

Responsible Investment and Active Ownership Policy

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1. Sydbank's objectives

- We will manage our investments in the same way as we operate Sydbank – with particular focus on excellence and decency. For the benefit of our customers and with respect for the society we are part of.
- We will earn and keep the trust of our customers and stakeholders through the responsibility we assume as asset managers. Whether the investments made are on our own behalf or on behalf of our customers, we will strive to act responsibly and with respect for a shared sustainable future.
- We will report on the results of our efforts to our customers and the outside world.
- We will continuously work to develop new methods and products to promote positive developments in society based on responsibility and active ownership.

2. Sydbank's principles for responsible investment

Sydbank manages significant assets – on its own behalf and on behalf of its customers – and is mindful that issues concerning human rights, the environment, proper social conditions, corporate governance and sustainable institutions are taken into account. This applies to all companies and countries in which we invest.

Decency is part of Sydbank's own core story. Consequently Sydbank became a signatory of the UN Principles for Responsible Investment already in 2010. The principles concern environmental, social and governance (ESG) issues.

The PRI has summarised six general principles to which Sydbank is committed. This means that we will:

- incorporate ESG issues into investment analysis and decision-making processes
- be active owners and incorporate ESG issues into our investment policies and practices
- seek disclosure on ESG issues by the entities and countries in which we invest
- promote acceptance and implementation of the principles within the financial sector
- work together to enhance our effectiveness in implementing the principles
- report on our activities and progress towards implementing the principles.

Sydbank strives to comply with the principles. Similarly we work towards ensuring that entities and countries in which we invest on our own behalf or on behalf of our customers also adhere to these principles.

In order to respond to the diversity of customers' requirements, Sydbank can, in addition to its efforts relating to the principles, perform an additional screening of individual portfolios or according to more restrictive investment criteria. For instance in order to completely avoid investments in specific countries, sectors or companies.

3. Sydbank as active owner

Sydbank's fundamental investment philosophy is based on active ownership. Being an active owner entails that we continuously take a critical approach to what we invest in.

Active ownership can also mean engagement, ie influencing companies directly in various ways, for instance critical dialogue with the management of a company with a view to changing the conduct of the company.

This is where the first challenges arise because establishing a dialogue is certainly not possible in all instances. When we buy shares we gain direct ownership and voting rights at general meetings. However governments, which for instance issue bonds, are rarely willing to listen to investors' requirements and wishes regarding how they govern. Companies are often far more receptive to critical dialogue, also regarding the issuance of corporate bonds.

Ongoing efforts are made at Sydbank to promote active ownership across all types of investment. The purpose of exercising active ownership is to increase or preserve the value of assets in which Sydbank has invested on its own behalf or on behalf of its customers. The background for the policy is that active engagement with companies, in contrast to exclusion, makes it possible to trigger a price potential in the companies as problems are solved. In principle this also applies to government bonds even though direct dialogue is seldom possible.

Analyses can help to provide a basis for healthy and sustainable investment decisions. A wide variety of methods are used to monitor, analyse and select responsible investments across different types of assets. Where relevant and value creating we use external advisers and business partners while in other areas Sydbank develops, maintains and implements ESG investments.

In November 2016 the Committee on Corporate Governance, under the Danish Business Authority, issued a "Stewardship Code". The purpose of the code is to promote Danish companies' long-term value creation and as a result investors' long-term returns. We strive to comply with this code, including addressing the key recommendations in Sydbank's policy and annual reporting.

4. Strategy for responsible investment and active ownership

Companies and the UN Global Compact

The strategy is based on the UN Global Compact's 10 basic principles concerning responsibility and actively addressing sustainability. The principles target companies and focus on their initiatives in the areas of anti-discrimination, human rights, the environment, anti-corruption, etc. In relation to ESG issues Sydbank believes in engaging in dialogue with the companies. We give priority to companies where we assess that there is a need for maintaining a positive development or addressing a negative development so that the situation takes a turn for the better. The aim is to influence the companies in which Sydbank has invested to act more responsibly.

As a result Sydbank monitors ESG developments in the companies in which it has invested and takes part in a dialogue concerning their operation and strategies in corporate governance terms. In this connection Sydbank follows a principle of proportionality according to which the size of holdings in listed companies impacts its decision as to whether to engage in dialogue with the companies.

In Sydbank's assessment voting at general meetings is the most effective way to supplement the direct dialogue with a company's management. Where Danish companies are concerned Sydbank wishes to vote at the general meetings of all the companies in which it invests.

However on an overall level we focus our attention on the companies that Sydbank considers to be most problematic. Independent of geographical affiliation we vote at the general meetings of companies that have violated international conventions and norms.

As regards listed companies from new markets in developing countries (emerging markets) an extended process for engagement is used. Here we select a number of companies that are particularly challenged in terms of ESG issues and which in Sydbank's assessment have a low level of preparedness to tackle these challenges. As such companies are often very vulnerable in relation to violations of international conventions and norms, Sydbank wishes to focus its active ownership efforts in emerging markets on these companies.

Sydbank does not generally consider the sale of shares in companies to be the only method of influencing changes at company level but believes that engaging with these companies is more effective. However a sale may be a possibility if a company is not willing to establish a dialogue in order to solve the problems, if the dialogue proves futile despite persistent attempts or if a company's business model is incompatible with Sydbank's principles for responsible investment. Examples include the production of land mines, cluster bombs or documented involvement in serious corruption.

Government bonds and the UN Global Compact

Sydbank's analysis of ESG issues encompasses all the different types of assets invested in. Even if active ownership is not directly possible, for instance in the case of a government that issues bonds, it is still possible to incorporate the spirit of the UN Global Compact when determining our own responsible investment processes regarding government bonds.

Sydbank has developed its own process as regards ESG analysis of government bonds. A country is assigned an ESG score where points are given on the basis of an absolute ESG level as well as the estimated development potential of the country. Taking the Global Compact into account as much as possible, Sydbank's analysis focuses on several different and independent data for a country's environmental considerations, personal and political freedoms, a government's ability to provide security and welfare, the incidence of corruption etc. A good many of these factors are included in for instance the UN's 17 sustainable development goals and consequently Sydbank is actively working to integrate these goals in analyses and the selection of countries where it makes sense to do so.

Sydbank's position regarding responsible investment in government bonds is that the exclusion of certain countries is unavoidable even though they could be financially

attractive. The difficulty lies in determining the specific criteria for this. In contrast to companies where the Global Compact is the internationally recognised benchmark, the criteria applying to countries are to a large extent determined by Sydbank.

Sydbank wishes to invest in government bonds in a responsible and active manner. Our strategy is for certain minimum criteria to be met at all times. We must set ambitious goals but also respect the fact that developing countries in particular have considerably poorer chances of achieving the conditions we know in Europe and Denmark. The search for and achievement of better ESG normally results in a long-term positive return potential, which requires that it must also be possible to invest in relatively underdeveloped countries compared with Europe and Denmark.

A number of internationally recognised norms, including Denmark's and the EU's sanctions, represent the minimum criteria but cannot stand alone. Sydbank's ESG analysis focuses initially on categorising countries according to a traffic light model where certain quantitative and qualitative criteria must be met for a country to be included in the investment universe. When these criteria have been met they can be further tightened as required for instance if some of Sydbank's customers have a different view of sustainability and ethical norms.

Sydbank's active ownership role as regards government bonds concentrates on analysing and understanding countries' development in terms of ESG issues. A comprehensive screening process provides us with a solid basis to assess a country's potential for progressing favourably and risks of setbacks. Our assessment is directly translated into the active selection of investments, thus bringing ESG to the core of our management of bonds from developing countries.

5. Active ownership through active voting policy

The managements of companies are usually susceptible to the positions and demands of their owners. This is why Sydbank is an active owner, which manifests itself through an active voting policy.

The strategy depends on whether the companies are Danish listed companies or foreign listed companies.

As regards Danish listed companies Sydbank wishes to be an active owner on the basis of its ownership interest and voting at all the general meetings of companies in which we have invested is a priority for Sydbank.

As regards foreign companies the number of companies is larger for one thing and the ownership interest is typically smaller. Therefore Sydbank collaborates with "proxy voters" which systematically monitor the companies' general meetings. We determine how and where our votes are cast.

Sydbank is generally willing to disclose whether and if so how it has voted at the general meetings. This information is usually included in the annual report on active ownership.

6. Active engagement in cooperation with other investors

Sydbank exercises active ownership as regards all companies in which it has invested. Common to all engagement activities in which Sydbank participates are the following:

- The purpose of active ownership is to increase financial return.
- Wherever possible active ownership must be exercised on the basis of an analysis of ESG issues and in constructive collaboration with the companies responsible.
- Wherever possible active ownership must be exercised in collaboration with other responsible institutional investors.
- If the engagement with controversial companies does not lead to a constructive dialogue and a development towards a solution to the problems, the shares will normally be sold.

Sydbank wishes in particular to make a targeted effort where we know and clear documentation exists that a company has violated widely accepted international conventions and norms.

We cooperate therefore with other responsible institutional investors through our business partner Sustainalytics, which specialises in ESG analysis and engagement as regards companies worldwide. On behalf of investors Sustainalytics identifies the current issues, contacts the companies responsible and sets clear objectives for a constructive solution to the problems. In addition Sustainalytics defines a clear strategy for escalation in the absence of progress and results so that it can drive the engagement process efficiently and effectively on behalf of and in close collaboration with investors.

Companies are influenced through different types of engagement. The most important are:

- regular correspondence via mail with the companies
- conference calls with the companies
- meetings with company managements and experts in the field
- proxy voting at companies' general meetings
- submission of resolution proposals at companies' general meetings
- collaborative engagement initiatives with other institutional investors through the PRI Collaboration Platform.

In emerging markets in particular there is a relatively large share of companies where the risk of problems in connection with the violation of human rights, workers' rights etc is significantly higher than for companies in developed markets.

Consequently Sydbank's business partner Sustainalytics systematically maps out companies' ESG risk by means of an analysis of the extent to which the companies' activities expose them to significant ESG risks and how they tackle these risks. These risks could be related to serious issues such as corruption, child labour, environmental catastrophes etc but also to the way a company manages its staff, considerations regarding a company's surroundings (including environmental matters) and to its use of resources in the production of its products or services.

Sydbank seeks to exercise extended active ownership with regard to companies showing a relatively high ESG risk and which have not established adequate management preparedness to handle these risks. This is where direct engagement through dialogue with companies makes most sense. All things being equal the lack of preparedness generally leads to higher risk premiums on shares and hence lower share prices. In contrast there will often be a basis for price increases and consequently improved financial returns if companies are influenced to establish a better level of preparedness by way of policies, management systems and reporting as well as to generally pursue more efficient ESG practices.

Active ownership is not exercised as regards companies whose business concepts are assessed in advance to violate widely accepted international norms and conventions, such as cluster bombs, land mines and nuclear weapons, which is why no investments are made in this type of company.

7. Active ownership organisation

Sydbank exercises active ownership as regards all companies in which it has invested. In addition we analyse and monitor on an ongoing basis developments in ESG issues in the countries invested in. Collectively we call this active and responsible ownership.

In organisational terms active ownership is the responsibility of Sydbank's ESG organisation, which has been established by Sydbank Asset Management and Syd Fund Management (SFM), which is an investment management company for eg Investeringsforeningen Sydinvest and several other investment funds. Employees in these two entities are responsible for and carry out tasks concerning sustainability while safeguarding the interests of Sydbank and the investment funds.

The purpose of the ESG organisation is to carry out the dedicated analysis of ESG-related risks regarding countries and companies, to coordinate ESG development efforts and finally to carry out the management task of ensuring that all investment portfolios comply with the stipulated ESG norms and any special screening requirements. At the top of the management hierarchy is the Responsible Investment Committee, (the RI Committee), which convenes once a quarter or more frequently in case of special circumstances. At these meetings the committee discusses the current ESG status of the individual investments based on reports from internal and external business partners. The meetings end with a decision regarding the delimitation of the investment universe as regards companies and countries that cannot be included in the portfolios.

Especially in companies where Sydbank knows of an elevated ESG risk and/or where it has reservations about a company's strategy, results or similar issues and where an extraordinary dialogue with the company does not result in a more accommodating attitude to solve the problems, the RI Committee will ultimately decide whether the company will be added to the exclusion list and be sold.

Similarly the committee approves a recommended exclusion list concerning specific countries and their government bonds according to a traffic light model with red, yellow and green countries.

8. Managing conflicts of interest

When exercising active ownership, conflicts of interest may arise, eg in relation to group relations, competitors or Sydbank's customers. If analyses of eg agenda items at a company's general meeting show the existence of a conflict of interest, the RI Committee will convene to decide how to manage this conflict of interest.

Sydbank's general policy for managing conflicts of interest will always govern the manner in which the committee tackles this type of case.

9. Information

The Responsible Investment and Active Ownership Policy has been adopted by Sydbank's Board of Directors and is published on its website. Investors who wish to gain insight into the measures taken on the basis of the policy may obtain further information on Sydbank's website.