STEWARDSHIP FRAMEWORK

Sparinvest

Content

Introduction

Our approach to sustainability feeds directly into our stewardship programme. We recognise that a broad range of ESG factors can have a material impact on investment risk and returns (financial materiality), as well as on the environment and wider society (environmental and social materiality). Through stewardship activities – monitoring, engagement and voting - we seek to sustain the long-term value of our investments, encouraging companies both to mitigate sustainability risks and exploit sustainability opportunities.

This framework supplements the information provided in our Sustainable Investment Policy and our Stewardship Policy.

Engagement

What is an engagement?

We monitor our investments on an ongoing basis. This provides insights into the material ESG risks and opportunities faced by our investments. As investors, it is also natural to have dialogue with holdings, and we aim to continue dialogue with our holdings after the initial investment. The ideal is to have frank but constructive dialogue, and we do not hesitate to give our views on key issues, whether short- or long-term, ESG or otherwise.

We classify dialogues with a specific objective as engagements.

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.

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:

- Thematic: There are various mega-trends such as climate change 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 monitoring identifies concerns around adherence to international standards, we may see potential to engage, and adopt a two-pronged approach: we endeavour to push for remediation of the issue and for change to prevent recurrence.

- **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:

- We consider 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 to portfolios, 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 decided 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 Sustainable Investment Committee which is the overarching body with responsibility for stewardship (see Governance section).

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 the issue is material to investment analysis and 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 initiatives such as Climate Action 100+, the PRI, and the Net Zero Engagement Initiative of the IIGCC. There can also be collaborative engagement outside such initiatives 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[1].

- **Service provider engagements:** Some engagements are carried out and led by professional service providers, as this can be a structured way to lend scale to engagement. In some cases, we may join engagement meetings, and we maintain a strong feedback loop with our service providers.

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. As noted above, all voting decisions are made independently by Sparinvest.

[1] 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. When collaborating, Sparinvest acts independently. This means, for example, that all investment decisions, and decisions in relation to voting, are made independently by us. We act independently in determining our strategies, policies and processes, reflecting the best interests of our clients.

Engagement Objectives and Monitoring and Escalation

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

We are long-term managers of capital, 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, the ESG team, and the Stewardship Forum, with shared tools used to track engagement actions, progress, and escalation.

Engagements are subject to review based on a clear time-frame:

- 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
- Publish results of the global safety audit, by latest of year end 2024 or 6 months after audit results received

The review by the relevant engaging team includes assessing progress, and determining whether escalation steps may be appropriate. The Sustainable Investment Committee is updated with information on engagements on an annual basis.

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 tools 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 and voting decision-making processes.

ESCALATION TOOLS
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. For companies in actively managed funds, we will aim to pre-disclose this to the company. When exercising voting rights, Sparinvest acts independently.
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.

Proxy voting

At Sparinvest, we consider the exercise of voting rights on behalf of investors to be one our core responsibilities as an asset manager. We are committed to providing transparency in both our voting process and voting decisions. Our voting process is described in our Stewardship Policy, with further details below, and voting decisions are disclosed via our website.

When do we vote

Sparinvest strives to exercise all voting rights. In rare cases, however, operational challenges may arise in the value chain that prevent us from voting. We aim to minimise such cases.

Voting decisions

Our voting principles set out key considerations on corporate governance and other areas related to voting. Our voting processes facilitate review of all agenda items, and we vote against resolutions which are inconsistent with our voting principles.

Nykredit uses proxy adviser services to assist with operational aspects of voting. These service companies provide customised research on voting agendas, based on Sparinvest´s defined policies and voting principles. In actively-managed strategies, voting agendas are subject to internal case-by-case review, with our investment teams playing a key role reviewing agenda items, the customized proxy-adviser research, and other data and research as considered material. In passively-managed strategies, the customized proxy-adviser research is a key input, with internal case-by-case review by the ESG team for shareholder meetings of particular materiality due to the size of holdings or specific issues.

Engagement and voting

We see voting as a complementary opportunity for constructive and positive dialogue with listed companies. As referred to under Escalation Steps, above, where engagement does not progress satisfactorily, we may consider escalation by voting in order to highlight our concerns. Where engagement may be in collaboration with third parties, we note that voting-related decisions are made independently by Sparinvest.

When we vote against management recommendations, we seek to supplement this with dialogue. We aim to do this for all holdings in our actively managed, fundamental strategies. In our passively managed strategies, we aim to communicate with the companies on voting issues of particular significance.

Voting Principles

The principles below apply to all investments managed by Sparinvest and are used to inform our voting decisions on all voting agenda items and shareholder resolutions. The purpose of the principles is to minimise risk and enhance sustainable long-term corporate value, based on the guiding principle of serving the long-term interests of investors. Voting decisions may in rare cases deviate from the below principles where dictated by the best interests of our investors. Furthermore, there may be situations where certain principles appear contradictory to other principles; in such cases, as always, Nykredit expects management to work in the best interests of long-term shareholders.

Specific thresholds – such as for board independence – may vary by region. Subject to the principles below, Sparinvest supports the general principle that companies should as a minimum comply with best practice corporate governance standards applicable in their country of domicile, or explain their non-compliance.

Governance:
- We support the principle of 'one share, one vote'.
- We are generally opposed to any kind of 'poison pills'.
- We support strong protection of minority shareholders' rights.
- We support fair access to make shareholder resolutions.

Members of the board of directors:
- The board of directors should include both executive and non-executive directors, but a significant proportion – ideally a majority – should be independent non-executive directors.
- We believe that the roles of chief executive and chair of the board of directors should be separate to ensure board independence and will typically vote against appointments that combine these roles.
- The board should consist of directors with an appropriate balance of relevant experience and skills.
- The board should consider its diversity. We believe there are long-term benefits to diversity on the board and will generally vote in a manner that encourages this. For example, we will generally vote against the appointment of the chair of the nomination committee and the chair of the board, or other directors as appropriate, at:
  - Companies in developed markets where the board is not comprised of at least 40% underrepresented gender identities or any higher requirement applicable in the country of domicile (in Japan, 30%).
  - This principle may be deviated from if there is positive development in gender diversity, and if the board comprises at least 30% underrepresented gender identities (20% in Japan).
  - Companies in developing countries in which no member of the underrepresented gender(s) serves on the board of directors.
  - Companies in specific markets where the board lacks racial diversity.
- Nomination committees should consist of a majority of independent non-executive directors.
- Director nominations should include sufficient information regarding the nominee's experience, skills and links with the company to allow shareholders to make informed decisions.
- Director nominations should not be bundled under one agenda item.
- The board of directors should take steps to measure and ensure its effectiveness. This
- should include ensuring that directors are able to allocate sufficient time and that directors do not hold an excessive number of board positions at multiple companies.

Remuneration:
- On remuneration committees, the majority of members and the chair should be independent non-executive directors.
- A transparent remuneration policy should align the interests of management with the corporate strategy for the creation of long-term value and the safeguarding of the long term interests of shareholders.

Reporting and audit:

- Companies should be transparent, providing full and meaningful disclosure of relevant information to stakeholders and shareholders.
- Such disclosure should include ESG-related information, which may have significant financial implications, particularly over long periods of time.
- Accounts should be audited by independent external auditing firms whose other relationships with the company cannot be considered to impair that independence.
- Audit committees should consist entirely of independent non-executive directors.

Dividends, share buybacks and capital allocation:

- Management decisions on capital deployment should be made in the best interests of the long-term corporate value. This consideration may influence our votes on issues such as dividends and share buybacks.
- Where measures of capital efficiency are persistently low over a number of years and where we perceive a lack of a clear and effective strategy to remedy that, we may vote against the election of members for the board of directors.
- We generally believe that significant levels of cross-shareholdings are unlikely to be conducive to long-term value creation, both from the perspective of corporate governance as well as capital efficiency. In companies with persistently high levels of cross-shareholdings, we may vote against the election of members for the board of directors.

Environmental and social issues, including climate:

- We believe that climate change and the transition to a global economy aligned with the Paris Agreement present some of the most significant risks and opportunities for companies. The board of directors should ensure that adequate resources are allocated to understanding, monitoring, formulating and executing a strategy and reporting on these issues.
- Reflecting this, we will consider voting against the election of directors or members of relevant committees, where we perceive a lack of will, effort or ability to address climate-related risks or realize climate-related opportunities.
- We will generally be supportive of constructively phrased shareholder resolutions targeting increased disclosure of climate data, strengthened governance or other actions on climate-related issues.
- Similarly, regarding other environmental and social issues, such as nature risks and human rights, we will consider voting against the election of directors or members of relevant committees, where we perceive a lack of will, effort or ability to address related risks or realise opportunities. We will generally be supportive of constructively-phrased shareholder resolutions targeting increased disclosure, strengthened governance, or other appropriate actions on such issues.

Stewardship Governance

The Stewardship Framework is reviewed at least annually. The review includes insight from the voting season, as well as review of relevant developments in market practice and regulatory requirements with regards to stewardship. Relevant stakeholders from Sparinvest S.A. are included in the review, and the final approving body is Nykredit's Sustainable Investment Committee.

Approved by Nykredit's Sustainable Investment Committee: May 2025