

## Policy for Responsible Investments at VILLUM FONDEN and VELUX FONDEN

### Introduction

The overall target for managing the financial resources of the foundations<sup>1</sup> is to ensure the highest possible risk-adjusted yield, so that the foundations will be able to allocate as many financial resources as possible for philanthropic purposes. We believe that is supported by pursuing responsible investments, and we manage our endowment according to this conviction.

### Targets for responsible investments

This policy describes how we seek to ensure that our investments are 'socially responsible' (in the following simply referred to as 'responsible'). Responsible investments can contribute positively to solving important societal challenges as well as fulfilling global goals for sustainable development. Moreover, responsible investments can contribute to further a positive development in such areas as human rights, workers and industrial relations, the environment, the climate and anti-corruption<sup>2</sup>.

We seek to ensure that our investments are responsible by making a number of demands on ourselves and on our investment managers and by being active owners. Our policy is inspired by the Danish Ministry of Industry, Business and Financial Affairs' *'Guidelines for Responsible Investments'* (2018) and the OECD's *'Responsible Business Conduct for Institutional Investors'* (2017).

### The foundations

The foundations continuously seek to ensure that as large a share of the funds as possible is invested with a distinct focus on social responsibility while at the same time paying attention to the overall objective of ensuring the highest possible risk-adjusted yield, and as a core indicator for this we apply the UN Global Compact (UNGC). UNGC is based on the so-called ESG factors<sup>3</sup>, which among other things set requirements for workers' rights, environmental responsibility, governance as well as observing human rights.

We continuously classify our investments in an Investment Spectrum where we evaluate the degree to which social responsibility and ESG factors are included in the investment decisions. The classification is evaluated continuously since the area of responsible investments is developing rapidly and since the evaluation is based on an manual appraisal. The positioning of our investments in the Investment Spectrum is reported regularly to the foundations' Investment Committee and Boards, just as we continuously assess the possibility of increasing the degree of social responsibility of the investments while constantly taking into consideration the overall goal of generating the highest possible yield.

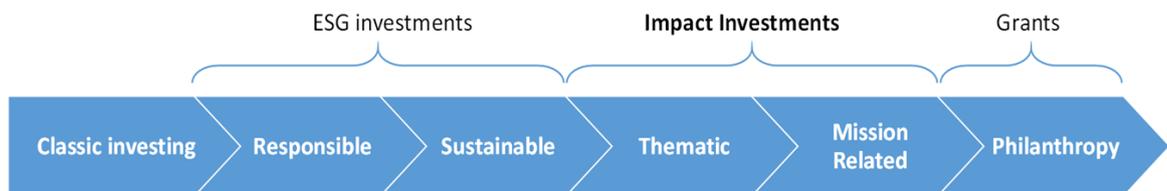
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<sup>1</sup> This present policy does not cover VILLUM FONDEN's strategic investment in VKR Holding.

<sup>2</sup> The areas mentioned are highlighted in the Danish Ministry of Industry, Business and Financial Affairs' guidelines. OECD describes the area 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.'

<sup>3</sup> E = Environmental impacts, S = Social conditions and G = Governance.

## Investment Spectrum



The foundations focus sharply on combating climate changes. Therefore, it is our long-term goal that all portfolio companies must comply with the Paris Agreement, and through an external adviser we are in dialogue about this with the world's biggest emitters of greenhouse gases and owners of fossil reserves<sup>4</sup>. In addition, we have signed a "Divest-Invest" declaration that obliges us to attempt to limiting our fossil fuels exposure to approximately 1% at the most and to less than 0.5% for coal by 2020. Finally, before 2020 the foundations have decided to allocate 10% of the long-term invested resources to green, environmentally sustainable investments. These investments contribute to combating climate changes and to increasing resource efficiency for instance by production of renewable energy, increased energy efficiency as well as development new green technologies.

Furthermore, our portfolio companies must comply with international agreements about controversial weapons and nuclear weapons. Refer to the Appendix for a short description of the Investment Spectrum, the UNGC and the Paris Agreement.

We keep informed about new developments within responsible investments, and we continuously assess whether we need to adjust our policy. As an example, an increasing number of investment managers have launched new investment products that address the Sustainable Development Goals (the 'SDGs'), and we continuously evaluate the relevance of these and of other new investment products. The foundations have drafted a separate Tax Policy that describes our extensive work to ensure that we observe the current legislation in the area. This Tax Policy is accessible to the general public on our website.

### Investment managers

The majority of our investments are made via mandates managed by external investment managers. This limits our influence on the selection of the portfolio companies. In addition, we cannot vote at the portfolio companies' Annual General Meetings as we are not the actual owners of the portfolio companies' shares. We therefore ensure that our investment managers are familiar with this Responsible Investment Policy. Prior to new investments we make sure that we have a good understanding of the investment managers' approach to responsible investments and that the approach is compatible with our policy. In case the investment manager does not act according to our expectations, we enter into dialogue with the investment manager. We expect that the investment

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<sup>4</sup> We use the list 'Top 100 climate change contributors' to identify portfolio companies we engage with.

manager is open to an ongoing dialogue on the overall approach to the area and to specific investments. If an investment manager makes investments that violate our policy, the final consequence could be that we choose to discontinue our collaboration. We continuously work to identify investment managers with a strong focus on producing attractive financial yields and making responsible investments.

### Active ownership

We are active owners in relation to our investment managers as mentioned above. Moreover, we continuously screen whether any existing portfolio companies comply with our policy of responsible investments, and when portfolio companies do not live up to our guidelines, we enter into a dialogue with them through an external consultant.

### Screening and commitment

Twice a year we screen our listed equity and bond investments for compliance with the UNGC, the Paris Agreement and international agreements on controversial weapons and nuclear weapons. We use an external consultant and a leading supplier of ESG data for this.

If a company violates the UNGC or does not live up to the Paris Agreement<sup>5,6</sup> according to our consultant, our external cooperation partner enters into dialogue with the company. So far our experience shows that the number of companies with violations is fairly constant, and we believe it is not realistic to reduce the number of violations to zero since violations of the UNGC in big, listed companies with global and complex value chains occur and are being solved regularly.

The duration and the nature of the dialogue depends on the violation and of how the portfolio company works to solve the problem. Most companies willingly enter into dialogue, and many companies work seriously at problem solving, but in certain cases a company fail to comply with our guidelines. If that happens over an extended time and if we are of the opinion that the company makes no progress at solving the problem, we may escalate the dialogue to a higher organizational level, and as a last resort we may choose to ask the investment manager to sell the company. However, according to our experience a sale is rarely necessary, and we prefer having a dialogue with the company rather than divesting from it. If the investment manager does not want to sell the company, we can choose to terminate the mandate.

### Voting policy

Most often the foundations cannot directly vote at the general meetings of the portfolio companies as we invest through investment managers<sup>7</sup>. However, the foundations can recommend that the

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<sup>5</sup> It is not a demand that the portfolio companies have acceded the UNGC. There is no unambiguous way of deciding whether a company complies with the Paris Agreement, and it is therefore our external consultant who identifies what portfolio companies we engage with in this area.

<sup>6</sup> To ensure focus we do not enter into dialogue with companies that violate international agreements on controversial weapons and nuclear weapons.

<sup>7</sup> In certain cases, it is possible to vote in connection with discretionary mandates. Normally voting rights are laid down in the management contract, but due to the foundations' limited investment amounts it is often difficult to persuade the investment manager to transfer the voting rights to the foundations.

investment managers vote, e.g. as part of an escalation of the dialogue. In June 2019, the EU will introduce a Shareholders' Rights Directive that assigns a number of demands for active ownership to the investment managers. It is expected that in the longer term the directive will change the choice of products offered by focusing more on commitment and voting, and on an ongoing basis the foundations will take stock of the possibilities this development entails.

### Governance and knowledge sharing

The Responsible Investment Policy is overseen by the Boards, and the investment department ensures that the investments are made within this framework. The investment department reports to the Investment Committee and the Boards on whether the policy is observed.

The foundations want to contribute to developing the area of responsible investments, and on an ongoing basis we share our experience in the area. This takes place in relevant fora and when having direct discussions with other investors.

### Appendix

#### Investment spectrum

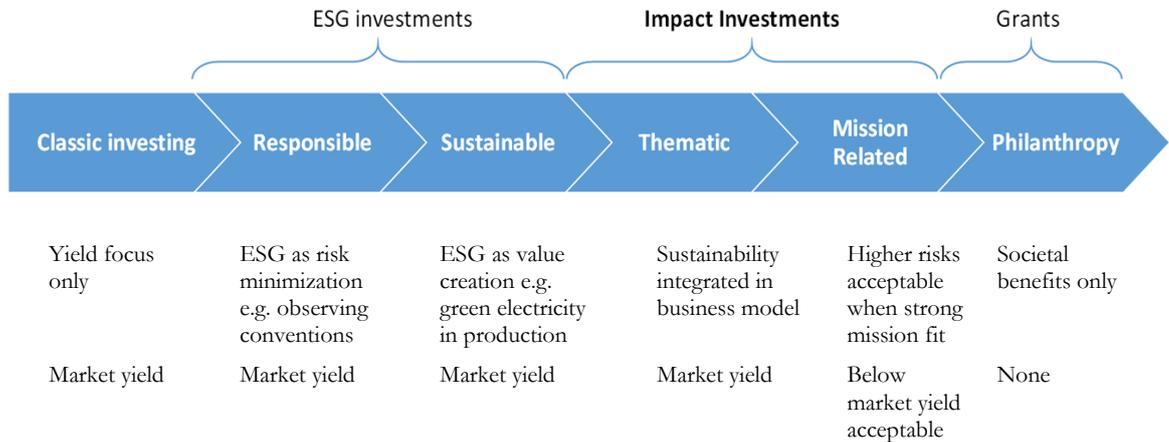
We classify our investments in the Investment Spectrum below. The investments on the left in the spectrum are 'Classic', and the purpose of these investments is solely to generate an attractive risk-adjusted financial yield. Investments to the right of the 'Classic' investments in the spectrum to an increasing extent incorporate ESG factors in the investment decisions. Thus 'Responsible' investments incorporate ESG factors in relation to minimizing risk, and 'Sustainable' investments seek proactively to generate additional value by incorporating ESG factors. Applicable to 'Thematic' investments is that environmental sustainability constitutes an integrated part of the business model. 'Mission Related' investments relate to the foundations' mission within environmental sustainability, and in certain cases they may have a higher risk profile and/or generate a yield that is lower than the market yield. 'Philanthropy' covers the foundations' philanthropic grants, which do not generate a financial yield. Investments classified under the first four steps in the spectrum are all expected to generate a market yield.

The classification of the investments takes place at mandate level based on our dialogue with the investment manager. The classification is based on an appraisal and is regularly taken up for reappraisal. All investments in listed equities and corporate bonds are classified in the Spectrum, and we also seek also to classify investments in unlisted products to the extent possible. Investments in certain government and mortgage bonds cannot in a meaningful way be classified in the Spectrum. Accordingly, these types of investments are not classified<sup>8</sup>.

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<sup>8</sup> Government bonds in developed countries are difficult to place in the spectrum as the differences among the developed countries are limited with regard to ESG factors whereas it makes more sense to classify government bonds in developing countries due to greater differences among the countries.

*Investment Spectrum*



We continuously seek to move investments to the right in the Spectrum up to and including the ‘Thematic’ under due consideration to diversification, balancing and the risk profile of the portfolio. Moreover, we wish to have a smaller share of our investments categorized as ‘Mission Related’ driven by our programmatic objectives and not for optimizing the financial yield. It is thus not our goal to move all our investments to the right in the Spectrum, but we wish to avoid investments classified as ‘Classic’, which is aligned with OECD’s recommendations to incorporate social responsibility across all investments.

**UNGC**

The UN’s Global Compact consists of 10 principles within human rights, labor, environment and anti-corruption, and UNGC signatories are expected to adhere to these principles. UNGC is a frequently applied indicator for responsible business management throughout the world.

*UNGC’s 10 principles*

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|---------------------|--|
| <b>Human Rights</b> | <ul style="list-style-type: none"> <li>• Businesses should support and respect the protection of internationally proclaimed human rights.</li> <li>• Businesses should make sure they are not complicit in human rights abuses.</li> </ul>   |
| <b>Labor</b>        | <ul style="list-style-type: none"> <li>• Businesses should uphold the freedom of association and effective recognition of the right to collective bargaining.</li> <li>• Businesses should support the elimination of all forms of forced and compulsory labor.</li> <li>• Businesses should support the effective abolition of child labor.</li> <li>• Businesses should eliminate discrimination in respect of employment and occupation.</li> </ul> |

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|------------------------|--|
| <b>Enviroment</b>      | <ul style="list-style-type: none"> <li>• Businesses should support a precautionary approach to environmental challenges.</li> <li>• Businesses should undertake initiatives to promote greater environmental responsibility.</li> <li>• Businesses should encourage the development and diffusion of environmentally friendly technologies.</li> </ul> |
| <b>Anti-corruption</b> | <ul style="list-style-type: none"> <li>• Businesses should work against corruption in all its forms, including extortion and bribery.</li> </ul>   |

### Paris Agreement

At COP21 in Paris in December 2015, 196 member states in the UN climate convention signed a legally binding climate agreement called the Paris Agreement. By many people this agreement is considered an important step on the way to the global conversion to lower emissions of greenhouse gasses.

An agreement has now been reached about a long-term target of limiting the global rise in temperature to less than 2°C – and about working towards limiting the rise in temperature to 1.5°C. Furthermore, the Paris Agreement has a target that says that the global emissions of greenhouse gasses must peak as soon as possible and then drop quickly thereafter. In that way it is hoped that it will be possible to achieve a balance between the emission and the admission of greenhouse gasses globally in the second half of this century.

By signing the Paris Agreement, the countries are committed to submit national reduction contributions, i.e. to contribute to the total reduction of the emission of greenhouse gasses. On behalf of Denmark and the other EU member states, the EU has presented one total reduction contribution. The contribution is a reduction of the emission of greenhouse gasses of 40 per cent in 2030 compared to 1990 allocated on country level by EU.

The Paris Agreement secures action on behalf of largely all the countries in the world. On 1 March 2016, 188 countries presented their national climate plans. However, in June 2017, the President of the USA, Donald Trump, announced that the USA, which is responsible for about 17 per cent of the world's CO2 emissions, is withdrawing from the Paris Agreement.