

Principal adverse sustainability impacts statement

Sydbank A/S – Asset Management

Statement on adverse impacts on ESG factors

This statement covers the period from 1 January 2023 to 31 December 2023.

1. Summary

At Sydbank we take responsibility for our common future and it is important to us how our business affects society at large. Within the field of investments we wish fundamentally to take into consideration how companies in which we invest impact society.

Sydbank invests in a responsible manner by taking into account so-called sustainability factors, eg factors linked to safeguarding human rights, environmental issues, decent social conditions, corporate governance and strong institutions, also known as ESG. These factors are incorporated in all investment decisions so that Sydbank can identify and take into account sustainability risks. In other words specific and possible environmental, social or governance events that, if they occur, will have a significant negative impact on the value of an investment. In 2010 Sydbank signed the UN Principles for Responsible Investment (PRI) and as a result we are obligated to incorporate ESG factors into our investment analysis and decision-making processes.

At Sydbank we have developed a responsible investment process to ensure that ESG factors are reviewed and incorporated in the final investment decision. We believe that by taking ESG factors into account in our investment process we can help to improve the long-term financial return of the investments and support positive developments in society.

Sydbank's responsible investment process is based on a combination of qualitative and quantitative analyses. The Bank supports the investment process using a number of tools that put the persons responsible for investments in a position to monitor, analyse and select responsible investments across different types of assets. Where relevant and value creating we use external advisers and business partners. In other areas Sydbank develops and maintains tools to support its sustainable investment efforts. The persons responsible for investments at Sydbank use a number of different data sources as well as internal and external research as input in the investment process.

At Sydbank our ambition is to constantly increase the number of ESG factors by which we measure companies and which we hold them responsible for by means of our active ownership processes. However at present there is no full monitoring of how companies in which we have invested impact the many different ESG factors. For the time being we have decided to concentrate our resources on the basis of a principle of proportionality where our focus is on identifying the companies that are experiencing serious difficulties complying with best practice within the various ESG factors.

2. Policies to identify and prioritise adverse impacts on ESG factors

Sydbank's overall responsible investment efforts are anchored in its responsible investment and active ownership policy, which is publicly available on the Bank's website.

All of the companies in which Sydbank has invested affect society at large. Our investment process focuses on identifying companies that do not manage ESG risks well and that could potentially have a significant adverse impact on ESG factors. On the basis of a

principle of proportionality special focus is on identifying the companies that are experiencing serious difficulties complying with best practice within the various ESG factors. At Sydbank we monitor the invested companies for violations of norms and always review an external evaluation of their ESG risks as an integrated element of our investment process.

Full monitoring of all ESG factors represents a complex task that initially places heavy demands on companies to publish non-financial data to a far greater extent than today. In our process of monitoring the various ESG factors, we use data from several different sources. We use publicly available data, data published by the companies themselves and data from external data providers. ESG data included in our investment processes consists of reported data and estimated data. In addition the persons responsible for investments use external ESG analyses from our business partners and combine these with their own analyses in their efforts to identify an investment's most important impact on ESG factors.

In our investment decision-making process we are currently experiencing that the lack of data and the quality of available data often present challenges in terms of being able to evaluate and prioritise the different types of negative impacts on ESG factors. The extent of available ESG data and the quality of available data vary considerably from company to company and this places additional demands on the persons responsible for investments. Relevant ESG data with regard to small companies in the world's emerging markets is often limited. In contrast much more ESG data is often available when assessing investments in major international companies. When investing in companies where little or no relevant ESG data is available, the persons responsible for investments will conduct a detailed analysis of the company. The analysis will seek to identify the most critical issues in relation to the company's negative impact on ESG factors.

It is our expectation that the problems concerning data quality and data quantity will be gradually resolved in the years ahead. Global enterprises will increasingly be required to publish additional non-financial data. Regulatory requirements concerning non-financial data disclosure are growing and institutional investors increasingly request this data as input in the investment process.

3. How to take into account negative impacts on ESG factors

At Sydbank we have decided for the moment to focus our resources on ensuring that the companies in which we invest comply with international norms and conventions. Furthermore we monitor companies' CO₂ emissions and we wish fundamentally to invest in companies that are conscious of their environmental responsibility and their environmental impact on society at large.

Compliance with international norms and conventions

At Sydbank it is decisive for us that the companies in which we invest comply with international norms and conventions. Specifically this means that all companies in which Sydbank has invested must comply with the following international norms and conventions:

- UN Global Compact
- UN Universal Declaration of Human Rights
- OECD Guidelines for Multinational Enterprises
- ILO conventions on dignity of workers
- International weapon conventions

Sydbank conducts regular screening of companies as regards suspicion of and confirmation of violations of norms. In connection with confirmed or suspected serious violations of the above conventions Sydbank will always engage with the company. If the engagement process is unsuccessful we will exclude the companies from our investment universe.

Companies in violation of international weapon conventions are considered incompatible with Sydbank's principles for responsible investment. We regularly screen our investments for business activities associated with controversial weapons. We exclude all companies with business activities within controversial weapons.

CO₂ emissions

Our other focus area is companies' CO₂ emissions. It is our wish that the companies in which we invest are conscious of their environmental responsibility and impact. It is Sydbank's ambition that our investment portfolio is in keeping with the transition necessary to meet the goals of the 2015 UN Climate Change Conference (the Paris Agreement) to limit a rise in global temperatures to between 1.5 and 2 degrees Celsius.

In our assessment the emission of CO₂ constitutes the largest single adverse impact on ESG factors in our investment portfolio. Furthermore CO₂ emissions may have a potentially large negative impact on the value of our investments and as a result we pay special attention to how this sustainability risk is addressed in our overall investment process.

Climate change driven by CO₂ emissions may contribute to more extreme weather which could affect companies' physical assets, eg production facilities. In addition companies with a high level of CO₂ emissions may be subject to a tax on these emissions or be outperformed by new technological solutions in the transition to a less emission-intensive global economy. This could have severe consequences for the earnings capacity of the individual company and therefore also our investment. As a result our efforts are targeted at reducing the CO₂ emissions from our overall investment portfolio in order to minimise the adverse impact from CO₂ emissions while ensuring the best risk-adjusted return for our customers. We apply exclusion-based investment strategies as well as investment strategies focusing on active ownership to mitigate the sustainability risk associated with CO₂ emissions.

Monitoring of additional ESG factors

We strive to continuously increase the number of ESG factors monitored in our investment process. We regularly evaluate whether to measure and hold companies accountable for even more ESG factors. In our active ownership processes we aim to influence the companies in our investment portfolio to lower the negative impacts on ESG factors.

4. Summary of active ownership policy

Sydbank's active ownership policy consists in general of the following key elements:

- Monitoring of companies in our investment portfolio
- Constructive engagement with companies in which we invest
- Voting at companies' general meetings

The full active ownership policy is found in Sydbank's responsible investment and active ownership policy.

Monitoring of companies

We monitor and measure companies' performance as regards a variety of ESG factors on an ongoing basis. Our continuous monitoring of companies constitutes the basis for the other elements of our active ownership policy.

Engagement with companies

Sydbank collaborates with other responsible institutional investors on active and constructive engagement as regards the companies we invest in. This work is carried out via a business partner specialised in ESG analysis and engagement with companies.

Sydbank monitors the invested companies for violations of norms and reviews an external evaluation of their ESG risks. On this basis the Bank and the business partner can assess whether it is necessary or potentially value creating to engage. In the event of serious matters we will always engage with the company whereas as regards other issues we will apply a case-by-case principle of proportionality.

Voting at general meetings

We believe that voting at companies' general meetings is an important element of our overall interaction with the companies we have invested in. The managements of companies are usually susceptible to the positions and demands of their owners.

At Sydbank we vote at the general meetings of specifically selected companies. The companies are selected according to a principle of proportionality focusing on the size of the investment, the extent of the potential sustainability risk, our engagement activities and our overall wish to promote sustainable investment and reduce companies' negative impact on ESG factors.

5. References to international standards

Sydbank complies with many widely recognised international norms and conventions:

- UN Principles for Responsible Investment (PRI)
- UN Principles for Responsible Banking
- UN Global Compact
- UN Universal Declaration of Human Rights
- UN Sustainable Development Goals
- OECD Guidelines for Multinational Enterprises
- ILO conventions on dignity of workers
- Paris Agreement

A report is submitted annually to the PRI describing developments in responsible investment. A report on active ownership activities is also submitted annually. Both reports are available on the Bank's website.

Alignment of investments with the Paris Agreement

It is Sydbank's ambition that our investment portfolio is in keeping with the transition necessary to meet the goals of the 2015 UN Climate Change Conference (the Paris Agreement) to limit a rise in global temperatures to between 1.5 and 2 degrees Celsius.

Therefore we have formulated a climate goal to reduce the carbon footprint of our investment portfolio during the period to 2030.

Sydbank's climate goal – investment portfolio

- The CO₂ footprint of our investment portfolio must be 50-70% lower in 2030.

It is Sydbank's wish that all asset classes in our investment universe are included in the climate goal as data and methods of calculation mature.

Initially our investments in listed shares and corporate bonds will be included in the climate goal. Our climate goal involves companies' scope 1 and scope 2 CO₂ emissions. The starting point of the climate goal is the carbon footprint of our investment portfolio at end-2020. The carbon footprint of the investment portfolio is calculated in accordance with the recommendations of Finance Denmark's CO₂ model.