



Action for Change

Responsibility Report 2015



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SCANIA

Action for Change

At PensionDanmark, responsibility is a natural and important part of our day-to-day work. As a non-profit provider of pension and insurance schemes entrenched in the labour market, we assume considerable social responsibility. We do this by offering the most important supplement to public early retirement pension, public retirement pension and ATP lifelong pension as well as through health care initiatives to a broad group of wage-earners.

However, we want to exceed this ambition by actively participating in finding new and innovative solutions to important social challenges, such as new ways of funding low-carbon investments and establishing preventive health schemes, as well as pioneering digital initiatives between the public and private sectors. Ultimately, these investments, products and systems, make a relevant difference for our members.

Our members and their families must be guaranteed favourable and well-designed pension and insurance schemes, while initiatives within health care and further education aims at contributing to more productive years in the labour market.

At the same time, we wish to be the most cost-efficient pension fund in Denmark. This is why the focal point of PensionDanmark's business model is creating digital solutions that contribute towards ensuring efficient administration.

Our assets under management totalled EUR 24bn by the end of 2015. PensionDanmark invests in various types of assets around the world in a responsible way. We do not only view it as our duty. We perceive it as an opportunity to secure the value and reduce the risk of our investments.

In recent years, we have participated in promoting and developing a number of funding models to strengthen the growth potential of Danish companies. The goal is to ensure that our members achieve stable and attractive returns, while the investments help to alleviate important societal challenges and foster employment. We will continue on this path for years to come.



Torben Möger Pedersen
CEO, PensionDanmark

From our members – to our members

PensionDanmark has a fiduciary duty to our members. It is therefore essential to PensionDanmark that costs remain as low as possible and that our members and their relatives receive their entitled insurance money, if misfortune strikes.

PensionDanmark is customer owned, which is why we focus exclusively on securing value for our members. This means that costs must be as low as possible. Lower costs equals higher pension payments to our members.

In 2016, we reduced our administration fee per member to EUR 40. We have thereby reduced a quarter of our costs (approx. EUR 13) since 2013, while improving our customer service.

We are committed to ensuring that our members or their relatives receive the disbursement they are entitled to from the insurances in the pension scheme. Not all members realise the extent of their coverage when misfortune strikes. We therefore collaborate with public sector registers to ensure that our members or their relatives are automatically contacted, when they are entitled to a payment. Rather than having them contact us. This way, our members and their relatives receive their disbursement quickly and easily – even if they may have forgotten about their insurance.

Integrating digital registers helps our members and their relatives


The Danish Health Data Authority integrates its Danish National Patient Register for critical diseases with PensionDanmark's membership database. When finding a match between the registers, the Danish Health Data Authority notifies members to contact PensionDanmark for disbursement of their insurance, which is approx. EUR 13,000.

PensionDanmark's digital collaboration with municipalities ensures that members granted public early retirement pension also receive a supplementary early retirement pension from PensionDanmark, which is a tax-free lump sum of approx. EUR 13,000, as well as savings protection.

Deaths are registered through integration of PensionDanmark's membership database in the Civil Registration Register. The amount paid in case of death, is approx. EUR 67,000, which is automatically paid out to relatives by PensionDanmark.

By linking databases at the Danish Agency for Labour Market and Recruitment, members who have been absent from work for more than four weeks are identified. They are notified of the support available from PensionDanmark.

Collaboration with the Danish Agency for Labour Market and Recruitment also ensures that members who have flexible jobs are notified about PensionDanmark's savings insurance. This enables them to save up for a full pension even though their pay check has been reduced. They are also notified about the insurance coverage available in the pension scheme.



No pension transfer fee at PensionDanmark

Members pay no fee if they change jobs and wish to transfer their pension savings from PensionDanmark to another company. Transferring your pension to or from PensionDanmark is free – regardless of the size of the savings. This ensures that members can change jobs without worrying about expensive pension transfer fee. We thereby support occupational mobility. A record number of members – over 27,000 – moved their pensions either to or from PensionDanmark in 2015.

“Suddenly EUR 13,000 was transferred to my account one day. It made me very happy.”

Erling Dam Hansen, a plumber who received an insurance sum from PensionDanmark following a blood clot.

40 euro

The 2016 administration fee at PensionDanmark.



A sound investment for everyone

PensionDanmark has a strong focus on health and prevention. It helps secure more active years in the workforce for our members, which benefits individuals, companies and the economy.

Truck driver Ole Kusk was absent from work due to neck pain and had almost given up all hope of ever returning to the workforce. He then received a letter, explaining that he could receive assistance through PensionDanmark Health Care. Ole called and spoke to a nurse at PensionDanmark. She examined his situation and helped him to physiotherapy treatments. Today he is back at work.

Ole Kusk's story demonstrates why PensionDanmark's focus on its members' health and prophylactics is a sound investment for all parties. Good health is first and foremost important to our members' quality of life and their ability to stay in the job market. However, it also entails companies have access to a valuable labour force, which saves society the cost of prolonged sick leave and early retirement pension.

A large number of PensionDanmark's members have physically demanding jobs. Like Ole Kusk, they are likely to damage their musculoskeletal system, which is the most common reason for early retirement pension. Consequently, PensionDanmark established PensionDanmark Health Care ten years ago which is a prophylactic health care scheme.

The labour market parties decide on whether PensionDanmark Health Care should be part of their members pension scheme. Today, most of our members enjoy this benefit. The main objective of PensionDanmark Health Care is to prevent members from being worn down by their work, and to prevent minor injuries resulting in long-term absence, chronic disease and, in worst cases, early retirement pension.

Prophylactic treatments and Fast Track Diagnosis

PensionDanmark Health Care specifically provides access to interdisciplinary treatment from physiotherapists, chiropractors, masseuses and reflexologists to members who have e.g. back or neck problems. The treatments are offered at 125 health centres across Denmark. As no doc-

19 days

The average wait time for the first consultation with PensionDanmarks Fast Track Diagnosis. In the Danish public health care the wait time is 39 days.

tor's referral is required, access to the prophylactic treatments is simple and fast.

PensionDanmark Health Care's Fast Track Diagnosis ensures that the cause of the illness is quickly determined and that the member receive the appropriate treatment – without unnecessary delays.

Members also have access to health counselling over the phone regarding e.g. psychological issues and addiction.

Extending PensionDanmark Health Care

In 2015, PensionDanmark established a team of nurses to counsel members, who are already on or at risk of taking long-term sick leave. A wide range of initiatives are today in place to help members (interdisciplinary treatment, dieticians, psychologists, Fast Track Diagnosis, etc.), which strengthens their ability to maintain their job.

During 2015, the psychological help line was extended to also include assistance to members facing personal problems at work, such as bullying or stress or personal problems such as divorce or death.

PensionDanmark offers assistance to ill members

Since 2014, PensionDanmark has collaborated with the Danish Agency for Labour Market and Recruitment on integrating data on prolonged sick leave and flexible jobs. This collaboration means that members on sick leave, who have been absent from work for more than four weeks, as well as members who are registered as having flexible jobs, receive a letter from the Danish Agency for Labour Market and Recruitment.

They are encouraged to contact PensionDanmark for advice on relevant services, which they are entitled to receive. For instance, members on long-term sick leave are offered advice about the different products in PensionDanmark Health Care. Furthermore members with flexible jobs are informed about their rights to savings protection with PensionDanmark.

Health checks

As a new service, members can make a health check on PensionDanmark's website. This service calculates their *Body Age*. Depending on the results, the members are offered help through PensionDanmark Health Care.

“I rejoined the labour market. I'm not certain that would have happened, if I hadn't contacted the nurse.”

Truck driver, Ole Kusk, regarding the help he received from PensionDanmark while on sick leave.



Investment returns and jobs

Investments in real estate and infrastructure not only ensure members a good return - they also contribute to growth and employment in Denmark. That is also the case for the development of new corporate funding models.

In 2015, the first sod was cut for the development of a new court house in Svendborg, a residential development at Islands Brygge in Copenhagen and a new property for the Danish National Police in Glostrup.

PensionDanmarks real estate investments are designed to ensure that members enjoy good stable returns for many years. At the same time, they generate jobs during the construction phase. They are therefore examples of how PensionDanmark's investments both contribute to members' pension schemes and to growth and employment in Denmark.

This applies to a number of funding models for Danish companies that PensionDanmark has contributed to promote and design. These models generate new investment opportunities for PensionDanmark, while strengthening the Danish companies' funding and growth opportunities.

In 2015, via the fund Copenhagen Infrastructure II, PensionDanmark invested in another biomass-fuelled power plant in the UK (the third in a series), which the company Babcock & Wilcox Vølund, based in Esbjerg, will help to build, operate and maintain. Through the Copenhagen Infrastructure II fund, investments have also been made in the new offshore wind farm in the German part of the North Sea. Siemens Windpower in Denmark will be supplying the wind turbines.

PensionDanmark's investments in the Danish Climate Investment Fund and the Danish Agribusiness Fund, which are made in collaboration with the Investment Fund for Developing Countries (IFU) and the Danish Government, contribute to the enhancement of Danish companies' ex-

267

million euro

The amount committed to real estate investments each year.

“PensionDanmarks investments are incredibly important to the employment opportunities of our bricklayers, carpenters and instructors.”

Chairman John Schmidt, 3F Esbjerg, on PensionDanmark’s investment in the new headquarters for Semco Maritime in Esbjerg, which was handed over to the company on 1 December 2015.

port opportunities, which has a positive effect on growth and employment in Denmark. This is also the case for PensionDanmark’s collaboration with Denmark’s Export Credit Agency (EKF) regarding loans for Danish export projects.

Company funding

- Besides investments in publically listed Danish equity, PensionDanmark has through funds invested in almost 140 Danish companies – primarily small and medium-sized.
- PensionDanmark has invested more than EUR 134m in Danish corporate bonds. Together with various financial institutions PensionDanmark has participated in direct loans to Danish companies for an equivalent amount.
- PensionDanmark has also invested EUR 27m in the Danish Climate Investment Fund and equally in the Danish Agribusiness Fund. They invest in projects in developing countries, to which Danish companies supply knowledge and technology.
- PensionDanmark has committed a total of EUR 174m to fund export orders for Danish companies.

Focus on real estate

PensionDanmark has a real estate portfolio of approx. EUR 1.7bn covering commercial, residential and retail real estate as well as OPP projects. In the coming years, PensionDanmark will invest an additional EUR 268m in real estate a year. Many of the real estate investments are new developments that generate new jobs during the construction phase..

Required standards for PensionDanmark’s real estate developments

The general contractor and all subcontractors must be covered by Danish collective agreements - whether through membership of relevant employer associations or by joining a collective agreement with one or more relevant unions. The building site is run as a “role model workplace”, and it is required that an appropriate number of apprentices are hired.

Responsible investments

Active and responsible ownership is emphasized greatly by PensionDanmark. This applies particularly to identifying new and innovative solutions for funding direct investments in sustainable energy and energy infrastructure. It acknowledges that companies, which meet society's expectations with regard to the environment, society and management, also represent the best long-term investments for PensionDanmark's members.

Being a responsible investor complements and strengthens our goals of ensuring our members the best possible long-term returns. Well-run companies that manage their financial and non-financial risks well, reduce the risk for PensionDanmark as an investor, and can also increase the value of investments in the long run.

By the end of 2015 our assets under management totalled EUR 24bn. Even though there is a general policy for responsible investments that applies to all of PensionDan-

mark's assets, a different approach is taken depending on whether the investment is equity or wind turbines.

As a responsible investor, PensionDanmark's work on achieving responsible investments is supported by three pillars that ensure the highest possible returns for our members: Global engagement, screening and active ownership.

PensionDanmark follows the UN-supported Principles for Responsible Investment which make a sound basis for our work on responsible investments. In addition, the Board of Directors has passed guidelines for responsible investments that are based on generally accepted standards and conventions in effect.

Global Engagement

In order to create stable returns for our members, PensionDanmark relies on finding attractive companies and projects that are suitable for investment. This is particularly prudent in times of low interest rate as in recent years.

PensionDanmark engages in dialogue with the public authorities and other stakeholders concerning challenges facing society, and how private investors can assist in finding new and innovative solutions. On one hand, this

228

The number of companies we engaged in dialogue with in 2015.

expands investment opportunities for PensionDanmark, while on the other hand helps to resolve societal tasks and challenges.

This is particularly relevant for investments in low-carbon technologies and projects. In 2015, as co-investor, PensionDanmark committed to two new projects through the Copenhagen Infrastructure Partners II fund:

Brite (CIP II)

The 39MW biomass-fuelled power plant in the UK in collaboration with Danish-based B&W Vølund.

Veja Mate (CIP II)

The German 402 MW offshore wind farms.

These new projects supplement our existing assets – including the Anholt and Nysted offshore wind farms land-based wind turbine parks in the USA and the UK as well as a number of projects under construction – including a transmission network in Germany, two other biomass-fuelled power plants in the UK and wind farm off the coast of Scotland.

By the end of 2015, PensionDanmark had invested in or committed to invest in low-carbon energy infrastructure corresponding to approx. EUR 2.9bn, giving PensionDan-



Hermes EOS

Hermes EOS is a UK consulting firm that engages in dialogue with companies worldwide on behalf of a group of investors. Handling this task in-house is too resource-consuming, which is why PensionDanmark has chosen Hermes EOS as its representative. In addition, outsourcing this activity provides access to highly qualified sector and country specialists. Speaking on behalf of almost 50 institutional investors, thereby representing a large share of the company, entails that Hermes EOS's dialogue carries greater weight. Examples of how Hermes EOS works are provided on pages 14-15.

Nordic Statement on Innovative Climate Finance and CEO Climate Leaders Pledge

PensionDanmark co-signed the *Nordic Statement on Innovative Climate Finance*, which was launched at COP21 in Paris by the Nordic governments together with a group of investors. It encourages public and private investors to join forces and find new and innovative funding solutions to alleviate climate change.

PensionDanmark's CEO, Torben Møger Pedersen, joined CEO's from 78 other companies in a statement issued by the World Economic Forum's CEO Climate Leaders prior to COP21. They delivered the message that companies are ready to accept responsibility and urged world leaders to ratify a strong agreement at COP21 in Paris.

Tax

PensionDanmark complies with tax legislation in the countries where it invests. PensionDanmark expects the companies in which it invests, to pay owed taxes. In Denmark, PensionDanmark pays pension yield tax (PAL) on all investment returns as well as duties in the form of tax on labour costs and VAT. In 2015, on behalf of its members and in its own right, PensionDanmark paid a total of EUR 214m in tax and duties to the Danish tax authorities.

- > mark a share in 2,500 MW green power production capacity. Our share of these low-carbon energy assets corresponds to more than the power consumption of PensionDanmark's 684,000 members and their families annually.

PensionDanmark was an active participant in COP21 in Paris, where PensionDanmark contributed with investor insights on climate financing. In connection with COP21, PensionDanmark co-signed several pledges to take action, such as WEF's CEO Climate Leaders Pledge for Action, Nordic Statement on Innovative Climate Finance as well as the Paris Pledge, which involves a number of non-state actors committing to meet the Paris Pledge targets.

The statements convey the message that private investors play a vital role in promoting low-carbon technology. Stable framework conditions are required for investments, and public climate financing must be applied to reduce political and regulatory risk for private investors. E.g by using blended finance as applied in the Danish Climate Investment Fund, where the Danish Government, Investment Fund for Developing Countries (IFU) and Danish pension funds have joined forces to invest in climate-related projects in developing countries.

Screening

We continuously screen our listed investments (equity and bonds) for compliance with the Board of Directors' guidelines for responsible investments in relation to employers' and human rights, environmental and climate issues, corruption and good corporate governance. The guidelines

“Active ownership is a main concern. We are convinced that – by collaborating with other investors – we can help reduce the risk related to our investments and encourage companies in a more positive direction both for us as investors and for the rest of society. However, we are also aware that this challenging process requires patience and prioritisation.”

CEO Torben Møger Pedersen,
PensionDanmark

are built on generally accepted standards based on international conventions such as the UN Declaration on Human Rights, ILO conventions, Rio Declaration on the Environment and Development as well as the UN Convention Against Corruption. Together they are the foundation for the ten principles of UN's Global Compact.

Our investments in public equity are monitored by our external partner, Hermes EOS, who reports to PensionDanmark about any possible guideline violations.

For private equity, such as direct investments in real-estate infrastructure and private funds, the screening process is different. These are often illiquid and character-



ised by a longer time frame. Consequently, the screening in the due diligence process – before the asset is acquired – is even more detailed. For example, the potential collaboration parties are screened – including whether their approach to responsible investment and CSR policy etc. corresponds to PensionDanmark’s expectations and requirements.

PensionDanmark is the developer of a number of properties leased to private companies and public authorities. The most important decisions are made even before the first sod is cut. When PensionDanmark builds commercial developments, it is a requirement that the building

must be certified in terms of sustainability. Sustainable buildings are attractive to many companies, as they reduce the cost of energy and create better indoor climate. At the same time, the sustainable dimension provides PensionDanmark with greater security in regards to the prospective leasing of the building. In 2015, the headquarters of Semco Maritime in Esbjerg, Gladsaxe Company House and Alfa Laval in Aalborg were certified.

Gladsaxe Company House, was the first building in Scandinavia to be awarded a platinum certification by the Green Building Council (DGNB), as the building meets the standard’s strictest requirements for sustainability. >

On the right: Gladsaxe Company House is the first building in Scandinavia to be awarded platinum certification by the Green Building Council (DGNB). The certification was awarded based on e.g. choice of materials, rainwater drainage and the opportunity for conversion to new types of rental in the future, such as conversion from offices into halls of residence or a hotel.

Background photo: DolWin3 is a transmission network that will transport power to the mainland from a number of offshore wind farms in the German part of the North Sea. DolWin3 is scheduled for completion in 2017, and the system will have a total capacity of 900 MW. PensionDanmark has invested EUR 389m in Dolwin3.





> **Active ownership**

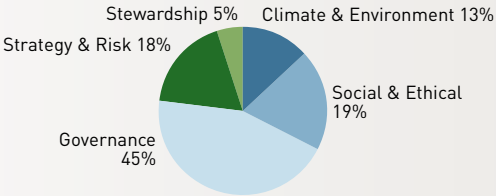
The final pillar – active ownership – is closely linked to screening. Based on screening results, PensionDanmark engages in dialogue with companies whose conduct does not align with the interests of the shareholders in terms of managing environmental, social and management issues. This is carried out by our external partner, Hermes EOS. Similarly, influence is exerted via the right to vote at the company’s general meetings. PensionDanmark independently administers voting for Danish publicly traded companies, whereas Hermes EOS – based on PensionDanmark’s voting policy – is in charge of voting concerning foreign companies. In 2015, PensionDanmark voted at

1,093 annual general meetings. An overview of the engagement issues and voting statistics is provided below.

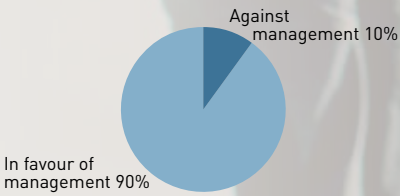
Together with PensionDanmark, Hermes EOS determines which companies should be scrutinized. The selection is based on a risk assessment and whether Hermes EOS will be able to make a positive influence through a sufficient ownership share in the company through its clients.

The dialogue often involves a long-term process with gradual progress to promote further improvements. This process can be particularly challenging in relation to companies where the corporate culture and approach to

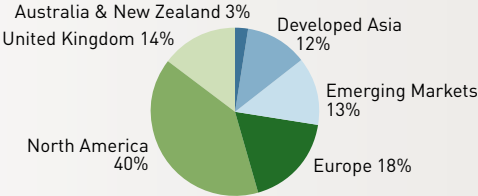
Engagement - issues



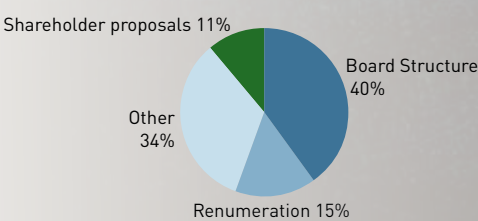
Voting statistics




Engagement - countries



Votes against management - issues



A man with a beard, wearing a dark long-sleeved shirt with a pink logo on the shoulder and blue work pants, is leaning over a dark surface, possibly a roof. He is wearing yellow and blue work gloves. In his right hand, he holds a screwdriver with a yellow handle. The background is a bright blue sky with some white clouds. The overall scene is outdoors and appears to be a construction or maintenance site.

good corporate governance differ from those prevalent in a Danish context.

To build the best platform for achieving results, the discussions are generally confidential, as the companies are then more willing to enter into a constructive dialogue. Information on select cases of non-confidential dialogues with companies is provided at pensiondanmark.com.

Occasionally, if the discussions are fruitless or a company entirely refuses dialogue, the invested share in the company may ultimately be sold.

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