to make interest payments on the bonds and to repay the bond debt. The rationale is that extracting money from the acquired company through divestment of business areas should not be an option. Instead, the proceeds should remain in the company and be used, for example, to repay debt or to invest in growth e.g. by investing in new product areas or expanding into new markets.

Together with her colleagues in the corporate bond team, Cecilie Hoffmeyer engage in dialogue with private equity funds, their banks and the acquired companies when the bond terms do not provide sufficient assurance that proceeds will remain in the company if e.g. specific business areas are sold.

Market position enables the ability to influence

Due to Danske Bank's position in the Nordic bond market, Cecilie Hoffmeyer and the team have the ability to influence private equity funds in some cases and amend bond terms before they are offered to the financial market. They are often invited to provide input to e.g. pricing of the bond or bond terms before the bond is announced to the market, while in other cases they take part in influencing bond terms after the announcement of the issuance.

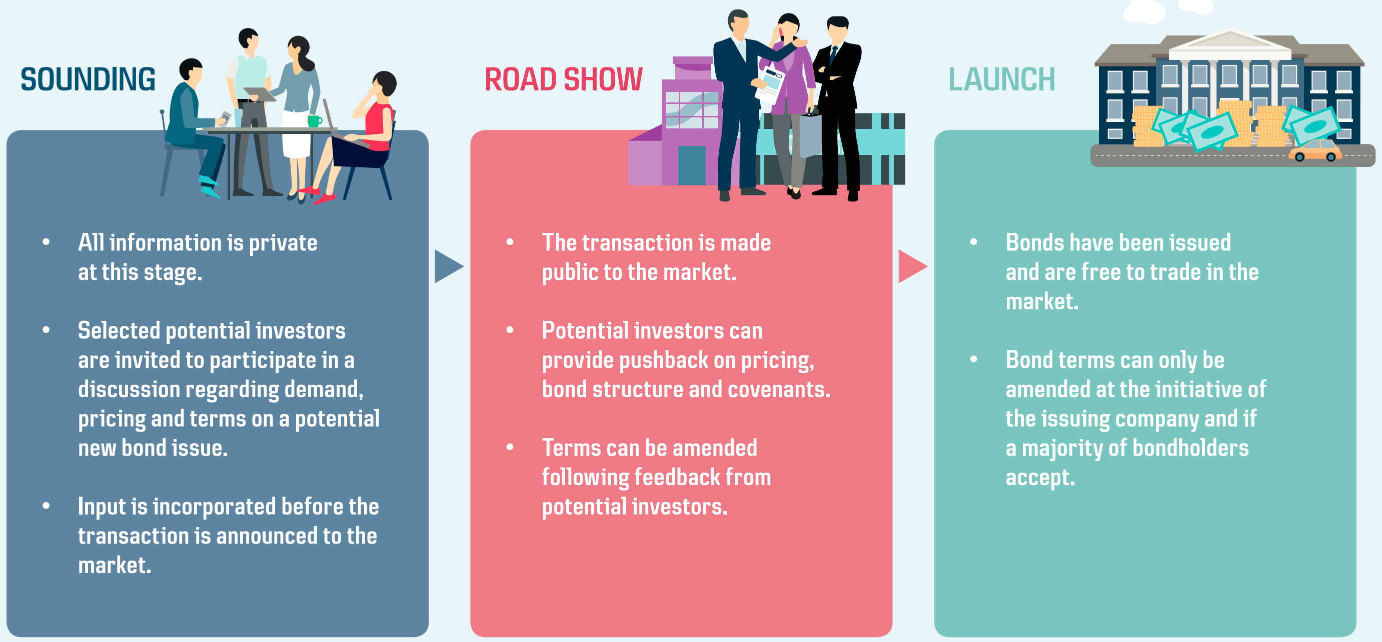
For example, the team was interested in investing in a sizeable corporate bond issued by a Nordic company, but the new private equity owner strongly indicated that they would divest specific business areas shortly after the bond was issued.

"As an active and responsible investor, we put pressure on the private equity fund as part of safeguarding our customers' investments. Because we are an investor of significant size in the Nordic market, we were in a good position to amend the bond terms – which helps protect the financial stability of the company and our investment. Our message was very simple; they had to close the loophole, otherwise we were not interested in investing," explains Cecilie Hoffmeyer.

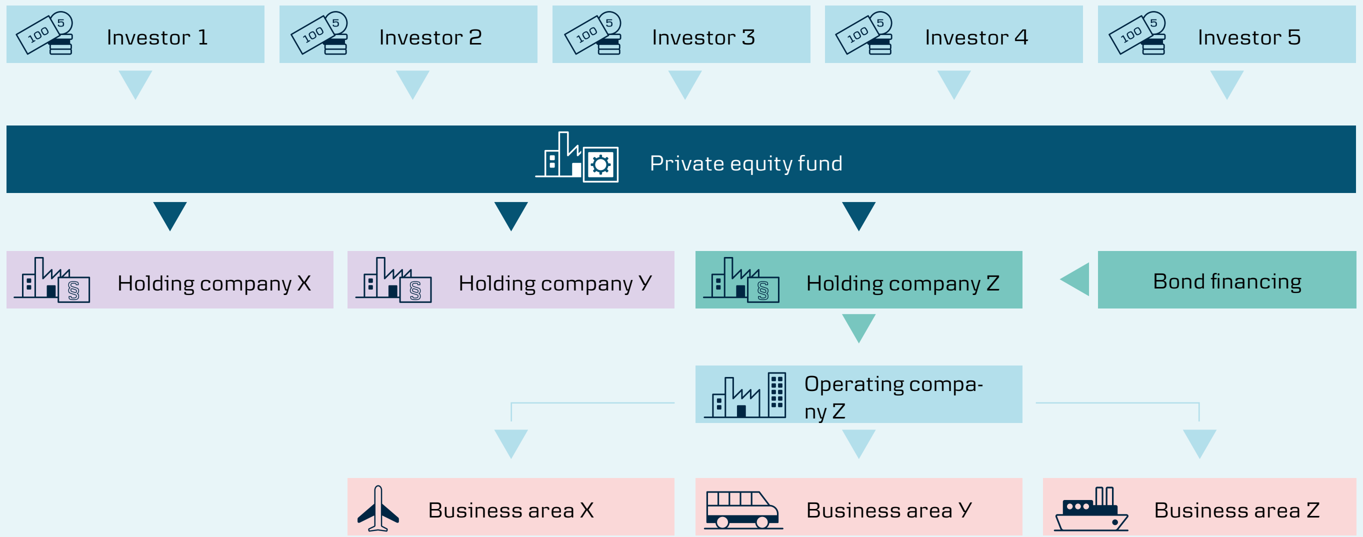
Other investors echoed that messaged, and following negotiations and dialogue with Danske Bank's corporate bond team and other interested investors, the terms were eventually amended in order to avoid a situation where capital could be extracted from the company should business areas be sold.

This is a typical example of how Danske Bank's corporate bond team is impacting private equity funds to inhibit them from extracting value from companies. It is of great importance, as it can fundamentally alter debt and earnings levels. It helps prevent the company's financial situation from being weakened by having too large a debt relative to earnings levels and the value of its assets. Instead, the private equity fund should allocate the proceeds from divestments to reduce debt or to invest in developing and strengthening the company's business profile.

The bond issuing process



Private equity fund structure



Private equity funds attract funds from various types of investors, which is used to acquire companies that are identified as being attractive investments.
Private equity funds often finance the acquisition of companies by issuing bonds by a holding company that owns an operating company. The operating company is the actual manufacturer of a product or service, and these activities are positioned in different business areas.

The shipping sector has to consider climate issues

The climate agenda has moved into the engine room of the shipping industry, and with it comes a number of challenges for the sector. Portfolio Manager Anders Grønning puts spotlight on how shipping companies address climate issues, as this will have great significance for whether or not they will continue to be attractive investments.

Shipping plays an essential role in a globalised economy dependent on transporting goods and products around the world. While shipping is one of the most energy efficient forms of transport, the industry is also one of the biggest emitters of CO_2 and accounts for approximately three per cent of global carbon emissions. If the industry continues its current course, its CO_2 impact will rise by between 25 and 50 per cent between now and 2050. The political and regulatory pressure to reduce the industry's climate footprint has resulted in shipping companies facing new climate regulation and rising costs e.g. from more expensive fuel types. On 1 January 2020, for example, a new climate regulation came into force reducing the allowed sulphur content of marine fuel from 3.5 per cent to 0.5 per cent, with the aim of reducing the environmental footprint.

"Shipping is high on the agenda of the international society's efforts to combat climate change. In the light of this development, we are even more focused on whether shipping companies are working actively with climate challenges to be better prepared if climate regulation moves forward faster than expected," says Anders Grønning who is Portfolio Manager at Danske Bank and follows the shipping industry closely.

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>
> *Anders Grønning*

Climate challenges are a natural part of Anders Grønning's dialogue with shipping companies, as it is an important aspect when assessing whether or not shipping companies will continue to be attractive investments. The focus is both on how shipping companies address existing climate regulation and, equally important, how they prepare their business for the future.

Need to make a financial calculation for climate initiatives

With the global transition towards a greener economy, it is important from a financial perspective that shipping companies have a strategy of being more energy efficient, and thereby reduce their carbon emissions. Anders Grønning, along with other investors, have had this on the agenda for a number of years when talking to, among others, the German-based company, Hapag-Lloyd, and the French-based company, CMA CGM.

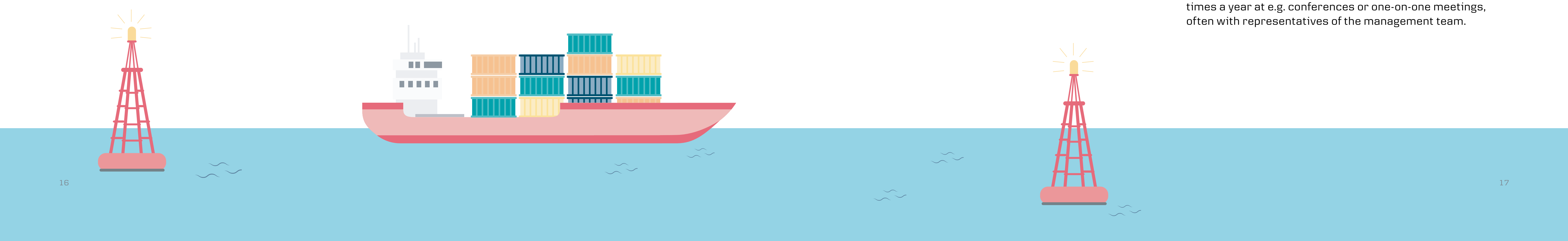
"There had been an uncertainty among industry participants about how companies ensured that existing vessels would comply with the new low-sulphur requirements. Assessing climate challenges alongside financial aspects were key in our dialogue, and will continue to be going forward. We need to be convinced that the shipping company's strategy is adressing climate challenges sufficiently. If not, remaining an investor could carry substantial financial risks and ultimately negatively affect the return to Danske Bank's customers," Anders Grønning points out.

Shipping companies basically have three ways to comply with the new regulation. They can install so-called scrubbers, which reduce the sulphur content in traditional shipping fuel to the permitted limits, use a new type of low-sulphur fuel that complies with new regulation or install LNG-capable technology, which uses liquefied natural gas as fuel. In the engagement process, Anders Grønning emphasized that both Hapag-Lloyd and CMA CGM presented a strategy for which climate solutions – from a financial perspective – would be best suited for the individual ship types, taking into account how long they would be in use.

"I have had a constructive dialogue with the shipping companies over an extended time period, during which they have made progress, by among other things launching climate strategies where they use a combination of scrubbers, new low-sulphur fuel and LNG. Hapag-Lloyd, in particular, has high ambitions and is the first shipping company aiming to install LNG technology in up to 17 existing ships. This is an expensive investment, but will give them a competitive advantage in the form of better fuel economy and the ability to comply with tighter climate regulations that are expected to be implemented in the future," says Anders Grønning, stressing that shipping companies in general now have a greater understanding of the climate agenda and the associated risks and opportunities.

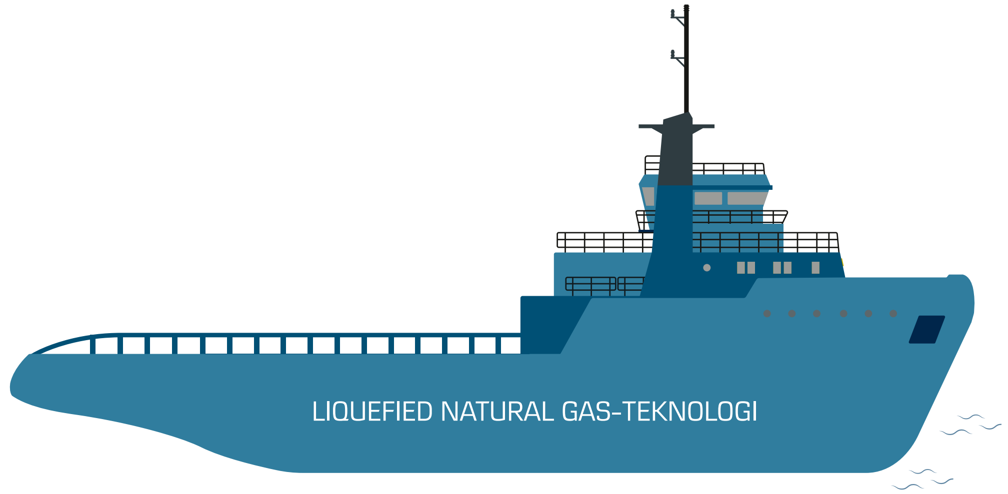
A positive impact through dialogue

Typically, Anders Grønning meets companies a couple of times a year at e.g. conferences or one-on-one meetings, often with representatives of the management team.



There is a movement among professional investors, shareholders and customers putting spotlight on climate issues. As part of that movement, I can help promote the discussions on the low-carbon transition from an investor perspective and influence companies to utilise the climate agenda as an accelerator for creating long-term sustainable growth.

Anders Grønning



"It is an advantage to meet with management as it allows me to have a close and in-depth dialogue around companies' climate strategies," says Anders Grønning and elaborates.

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Innovation can produce a competitive advantage
The International Maritime Organization (IMO) regulates the shipping industry and has set a target of reducing the industry's CO_2 emissions by 50 per cent relative to 2008 levels going forward to 2050. This sets the course for what the industry as a minimum can expect by way of regulation, and for what Anders Grønning will zoom in on even more.

"Climate challenges will take up an increasing share of our dialogue with shipping companies, and especially how they seek to gain a competitive advantage by investing in energy-efficient and CO_2-reducing technologies. Ships generally operate for 20 to 25 years, so long-term planning is important, as is developing and deploying technologies in order for ships to be compliant with future regulations and be a financially viable business," explains Anders Grønning.

As an example, Anders Grønning and other investors discussed electrification and greener alternatives with the Danish shipping company DFDS with the aim of reducing fuel consumption. As an example, the company has announced that its ferries would be connected to power from sustainable energy sources when docked in Oslo instead of using power generated by own diesel engines. Moreover, DFDS also invested in a start-up within the bio-fuels area with the goal of developing commercially viable bio-fuel solutions.

Ambition pushing the industry forward
Danish shipping company Maersk has an even greater need for innovation. Maersk has set the industry's most ambitious climate target of being CO_2 neutral by 2050. To avoid using vessels powered by traditional fuel types by 2050, Maersk needs to have new technologies installed in vessels delivered to them from 2030. If Maersk is to achieve their climate ambition, it calls for completely new technologies and fuel types that have not yet been developed. Maersk focuses on three fuel pathways; alcohol, biomethane and ammonia, which for now look like the best alternatives to the current bunker fuel oil. This way, Maersk is helping to accelerate the development of new climate-friendly technologies that will raise the bar for the entire industry.

As part of Anders Grønning's contribution to raise the climate ambitions of the shipping industry, he will be using the learnings from Maersk's strategy execution and the handling of financial aspects of the transformation in his dialogue with other shipping companies.

Banking also applying pressure
It is not only the authorities that are increasing the requirements for how shipping companies handle climate issues. Banks are also beginning to make demands, and in 2019 the Poseidon Principles were launched by a number of banks including Danske Bank. As a consequence of the initiative, a shipping company's climate strategy plays a key role in determining whether the bank will grant a loan for vessels. The aim of the principles is to create additional incentives for the industry to reduce CO_2 emissions.

"In a nutshell, shipping companies that transform their business in line with the shift towards a carbon neutral economy will also be the best investments over the long term. This will require allocation of resources into new technologies and innovation, and we will be highly focused on this in our dialogue with shipping companies in the coming years. From our perspective, this is about the shipping companies being at the forefront of the development and positioning themselves for a new reality, so they can continue to generate attractive risk-adjusted returns to our customers," concludes Anders Grønning.

What is LNG-powered vessels?

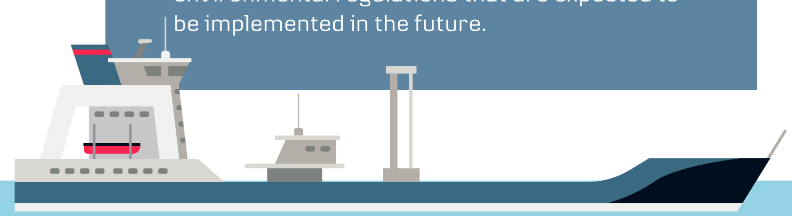
Liquefied natural gas (LNG) is natural gas (predominantly methane) that is pumped from the earth's core and cooled to approximately -162° celcius and thereby become liquefied natural gas. LNG offers substantial advantages for shipping companies, especially in the light of continuously tightening environmental and climate regulations. The most notable benefits of using LNG is cleaner emissions, less wear and tear on engines and lower costs.

Reducing costs

The liquefied form enables the natural gas to be easily stored and cleaner to use in engines, which cuts engine maintenance costs. Additionally, LNG is cheaper than the expensive low-sulphur fuel.

Positive climate impact

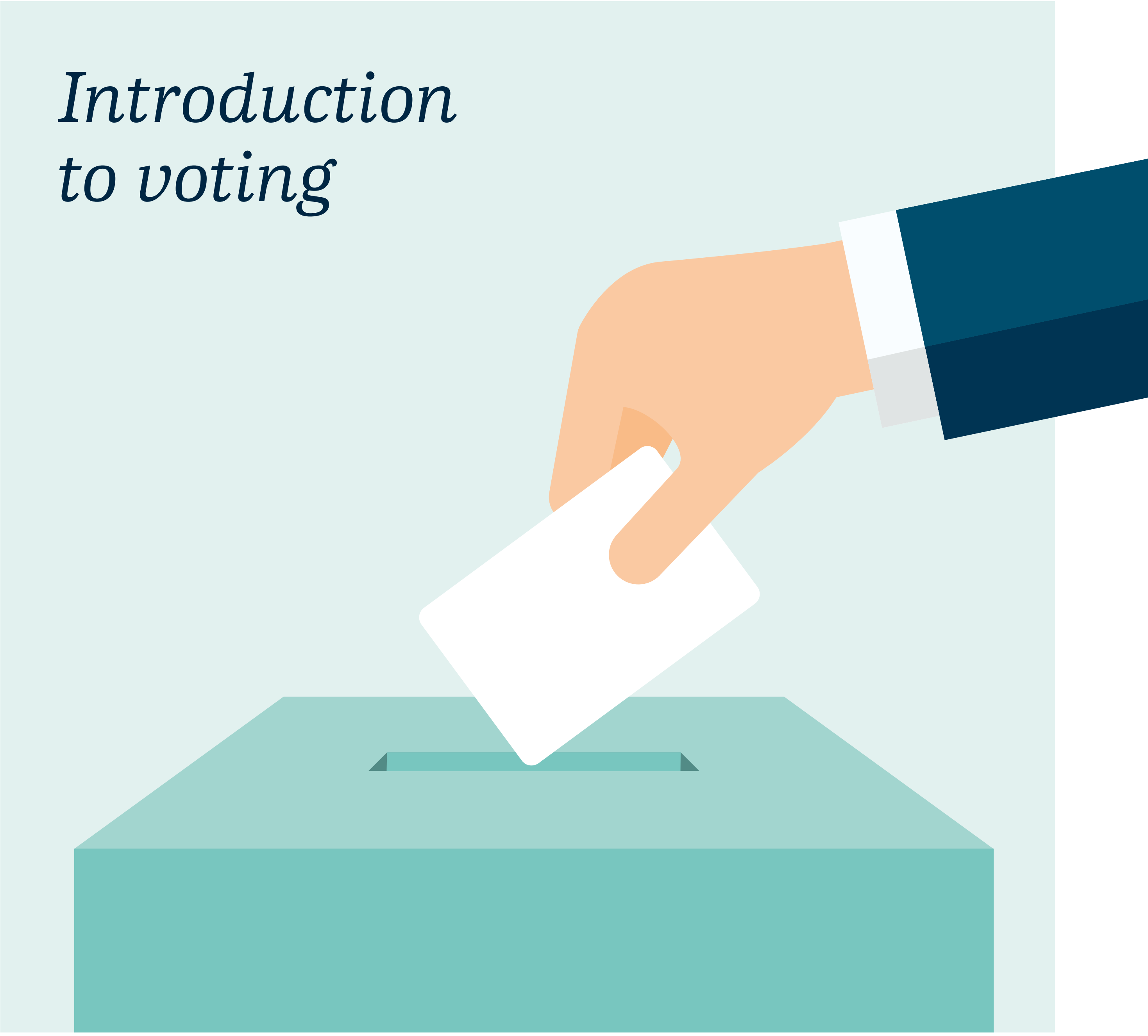
There are significant environmental and climate benefits of using LNG as fuel. Compared to the use of diesel fuel, use of LNG reduces NOx emissions by approximately 90% on a lean burn gas fuelled engine. Carbon emissions are about 20-25% lower compared to diesel fuel because of the lower carbon content. Furthermore, LNG is almost sulphur-free and complies with tighter climate and environmental regulations that are expected to be implemented in the future.



Prior to annual general meetings, we engage with companies to discuss relevant topics and provide input. This is an important way to calibrate opinions and expectations, and it enables us to better influence and support positive developments both through dialogue and voting at general meetings.

Rami Hakola, Head of Alpha Finland

Introduction to voting



We use our rights to voice our opinion at annual and extra general meetings. Our aim is to support positive developments of the companies we invest in with the goal of improving their long-term value creation. We predominately vote at the meetings of Nordic and European companies, where we represent relevant holdings.

We vote on a variety of management and shareholder resolutions, although the majority target corporate governance issues subject to local listing requirements such as approval of directors, approval of reports and accounts, approval of incentive plans, capital allocation, reorganisations and mergers. Our investment teams assess resolutions and apply our voting policy and market standards when voting on each agenda proposal. The teams have access to internal and external expertise in order to understand the corporate governance context of the companies and regional market and policy developments. If there is insufficient information on a particular matter, we may decide not to vote.

We predominantly vote in favor of the proposals as we often seek alignment with companies' management teams ahead of the annual general meetings through our ongoing company dialogue. We are transparent about our voting records and disclose how we vote on danskebank.com/sustainable-investment.

Voting in 2019

Learn more about our voting activities in our Active Ownership Report at danskebank.com/sustainable-investment.

In 2019, we had the following voting activities.

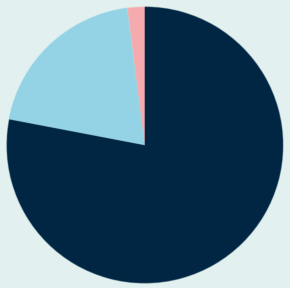
MEETINGS	COUNTRY DOMICILES	PROPOSALS
406	33	5,796
313 in 2018.	*22 in 2018.*	*4,627 in 2018.*

We predominantly voted FOR the proposals

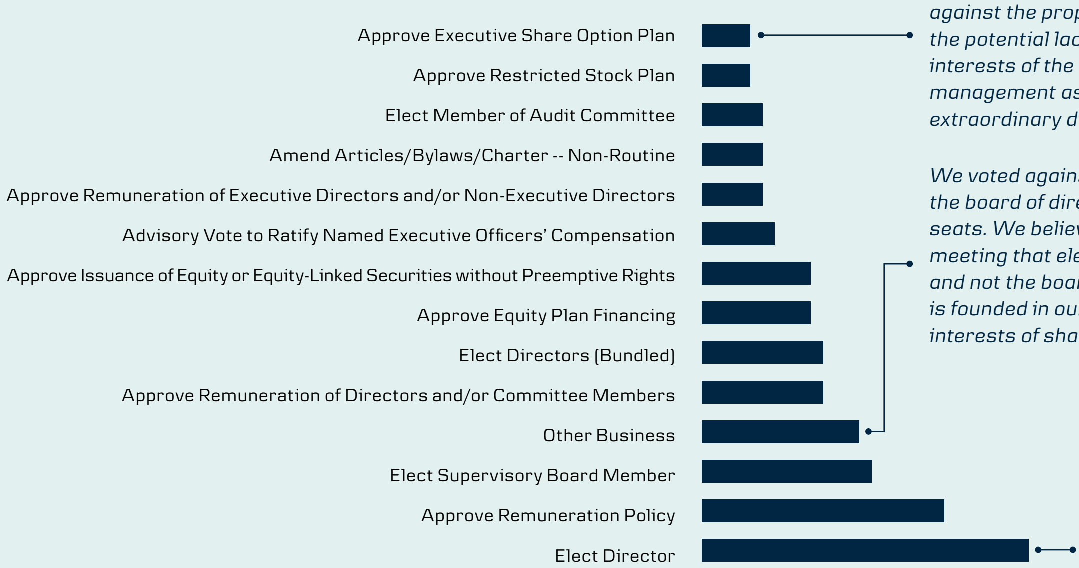
5,796 proposals

FOR	AGAINST	ABSTAIN
95.5%	2.7%	1.8%

We voted primarily at annual general meetings



Most common topics where we voted against management recommendations



Concerns about the board of directors' option to pay an extraordinary dividend to executive management meant that we voted against the proposal. The main issue was the potential lack of alignment between the interests of the shareholders and day-to-day management as there was no ceiling on the extraordinary dividend.

We voted against a proposal that authorized the board of directors to fill vacant board seats. We believe that it is the annual general meeting that elects new board members and not the board of directors. Our approach is founded in our ambition to meet the best interests of shareholders.

In one case, we voted against electing a company's CEO to the board of directors as it may have negative governance implications and compromise the independence of the board.

Reasonable remuneration packages for boards

Suitable remuneration levels for company boards, and board members not having undue financial interest in a company's performance. These are some of the key factors for ensuring healthy companies, says Chief Portfolio Manager Jesper Neergaard Poll, who has these points high on his agenda when exercising active ownership.

What are stock options and warrants?

A stock option gives board members the right to buy an existing share within a particular period at a predefined price. A warrant gives board members the right to buy a share that is issued by the company at a later date at a predefined price (the so-called strike price).

A board member's remuneration or fee should of course reflect the responsibility, level of competition and value-creation at the company. It may vary according to sector and geography, but the focus should be on having a reasonable remuneration level for the board that also makes it attractive for international competencies to contribute to the development of Danish companies.

Jesper Neergaard Poll

Competitive remuneration and bonus structures are important if companies are to attract and retain the right competences on their board of directors. But how should Danish companies structure remuneration packages so they are in the company's best interest and also attractive from an international perspective? This issue is high on the agenda for Jesper Neergaard Poll when he discusses remuneration structures and incentive programmes with Danish companies. Jesper Neergaard Poll is Chief Portfolio Manager at Danske Bank, and in his view there should be a fair correlation between the remuneration package and the value created for the company.

"A board member's remuneration or fee should of course reflect the responsibility, level of competition and value-creation at the company. It may vary according to sector and geography, but the focus should be on having a reasonable remuneration level for the board that also makes it attractive for international competencies to contribute to the development of Danish companies," says Jesper Neergaard Poll.

His starting point is the Nordic culture, which does not have the type of remuneration packages seen in, for example, the UK or the US. Board members in these countries have an opportunity to earn enormous sums if companies reach certain targets. Jesper Neergaard Poll would not vote for this type of remuneration structure of Danish companies. Instead, he prefers a fixed fee being paid to board members so they do not have financial interests or incentive programmes that are tied to a company's financial targets or equity price at a particular time.

"A clear separation between the board and the executive management team is important, as is the board's ability to act as an independent bulwark. In simple terms, a problem may be created if a board member has a personal financial incentive for management to, for example, increase the level of risk in order to achieve a short-term goal. This could potentially hurt the company in the long term, and we prefer to avoid such structures. In fact, my view is that one of the board's main tasks is to exercise oversight and control of the executive management team and to ensure that it does not take any undue risks or focus on short-term profits," says Jesper Neergaard Poll.

Biotech: When cultures clash

Jesper Neergaard Poll regularly discusses the remuneration structure of the boards of biotechnology and pharmaceutical companies, which frequently compete internationally to attract specialised knowledge to their boards. Biotech companies often do not yet have products on the market, and they invest the bulk of their cash flow in the research and development of the product pipeline, which influences the board's remuneration package. Board members typically get a relatively low fixed fee, but are covered by an incentive programme that rewards them financially if the company manages to launch successful products onto the market.

A common practice for many years was to allocate so-called warrants to the board, which gave them the right to buy a future stake in the company at a pre-agreed price. This could incentivise the board to allow greater risk-taking by the

Disadvantages of warrants and stock options

Allocating warrants and stock options to board members can potentially provide an incentive for the board to allow greater risk-taking by management. In this situation the board could potentially stand to achieve a disproportionate financial profit if the increased risk causes the future share price to exceed the agreed purchase price. This structure can result in the board not having the company's long-term interests at heart and not carrying out the necessary checks on executive management.

management, as they would personally profit if the increased risk caused the future share price to exceed the agreed purchase price. Such a structure may result in the board not having the company's long-term interests at heart or failing to maintain the necessary checks on executive management. Jesper Neergaard Poll has criticised the use of warrants and has voted against remuneration packages that include warrants to board members at companies' annual general meetings. In addition, he and other investors have been in dialogue with biotech companies about changing this practice and have successfully convinced Danish biotech companies Genmab and Bavarian Nordic, among others, to listen to their investors and abolish warrants for their boards.

"We enjoyed a constructive dialogue with the boards throughout this process in terms of shaping the future remuneration structure. Hence, through dialogue I have contributed to a shift in the companies' attitude and remuneration structure," says Jesper Neergaard Poll.

Clear guidelines needed

Nowadays, allocating shares in the company as part of the board's remuneration package is more common, and the structure of such a share programme is something Jesper Neergaard Poll is in the process of discussing with Danish company Orphazyme, among others.

"For Orphazyme, having an international mix of specialist competencies on the board is an important asset for its research and product pipeline. Similar to Bavarian Nordic, for example, this type of board member is often used to being allocated an incentive programme based on shares or warrants, and that is a dilemma. On the one hand, we want the company to have the right board composition, but on

What is a share allocation programme?

Board members are allocated either shares that already exist at the share's market price or other instruments that have the same characteristics as shares.

Naturally, we must understand the environment the companies compete in, while at the same time ensuring that the board's financial incentives are appropriate and conducive to the company's long-term perspectives. I will continue to engage with Orphazyme and exert pressure on them to implement clear allocation criteria.

Jesper Neergaard Poll

the other hand we do not want to dilute the board's role as an oversight and control body for the management team," explains Jesper Neergaard Poll.

He prefers to see a fixed board fee without any incentive programme, but in the biotech field incentive programmes are normal practice. Jesper Neergaard Poll understands that incentive programmes are used in the sector to attract competent board members, but he prefers an equity allocation programme and not warrants or share options. With equity allocation there is a more direct correlation between the company's results and the potential loss or profit for the board members, so this is a better way to support the board's role as an oversight and control body for the executive management team. However, clear guidelines are needed to govern the allocation of shares, and they should be independent of the company's short-term performance goals.

Potential negative consequences for shareholders

"In Orphazyme's case, it is unclear when the board can be allotted shares and under which criteria, and this could compromise their task of management control," says Jesper Neergaard Poll.

He has raised the issue with the company together with other investors and has unequivocally stated that the equity programme requires clearly defined criteria. The guidelines were not changed, and as a result he did not vote for the board's remuneration package at the annual general meeting in 2019.

"Naturally, we must understand the environment the companies compete in, while at the same time ensuring that the board's financial incentives are appropriate and conducive to the company's long-term perspectives. I will continue to engage with Orphazyme and exert pressure on them to implement clear allocation criteria," concludes Jesper Neergaard Poll.

He underlines that influencing Orphazyme will take time, and that during the process he will use his experience from earlier dialogues, where he – as an important investor in the Danish market – has contributed successfully to changing corporate practices.

Advocating for flat fee growth

Fixed board fees have also taken up much of the company dialogue and annual general meetings at the Danish brewing giant Carlsberg, where Jesper Neergaard Poll and other investors have raised the matter. The chairman's fee, in particular, has been in focus, as it has been almost twice as high as the Danish average. Jesper Neergaard Poll brought up the board chairman's fee with Carlsberg and in fact voted against the fee at the annual general meeting when it was raised substantially a couple of years ago.

"Remuneration packages should be reasonable and commensurate with the company's complexity and value-creation. At the same time, remuneration levels should be proportionate from a Nordic perspective," says Jesper Neergaard Poll.

Since then, he has advocated for Carlsberg to at least not raise the chairman of the board's fee, and argued that they could still retain or attract a competent board chairman at existing fee levels. Working alongside other investors, Jesper Neergaard Poll has succeeded in getting Carlsberg to keep the board chairman's fee at the same level since 2017. Jesper Neergaard Poll will continue to monitor remuneration levels for Carlsberg's board and put further focus on the issue if Carlsberg puts forward a proposal at the annual general meeting to raise the fees.

Advantages of a share allocation programme

When shares are allocated to board members, they do not have the same incentive as with, for example, stock options to take inappropriate risks that could potentially damage the company's value creation in the short or long term. The board is invested in the company and the value of their shares directly reflects whether things are going well or badly. Moreover, the board's role as a control body is better preserved than when warrants or stock options are allocated.

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