Danske Invest

Active Ownership Report Danske Invest

Progress Report H1 2023

Our active ownership activities in numbers for the first half of 2023

230+	engagements
2 900+	total meetings voted
37 000+	total proposals voted
469	Environmental and social proposals voted

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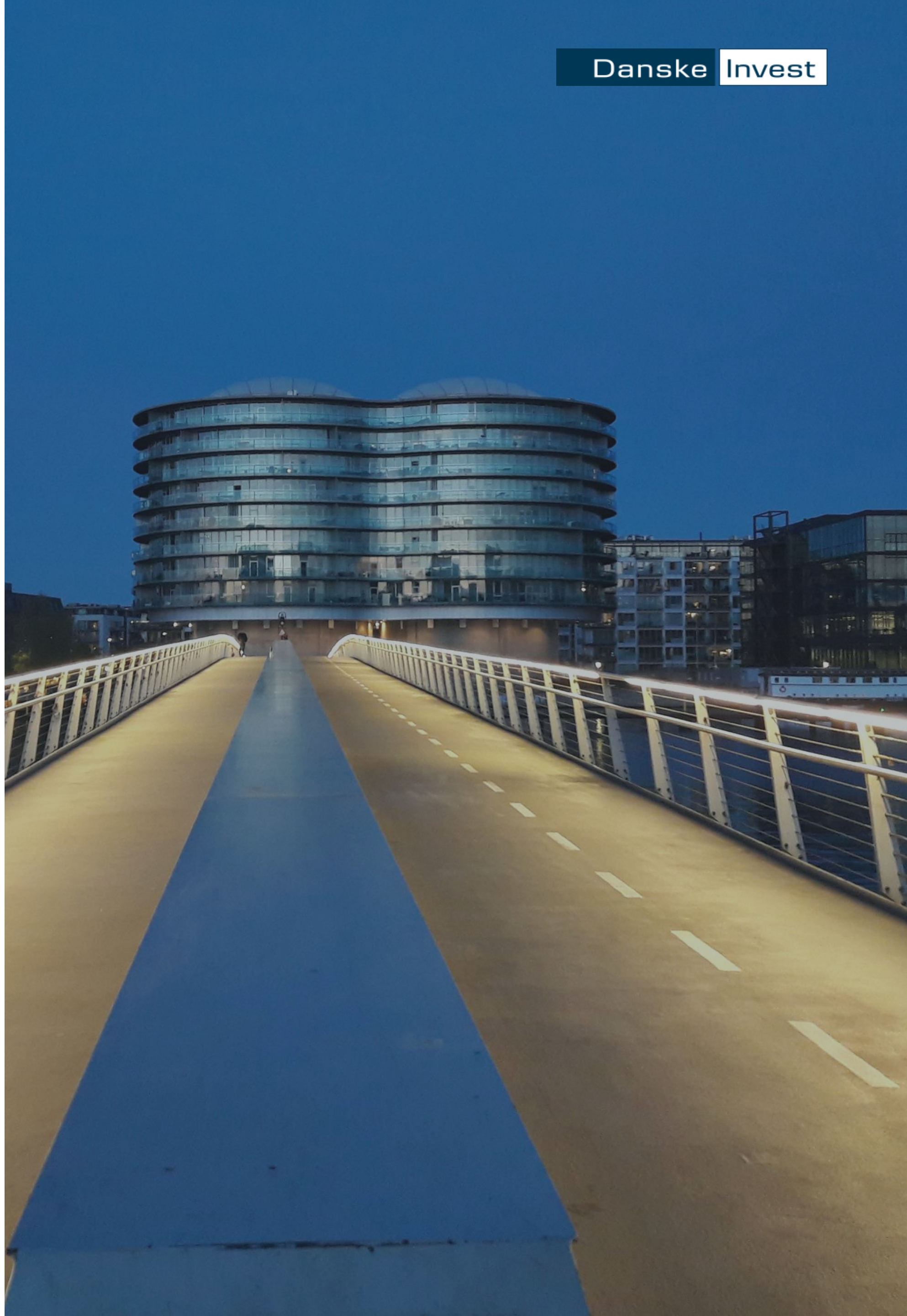
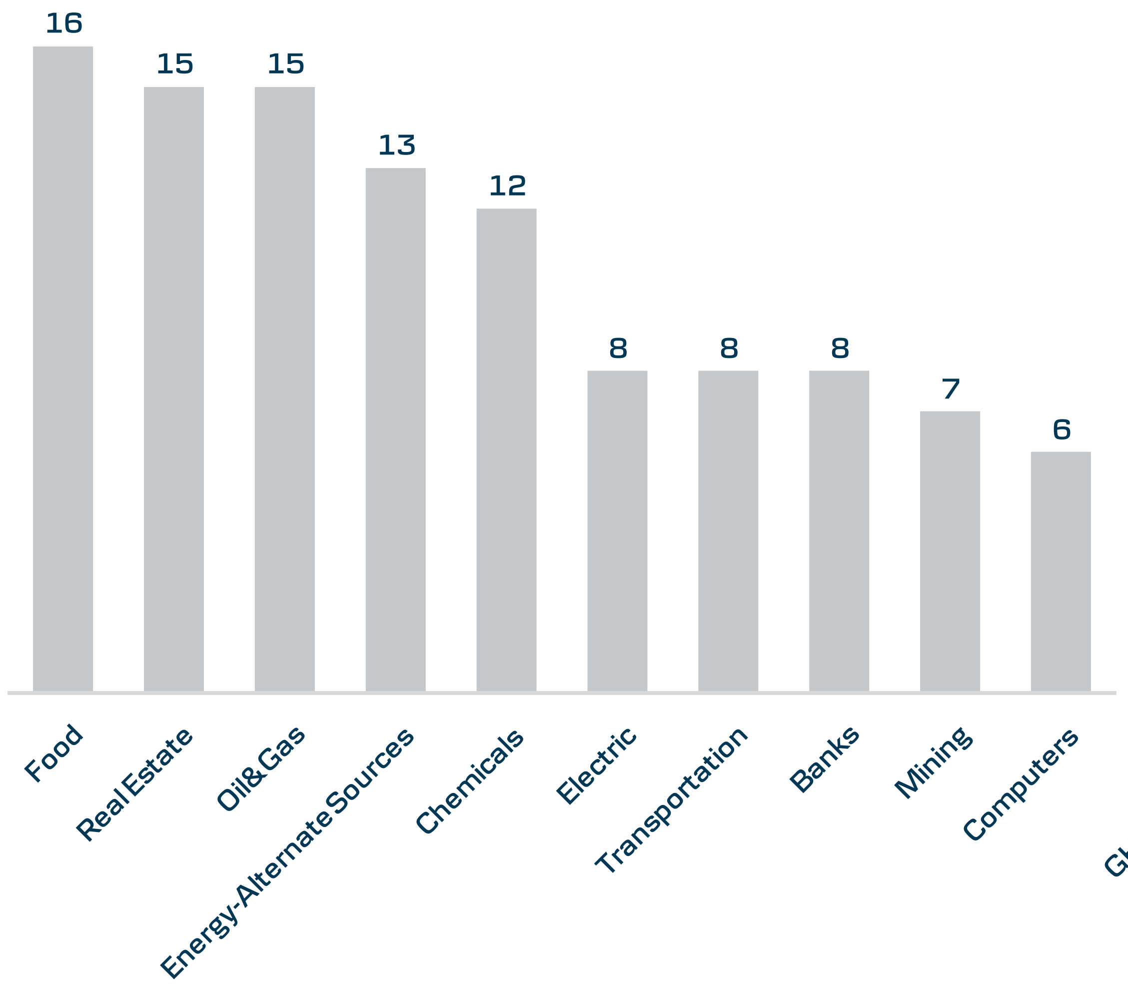
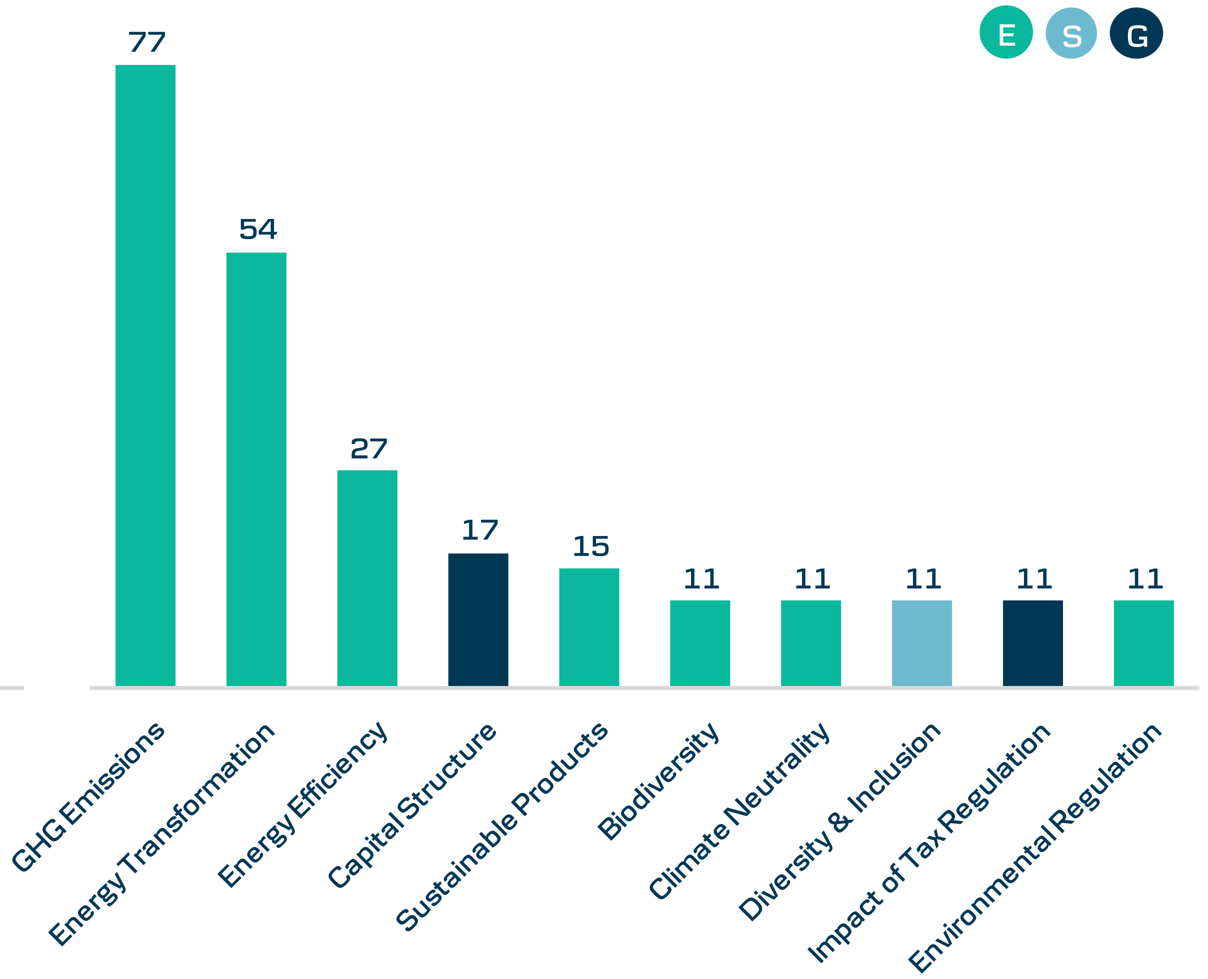


Our engagement activities in numbers

Top 10 industries engaged

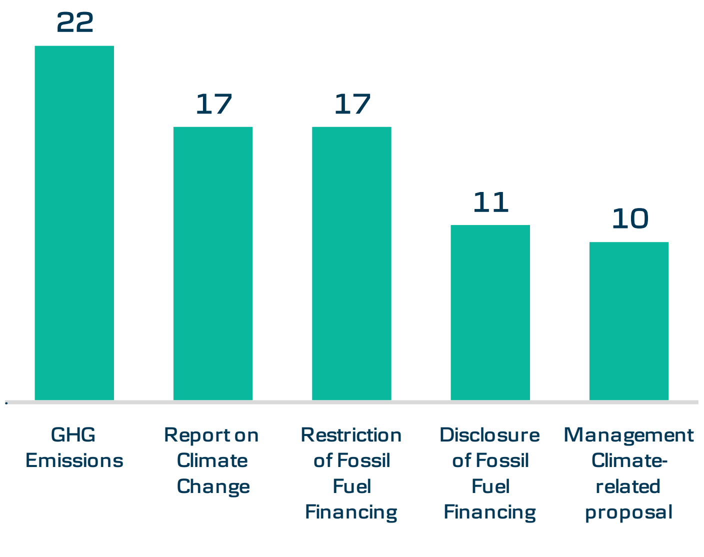


Top 10 ESG topics discussed

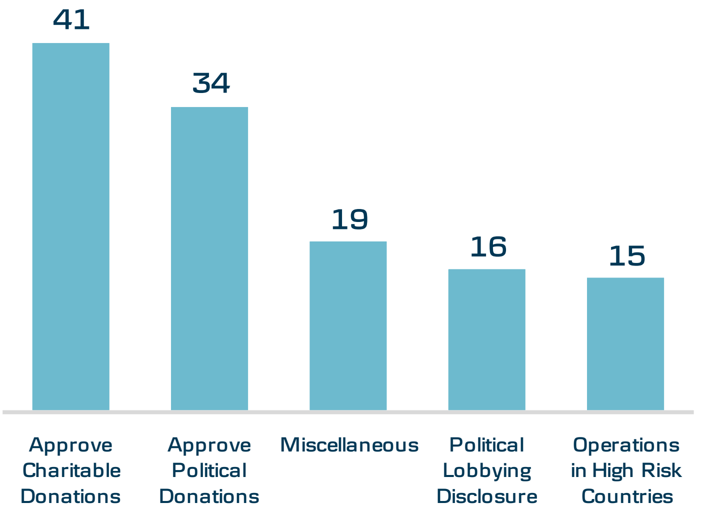


Our voting activities in numbers

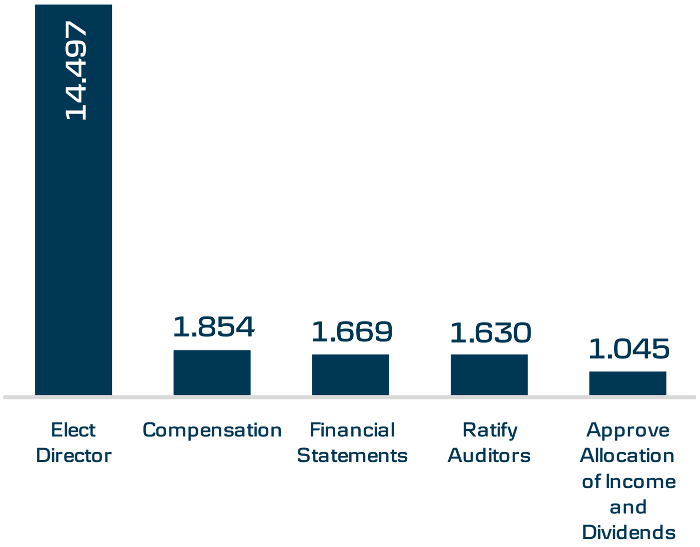
Top 5 – Environmental proposals



Top 5 – Social proposals



Top 5 – Governance proposals



Taking Action for Nature: Companies Urged to Safeguard Biodiversity

Danske Bank has committed to engaging in targeted dialogues with 30 major global companies to assist them in strengthening their efforts to minimize their impact on biodiversity and improve reporting in this regard. These new initiatives also aim to contribute to mitigating climate change.

Biodiversity and nature form the foundation of society, businesses, and people's well-being. However, nature face significant pressures as more and more animal species are being driven to extinction, and ecosystems and forests are being destroyed. This trend must be reversed as it could have severe negative consequences for society and the economy, leading to reduced living standards and increased poverty e.g. The World Economic Forum have estimated that over half of the world’s GDP is moderately or highly dependent on nature its services. Therefore, we aim to help companies improve their efforts in protecting and restoring biodiversity, which also safeguards the value of our customers' investments.

As a first step, we will engage in targeted dialogues with 30 global companies by 2025. The selected companies potentially have a significant impact on biodiversity and rely on natural resources for their business operations. Our ambition is to assist them in initiating actions such as setting goals to reduce their negative impact on biodiversity, adopting biodiversity policies, or providing greater insight into how they handle biodiversity aspects relevant to their business.

According to research from WWF, society is in the midst of a biodiversity crisis, and there is no time to wait for global agreements or better data to solve it. At Danske Invest, we urge companies to contribute to creating a balanced nature and be more transparent about their impacts and dependencies on biodiversity. We acknowledge that it is a complex and emerging area, but we want to help and influence companies to raise the bar in biodiversity efforts to protect our customers' investments and nature.

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As an asset manager we need more information about companies' work on biodiversity. This will enable us to support them in setting goals and implement initiatives to reduce their negative impact on biodiversity. Companies need to rethink how they use nature's resources because it might put their business at risk in the long term. Therefore, it is necessary for companies to take better care of nature, as it may secure the company's long-term future, which in the end may benefit the value of our investments while also slowing down the loss of biodiversity.

Tailored Initiatives

The 30 companies come from various industries such as energy, finance, food, clothing, transportation, and pharmaceuticals. With each company, we will discuss the actions they can take on a short or long-term basis, and together consider the current status and the knowledge and data that is available to support them and their efforts.

This may involve companies initiating or improving reporting on how their activities affect ocean or forest areas and how they manage and protect the essential natural resources required for producing goods or delivering services. It may also include setting initial biodiversity goals and implementing new measures or strengthening existing ones to restore the ocean and forest areas they impact and rely on. We will continuously follow up to ensure progress among the companies and support their biodiversity work.

Part of Our Green Focus

This initiative aligns with our commitment to invest in line with the Paris Agreement and have carbon-neutral investments by 2050. According to WWF, Biodiversity loss is closely connected to climate change, as plants, ecosystems, and animals play crucial roles in mitigating global warming, with forests, plankton, seaweed, coral reefs, and seagrass in oceans absorbing a significant portion of the world's CO2 emissions. Climate Change and biodiversity challenges must be tackled simultaneously, as it otherwise becomes difficult to curb climate change. Issues such as deforestation and the destruction of oceans must be halted. As an asset manager we can activate our influence to help protect biodiversity and accelerate sustainable development.

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Conducting the First Biodiversity Mapping for Nature and Investments

Last year in Montreal, the world's countries reached a historic agreement to halt the destruction of nature and biodiversity and restore it. A key element of the agreement is that companies and the financial industry should report on both their impacts and dependencies on biodiversity, which is rapidly disappearing today. Therefore, we have conducted the first mapping of biodiversity aspects for our equity and bond investments.

Society cannot function without biodiversity and healthy ecosystems because nature helps curb climate change and underpins half of the global economy. Therefore, companies must strengthen efforts to protect biodiversity; otherwise, nature might disrupt their supply chains. Declining biodiversity may be investment risk for some industries, with this mapping, we get an initial, comprehensive overview of how companies potentially impact different impact drivers leading to biodiversity loss, which can enable our engagements.

Measuring and Holding Accountable

It is essential to gain more knowledge and a better understanding of how companies interact with biodiversity throughout the value chain. The same applies to how they work to reduce their impact on biodiversity and protect the resources necessary for business operations. Active ownership plays a significant role in this regard, where through dialogue, we will encourage companies to improve their reporting, set goals, and enhance efforts to protect and address critical biodiversity aspects related to their business.

Target 15 of the Kunming-Montreal Global Biodiversity Framework encourage companies to regularly monitor, assess and transparently disclose their risks, dependencies and impacts on biodiversity, which we as an asset manager fully support as that can guide our investments. In our engagements, we, therefore, emphasize that companies must start mapping material biodiversity risks and prepare for upcoming requirements and reporting standards.

Our Nature-related Impacts and Dependencies

The analysis indicates that about 60% of our AUM have a potentially high or very high impact on various ecosystems and biodiversity through their direct operations. They particularly contribute to biodiversity loss through CO2 emissions, pollution, and overconsumption of natural resources.

We have also examined the extent to which investments depend on biodiversity and healthy ecosystems to produce goods and services. It is estimated that less than one-third of the investments have a potentially high dependence on natural resources such as water, trees, plants, and animals, as well as protection against storms and floods.

Biodiversity data is still immature and under development, this analysis is essential and will guide us in our further work. We will begin to start mapping the extent to which companies impact and rely on biodiversity and how they manage it. This includes everything from water consumption, CO2 emissions, waste and wastewater management to pollution, protection of coastal ecosystems, and raw materials. We will continue to build on this to better manage investment risks, set the right biodiversity requirements for companies, and establish goals that can help restore nature and support the green transition

Some of the focal points of the analysis are already being addressed today. For example, we are actively working on the green transition and have CO2 reduction targets, and recognize that reducing climate impact is crucial for minimizing biodiversity loss.

Sources: WWF, IPBES, COP15: Global Biodiversity Framework, Danske Invest: Nature Related Impacts and Dependencies

A Call for Action: Reshaping Plastic Consumption

Plastic pollution poses a significant threat to the environment, biodiversity, and the climate. This dangerous trajectory must be reversed. At companies such as Amazon, Burger King, Pizza Hut, and KFC, we stand behind proposals that mandate reporting on plastic consumption and setting targets to curtail plastic use and production. This proactive approach benefits both the environment and our clients' investments.

Plastic plays an integral role in society, by extending the lifespan of food and curbing wastage. It also finds application in healthcare, from masks and gloves to medical needles, safeguarding life-saving medications. However, plastic comes with grave repercussions for the climate, biodiversity, and the ecosystem. Single-use plastics, especially those that end up in nature, exacerbate the problem. Creatures ingest plastic, often leading to fatal consequences. Furthermore, microplastics infiltrate our food, plastic's production relies on fossil fuels, and it destroys crucial habitats for flora and fauna. The gravity of this issue is substantial. A staggering seven billion tons of plastic waste have been generated globally, with a mere 10 percent undergoing recycling, as per UN estimates. Consequently, we advocate for proposals presented at this year's general meetings. These call for businesses to reveal their plastic consumption and explore strategies for reducing plastic usage, thus securing their future. This initiative extends to major American corporations like Amazon, Dow Inc., The Kroger Company, Yum Brands (umbrella for KFC, Pizza Hut, and Taco Bell), and Restaurant Brands International (parent company of Burger King, Tim Hortons, and Popeyes).

Securing Business and Pension Assets

Companies must curb plastic production and consumption to align with upcoming stringent regulations and taxes. Global governments, united under the UNs' banner, are crafting a legally binding agreement aimed at compelling nations to combat plastic pollution. Preparation for these impending shifts is imperative to avoid potential economic consequences and failure to adapt promptly could jeopardize returns for our clients.

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We advocate for enhanced transparency in plastic consumption and production to better assess how heightened demands could impact corporate operations. Adaptation is crucial as more countries tighten regulations on plastics and seek eco-friendlier alternatives. Companies should aim to strategize and set goals, such as redesigning products and packaging to integrate more recycled plastic, fostering a circular economy. Furthermore, the development of environmentally friendly alternatives to plastic is imperative.

Strong Backing

A substantial percentage of shareholders—over 30 percent—endorsed these proposals at companies like Amazon, Dow Inc., and Yum Brands. This overt declaration of support is expected to compel companies to enhance their practices.

Impacts on Biodiversity and Investment Risks

Research from WWF shows that there is a direct correlation between the plastic issue and biodiversity loss, presenting both business and investment risks. When plastic infiltrates ecosystems through disposal or incineration, it contaminates and disrupts habitats for animals, forests, and land and oceanic flora. Additionally, the production of almost all plastic relies on fossil fuels, contributing to climate change and exacerbating the loss of biodiversity.

Plastic pollution strikes at the core of business operations at some companies and, by extension it may affect returns for our clients. It contributes to declining fish stocks, the extinction of plants and insects, potentially leading to a scarcity of pollinators like bees. This could increase the cost and complexity of food and medicine production. Thus, a strategy to minimize plastic consumption is essential to safeguard the natural resources underpinning businesses and economies.

Understanding the Plastic Challenge

Plastic is a versatile, robust, and adaptable material with numerous vital applications. It enhances food preservation and minimizes wastage and serves in healthcare, from protective gear to crucial medical tools.

Additionally, it substitutes carbon-intensive materials like steel and facilitates the transport of potable water to drought-prone regions.

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Nevertheless, plastic poses substantial challenges for the climate, biodiversity, and the environment, notably single-use plastics that culminate in nature rather than being recycled. Plastic particles have infiltrated marine species, from birds to mammals, leading to deceptive satiety and hindering nutrient absorption. Consequently, creatures consuming plastic may perish due to starvation. Moreover, animals often get entangled in plastic debris while foraging for food, leading to fatal consequences.

Plastic pollution introduces hazardous chemicals into nature, and toxic particles find their way into drinking water and the air we breathe. Coral reefs, seabeds, and mangrove forests suffer from suffocation and contamination, further jeopardizing vital ecosystems. Corals exposed to plastic react as if frostbitten, causing sickness and death. Furthermore, plastic production exacerbates global warming, with 99 percent relying on gas and oil, culprits of high CO2 emissions.

Sources: Minderoo Foundation, Global Plastic Action Partnership, UNEP, Videnskab.dk, Wrap, WWF, Alfred-Wegener Institut, UNEP, BBC, IPEN, International Tax Review, OECD.

Nature-related Voting Outcomes

Company	Proposal request	Our vote	Voting rationale	Support
Amazon.com	Report on Efforts to Reduce Plastic Use	FOR	Shareholders would benefit from increased information on this issue.	31.8%
Dow Inc.	Commission Audited Report on Reduced Plastics Demand	FOR	Shareholders would benefit from increased information on this issue.	30.2%
Restaurant Brands International Inc.	Report on Efforts to Reduce Plastic Use	FOR	Shareholders would benefit from increased information on this issue.	36.8%
The Kroger Co.	Report on Efforts to Reduce Plastic Use	FOR	Shareholders would benefit from increased information on this issue.	31.8%
McDonald's Corporation	Adopt Policy to Phase Out Use of Medically-Important Antibiotics in Beef and Pork Supply Chain	FOR	Company's current policy is not sufficient	16.3%
McDonald's Corporation	Comply with World Health Organization Guidelines on Antimicrobial Use Throughout Supply Chains	FOR	Company's current policy is not sufficient	18.4%
Yum! Brands, Inc.	Report on Efforts to Reduce Plastic Use	FOR	Shareholders would benefit from increased information on this issue.	36.4%
Constellation Brands, Inc.	Report on Support for a Circular Economy for Packaging	FOR	Shareholders would benefit from increased information on this issue.	25.1%
Royal Bank Of Canada	Report on Loans Made by the Bank in Support of the Circular Economy	AGAINST	The scope of the proposed reporting solution appears to be to broad.	10.81%
Icade SA	Approve Company's Climate and Biodiversity Transition Plan	FOR	The company's climate and biodiversity commitments and reporting are considered sufficient at this time	98.33%
The Kraft Heinz Company	Report on Supply Chain Water Risk Exposure	AGAINST	The company appears to be making sufficient progress on adressing water risk and provides adequate disclosures to shareholders.	7.83%

Danske Invest Push for Banks' Climate Plans

During this year's general meetings, we supported proposals that would mandate major American banks such as JPMorgan Chase and Goldman Sachs to develop plans for phasing out loans to new fossil projects and to create more detailed climate action plans. Additionally, in collaboration with other investors, we successfully engaged with other investors the French bank BNP Paribas to cease their direct financing of new oil and gas projects.

The reduction of corporate climate impact requires substantial investments in climate technologies and renewable energy, amounting to billions of dollars. A significant portion of these funds must come from the financial sector. Thus, it is crucial for banks to set ambitious goals and concrete action plans to phase out loans for CO2-intensive activities while increasing funding for climate initiatives in the companies they support.

Notably, we have observed that North American banks have not adequately developed plans for these purposes, particularly among banks like JPMorgan Chase, Morgan Stanley, Citi Group, Wells Fargo, Bank of America, and Goldman Sachs, where we have investments. In such cases, we took a stance against the board's recommendations and supported several proposals at their general meetings to encourage them to enhance their climate strategies.

Investors push for clear climate action

Among other measures, we endorsed proposals that called for banks to create a phase-out plan to stop financing companies involved in new fossil projects. We also supported proposals urging banks to present more detailed plans to achieve their 2030 climate goals and to set absolute CO2 reduction targets for their loans in the energy sector, aligning with the climate objectives of the Paris Agreement.

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Sources: Europa-Kommissionen, Corporate Knights, Accenture, ShareAction, McKinsey, Banking on Climate Chaos.

A persistent push with positive trends

Although the proposals were not adopted, there was generally more support for climate-related proposals this year compared to the past, indicating a positive trend.

American and Canadian investors that own nearly 90 percent of shares in most banks, have historically shown slow progress on climate issues. The increased support for climate proposals is encouraging, and we will continue to support this momentum. Transforming North American banks will take time, but the billion-dollar green aid package, the Inflation Reduction Act, might provide them with more incentive to shift their lending towards greener options, tapping into the growth potential of climate technologies and renewable energy, thereby reducing their financed emissions.

Maintaining pressure on the banks is vital, as evidenced by instances where boards adopted climate proposals despite not securing a majority at general meetings. Persistent active ownership can yield results, as seen with BNP Paribas, where we, along with other investors and the NGO ShareAction, exerted pressure over time, leading the bank to commit to phasing out parts of its financing for fossil projects in 2023.

With the new development BNP Paribas is taken steps in the same direction as HSBC, which tightened its lending requirements to energy companies earlier this year. Within the investor group we are also in dialogue with other major banks like Societe Generale and Barclays, aiming to stop financing new oil and gas projects in line with the International Energy Agency's recommendations.

Nordic banks are ahead

Nordic banks have largely set more ambitious goals and action plans compared to the rest of the world. As a result, we did not support climate proposals at this year's general meetings for banks like SEB, Swedbank, and others.

Nordic banks recognize the importance of reducing CO2 emissions from their loans and investment business, making it a crucial aspect of their operations. As an investor we do not support overly far-reaching and restrictive proposals that hinder their ability to conduct business and help customers from various sectors become more climate friendly. Although there's room for improvement, we acknowledge their strategies demonstrate progress towards the objectives identified.

See how we voted here

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The green dilemma for banks

The green transition necessitates significant investments, with the EU estimating an annual need for 180 billion euros from the private sector to achieve its climate goals. Banks play a pivotal role in this transition, providing loans to companies essential for green initiatives. However, banks also lend to sectors like the fossil industry, financing oil and gas projects.

This presents a dilemma as society still depends on oil for fuel, heating, and everyday products. On the other hand, banks and the fossil industry must transition to green alternatives to combat climate change. Failure to do so may have substantial economic consequences.

We engage in discussions with banks we invest in, with some already having clear and ambitious climate plans. While we recognize that several banks are not far enough along and lack plans to reduce CO2 emissions financed through loans to companies, our focus is to support banks in their transition. We achieve this by voting at general meetings and engaging in direct dialogues with the bank's leadership. Our goal is to influence banks to commit to becoming climate-neutral and setting CO2 reduction targets for their loans and investments.

Our Role in Shaping the Oil and Gas industry

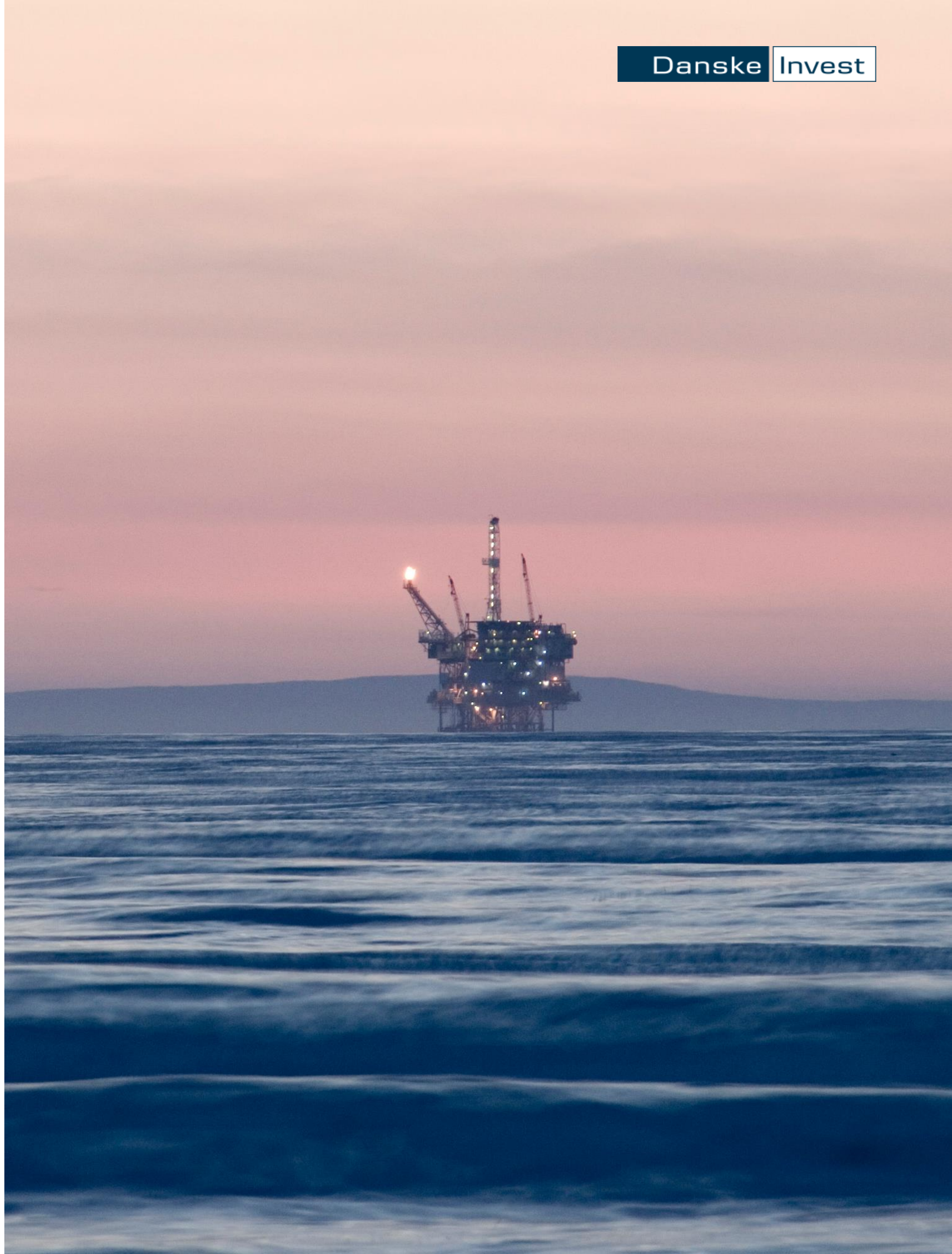
Society's transition away from fossil energy is inevitable, and companies must proactively prepare and participate in this crucial shift. Over the course of the year, we have been engaging in extensive dialogue with some of the world's major energy corporations to communicate these expectations and to encourage companies to strive for more ambitious climate plans.

We recognize that through our active ownership activities, we have the ability to influence companies in their approach and prioritization of the green transition. As investors in these companies, which are seeking to secure access to capital for their operations and development, we are provided with an opportunity to discuss these plans alongside their climate transition strategy. Indeed many companies have also come to appreciate that they may struggle to attract additional investors and capital if they are unable to demonstrate how they are future-proofing their operations. Our perspective on the importance of demonstrating preparedness for the impacts of climate change in these individual engagements are further reinforced through the collaborations that we have with other global investors. For example, we participate in networks like Climate Action 100+, where collectively we raise this issue with the largest corporate greenhouse gas emitters.

Energy crisis and the Ukraine war continue to shape the dialogue

Throughout 2023, we have placed significant focus on the energy sector, engaging in dialogues and voted on the annual general meetings with major global energy corporations, including Total, Shell, BP, and Chevron.

The energy crisis and the conflict in Ukraine continues to loom large in our conversations with these companies. The energy market disruption and its impact on the green transition are undeniable as energy corporations boosted fossil fuel production to compensate for the loss of Russian oil and gas and in order to stabilize the economy. Simultaneously, surging oil prices incentivized investments in oil over renewable energy. This resulting crisis has presented challenges to the industry's short-term transition and introduced new complexities for investors to navigate.



While we recognise the challenges from the energy crisis and the need to reduce reliance on Russian oil, we must nonetheless continue to make progress in our efforts to address climate change. We take note that companies are at different stages, and continuously monitor their progress towards their climate goals and encourage them to increase their ambitions and align transition plans with the recommendations from the International Energy Agency.

We have implemented more rigorous measures

In 2023, we continued to underscore this perspective at the annual general meetings of several major energy corporations. We supported ambitious climate plans and voted against inadequate ones and our message to energy companies has been clear: in line with the recommendations from the International Energy Agency, halt the development of new oil projects and increase investments in renewable energy to ensure a viable future business.

But our unequivocal approach has not been limited to annual general meetings. In 2023 we chose to support Client Earth in their efforts against Shell by signing a letter challenging the climate efforts of Shell. Client Earth will through court challenge Shell's board for failing to adequately protect shareholders' and the company's long-term interests by not adopting a sufficiently ambitious climate plan, and thereby potentially leading to a decline in Shell's long-term value. The lawsuit, in parallel with our engagement with the company, seeks to compel the board to develop a credible climate strategy in line with the Paris Agreement's goals.

Demand-side, banks, and legislators must play their part

The transition of the energy sector is multifaceted and riddled with dilemmas. Striking a balance between ensuring energy security for a global society, where over 80 percent currently relies on fossil fuels, and transitioning to a green economy to combat climate change poses unique challenges. Although not a linear path, we firmly believe that active ownership is the most effective way towards a greener future that benefits both society and our customers. Given the scale of the challenge, we recognize the importance of addressing the dependence and demand for oil and gas across industries and stakeholder groups. Therefore, in exercising active ownership, we have been engaging not only with oil-consuming companies but also with banks, which finance energy corporations involved in the expansion of production and legislators.

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In addition to the dialogues that we have held with several energy-intensive companies, that are reliant on oil in their production or products, we have engaged with major global banks that have been involved in supporting the expansion of activities by financing oil and gas corporations that have not demonstrated a credible transition strategy. During this year's annual general meetings, we supported proposals requiring major American banks like JPMorgan Chase and Goldman Sachs to outline plans for phasing out loans to new fossil projects and developing more comprehensive climate strategies. Our joint efforts with other investors, successfully led the French bank BNP Paribas to discontinue direct financing of new oil and gas projects. As investors, we take into consideration the regulatory environment that our investments are operating in and also seek to further our understanding of the plans that legislators adopt to align with the Paris Climate Agreement and to address the global over-reliance on fossil fuels. As one example of this, together with other asset managers we requested a meeting with the Norwegian government, which holds a majority stake in Equinor, to gain further insight into their climate approach and how we, as fellow albeit minority shareholders, could also support Equinor in further aligning its strategy to a 1.5-degree Celsius temperature pathway.

[See our votes here]

Sources: IEA, CA100+, Client Earth, EESI

What do we expect from energy companies?

Our expectations and evaluations of company climate plans are based on independent and research-based recommendations and criteria from organizations such as the International Energy Agency, Climate Action 100+, Institutional Investors Group on Climate Change, Net-Zero Asset Owner Alliance, and Transition Pathway Initiative. These organizations set forth a series of demands and scenarios for how companies should transition over time to support the goal of achieving a carbon-neutral society by 2050.

We continuously engage with companies to discuss progress on their climate goals, dilemmas, and whether they should raise their level of ambition. This dialogue and the company's demonstration of their preparedness will also influence how we will choose to vote at the general meeting.

Examples of our expectations:

- Ambitions for carbon neutrality should cover scope 1 and 2 emissions (the energy industry should include scope 3 emissions).
- Short, medium, and long-term $CO2$ reduction targets should follow the recommendations of the International Energy Agency.
- The company's investments in maintaining and developing the business should contribute to reducing its $CO2$ emissions.
- Executive remuneration should be linked to the company's climate performance.
- Reporting should include scope 1, 2, and 3 $CO2$ emissions and explain how short, medium, and long-term $CO2$ reduction targets will be met.
- Reporting should include the business's impact on climate-related risks caused by the green transition and explain how these risks are managed.

Rising Concerns: Addressing the Rise in Anti-Sustainability Sentiment in America

In the USA, there has been an increase in proposals at company annual general meetings that aim to oppose the sustainable agenda. We challenge that, as we believe that companies should contribute to the overall sustainability agenda such as green initiatives or increased diversity to be attractive investments and generate returns for their customers.

In recent years, a countermovement has emerged in the USA, with the ambition of urging companies and the financial industry not to consider ESG (environmental, social, and governance) factors. For instance, some American states like Texas, Kentucky, or West Virginia have blacklisted banks they believe are working against the oil industry. North Dakota, Florida, or Kansas have also passed laws prohibiting the use of state funds or employee pension savings in ways that consider ESG aspects.

Responsibility: a prerequisite for being attractive investments

This trend has also gained strength at this year's general meetings of American companies. The number of so-called anti-sustainability proposals has increased by about 60 percent from 2022 to this year, according to the report "Proxy Preview," which is backed by three recognized sustainability organizations. The proposals did not receive support; however, they aim to persuade companies to abandon climate initiatives or measures promoting diversity and inclusion. Some of the proposals also claim that social media platforms are conflicting with the American Constitution when they moderate content with misinformation and hate speech or that anti-racism initiatives foster increased racism.

These types of proposals were discussed at the general meetings of companies such as Home Depot, Apple, JPMorgan Chase, Chevron, Facebook, and Ford, and we voted against the proposals.

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We believe that companies should contribute to the overall sustainability agenda and aim to create diversity and inclusion in the workplace and reduce their carbon footprint. We believe that can create attractive long-term investments. Besides being based on sound values, we believe that these aspects are essential for their ability to recruit qualified labour, foster innovation, and future-proof their businesses for a greener economy. Voting against these proposals is a way for us to protect our customers' investments.

The debate in the US has taken a turn where some actors use ESG (environmental, social, and governance) to promote certain values that do not align with our investment approach. For us, ESG is primarily about facts and the business implications of how companies manage both ESG risks and opportunities.

Positive for the bottom line, investments, and society

One of the rationales behind these proposals is that a focus on climate, diversity, or equality will harm companies' bottom line and growth prospects, leading to a decline in the overall economy and living standards. However, we disagree with this interpretation.

On the contrary, it is a significant risk if companies do not focus on climate, social aspects or sound corporate governance. It requires a healthy climate and environment for companies to conduct business, and if they do not consider that, it will indeed impact their bottom line. Therefore, our focus is to encourage companies to run a sound economical business and work as ambitiously as possible with sustainable aspects, as we believe that the most attractive companies from an investment perspective are those that engage in sustainable practices and contribute to driving the green transition—not the opposite.

Sources: Proxy Preview, Harvard Law, New York Times, Harvard Law, RI - Responsible Investor, Energy Monitor, The Observer.

Remuneration Packages for Effective Management

Establishing appropriate remuneration levels for corporate management and board members, free from undue financial interests, while integrating Environmental, Social, and Governance performance metrics, constitutes pivotal factors for ensuring the vitality of companies. Throughout this year's voting season, compensation has once again emerged as a central focal point during annual general meetings.

Competitive remuneration and bonus structures may be effective tools in attracting and retaining proficient competencies within a company's board of directors. However, the challenge lies in crafting remuneration packages that align with the company's best interests and simultaneously hold global appeal, particularly for companies within Denmark.

The issue assumes significance when delving into discussions about remuneration structures and incentive programs with Danish enterprises. It annually materializes as a topic for debate and decision-making during the general meetings. A fundamental principle guiding our stance is that a justifiable connection should exist between remuneration packages and the value generated for the company. The compensation accorded to a management member must inherently mirror the level of responsibility, competitive landscape, and value creation within the organization. While nuances may arise from sector to sector and geographical distinctions, the overarching emphasis should be on setting reasonable remuneration standards that not only attract international competencies but also nurture the development of Danish companies.

In contrast to countries like the UK or the US, where lofty remuneration packages tied to specific performance targets are prevalent, the Nordic region, in general, steers away from such models. We maintain a steadfast stance against adopting this compensation framework for Danish companies. Instead, we advocate for fixed fees for board members, thereby decoupling their financial interests and incentive structures from the company's financial targets or stock prices at any given point.

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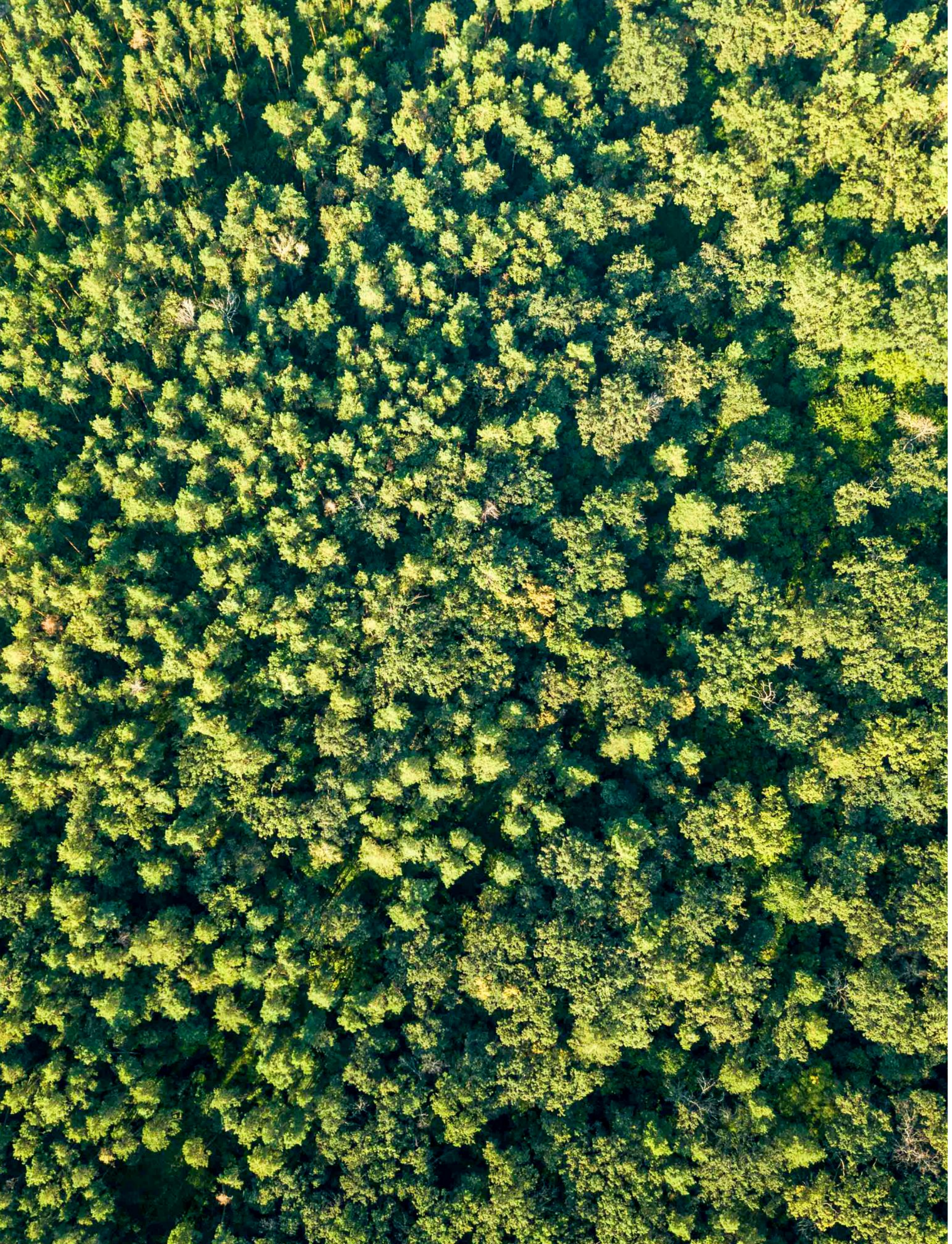

Danske Invest

Maintaining a clear demarcation between the board and the executive management team is indispensable. Equally important is the board's capacity to function as an independent bulwark. A precarious situation may arise if a board member holds a personal financial stake in incentivizing the management to embrace higher risks for the sake of achieving short-term goals. This approach might jeopardize the company's long-term prospects, a scenario we strive to avert. The principal functions of the board encompass overseeing and controlling the executive management team, ensuring they refrain from unwarranted risk-taking and pursuit of immediate profits.

In the context of this year's voting season, our stand was evident as we voted against management decisions at 20 Danish companies concerning compensation matters. The instances ranged from advisory votes on the approval of remuneration reports to amendments in the company's remuneration policies. For instance, during the annual general meeting of Rockwool, our dissent was directed at the remuneration report, which lacked transparency. The absence of adequate disclosure concerning short-term incentives and the lack of performance conditions tied to the long-term incentive plan made us vote against the remuneration report.

Similarly, in the case of Genmab, a Danish Biotechnology company specializing in antibody therapeutics, we opposed proposed amendments to the remuneration policy, which aimed to significantly elevate the cap under the long-term incentive plan to 6 times the base salary. Our dissent was rooted in the lack of substantial justification for this notable increase, especially considering the company's existing remuneration package already exceeded that of European peers. Our steadfast commitment is grounded in safeguarding the interests of shareholders and clients.
Integrating ESG Performance Metrics into Compensation Structures

Integrating ESG Performance Metrics into Compensation Structures

Our advocacy extends to encouraging companies to incorporate ESG-related performance metrics into their compensation frameworks. We firmly believe that embedding ESG performance metrics holds the potential to enhance shareholder value by incentivizing companies to intensify their dedication to sustainability. Moreover, when implemented thoughtfully and effectively, this integration can foster heightened accountability concerning sustainability-linked performance across management tiers.

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Advancing Corporate Governance and Climate Responsibility through Voting

Each year before the voting season, we refine our voting guidelines. These guidelines steer our voting decisions throughout the year. Among the pivotal updates for the voting season 2023, our focus has been the elevation of our expectations and prerequisites for company boards regarding board diversity as well as climate disclosures. Our steadfast belief in the potential of diverse boards to drive better decision-making and governance fuels our stance to vote against boards lacking sufficient diversity. Simultaneously, this year, we've intensified our scrutiny of board accountability and their pivotal role in overseeing a company's response to climate change. The ability of boards to comprehend how sustainability, particularly climate change, impacts a company's risks and business prospects has become indispensable.

Research from Harvard Law School on Corporate Governance found that a diverse board reaps many advantages for companies, including improved decision-making, heightened innovation, and more robust corporate governance. Research underscores that board members with diverse backgrounds and experiences naturally bring various perspectives, ultimately leading to enhanced decision-making and better outcomes for the company. This, in turn, benefits us as investors and serves our clients' interests. It is precisely for this reason that we advocate for boards to be composed of members with a spectrum of competencies, tailored to the company's operational nature and developmental stage. Many studies, have show that gender diversity also plays a pivotal role in shaping efficient boards. On a global scale, regulatory bodies are taking steps to dismantle existing barriers to gender equality in leadership and employment. In Europe, the European Parliament's formal adoption of the new EU law mandating gender balance on corporate boards is a good example of that. This legislation stipulates that by 2026, companies must have a minimum of 40% non-executive directors or 33% directors from underrepresented genders. Reflecting our commitment, Danske Invest's voting guidelines are aligned with this expectation, requiring at least one-third of shareholder-elected directors on the Board of Directors to be of an underrepresented gender.

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It is noteworthy that regulators globally have already set forth propositions for the inclusion of ESG-related performance metrics within remuneration frameworks, both through soft and hard legislation. This paradigm shift is particularly evident in initiatives such as the EU Sustainable Corporate Governance, signaling the need for companies to proactively adapt to these evolving standards.

Nevertheless, a balanced approach to structuring and implementing ESG-related performance metrics is imperative. When short-term financial incentives become entwined with ESG performance, a propensity for short-term risk-taking might emerge, potentially undermining the long-term sustainability vision we aspire to cultivate. It is incumbent upon companies to explain and define how ESG performance metrics directly contribute to the broader business strategy, long-term objectives, and overall sustainability trajectory. Notably, the Danish brewer Carlsberg has been implementing ESG performance metrics for a while. The company has incorporated ESG metrics, encompassing aspects like carbon footprint reduction, water waste elimination, and diversity and inclusion targets, into their long-term incentive scheme. In the context of their annual general meeting, we supported the updated remuneration policy due to our belief in the alignment of these ESG performance metrics with the company's strategic vision and long-term sustainability objectives. Ultimately, such measures stand to benefit us as investors, as well as our clients. This stance was resoundingly echoed by the shareholders of Carlsberg, with a significant majority of 99.5% endorsing the revised remuneration policy.

In conclusion, the trajectory of effective remuneration packages for management teams and board members demands attention, guided by principles that prioritize the company's health, long-term interests, and accountability. Integrating ESG performance metrics within compensation structures offers a promising avenue for both advancing sustainability objectives and enhancing shareholder value. Our commitment to these principles remains as we navigate the ever-evolving landscape of corporate governance and remuneration.

At the annual general meetings of companies like BMW AG, Renault SA, Alfa Laval AB, Boliden AB, Deutsche Bank AG, and Mercedes-Benz Group AG, among others, we've voted against directors when the board fell short of our 33% gender diversity threshold. In some cases, we may abstain from voting against the nomination committee chair if the company complies with the board diversity standard at the annual general meeting or if the company commits publicly to complying within a year. Despite our 33% gender diversity target, our advocacy extends to advocating for equal gender representation at the Board and executive levels. Hence, we may endorse proposals aiming to enhance disclosure on gender pay gap ratios and measures fostering gender equality.

Climate Disclosures: Our Commitment to Transparency and Accountability

The merits of climate disclosures resonate profoundly from both a corporate and investor standpoint. Companies stand poised to fortify their competitive edge by embracing transparency beyond their competitors. This not only cultivates a broader clientele but also fosters unfettered access to capital. By fostering transparency, companies can also forge a bridge of trust, effectively addressing the mounting environmental concerns that echo within the public sphere, thus bolstering and refining their reputation. Climate disclosures are also a way for companies to uncover risks and opportunities that would otherwise be overlooked and finally, companies that are already disclosing their climate efforts will enable them to get ahead of regulation.

However, climate disclosures do not merely hold significance for companies; they are also of importance for us as investors. As we invest in companies where climate change is a material risk, it is pivotal that companies can demonstrate their understanding of the link between climate change and the financial impacts to its business. Questions surrounding how a company adapts to evolving regulations, navigates through the maze of physical climate change risks, and harnesses the opportunities arising from the green agenda all factor into our investment strategy.

Our conviction hinges on the notion that all companies in which climate change is a material risk should articulate their endeavors to mitigate and combat climate change, aligned with robust governance.

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Specifically, companies are expected to demonstrate that they understand, assess, and mitigate risks related to climate change. We advocate for adherence to the framework by the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD's structured framework empowers companies to disseminate information encompassing board governance strategies, corporate roadmaps, risk management evaluations, quantifiable metrics and objectives, and greenhouse gas (GHG) emissions reduction targets.

Admittedly, the journey towards complete transparency can sometimes be obstructed, as some companies exhibit reticence in sharing their full spectrum of climate-related initiatives. However, through our active ownership activities, we engage with these companies to step up and urge them to disclose their climate efforts. Among our arsenal of influence, our voting activities, particularly during the voting season, stand out as a tool for advancing transparency.

Holding boards accountable

At the annual general meetings of notable companies such as Chevron, BP, Shell, TC Energy, Toyota Motor Corp, Valero Energy, Woodside Energy Group Renault SA, Kinder Morgan, Occidental Petroleum, we have demonstrated our commitment by holding boards accountable for insufficient oversight of climate risks and opportunities, as well as shortcomings in demonstrating transparency. Our approach extends to voting against incumbent directors who bear the responsibility for climate-related decisions. In some cases, we have also voted against remuneration reports or amendments to the remuneration policy and climate action reports if climate change was not sufficiently addressed. This targeted approach primarily addresses companies with a substantial greenhouse gas emissions footprint, whether within their operational aspects or value chains.

In conclusion, our view and approach to climate disclosures is deeply ingrained in our mission to uphold transparency, accountability, and the highest standards of environmental stewardship.

Sources: Harvard Corporate Governance, EU Directive 2022/2381

Danske Invest

More information on our voting activities?

View all our votes

On our voting platform, we continuously disclose how we vote on proposals at general meetings.

View our voting guidelines

Our voting guidelines sets out a number of principles that guide how we vote on proposals at general meetings.

Voting explained

As an asset manager, Danske Invest use our voting rights to voice our opinion at the general meetings of companies we invest in. We vote either for or against proposals with the purpose of ensuring that companies are able to create long-term value and mitigate sustainability risks and minimise negative impact on society.

The overall guiding principle is to improve and protect customer investments. The guidelines address, for example, how we vote on financial matters, the remuneration of the board of directors, the capital structure and shareholders' rights.

There are also a number of guiding principles for how we vote on proposals relating to ESG aspects with the objective to reduce sustainability risks and minimise the companies' negative impact on sustainability issues in society. Such ESG aspects include CO2 emissions, energy efficiency, gender diversity, use of renewable energy, biodiversity, water and sanitation, employee conditions and human rights, child labour, and anti-corruption.

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Danske Invest
Parallelvej 17
DK-2800 Kgs. Lyngby, Denmark
Company reg. no.: 61 12 62 28
Tel. +45 45 13 96 00
Fax +45 45 14 98 03
https://danskebank.dk/asset-management