



Responsible Investments Policy

LÍFSVERK PENSION FUND



LÍFSVERK
LÍFEYRISSJÓÐUR

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1. Purpose

Lifsverk Pension Fund's Responsible Investments Policy defines sustainability standards and describes how the fund integrates sustainability risks in the fund's investment decision-making process. The board's assessment is that financial and responsible investment objectives are interconnected and that pursuing them together serves the best interests of fund members. The policy applies to firms and other issuers of financial instruments in the fund's defined benefit scheme and supplementary private pension divisions (invested firms).

In assessing sustainability and sustainability risk, the fund looks to environmental, social, and governance (ESG) standards, which influences the fund's decision-making and risk assessment processes in various ways. Sustainability risk is an event or condition in the field of environmental, social, or governance issues that could, if it occurs, have real or potential significant negative impacts on the value of the investment. Sustainability risk and sustainability standards have an increasing impact on firms' operating environment, both in terms of direct environmental impact and changes in the regulatory landscape. This, in turn, will impact the fund's investment opportunities and risks associated with its investments, in both positive and negative ways.

Lifsverk takes into account sustainability risk when assessing companies. Among the measures the fund takes to mitigate sustainability risk is to follow the PRI (Principles for Responsible Investment) main rules during the investment decision-making process and emphasize certain sustainability standards. Lifsverk also reduces sustainability risk through active ownership. In this way, the fund wants to contribute to companies being exemplary in sustainability matters by utilizing voting rights on the one hand, and exerting formal or informal pressure on companies and partners on the other hand.

Regulatory requirements for pension funds and other asset managers have greatly increased in recent years. Lifsverk's Responsible Investments Policy is developed in accordance with the disclosure requirements of the European Parliament and Council Regulation (EU) 2019/2088, and ethical standards setting requirements of Article 36 of Act No. 129/1997 on mandatory contribution and the operation of pension funds. To underscore the significance of monitoring sustainability standards in the fund's investments, Lifsverk's Shareholders' Policy has been merged with the Responsible Investment Policy. It is foreseeable that the framework around sustainability in investments will continue to evolve and it can be expected that the fund's policy on responsible investments will do the same in the coming years.

2. Cooperation, Standards, and Disclosure

Lífsværk operates in global markets, where regulations, standards, and benchmarks are shaped partly by international collaborative platforms. The fund strives to contribute to the advancement of sustainable investing by participating in appropriate cooperation and associations, working with other investors, and observing the development of new and relevant standards.

Lífsværk is a signatory to an agreement with PRI (Principles for Responsible Investment) and has committed to following the organization's six principles:

1. Lífsværk will incorporate ESG issues into investment analysis and decision-making processes.
2. The fund will be an active owner which incorporates ESG issues into ownership policies and practices.
3. The fund will seek appropriate disclosure on ESG issues by the invested entities.
4. The fund will promote acceptance and implementation of the PRI principles within the investment industry.
5. The fund will work to enhance the effectiveness in implementing the PRI principles.
6. The fund will report on the fund's activities and the progress towards implementing the principles.

These principles serve as the foundation for Lífsværk's approach to integrate sustainability standards into investment decision-making, while the fund also stays informed about new EU regulations and directives.

In addition, Lífsværk, together with 12 other Icelandic pension funds, has pledged to invest 580 billion ISK in green projects through the Climate Investment Coalition (CIC) platform before 2030.¹ This will support the goals of the Paris Agreement and the UN Sustainable Development Goals.

Lífsværk is a founding member of the Iceland Sustainable Investment Forum (IcelandSIF), an Icelandic organization dedicated to promoting knowledge among investors in sustainable and responsible investing methodology, as well as promoting dialogue on the subject. The fund has been a member of Festa, Center for Sustainability, since 2020.

Transparency with respect to responsible investments is of importance to Lífsværk. The fund will issue an annual responsible investments report, addressing the results of its operations, the process of implementing the policy, and the related outcomes. This report will be published on Lífsværk's website, and the fund will participate in public discussions on relevant topics while providing information on its operations on the website.

Lífsværk values its members' opinions on responsible investments and encourages their involvement in improving the fund's approach.

¹ [Government of Iceland | 580 billion in green investments \(stjornarradid.is\)](https://stjornarradid.is)

3. Objectives

Lífsvirk aims to play an active role in promoting responsible investments by emphasizing sustainability standards. The fund places particular emphasis on sustainability standards that are most relevant to its operations and where it can make the most significant impact. A materiality analysis was conducted among the fund's main stakeholders to identify which sustainability standards they consider the most important and wish to be taken into consideration for investments. Based on this analysis, the fund has chosen to focus on the following standards:

- Environmental issues: Transparency regarding carbon footprint.
- Social issues: Employee welfare and safety.
- Governance: Transparency, accountability, and information disclosure.

The fund considers it important for the responsible investments policy to be based on dated and measurable objectives, which are based on viable plans and reliable data. Data for various sustainability standards is still inconsistent among issuers of financial instruments. However, there is a rapid evolution in the processing of this data, and growing demands from supervisory authorities for the publication of such data.

3.1 Environmental Issues – Transparency Regarding Carbon Footprint

Lífsvirk emphasizes transparency regarding carbon footprint of its portfolio and seeks cooperation with invested firms and collaborators to ensure the accuracy of data and the methodology for the carbon footprint calculations.

The short-term objectives of Lífsvirk are as follows:

- Obtain information relating to carbon emissions from the domestic and foreign portfolios in 2023 (scope 1, 2 emissions and key factors of scope 3), with the objective to have the most reliable information about carbon emissions for the 2023 fiscal year.
- Strive to establish measurable and dated objectives for reduction of carbon emissions the fund's portfolios over the long term. The progress will be based on the findings and outcomes of reliability of the carbon footprint information of invested firms.

Taking this into consideration, Lífsvirk's objective is that firms, listed on the domestic stock market and the fund is invested in² have, for the 2023 fiscal year:

- Published information on their carbon emissions based on scope 1, 2, and key factors of scope 3 (indirect emission in the value chain).
- Established measurable and dated objectives for reducing carbon emissions.³
- Adopted best practices of standards for carbon offsetting and neutrality, such as those specified in [Icelandic Standards' technical specifications regarding carbon offsetting](#).⁴

In addition, Lífsvirk will strive for those collaborators, such as domestic and international fund companies, to adopt comparable objectives and provide status on these matters for the 2023 fiscal year.

² The size limit of the firms corresponds with those set forth in the EU's [Corporate Sustainability Reporting Directive](#)

³ Such as from the [Ambitious Corporate Climate Action - Science Based Targets](#)

⁴ [Technical Specifications regarding carbon offsetting issued \(stadlar.is\)](#)

Lífsværk's long-term objectives are to minimize the carbon footprint of its portfolio and to invest in projects that contribute to carbon sequestration, carbon emissions reduction, and/or emissions prevention. The fund will consider investing in projects that fall under the circular economy and those that protect biodiversity, in addition to other acceptable projects under the EU Taxonomy Regulation.

3.2 Social Issues – Employee Welfare and Safety

Lífsværk emphasizes the importance of transparent disclosure from invested firms, how they contribute to employees' welfare, for example through policies and contingency plans regarding social matters, safety, and equality, and the non-financial information disclosure reporting on these issues in annual accounts. Lífsværk will consider how firms proactively work towards preventative measures and education, to reduce work-related accidents, counteract discrimination, and prevent bullying, gender-specific and sexual harassment and violence.

As a part of that effort, Lífsværk will aim to annually:

- Obtain information from firms listed on the domestic stock market to assess their compliance with the aforementioned standards (as well as other applicable sustainability standards).
- Strive for the fund's main collaborators, including domestic and foreign fund companies, to adopt comparable objectives based on the aforementioned standards (as well as other applicable sustainability standards), and report on their progress to Lífsværk.

Lífsværk will engage with firms and collaborators to ensure that this information is available.

3.3 Governance – Transparency, Accountability, and Information Disclosure

A part of being an active owner, involves follow-up in domestic and foreign markets, though the emphasis may vary between these markets. Lífsværk strives to promote domestic firms and foreign partners to be exemplary when it comes to sustainability standards, such as transparency, accountability, and information disclosure.

Follow-up in the domestic market, consists of two primary approaches for engagement with invested firms. On the one hand, to engage in communication and dialogue with domestic firms regarding sustainability standards, and, on the other hand, to utilize the right to vote as a shareholder.

Lífsværk emphasizes that the board of directors and the managers of invested firms:

- Establish a clear sustainability policy based on the relevant sustainability standards, that considers the operations and working environment of the respective firm.
- Follow the legal provisions concerning information disclosure in corporate governance statement, according to Article 66. c of Act No. 3/2006 regarding annual accounts.
- Establish a written code of ethics, that considers the operations and working environment of the respective firm.
- Adopt and implement, to the greatest possible extent, the rules of NASDAQ, SA (Confederation of Icelandic Enterprise), and the Iceland Chamber of Commerce, regarding corporate governance of firms, or other recognized guidelines on the matter.

Lífsværk aims to attend shareholders' meetings of invested firms. Lífsværk seeks to review proposals made by the board in an informed perspective, takes an independent stance on proposals, based on the fund's vested interests and strategy at any given time. If the fund deems it to be warranted, it will

strive to present its views to the relevant board before the shareholders' meeting of the firm, to allow the board to respond to or rationalize its proposals. If the fund's point of view is not addressed, or clarifications are insufficient, the fund will vote in accordance.

The primary areas of focus for shareholders' meetings include:

- Board membership:
 1. Lífsværk seeks to nominate candidates for the boards of directors of invested firms, if the fund's ownership stake allows for such nominations.
 2. The fund expects board members to be educated and qualified in line with the responsibilities they undertake through their board membership, and to have the time to carry out their duties with integrity.
 3. Lífsværk emphasizes that board members nominated or openly supported by the fund during board elections should contribute positively to the firm's short-term and long-term objectives.
 4. Lífsværk will not directly interfere with the work of the board member after their election to the board of the invested firm.
- Executive compensation:
 1. When determining executive compensation, the size and scale of a firm's operations are considered, as well as the wage distribution within the firm and market wages in the industry.
 2. When determining the remuneration for directors and board members, the scope and responsibility of their roles are considered, and that the compensation structure is aligned with the firm's long-term objectives in the interest of shareholders.
- Other factors which may arise at any given time.

Follow-up in foreign markets primarily involves pressuring foreign collaborators, i.e., fund companies regarding sustainability standards, informally on the one hand and formally on the other hand. As a part of this, Lífsværk emphasizes:

- Informal pressure, through dialogue and meetings where sustainability standards are addressed, among other topics.
- Formal pressure, by submitting a questionnaire or inquiry relating to matters based on sustainability standards, among other aspects.

Lífsværk's managing director exercises the right to vote on the fund's behalf during shareholders' meetings, or delegates this right to another authorized proxy. The managing director, in cooperation with the asset management team, decides on the nomination or support of certain candidates for the board of directors. Information on how Lífsværk casts its vote during shareholders' meetings of firms listed on the domestic stock market will be published regularly on the fund's website.

4. Introduction and Methodology

Lífsvirk is committed to implementing its Responsible Investment Policy in its daily investment processes.

The fund will apply suitable analytical tools and methodologies for managing sustainability data and evaluating investments, as detailed in relevant internal guidelines and procedures.

Lífsvirk emphasizes participation and discourse, with focus on improvements regarding the policy for responsible investments.

Lífsvirk does not maintain an exclusion list for individual firms or sectors but takes note of leading asset management companies in Scandinavia regarding such matters. If there are indications that a firm is violating Lífsvirk's policy, the fund will request an explanation from the respective firm and, in some cases, direct dialogue to identify areas for improvements. Exclusion of individual firms is only considered when all other options have been deemed insufficient.

5. General Management and Responsibility

The Responsible Investments Policy is set by Lífsvirk's board of directors and is reviewed on a regular basis.

The managing director and chief investment officer are responsible for implementing the fund's policy. The managing director ensures that Lífsvirk's employees are informed of the policy and that they can adopt it in their daily work.

The policy is effective upon signing. It shall be translated into English and published on the fund's website.

Reykjavík, May 24, 2023.