

Policy for responsible investments for VKR Holding

Introduction

The Model Company Objective defines our approach to corporate social responsibility. The main purpose of this policy is to extend our support and focus on responsibility, so it is also applicable to our financial investments. The financial portfolio of the Group is administered by VKR Holding A/S, so the policy only applies to VKR Holding A/S (“VKR Holding”) and underlying investment companies such as VKR Invest ApS, but not to the business areas of the VKR Group. Although we increase our focus on responsible investments, the overall target for the management of VKR Holding’s financial assets is still to ensure the highest possible risk-adjusted yield. This is to enable the necessary conditions for continued dividends and high financial security for our business areas.

Targets for responsible investments

This policy describes how we seek to ensure that our investments are “socially responsible” (hereinafter referred to as “responsible”). We believe that responsible investments can contribute positively to solving a number of societal challenges and towards meeting global targets for sustainable development. We also believe that responsible investments may contribute to promoting positive development in areas such as human rights, industrial relations, the environment, the climate and anti-corruption¹.

Our ambition is to ensure that a progressively larger share of our investments becomes responsible. We achieve this by instructing our asset managers to exercise active ownership on our behalf. Our policy is mainly inspired by our main shareholder, the VILLUM FONDEN, by the Danish Ministry of Industry, Business and Financial Affairs’ *Guidelines for Responsible Investments* (2018), and by OECD’s *Responsible Business Conduct for Institutional Investors* (2017).

VKR Holding continuously seeks to ensure that the largest possible share of our financial assets is invested based on social responsibility criteria while still considering the overall objective of ensuring the highest possible risk-adjusted return. Compliance with the UN Global Compact (UNGC) is a core indicator in this context, since the UNGC is based on the so-called ESG factors², which address workers’ rights, environmental responsibility, governance and compliance with human rights etc. VKR Holding particularly focuses on combating climate change. Our long-term goal is, therefore, that all our financial investments must comply with the Paris Agreement. Through external advisers, we will enter into dialogue with the world’s largest emitters of greenhouse gases and owners of fossil reserves.

We classify our investments in an Investment Spectrum where we assess the degree to which social responsibility and ESG factors are involved in the asset manager’s investment decisions.



Investments in the left side of the spectrum are termed “Classic”, and these investments primarily aim to generate an attractive risk-adjusted financial yield without any specific focus on ESG matters (subject to legislation, etc). Investments to the right of the “Classic” category increasingly involve ESG factors in the decisions to invest. Consequently, the “Responsible” category involves factors of ESG risk minimisation, while “Sustainable” investments proactively seek to generate additional value through active use of ESG

¹ The areas mentioned are emphasized in the guidelines of the Danish Ministry of Industry, Business and Financial Affairs. OECD describes the areas as: “...issues related to sustainable development, disclosure, human rights, workers and industrial relations, the environment, good governance and ethical conduct in the form of combating bribery, bribe solicitation and extortion, and consumer interests”.

² E = environmental effects, S = social conditions and G = governance

factors. Regarding “Thematic” investments our particular focus will be on environmental sustainability as an integral part of the investment policy.

The classification is evaluated on an ongoing basis, as the assessment is discretionary, and the area of responsible investments is developing rapidly. We will continuously assess the feasibility of increasing the degree of social responsibility of our investments, with due regard for the overall target to maximise yield.

Sustainable Development Goals

We monitor new developments within the field of responsible investments on an ongoing basis, and we continually assess any necessary adjustments of our policy. We also assess the development of the asset managers’ investment products and explicitly instruct the managers to address the UN’s Sustainable Development Goals (SDG).

Asset managers

The majority of VKR Holding’s investments are made via mandates administered by external asset managers, and this restricts our influence on the selection of portfolio companies. We ensure that our asset managers know our policy for responsible investments. Before we make new investments, we ensure that we have a good understanding of the asset manager’s approach to responsible investments and that it is compatible with our policy.

Screening and “engagement”

We exercise our ownership in relation to our asset managers as mentioned above. In addition, we continuously screen whether the existing portfolio companies comply with our policy for responsible investments; if individual portfolio companies do not live up to our guidelines, we enter into a dialogue (an engagement) with them when possible. Both screening and engagement are made through an external supplier. We employ leading external advisers and suppliers of ESG data for this task.

Our use of external advisers may conflict with active ownership, and we recognise that some control is given to the supplier. However, we prefer to use external professional advisers due to their independence in the screening process and their stronger mandate due to the representation of several other investors.

Twice a year, we screen our investments in listed companies for observance of UNGC, the Paris Agreement and international agreements on controversial weapons and nuclear weapons³.

If our adviser finds that a company contravenes the UNGC or does not live up to the Paris Agreement, the adviser enters into an “engagement” with the company.

The duration and the nature of the dialogue depend on the severity of each contravention and the portfolio company’s efforts to resolve it. Most businesses enter dialogue willingly, and many businesses make a considerable effort to solve any problems. However, in some cases, individual businesses will fail to resolve the contravention of our guidelines. If that happens, or if we assess that the company does not make sufficient progress in resolving the problems, we may escalate the dialogue to a higher organisational level. As a last resort, we may request the asset manager to divest the shares of the specific company. However, our experience shows that divestment is rarely necessary, and we prefer a dialogue with the company. If the asset manager does not follow our instructions to divest the business, we may decide to terminate the mandate.

Notwithstanding the above, contraventions cannot realistically be entirely eliminated since contraventions of the UNGC in large, listed companies with global and complex value chains occur and are resolved on an ongoing basis.

³ Note: The portfolio companies are not required to have acceded to UNGC. There is no uniform way to determine if a company commits to the Paris Agreement, and therefore, it is our external adviser who identifies which portfolio companies to engage.

Voting policy

As a rule, VKR Holding cannot vote directly at the general meetings of the portfolio companies because we invest through asset managers. However, VKR Holding may request that the asset managers vote according to this policy, e.g. as part of the escalation of the dialogue.

Governance and knowledge sharing

The policy for responsible investments is governed by the board of directors of VKR Holding, and management has delegated the responsibility to “Financial Investments” (VKR Holding’s investment department) to ensure that investments are managed according to this policy. Contraventions of the policy as well as special factors of importance to the compliance with the policy are reported to VKR Holding’s management by Financial Investments.

Financial Investments reports about compliance with the policy to both management and the board of directors on a regular basis.

VKR Holding encourages further development in the field of responsible investments, and we wish to share our experiences with others on an ongoing basis, in relevant forums as well as in direct discussions with other investors.

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