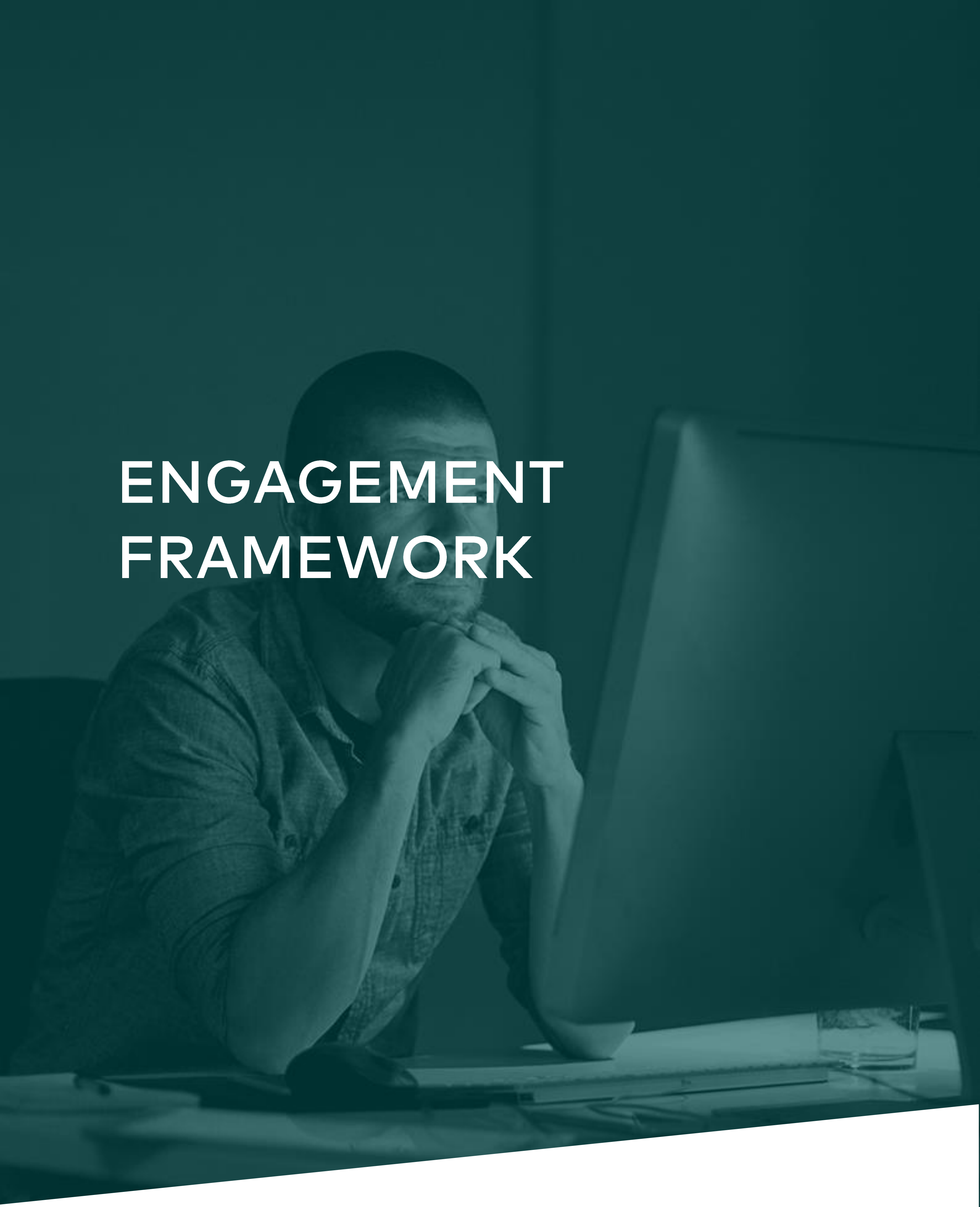

ENGAGEMENT FRAMEWORK

Sparinvest

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1 Engagement Framework

This framework supplements the information on engagement provided in our Sustainable Investment Policy.

1.1 Introduction

Our approach to sustainability feeds directly into our stewardship programme. We seek to sustain the long-term value of our investments, encouraging companies both to mitigate sustainability risks and exploit sustainability opportunities. We are driven by the potential to deliver positive change both in society and in our investments where we believe it goes hand in hand with strong long-term returns.

As described in Section 4.4 of our Sustainable Investment Policy, we continuously monitor our investments. It provides us with insights into the material ESG opportunities and risks faced by our investments.

As investors, it is natural to have dialogue with holdings. For example, in our active, fundamental strategies, the investment teams communicate with companies as part of the investment process to bolster their understanding and highlight certain issues. We aim to continue the dialogue with our holdings after the initial investment. The ideal is to have a frank but constructive dialogue with our holdings, and we do not hesitate to give our views on key issues, whether short- or long-term, ESG or otherwise.

However, we classify as "engagements" only those dialogues in which we have a specific objective. We take a practical and materiality-based approach: we focus on cases where we see potential for meaningful impact on corporate value and sustainability. Below, we explain further how we select, prioritise and manage engagements, our use of timebound objectives, and escalation.

1.2 How do we select and prioritise engagements?

We engage with companies on various issues, from specific ESG risks or opportunities identified at individual holdings, to broad issues such as climate change. Our engagements can be both reactive – in response to a particular event or issue that has materialised – or proactive.

We aim for meaningful engagement that can have impact, and as such, selection and prioritisation of engagements is crucial. Our engagement priorities are reflected in our four main categories of engagement:

- Climate change: We see climate change as one of the predominant challenges facing companies and society. The nature of corporate approaches to climate transition can strongly impact corporate value. Our engagement work here fits closely with our climate change analysis of the portfolio, including carbon footprint.

- Thematic: As with climate change, there are various mega-trends or structural challenges that may be relevant for many companies across sectors or within specific sectors. Addressing these issues requires not only the efforts of one company, but rather the joint efforts of many. Examples include human rights concerns in supply chains, and nature risks such as the decline in biodiversity.

- Norms-related: Where our ongoing screening identifies breaches of international standards, we adopt a two-pronged approach to engagement: we push for remediation of the issue and for change to prevent recurrence of the issue.

- **Other company-specific ESG risks or opportunities:** We analyse and monitor specific areas where we can encourage companies to mitigate risks or exploit opportunities that can deliver positive environmental or societal impacts and bolster financial resilience and corporate value.

Within these categories, materiality and the potential for meaningful change are key inputs to our prioritisation:

- the materiality of the ESG issue to the specific holding, and in aggregate across portfolios
- the size of holding forms part of the consideration, as larger exposures typically imply higher materiality, and higher ownership stakes can suggest higher potential for our engagement to lead to meaningful impact.

In addition, within specific engagement categories, we have more specific frameworks for engagement prioritisation. For example:

- Within climate engagement:
  - We consider emissions footprints and alignment maturity assessments, with priority given to holdings with higher contribution to emissions and lower assessed levels of alignment maturity. This interlinks with our implementation of NZAM commitments via the NZIF.
  - We also engage with certain fossil fuel exposed companies which prima facie may not be aligned with the IEA's NZE 2050 scenario, but which are assessed to have a credible transition plan and to be open to engagement

- Within norms-related engagement:
  - Priority is given to companies based on the gravity of the issue: for example, engaging a company with a confirmed recent violation of norms may be prioritised over a company with a past violation where the company has already taken meaningful steps to remediate and prevent recurrence.

Engagement prioritisation is considered on a collaborative basis between the relevant investment teams and ESG team, with the Stewardship Forum the primary internal forum for assessing the range of potential engagements and recommending appropriate resource allocation. The Stewardship Forum reports to the Nykredit Sustainable Investment Forum which is the senior body with responsibility for engagement (see Engagement Governance section).

1.3 How do we engage?

Our engagements are usually either direct, collaborative, or led by service providers. The potential for specific, targeted work in direct engagements is well complemented by the potential for collaborative and service provider led engagement to have significant impact in addressing widespread, endemic issues.

- **Direct engagements:** These engagements are planned and run by Sparinvest alone. We aim to benefit from the strengths of genuine integration into our investment teams, combined with dedicated resources in the ESG team. In our active, fundamental strategies, engagement is typically planned and run by members of our investment teams. The aim is to leverage the teams' specific knowledge of the company. It also sends a clear message to the investee company that sustainability is an issue that runs to the heart of our investment decisions. Our investment teams are supported by our ESG team, who also run engagements on behalf of our passive strategies.

- **Collaborative engagements:** examples of collaborative engagement include those via forums such as Climate Action 100+, the PRI, and the Net Zero Engagement Initiative of the IIGCC. There can also be collaborative engagement with more specific groups of investors on certain issues. In such engagements, we will typically either have a role as a lead investor, running the engagement with one company on behalf of various investors, or as a supporting investor. While collaborative engagements can be a constructive way to effect change, we note that they can involve investors with a wide array of perspectives, and our involvement in such an engagement is not an indication of full support for all perspectives endorsed by the organisation, initiative or collaborating investors.

- **Service provider engagements:** We also join engagements led by professional service providers, as this can be a structured way to lend scale to engagement. In these cases, we may join the engagement meetings, and we maintain a strong feedback loop with our service providers, for example, advising them of our own engagement experience with the company in question.

We use various tools in our engagement, including written correspondence, phone and virtual meetings, and face-to-face meetings. For equity holdings, we see engagement as closely related to our voting activity, in that we may use voting activity to address topics subject to engagement. Within our actively managed funds, regardless of engagement, where we vote against management we also aim to communicate to companies our rationale for such voting, and where time permits, we aim to do so before the relevant shareholder meeting. Within our passively managed funds we seek to communicate our rationale for such votes for a prioritised number of companies considered to be of particular relevance.

1.4 Engagement Objectives, Monitoring and Escalation

When engaging, we aim to set objectives which are specific, measurable, attainable, relevant and timebound. The below text applies to our direct engagements, and we aim for similar approaches to objective setting and monitoring in collaborative and service provider engagements. While collaborative and service provider engagements involve third parties, we monitor and report on these engagements, and the use of particular escalation measures is at our discretion.

We are long-term investors, and we seek engagement which is a constructive and collaborative relationship with the holding. As such, our engagements are typically multi-year in length, and our specific objectives and time-bounds can vary on a case by case basis as deemed appropriate. However, each engagement is subject to at least an annual review, at which progress is assessed, and escalation is considered.

Ongoing monitoring of engagement is carried out by the relevant investment teams and the ESG team, with shared tools used to track engagement actions, progress, and escalation. This data and reporting is provided to the Stewardship Forum.

Engagements are subject to review based on a clear timeframe:
- At annual review; and
- When an engagement crosses an objective timebound

Examples of our approach to timebound objectives:
- Commit to Net Zero by 2050, within 1 year of engagement start
- Publish a detailed transition plan, within 1 year of engagement start
- Publish scope 1, 2 & 3 emissions, within 2 years of engagement start
- Publish a new human rights policy, improving score on CHRB-based assessment, within 2 years

The review by the relevant engaging team includes assessing progress, and determining whether escalation steps may be appropriate. This review is discussed by the Stewardship Forum, which may provide recommendations to the relevant engaging team.

The Sustainable Investment Forum is updated with information on engagements on an annual basis.

In addition to the above, note that specifically for:

- Engagement on norms violations: the Sustainable Investment Forum reviews progress not later than two years after the dialogue commenced. Escalation steps will be considered as appropriate. If the Forum determines it is not realistic that the company will change its practices, the company will be excluded.

- Engagement with fossil fuel exposed companies that prima facie are not aligned with the NZE 2050 scenario: the Sustainable Investment Forum reviews progress not later than two years after the dialogue commenced. Escalation steps will be considered as appropriate. If the Forum determines it is not realistic that the company will change its practices, the company will be excluded.

1.5 Escalation Framework

In assessing the need for escalation, and appropriate steps, we recognise that each engagement and each company have their own unique characteristics, and therefore the best way to proceed is considered on a case-by-case basis. Our aim is to foster a constructive environment for dialogue, while making our expectations clear.

Similar to the manner in which we initially select issues for engagement, we consider the materiality of the issue, the potential for impact, and an estimation of the resources required for engagement.

Escalation steps include the below. These are shown in a rough order of stringency, but note that we do not necessarily take steps in a linear order, and do not necessarily use all escalation steps. Some steps are used relatively rarely, while other steps may be used relatively frequently and at early stages of engagement. For example, even in engagements that are not yet subject to escalation, we may use voting to express concerns on an issue, in line with our voting principles.

ESCALATION STEPS
Altering the type or frequency of dialogue: This may involve several modes of communication (emails, phone calls, meeting in person, etc).
- **Alternative counterparts within company:** Seeking dialogue with different representatives of the company in question. This could be senior representatives (board members or senior management, independent board members, etc) or more specialised representatives. This may involve considering whether Sparinvest's representative has sufficient seniority.
Employing a different type of engagement: In certain cases, it can be constructive to shift from one type of engagement to another, such as shifting from a collaborative engagement together with other institutional investors to one managed solely by Sparinvest.
Voting: Where the issue is the subject of a voting agenda item, we will vote in accordance with our voting policy and in the best interests of our clients. Where the issue is not directly linked to a voting agenda item, we may on occasion vote against a director appointment as a way of expressing dissatisfaction. We will aim to pre-disclose this to the company.

Public statements: We may lend our support to broad investor statements related to certain initiatives which we believe contribute to the company's long-term value. In individual engagements, we do not generally consider public statements to be particularly conducive to a constructive atmosphere for dialogue. We may make our views known if considered appropriate, for instance at general meetings, other public venues or in the media.
Public pre-disclosure of voting intent
Filing of shareholder resolutions: In certain circumstances, we may consider filing a shareholder resolution or convene a general meeting together with other shareholders.
Legal remedies: When considered appropriate we may seek legal remedy, for example seeking damages through participation in class action lawsuits.
Do not participate in additional capital raises or refinancing
Sale of position: The current status of any engagement and insights gained from it are naturally part of the fundamental information we consider as we monitor an investment, assess its fair value, and determine whether to remain invested and whether its position size is appropriate. In certain cases, such as serious and persistent violations of international norms, a lack of satisfactory progress in engagement may lead to us placing a company on our exclusion lists, which apply to all portfolios.

1.6 Engagement Governance

The senior body with responsibility for stewardship is the Nykredit Sustainable Investment Forum.

As per our Sustainable Investment Policy:

- *Sparinvest sets concrete goals, milestones and time frames for its engagement. We continuously monitor our different engagements, using internal tools to share data and knowledge across teams. Progress in stewardship activity is discussed in the relevant investment teams and the Sustainable Investment Forum. The Sustainable Investment Forum monitors and coordinates engagement activities, oversees progress and decides if a company should be excluded due to lack of progress, as described in section 7.1 below.*
- *(7.1 specifies that this applies to engagement on violation of norms: Where we engage on violation of conventions, progress is evaluated regularly. Progress must be assessed not later than two years after the dialogue commenced. Based on this assessment, Sparinvest it will determine whether it is realistic that the company will change its practices. If not, the company will be excluded.)*

The Sustainable Investment Forum is supported in its work by the Stewardship Forum.