Arctic Asset Management's views on governance and sustainability and our expectations for portfolio companies

This document is aimed at clarifying our expectations towards the companies we, on the behalf of our investors, have in the clients' portfolios. The document focusses on selected issues, and is by no means a complete list of our governance and sustainability considerations. Furthermore, as companies are very different, our assessments are linked to what is deemed material in each individual company.

AAMs ESG policies and engagement policies are described more in detail in in the documents *Sustainability related disclosures* and *Guidelines for engagement and exercise of voting rights* (https://www.arctic.com/aam/en/department/about-us#sustainability-related-disclosures).

About our views and positions

- Companies should aim at maximising shareholder value creation. Efficient and transparent governance as well as sustainable business practices is an integral part of this.
- The governance structure and the business practices should emphasise long-term value creation. AAM expects this to be reflected in issues such as capital allocation, board composition, incentive schemes and proper investments into research, development, and innovation.
- Sustainability and governance considerations are an integrated part of the investment process in AAM. We believe that unsustainable business practices and poor governance over time are likely to lead to declining profitability and/or increased risk.
- Engagement with portfolio companies and investment candidates is part of our investment process. In most cases, we address management regarding sustainability issues. On governance issues, we will typically seek dialogue with the board, nomination committee, shareholders and/or other stakeholders.
- Internally, we strive for an efficient and productive process with regards to ESG, engagement policies and voting practices across investments.
- If we disagree or have concerns regarding AGM proposals, we may seek dialogue with the company prior to the AGM.
- AAM usually vote on most AGMs where our clients are large shareholders or where we deem there are controversial items on the agenda. AAM do not make use of proxy advisors.
- AAM is supporting the principles and frameworks given by UN Global Compact, UN PRI, TCFD, CDP, SBTi, NUES, UN SDGs.

Governance and stewardship – views and expectations

- Voting rights should ideally be proportionate to cash flow and equity rights. In practice, this means we favour one share class with equal voting rights.
- Majority of nomination committee should be independent of the board and executive management.
- We prefer that executive management and board members are shareholders. We also encourage programmes to incentivise broader ownership in the company. We recommend mandatory share ownership schemes for board members. We may vote against the re-election of board members with a tenure of more than 1.5 years that hold no shares.
- Voting for board members should be done for each member separately, not for the whole board in one vote. We are generally positive towards debundling AGM agenda items.
- General authority to issue shares without pre-emptive rights above 10% of currently issued capital shall generally be avoided. In certain instances, we may accept deviations. Additionally, we may consider smaller share issues due to incentive programmes to be within acceptable limits. Remuneration policies shall be consistent with the latter point.
- Executive compensation should be reasonable and have a structure aligning compensation with shareholder interests and long-term value-creation. Equity-based incentives should be of a long-term nature. The board should provide transparency regarding remuneration levels and policies and possible clawback arrangements. We prefer share-based over option-based incentive schemes.
- Long-term incentive programmes should be linked to clearly defined and disclosed financial and sustainability targets which can be influenced by management. Targets and percentages related to individual KPIs should be disclosed.
- Companies should aim for having sound balance sheets. Dividend policy, buybacks and leverage should not be overly aggressive. On the other hand, we prefer companies avoiding overcapitalised balance sheets over a prolonged period.
- Companies shall apply generally accepted accounting principles in a prudent manner. We expect companies to be prudent with regards to the application of alternative performance measures and adjustments. Material information shall not be omitted or hidden in the accounts.
- Access to share price sensitive information should be equal for all market participants. Companies should not hold pre-close conference calls with restricted access or participation.
- Notice of AGM should be given in sufficient time, in line with local market practice. The resolutions and supporting information distributed should be sufficiently detailed and specific to allow shareholders to form a view on all matters to be considered at the meeting. Information shall be easily accessible and transparent.
- We expect companies to have carried out, and disclosed, an analysis of environmental, social and governance factors being material to the company and its stakeholders.
- We expect companies to disclose all data necessary for AAM (and other investors complying with SFDR, EU Sustainable Finance Disclosure Regulation) to report principal adverse indicators (PAIs). Reports should include not only mandatory PAIs, but also additional indicators unless they are considered not relevant or immaterial.

Environment and emissions – views and expectations

- We expect companies to have defined targets to reduce carbon dioxide (equivalents) emissions in line with the Paris agreement. Scope 1, 2 and 3 should be disclosed. We recommend companies to state net zero targets, preferably without having carbon offsets as a main part of the strategy. We recommend companies to report to CDP.
- Emission reduction targets should be verified by an independent body. We recommend companies, particularly in emission intensive industries, to commit to science-based targets (SBTi).
- Companies must consider risks and opportunities related to climate change. We recommend companies to apply the framework of TCFD (Task Force on Climate-Related Financial Disclosures).
- Companies should consider risks related to biodiversity and ecosystems from a double materiality perspective. Companies where activities or value chains are dependent upon, or affecting, biodiversity must set disclosed targets and report on these.
- Companies with activities linked to, or affecting, the ocean should integrate relevant ocean-related risks and opportunities into corporate strategy, risk management and reporting.
- Companies should have properly defined and disclosed targets for environmental targets, e.g., in areas such as reduced waste and pollution, increased circularity, energy efficiency, use of packaging.

Social issues – views and expectations

- Companies should ensure health and safety in their operations and should ensure the welfare of their customers and make sure their products and offerings are of sufficient quality.
- Companies should ensure responsible practices throughout their supply chain.
- Companies should have clear policies on anti-corruption, integrate it into business operations and report and engage on anti-corruption programmes.
- Companies should refrain from illegal or unethical anti-competitive behaviour and have clear policies on how to avoid it.
- Companies should have appropriate and prudent tax policies and should report where they generate economic value, where that value is taxed, and the amount of tax paid as a result.
- Companies should adhere to UN Global Compact, the ten principles regarding human rights, labour rights, the environment and anti-corruption, and to OECD guidelines for multinational enterprises.

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