Guide to responsible investment

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Preface by the Danish Minister for Economics and Business Affairs, Brian Mikkelsen

Economic growth is essential to the continued existence of the welfare society. In addition, the world is facing enormous challenges in relation to issues such as violations of human rights, destruction of nature and the environment, the safety and distribution of food supplies, drinking water resources, etc. As co-owners, investors have an opportunity – but also a responsibility – to contribute both to tomorrow's growth and to responsible business management.

Several companies have acknowledged that they are dependent on natural resources, competent staff and a positive image among their customers. They therefore realise that their company and society have a shared interest in incorporating social responsibility into their business Principles. I am convinced that today there is no conflict of interest between adopting a responsible approach and optimising financial returns.

The government is very keen to see investors take social responsibility into account in their investments. The question is: How do you invest in a responsible manner?

This is a question that is regularly the subject of public debate and where it is often suggested that certain types of investments should be banned. Institutions like pension funds are often under considerable pressure from the public to divest in companies with a poor corporate responsibility record to prevent retirement savings from contributing to activities that are harmful to society. This is especially the case when it comes to preventing Danish investors from contributing to human rights violations, child labour, the production of cluster weapons and similar reprehensible conduct.

It is the government's opinion that a ban on specific investments in principle is a bad idea. Investors have a special relationship with a company's management and can demand that the company addresses matters that are open to criticism. This is a much more effective way than divestment to promote social responsibility and sustainability.

The government's approach of discouraging a ban on specific types of investments is in line with the United Nations-backed 'Principles for Responsible Investment Initiative' (PRI). The purpose of establishing PRI was precisely to promote responsible investment through active ownership. However, it is also important to acknowledge that the engagement of investors does not always lead to the desired result and may turn out to be futile. Investors should therefore seriously consider abandoning their engagement if there is no response from the company or no will to address the problem.

The Principles are internationally recognised and can be used as a reference, no matter where in the world the investors are operating. In addition, they are equally relevant to all types of social issues, whether child labour, environment or cluster weapons.

The government agrees with PRI that divestment is an "emergency solution". In reality, divestment reflects the lack of success of the investors in contributing to sustainable development via their investments. On the contrary, investors should assume social responsibility by being active owners and making demands on the companies in which they invest. This can be a slow process that requires patience.

Responsible investment and active ownership are complex issues, and it can be difficult to translate social responsibility into practical initiatives for active ownership. With these guidelines, the government therefore wishes to assist investors who are motivated to make responsible investments and to be active investors but find it difficult to get started. The guidelines are also intended to provide inspiration and encourage even more investors to take social considerations into account in their investments.

The government is pleased that the number of Danish investors who have adopted the UN recommendations and PRI has increased from 4 to 24 since 2008 and hope that even more investors will join PRI. The adoption of PRI by investors also makes it possible to further strengthen active ownership via international collaboration. One of the purposes of PRI is precisely to create a basis on which investors can collaborate and jointly make demands on the companies in which they invest.

Investors can therefore benefit from PRI collaboration, and it is hoped that these guidelines can help show them how.

Brian Mikkelsen
The Danish Minister for Economic and Business Affairs

Preface by PRI Executive Director, Dr James Gifford

Back in November 2008, I had the pleasure of participating in a roundtable conference at Princeton University entitled "The Promise of Socially Responsible Investment". The roundtable was organised by the Danish Government and the Bendheim Center for Finance (Princeton). The purpose was to launch a research agenda on how to integrate environmental, social and governance factors - the so-called "ESG factors" - into mainstream investment analyses and decisions. This also became the starting point of a unique and close collaboration between the Danish government and the UN-backed Principles for Responsible investment (PRI).

Since then we have seen a number remarkable Danish initiatives to support corporate responsibility and responsible investment and the Danish government has become a global leader in this field. This Danish guide to responsible investment based on PRI is the latest example of this.

The PRI initiative is about strengthening the role of the financial sector in building a more stable, sustainable and inclusive global economy. PRI does this by offering a cooperative institutional framework that supports the inclusion of ESG factors into investment decisions and ownership practices.

However, the strength of PRI depends on our ability to gain the support of the financial sector worldwide. That is why this guide to responsible investment and PRI is so important.

By illustrating how Danish investors have translated PRI into practice, this guide carries a great potential of mobilising the financial sector in Denmark and increasing the number of Danish PRI signatories.

PRI cannot secure global support alone. On behalf of PRI and the global financial community I am therefore very pleased with this initiative by the Danish government to support the PRI initiative.

Dr. James Gifford
Exceutive Director,
Principles for Responsible Investment

About this guide

Purpose

This guide is an introduction to the concept of responsible investment in general and in particular to the international initiative to promote responsible investment called the Principles for Responsible Investment (PRI)[1]. The PRI was established on the initiative of a number of the world's largest investors in collaboration with the UNEP FI (the UN Environment Programme Finance Initiative) and the UN Global Compact. The PRI was launched at the New York Stock Exchange in April 2006 by the then Secretary-General of the UN, Kofi Annan.

The basic principle of the PRI is that investors sign a joint declaration to assume social responsibility in connection with their investments and comply with the six key Principles for Responsible Investment. The declaration and the six Principles for Responsible Investment are outlined in the text box below[2].

The Principles for Responsible Investment are as follows:
As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with the broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues[3] into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Both the PRI as an institution and the six Principles for Responsible Investment should be seen in the context of the UN Global Compact and the UN's Environment Programme Finance Initiative (UNEP FI), which coordinated the process that led to the establishment of the PRI.

The UN Global Compact is an initiative to promote a set of universal core values for corporate social responsibility within human rights, labour rights, environment and anti-corruption. The Global Compact is therefore an important frame of reference for the PRI,

1 The PRI Initiative is often called the UN PRI to highlight the association with the UN (United Nations). Formally, the PRI is not part of the UN, and this guide will therefore use the abbreviation PRI.

2 The translation is unofficial. For the official English wording, please go to the PRI website: www.unpri.org.

3 ESG is an abbreviation of "Environmental, Social and Governance".

and the PRI should be seen as an extension of the UN Global Compact. With reference to the PRI, a number of investors have, for example, asked companies to endorse the UN Global Compact, and investors have contacted companies that have endorsed the Global Compact and commented on their reporting to Global Compact.

The purpose of this guide is to encourage investors to include social responsibility considerations in their investment decisions by joining the PRI. As co-owners, investors have unique opportunities to influence companies to demonstrate social responsibility. It is hoped that this will optimise both the financial gain of the investors and that of society as a whole.

The world is facing enormous challenges in the form of violations of human rights, the destruction of nature and the environment, the safety and distribution of food supplies, drinking water resources, etc. Several companies have in fact acknowledged that they are dependent on these natural resources. They therefore realise that they and society have a shared interest in making social responsibility part of their business fundamentals. In addition, scandals in the international financial sector have suggested that poor business and governance principles in the financial sector may have contributed to the current financial crisis.

With these guidelines, the Danish government therefore encourages investors to join the PRI. The PRI collaboration constitutes both a framework and a tool to incorporate social responsibility in investment decisions. The PRI can therefore strengthen the efforts of investors to promote social responsibility via their investments.

Target group

This guide targets a broad range of investors and describes the considerations they should take into account in their investment decisions. The PRI Principles apply to the management of investments in general, and both the PRI and these guidelines are, therefore, as a general rule, relevant to all investors. In practice, however, these guidelines will be most relevant for the typical PRI signatories and members. The PRI divides potential signatories and members into three main categories:

1. Asset owners: Organisations that represent end-asset owners who hold long-term retirement savings, insurance and other assets. Examples include pension funds, government reserve funds, foundations, endowments, insurance and reinsurance companies and depository organisations. This is the principal category of signatory.

2. Investment managers Investment management companies that serve an institutional and / or retail market and manage assets as a third party provider.

3. Professional service partners: Organisations that offer products or services to asset owners and/or investment managers. Although such professional service partners are not stewards or managers of assets in their own right, they do have considerable influence over how their clients address ESG issues. For this group becoming a signatory is an acknowledgement of the relevance of ESG issues to investment management. It also represents a commitment to providing and promoting services that support the implementation of the Principles by clients, and to improving such services over time.

The primary PRI target group is the first-mentioned category (asset owners), which typically consists of the so-called "institutional investors" including pension funds, insurance companies and similar financial institutions[4]. This group of investors is responsible for a large amount of total investment funds in Denmark. Danish banks and other fund managers in the second category probably manage a large share of these funds on behalf of investors in the first category[5].

In Denmark, the use of strategies for ethically responsible investment is growing rapidly. A report on ethical investments from the Danish Insurance Association (Forsikring og Pension) from 2009 shows that 79 per cent of pension funds have drawn up guidelines for responsible investment. This is a considerable increase compared with the previous year when the figure was 66 per cent[6]. At the same time, the number of Danish signatories to the PRI increased from 4 to 24 between May 2008 (when the government launched its action plan for corporate social responsibility) and mid 2010.

Content and structure

Part 1 of the guide further describes the background and purpose of the guide in the light of other government policies and initiatives relating to corporate social responsibility, including the action plan for corporate social responsibility dated May 2008. In addition, Part 1 includes a brief explanation of the use of the term 'responsible investment' in this guide and the commercial justification for responsible investment.

Part 2 of the guidelines covers what PRI is actually about, including what the six Principles for Responsible Investment entail, as well as the obligations and opportunities that are part and parcel of PRI membership.

Part 3 of the guidelines gives an overview of some of the methods, strategies and approaches to responsible investment normally used by investors. It is not the intention to discuss the categorisation of the different approaches in this guide. The purpose of the overview is primarily to give an idea of the variety of methods and strategies available.

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4 There is no official/legal definition of the term 'institutional investor'. The EU Commission has also not decided on an official definition of the concept. Normally, an institutional investor is interpreted as an investor trading in securities (typically shares and bonds) on behalf of other individual investors (e.g. private individuals) and who is not directly involved in operating or managing the companies in which the funds are invested. Generally speaking, the group of institutional investors includes insurance companies and pension funds, financial investors such as banks, savings banks and unit trusts, as well as ATP (the Danish Labour Market Supplementary Pension) and LD (the Employees' Capital Pension Fund).

5 The exact value of total investments in Denmark has not been calculated, as the value of the total portfolio naturally depends on the current market value of the individual assets.

6 Helle Vestmar Winther, "Pensionsinstitutternes offentliggjorte strategier for etisk ansvarlige investeringer (SRI) 2009" Forsikring & Pension, 2009.

Part 4 of the guide focuses on the application of PRI in practice. Each of the six Principles of PRI is discussed and commented on and illustrated by examples of how the Principles have been translated into actual initiatives. The intention is that these examples should inspire investors to start incorporating the Principles for Responsible Investment in their business strategies. It is therefore recommended that the guide be read together with these practical examples.

1. Background and concepts

The government's social responsibility policy and other government initiatives

In 2008, Denmark made social responsibility reporting a legal requirement as part of the government's action plan for corporate social responsibility[1]. The legal provision requires approximately 1100 of the largest Danish companies to prepare an annual report on corporate social responsibility, including policies and actions and what has been achieved as a result of their work with corporate social responsibility. The reporting requirement also applies to the financial sector, as set out in the executive orders of the Danish Financial Supervisory Authority[2]. Almost all financial companies in Denmark are covered by this reporting requirement.

According to the Act, companies can comply with the reporting requirement by endorsing the UN Global Compact and submitting reports in the form of Communications on Progress (COP). The corporate social responsibility reporting to the PRI is referred to as particularly relevant for financial companies. In this way, Danish legislation is directly linked to the international principles for corporate social responsibility as regards the reporting of both financial and other companies[3].

The legal requirement for social responsibility reporting is a duty of disclosure relating to the corporate social responsibility initiatives of companies and investors. In general, the government encourages investors to demonstrate maximum transparency in relation to investments, including the extent to which investors comply with the PRI. Transparency about the way investors exercise active ownership in practice is of particular interest. Transparency in this area increases credibility vis-à-vis clients and other stakeholders and can help give Denmark a reputation for responsible growth – one of the stated purposes of the legal requirement. At the same time, the government recognises that, in some cases, investors can only influence the management of a company via active ownership on the condition of a certain amount of trust and confidence. In specific cases, transparency about the finer details regarding engagement processes[4] and dialogue may therefore be inappropriate.

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1 Section 99a of the Danish Financial Statements Act. Act no. 1403 of 27 December 2008 on amendments to the Danish Financial Statements Act.

2 Executive Order no. 1305 of 16 December 2008 (on the financial reporting of credit institutions and stockbrokers, etc.); Executive Order no. 1307 of 16 December 2008 (on the financial reporting of the Danish Labour Market Supplementary Pension, special pension schemes and the supplementary pension for people in early retirement); Executive Order no. 1310 of 16 December 2008 (on the financial reporting of insurance companies and lateral pension funds) as well as Executive Order no. 1043 of 5 November 2009 (on the financial reporting of unit trusts and special associations, etc.).

3 It should be noted that, at present, the reporting to the PRI and the reporting on social responsibility as set out in the Danish Financial Statements Act take place at different times of the year. PRI reporting takes place after completion of the financial statements, so in practice it can be difficult to include it in the financial statements.

4 In this connection, we use the term 'engagement' to indicate that investors interact and enter into dialogue with companies in different ways (see also "Active ownership" under Principle 2).

In 2009, the Danish government also established the Danish Council on Corporate Social Responsibility as part of its action plan for corporate social responsibility. Council members come from a wide range of sectors, including industry, finance, NGOs and labour and consumer organisations. They have expressed a common understanding of corporate social responsibility:

> The company demonstrates corporate social responsibility and creates value for both the business and society by entering into dialogue with its stakeholders to address social, environmental and ethical challenges in accordance with internationally recognised principles.[5]

In accordance with this definition, it is the recommendation of the UN, the PRI as well as the Danish government that investors endeavour to create continuous improvement via ongoing dialogue, engagement and collaboration with the companies in which they invest. In general, social and environmental problems therefore should not result in divestment or similar activities.

The PRI does not directly define what constitutes an acceptable standard of social responsibility and also does not focus on particular social considerations or ethical issues.

In line with the recommendations of John Ruggie, the UN General Secretary's special representative on business and human rights, the government is nevertheless of the opinion that companies have an obligation to respect human rights, despite the fact that international law, including in particular human rights law, in principle only imposes obligations at state level. Companies respect human rights by demonstrating due diligence and by not being party to violations. Similarly, investors also have a responsibility to respect human rights and to avoid being party to violations of international law, including human rights law.

In the opinion of the government, investors therefore have a responsibility to make sure that their investments do not contribute to major violations or breaches of law. This is particularly important as responsible investment in the form of active ownership and engagement (cf. Principle 2 of the PRI) is a demanding process.

It is also important to acknowledge that the engagement of investors does not always lead to the desired result and may turn out to be futile. Investors should therefore seriously consider abandoning their engagement if there is no response from the company or it is unwilling to address the problem.

5 "Guidelines for sustainable supply chain management". The Danish Council on Corporate Social Responsibility (CSR), June 2010.

The prospects of achieving results via active ownership and engagement determine whether such a strategy can be maintained, but there is no clear-cut deadline for when success with engagement should be achieved or when investors should sell their investments. The factors that determine for how long an investment can be maintained in the presence of serious violations of human rights or similar are more likely to be for how long – and with what degree of credibility – the investors can exercise active ownership and engagement.

With reference to the PRI and the six Principles for Responsible Investment, divestment should always be regarded as an emergency solution. Investors should assess the consequences of discontinuing the collaboration and selling their investments. Would divestment, for example, result in a worsening of the situation?

Regardless, this guide and the recommendations of both the PRI and the government have no impact on the obligations of institutional investors as set out in legislation, including the fiduciary duty to manage funds with a view to ensuring the maximum possible return.

What is responsible investment?

As is the case with corporate social responsibility in general, responsible investment involves managing the social/societal challenges associated with a company's activities. Examples are environmental challenges, labour rights, child labour, stakeholders, fringe benefits, anti-corruption policies and more. Social responsibility also implies that companies utilise any business opportunities that result from contributing to solving social and environmental challenges, for example through the development of energy-efficient technologies and environmentally friendly products. Company taxation is also becoming part of the CSR/SRI debate, although the topic is not an ESG issue directly mentioned in connection with the Global Compact and PRI. In particular, the practice of multinational corporations of declaring company earnings depending on national taxation rules has provoked a demand for increased transparency in the form of country-by-country reporting to ensure that taxation takes place in the country where the earnings are actually generated.[6].

It is therefore important to investors, first of all, that companies are able to incorporate social responsibility in their management and that they are able to manage the risks associated therewith. A company that does not work systematically with ESG issues may have poor risk management and may therefore constitute a less safe investment. Secondly, the ability of a company to react proactively to society's current and future challenges and to utilise the business opportunities they present impacts on the company's commercial value.

6 Prominent NGOs around the world have thus pointed out that a lack of transparency and accountability in this area can limit the possibilities of taxing multinational corporations. They have indicated that it is likely that third world countries, for instance, would receive considerable funds from the taxation of income from activities such as raw material exploration if greater transparency could be achieved in this area. See, for example, Task Force on Financial Integrity and Economic Development *"Country-by-Country Reporting: Holding multinational corporations to account wherever they are".* (June 2009).

In connection with this, it is relevant to emphasise that the involvement of investors in social responsibility traditionally has targeted listed shares and company bonds. There is, however, a tendency for other types of assets, such as unlisted shares (private equity), government bonds and property, to also become the subject of the Principles for Responsible Investment.

There is no unequivocal definition of (socially/ethically) responsible investment. In English, the term Socially Responsible Investment (SRI) is often used when investments take environmental, social and governance considerations into account (the so-called ESG considerations).

The Eurosif organisation (*European Sustainable Investment Forum*), for instance, uses the term SRI as a generic term for *Sustainable and Responsible Investment, and defines SRI as:*

> » A generic term covering ethical investments, responsible investments, sustainable investments and any other investment process that combines the financial objectives of investors with their concerns about environmental, social and governance (ESG) issues[7]

The Principles for Responsible Investment under the PRI and this guide are in accordance with such a generic approach to the incorporation of social responsibility in investment decisions. However, in general, the PRI leaves out the word 'Socially' and simply talks about 'Responsible Investment'. The point is (from the perspective of PRI) that the Principles for Responsible Investment should target institutional investors and the financial sector in general, cutting across individual business areas. The Principles therefore are not only aimed at SRI products or portfolios combined in accordance with specific considerations.

Why Socially Responsible Investment?

An increasing number of companies experience that social considerations affect their financial bottom line, and in a number of countries social responsibility is now included in the recommendations for good governance. In other words, there is now a general understanding that ESG issues affect the assessment of the value of a company, and therefore also the value of any investments in the company.

The ATP (the Danish Labour Market Supplementary Pension) is of the view, for instance, that a focus on social responsibility in connection with investments can protect and increase the return on its investments, and that investments in companies with a busi-

7 Eurosif. "European SRI Study 2008".

ness-focused approach to social responsibility have the potential to increase the value of ATP's investments. Conversely, the ATP thinks that a company's lack of focus on social responsibility presents a risk that threatens the value of ATP's investments.

ESG considerations are, therefore, increasingly taken into account in investment analysis. The question of the profitability of including such considerations when combining investor portfolios has long been a subject of interest to investment analysts and financial researchers.

In recent years, a positive connection between social responsibility and financial return seems to have gained strength, and concerns about any negative impact appear to have been unfounded.

A study of the connection between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP), which is probably the most comprehensive study to date, thus shows a modest yet statistically significant positive connection. The analysis also concludes that demonstrating social responsibility has no negative financial impact on a company[8].

It is presumed that this positive connection between the efforts of a company to demonstrate social responsibility and its financial results especially applies in the long term. The connection appears to be even stronger if industry-specific conditions are taken into account or if you focus on certain areas of initiative that are of special importance to the individual company[9].

This approach is in line with the recommendations in the government's action plan for corporate social responsibility (2008), according to which strategic social responsibility should always be based on company-specific factors.

Likewise, the challenge of Socially Responsible Investment is a concrete and specific challenge to any individual investor. The Principles for Responsible Investment under the PRI have been specifically designed to make allowance for such variations in the approach of financial companies to social responsibility.

8 Joshua D. Margolis (et al.). "Will companies cure what ails us? Don't bank on it: Evidence from a meta-analysis of the relationship between corporate social and corporate financial performance". (2008).

9 See analysis from Goldman Sachs Group, Inc, "GS Sustain Focus List" (2005). For a special focus on climate considerations, see analysis from Carbon Trust and McKinsey & Co, "Climate Change – a Business Revolution? How tackling climate change could create or destroy company value". (2008).

2. What is PRI?

Background and organisation

In 2005, the Secretary-General of the UN, Kofi Annan, invited 20 of the world's largest institutional investors from 12 different countries to develop a set of international Principles for Responsible Investment.

These 20 investors were invited to form an 'Investor Group' (a sort of precursor to the PRI) with the aim of formulating key Principles for Responsible Investment. This group was supported by a 70-person multi-stakeholder group of experts from NGOs, universities, the industrial sector, governments, etc.

The process of drafting the principles, which took place between April 2005 and January 2006, was coordinated by the UN Global Compact and the UN *Environment Programme Finance Initiative* (UNEP FI) and involved a number of face-to-face meetings by investors and by experts, with hundreds of hours of follow-up activity (source: www.unpri.org). The current six Principles for Responsible Investment emerged as a result of these meetings. The Principles were launched by Kofi Annan at the New York Stock Exchange in April 2006.

What do the Principles for Responsible Investment mean?

The collaboration within PRI and the above-mentioned six Principles represent general guidelines for assuming social responsibility in connection with investments. The PRI offers tools and a framework for collaboration that support investors in their efforts to make responsible investment decisions, including their possibilities of influencing the management of a company, when considered relevant.

It is up to the individual investors to translate the Principles for Responsible Investment into specific investment and business strategies, but, as members of the PRI, they are obliged to report to the PRI about their endeavours to promote and practise responsible investment.

The PRI does not give any specific recommendations as to which products or companies investors should prefer or avoid, i.e. the composition of the investment portfolios. The PRI also does not focus on particular social or ethical issues, such as how investors should deal with investments in cluster weapon manufacturers, polluting companies or companies with other morally reprehensible activities.

The PRI Principles are of a general nature and the PRI emphasises that the initiative allows investors to comply with the six Principles in many different ways. The Principles are nevertheless ambitious and enable investors to continuously improve their practical implementation.

The PRI and the six Principles do not provide any directions – or 'recipe' – for ways to carry out responsible investment. The intention is that investors should define the strategies, methods and priorities that best suit their particular financial business. It would, for example, be entirely in keeping with the PRI for an investor to focus on the areas that present the greatest problems and risks to their own particular business.

What do you commit to do?

PRI membership primarily consists of endorsing the six Principles for Responsible Investment (for further information about the procedure, see the PRI website www.unpri.org). PRI membership only comes with one specific obligation: to complete the annual Reporting and Assessment process, which consists of a questionnaire distributed by PRI to its members. The obligation to report and the main components of the report are described under Principle 6.

After joining, members must answer the questionnaire relating to the second year of membership, at the latest and, consequently, many will not have completed their first questionnaire until the following year (i.e. the third year of membership). Members who fail to complete the questionnaire are delisted. In 2009, five PRI members were delisted for failing to complete the questionnaire. This reporting is thus one of the PRI's most important tools for knowledge sharing and promotion of the Principles for Responsible Investment. It is therefore also one of the key components in the PRI work streams (see below). From 2011, parts of the responses of the individual members to the questionnaire will be published[1].

There is currently no compulsory fee for membership of the PRI. Many investors choose to pay, and their contributions help finance the PRI secretariat. From 2011, an annual mandatory fee will be introduced for all signatories. The fee will depend on the size of the portfolio of the investor, but will not exceed USD 10,000 per year.

How does PRI work?

As a PRI member, you get access to a common institutional framework – and a common network – within which investors can develop and strengthen their strategies for responsible investment and integration of ESG considerations in connection with their investments.

This common framework consists of a number of support activities. At present (2010), these activities, which the PRI calls 'work streams', include:

- PRI Academic Network
- Engagement Clearinghouse
- PRI in Practice
- PRI Enhanced Research Portal
- Reporting and Assessment Tool
- PRI in Emerging Markets and Developing Countries

1 At the time of printing, no specific information was available about the extent to which the replies to the questionnaire will be published in the future (see also under Principle 6 in Section 4 of this guide).

- PRI in Private Equity
- PRI in Property
- PRI Public Policy Network

These work streams cover different activities, all of which offer PRI members a number of advantages with regards to the implementation of the Principles. It is not the intention of these guidelines to describe each of these activities in detail (for further information go to the PRI website). The following are, however, particularly important for PRI collaboration (source. www.unpri.org):

PRI in Practice™ The PRI in Practice™ implementation blog is an online knowledge base with implementation resources such as interviews with key industry practitioners, book reviews and issues briefs.	**Network activities such as:** PRI in Person Annual Event: This event brings together signatories once a year to brainstorm implementation strategies, network and find partners for collaboration. Regional networks: members from the same geographical region may be interested in discussing regional aspects of PRI. A Nordic network for PRI members has been established. The first meeting (with 60 participants) took place in Hillerød (at ATP) in May 2010.
Engagement Clearinghouse A web-based intranet providing signatories with a mechanism to share information and proposals on shareholder and other engagement activities they are conducting, or would like to conduct with other signatories.	**Reporting and Assessment Tool** Annual survey of signatory implementation activities, analysing and identifying best practice, areas for improvement and barriers to implementation. As well as providing signatories with an overview of what leaders in the field are doing, this tool helps signatories assess and report on their own progress. Responding to the survey (questionnaire) is compulsory.

An important function of the PRI Clearinghouse, apart from the fact that it allows investors to speak with one voice, is that it reduces the cost of assessing and monitoring the ESG issues of the companies. These costs can be considerable and are generally borne by the investors exercising active ownership and engagement, while the benefits are shared by all shareholders. By pooling resources in a confidential online forum, these ‘free-rider dilemmas’ can more easily be overcome.

The PRI Reporting and Assessment tool is one of the PRI's most important tools for knowledge sharing about how best to translate the six Principles for Responsible Investment into policies and actions. The questionnaire and the individual responses form the basis of the PRI's annual Report on Progress, which provides an overview of member activities and progress. The advantages of the survey include:

- **Learning:** members can monitor their progress with the implementation of the Principles. The survey includes a detailed analysis of the implementation of each individual principle and a comparison of peers locally and internationally as well as over time.
- **Best practice:** the PRI secretariat can identify best practices, interesting trends and ideas for implementation.
- **Transparency:** the survey creates transparency among members and within the PRI as a whole.
- **Reporting framework:** the survey gives members a framework for reporting to clients, shareholders, owners and the general public.

After completion of the annual questionnaire, about one third of PRI members receive a verification call from the PRI or an independent third party. The call serves to verify the investor's response to the questionnaire and gives PRI members an opportunity to explain their approach to responsible investment in more detail and discuss new ideas.

The responses are anonymous, but PRI members receive individual feedback reports that show how the individual investor has scored compared with other members. The **feedback report** is confidential but the PRI encourages members to publish the report and their response to the questionnaire on the PRI website. In 2009, 72 PRI members chose to publish their response to the questionnaire in this manner.

Via these work streams, PRI collaboration therefore offers a number of different tools to help members get started with the implementation of PRI or with increasing the effect of any specific demands made to companies to demonstrate social responsibility.

As will appear from the following, Socially Responsible Investment can be exercised using a number of different methods and strategies.

3. Methods and strategies – an overview

In the following we will discuss some of the most common methods and strategies for responsible investment used by institutional investors (SRI methods/strategies). The intention is to give an impression of the many different ways to tackle this challenge.

Most investors manage their investment portfolios with a view to protecting their investments and ensuring an optimum balance between risk and return. Responsible investment is about including social responsibility (ESG considerations) as part of this portfolio management. The following are a number of typical methods used to a greater or lesser extent by investors the world over.

On the basis of international studies, the European Social Investment Forum (Eurosif)[1] has tried to categorise the different methods frequently used by investors in Europe.[2]. There is, however, no agreement or consensus within the investment industry on how to describe or categorise the different approaches to and methods of responsible investment. Generally speaking, you can distinguish between:

1. Methods aimed at sorting companies in the portfolio by selecting or deselecting specific investment objects
2. Methods that involve the exercise of active ownership via engagement and dialogue with the companies in which you have already invested

It is important to point out, however, that the strategies can be combined and therefore are not mutually exclusive. Different forms of screening and ratings can be used *both* as a component in the sorting of investment objects (selection/deselection) *and* as part of a prioritisation of the companies in the existing portfolio that you will endeavour to influence through active ownership.

The categorisation of the different strategies and methods will not be discussed in detail in here. Instead, some of the typical methods are described below, indicating whether they can be seen as part of the process of sorting investment objects or as part of attempts at actively influencing companies in the existing portfolio.

Selection/deselection of investments

Negative screening implies a deselection of certain investment objects. In this case, certain types of companies are deselected based on moral or ethical criteria (such as gaming or alcohol). This is a typical example of a deselection of morally 'sinful' assets, and it can obviously vary from one investor to the other what assets fall into this category. Negative screening also includes a deselection of investments on account of international norms and conventions, such as e.g. the *Convention on Cluster Munitions* (norm-based screening). In comparison, this involves universally agreed moral and ethi-

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1 See Eurosif, "Pension Programme SRI Toolkit 2004-2005" and Eurosif "European SRI Study 2008". Eurosif is an umbrella organisation for a number of national forums for responsible investment. Dansif is the Danish equivalent whose members include a number of Danish institutional investors and advisors within responsible investment. Similar forums exist in Sweden, the Netherlands, France, Germany and Belgium.

2 Eurosif, "Pension Programme SRI Toolkit 2004-2005".

cal considerations regarding human rights, labour rights, environment, weapon production and the like.

Positive screening involves consciously selecting companies based on certain SRI criteria/sustainability criteria. Broadly speaking, positive screening can either involve selecting companies with responsible business practices and good integration of ESG considerations in general and/or companies that produce specific products or technologies of potential use to society (such as wind turbines).

SRI Theme Funds are a variant of the latter. In this case, investors try to select the winners and target their investments towards, for example, technological themes that are expected to have a particularly good business potential due to their usefulness to society.

With the so-called "Best-in-Class approach", investors select companies based on how well they do compared with others in the same industry measured in accordance with ESG criteria.

TABLE 1 SELECTION/DESELECTION (OVERVIEW)

Negative (deselection)	Positive (selection)
• Deselection on moral, ethical and/or religious grounds • Norm-based deselection based on international norms, conventions and the like	• Targeted investments of potential use to society • SRI Theme Funds • Best-in-Class This positive selection of investments is typically based on different forms of ratings

As mentioned above, screening and rating can be used for both selection and deselection of investment objects and for prioritising active ownership efforts within the existing portfolio.

Active ownership

More than anything, active ownership and PRI collaboration are about managing existing investments. It is a characteristic feature of active ownership that investors try in different ways to influence companies in their existing portfolios. It is, however, important to emphasise that strategies based on selection and deselection of investments can be combined with active ownership strategies. Divestment can therefore become relevant even if investors use dialogue and engagement as their primary strategy.

Active ownership can of course be exercised on an ad hoc basis, depending on whether situations arise that encourage investors to enter into dialogue with or take other initiatives involving the management of a company. As an example, events like BP's oil leak in the Mexican Gulf (2010) can give rise to reactions from investors apart from purely market-based reactions like the sale of shares. (BP experienced a considerable drop in share prices during the period following the oil leak). Sudden crises such as this one can give rise to questions about environment and safety, also from investors who were not previously interested in the environmental aspects of BP's activities.

In terms of the PRI and the Principles for Responsible Investment, the intention with active ownership is that it should form part of a strategy for responsible investment that can be incorporated into the general investment policy.

The key element of active ownership consists of different forms of engagement and dialogue with companies in the portfolio that the investors wish to influence. In this guide, we use the term 'engagement' to indicate that the investors interact with companies in different ways to ensure that ESG considerations are included in their business practices to some extent.

Basically, engagement can be divided into three different categories of methods and activities (see table below).

TABLE 2 ENGAGEMENT METHODS (OVERVIEW)

Private/ confidential	• Ongoing dialogue and discussion with company management • Written enquiries about specific issues • Meetings and discussions about specific issues
Public	• Participation in general meetings • Proposals for resolutions • Voting, including proxy voting • Convening extraordinary meetings • Press releases and briefings
Collaborative	• Contact with other shareholders • Collaboration with other shareholders about specific demands or actions • Clearinghouse actions

Public engagement comprises the most basic and formal methods of influencing a company. As an active investor, the first step to consider is the exercise of shareholder rights. You can voice your opinion about the company's business practices and use your voting rights at general meetings. The general meeting is a forum in which you can raise questions about the company's social responsibility. In addition to voting, you can consider the option of issuing resolutions, perhaps accompanied by specific recommendations to the management of the company. Press releases and briefings can also be used to put public pressure on a company.

Private/confidential engagement comprises direct contact with company management in the form of ongoing dialogue, written enquiries or meetings and discussions about specific issues. Although this type of engagement is often confidential and informal, it can also to some extent be exercised in the public eye, depending on the situation. In any case, this form of direct engagement is essential to active ownership. It is the best way to advise a company how its actions can impact on investor decisions. It is through direct engagement that investors can try to encourage or convince a company to take social considerations into account. To the extent that investors have the necessary knowledge and competences, they can go even further and offer their help to formulate strategies and implement specific initiatives.

Collaborative engagement simply means that the above-mentioned forms of engagement are exercised jointly with others. A special tool, the clearinghouse method, is used for this purpose. In short, the clearinghouse method involves investors pooling their efforts to influence a company. The aim is to speak with one voice and thus back demands by more financial clout. This is particularly interesting for Danish investors who are small by international standards and therefore can become much stronger by collaborating with other investors.

In addition to simply gathering shareholder power (e.g. when voting), collaborative engagement is effective as it pools investor resources for the purpose of clarifying and investigating specific cases. Another reason why collaborative engagement works is that views, goals and prioritisation of specific ESG considerations are shared by several investors.

The Principles for Responsible Investment under the PRI and collaboration among PRI members around these Principles belong to this category of collaborative engagement. As such, the PRI (as an institution) is specifically designed to strengthen the collaboration between investors around the integration of ESG considerations into investment decisions and around demanding that companies take social considerations into account.

Combining strategies and integration

Although the PRI places particular emphasis on active ownership and engagement (see Principle 2), this does not prevent investors from combining both positive and negative screening with the different forms of engagement.

To combine several SRI strategies probably comes naturally to most institutional investors in Denmark and is a likely result of the efforts of investors to comply with Principle 1 regarding the incorporation of ESG considerations into investment analyses and decision processes. Both positive and negative screening can, for instance, be included in the pre-investment phase followed by different forms of engagement.

Integration is often mentioned as an independent SRI strategy. Integration means that ESG considerations are integrated into the investor's other standard investment analyses and choice of investment objects. The aim is to include ESG considerations and quantify their importance on a par with other financial criteria.

The fact that ESG considerations can have the same impact on the financial bottom line as other criteria is an important motivation for responsible investment. Systematic integration typically aims at achieving the following:

- making it easier for investors to measure the importance of ESG considerations
- making it easier to identify investment objects with special commercial potential
- making it easier to identify the factors that are most important for long-term returns
- making it easier for investors to predict and take into account future regulatory action (for example in the environmental area)

Such integration is, of course, a challenge and a matter for specialists and portfolio managers. The integration is based on the information gathered and weighted in connection with normal investment decisions. Engagement and dialogue with companies can form part of this research.

Choice of SRI methods

A prioritisation is necessary, regardless of the chosen SRI strategy or approach to responsible investment. When it comes to strategies based on a sorting of investment objects, prioritisation is a natural part of the strategy. However, prioritisation is also part of SRI strategies based on active ownership and different forms of engagement.

Most institutional investors have many companies in their portfolio – perhaps several thousand companies. It is obvious that you cannot exercise active ownership and engagement in connection with all the companies in which you invest.

The idea is to include social responsibility and ESG considerations as an integral part of the investment policy in general and then prioritise which companies to focus on.

In line with the idea of strategic, business-driven social responsibility[3] the aim is for each investor to target the companies that are most important seen in the light of each investor's social responsibility strategy and the companies that are most at risk of seriously violating human rights (see the recommendations of the UN's Special Representative on business and human rights, John Ruggie). Both the combination of SRI strategy methods and the prioritisation of the companies in which you wish to exercise active ownership depend on the competences and resources you possess or to which you have access through e.g. external suppliers of SRI services.

3 cf. The Danish Government's Action Plan for Corporate Social Responsibility (May 2008).

4. PRI in practice

When it comes to the approach to the challenge of implementing the six Principles in practice, the PRI indicates a number of general measures for each individual principle. It is important to note that the measures suggested below under each principle are not formally part of the PRI. The signatories are therefore not in any way bound to comply with them. It is always up to the signatories to decide how to translate the individual Principles into specific initiatives.

In the following, the individual Principles are discussed one by one. In addition, brief examples are included to illustrate how Danish investors experience the PRI challenge and handle the Principles in practice. We hope these examples will serve as an inspiration to other investors[1].

Examples of how PRI members have translated the Principles into practice can also be found in PRI publications such as the PRI's Report on Progress 2009 and in the published responses of PRI members to the annual PRI questionnaire (see www.unpri.org). In addition, the annual questionnaire and the corresponding user manual are important sources of information to understand how to implement the different Principles[2].

Principle 1 – Integration of social responsibility

» We will incorporate ESG issues into investment analysis and decision-making processes

In short, this principle states that ESG considerations must be included in investment decisions without specifying which considerations in particular should be included, or the manner in which they should be included. The PRI gives the following examples of initiatives the investors can take:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics and analyses
- Assess the capabilities of both external and internal investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers and rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate and support ESG training for investment professionals

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1 The examples are based on sources available to the public as well as input from the members of the working group. The choice of examples does not reflect any control or evaluation by the government of the policies and measures described. In some cases, individual examples have been slightly edited, but the descriptions as they appear in these guidelines have been approved by the working group/the mentioned sources.

2 Both the questionnaire and the user manual are available via the PRI. Access to the responses to the questionnaire is currently restricted to PRI members, so continued membership is necessary to fully benefit from the questionnaire as a source of information.

As shown above, Principle 1 deals with the more general social responsibility strategies and policies of investors and the integration of ESG considerations into investment strategies and financial analyses. The first step in complying with Principle 1 would typically be to formulate a social responsibility policy, detailing the planned focus areas and, in particular, how social considerations can be included in the company's decision-making processes.

Principle 1 does not indicate specific methods for ways ESG considerations should or must be integrated into decision-making processes and investment analyses. The initial challenge is to describe a framework for integrating ESG considerations into investment decisions.

Several Danish institutional investors have already formulated policies for responsible investment and have described in general terms how they tackle the challenge, i.e. how they organise their work and what internal procedures and approaches they follow.

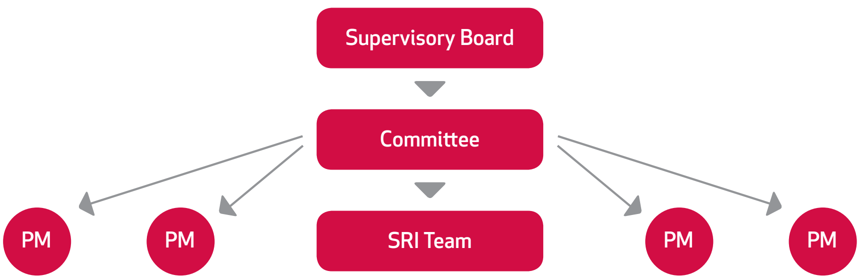
The following examples give an impression of how different types of Danish investors have handled the integration of social considerations into their investment processes.

DANISH INVESTOR APPROACHES TO PRINCIPLE 1

The ATP and Principle 1[3]

"The ATP (the Danish Labour Market Supplementary Pension) has created an internal management model to ensure that social responsibility is incorporated into investment analyses and investment decisions in accordance with the ATP's general guidelines for social responsibility. The model ensures the involvement of the ATP Board, a special committee for socially responsible investment, an SRI Team consisting of full-time employees in the ATP's Investment Department as well as internal and external portfolio managers (PMs). The ATP describes the management model as follows:

ATP's management model for social responsibility in investments



3 Source: The ATP Group. Social Responsibility in Investments 2009.

Supervisory Board
Lays down policy.

The Committee for Socially Responsibility in Investments
Chaired by the CEO. Its members are the CIO, vice CIO, two Heads of Investments, relevant portfolio managers and the SRI Team. The Committee is responsible for the overall SRI coordination and for ensuring compliance with ATP's SRI policy.

SRI Team. Two full-time employees (part of Investment Department)
Undertakes the daily responsibility for monitoring possible violations of the SRI policy in close cooperation with portfolio managers from the ATP Group. Provides fact-finding services in connection with due diligence, monitoring of the investment portfolio and targeted dialogue with companies. Knowledge centre for integration of social responsibility across asset classes.

Internal and external portfolio managers
Undertakes the daily responsibility for risk assessments and integration of the SRI policy in connection with due diligence, ongoing portfolio management and targeted dialogue with companies."

The actual procedure for implementing the ATP guidelines for social responsibility in the portfolio, i.e. the engagement process, consists of three phases: screening, fact finding and targeted dialogue. The engagement process can have several possible outcomes:

- "The case is dismissed because the ATP has concluded, based on available information that there is no violation of the Policy.
- The allegation is corroborated - but the case is closed because the company is taking sufficient steps to solve the problem and prevent it from reoccurring. This is either the result of the company's own initiative or of ATP's targeted dialogue with the company.
- ATP excludes a company because the allegation is corroborated and the company refuses to solve the problem or refuses to engage in a dialogue."

As an example of the integration of social considerations in investment decisions, ATP points out that it is now a condition for a decision to invest in forestry that the company in question be FSC-certified (or similar). This requirement is an integral part of the investment decisions, as ATP portfolio managers are contractually bound to comply with this requirement and their compliance is monitored by independent third parties."

Nykredit and Principle 1[4]:
"Nykredit's business concept is called Financial Sustainability. Nykredit believes that sustainability can be a catalyst for higher returns and lower risks. Nykredit has therefore drafted a policy for sustainable investment with the aim of ensuring that Nykredit incorporates considerations for the environment, social responsibility and good govern-

4 Source: Nykredit (Claus Bilde, Head of Department). See also www.nykredit.dk.

ance into the entire investment process. This policy covers both offers of investment products made to clients and Nykredit's own investments. In addition, Nykredit has chosen to commit itself further by joining PRI. Nykredit has chosen to integrate Principle 1 (PRI) in its investment policy in the following manner:

- Nykredit monitors its investments on an ongoing basis. Twice a year Nykredit's portfolios are screened to verify that the companies in the portfolio comply with our policy, which is based on the UN Global Compact's 10 principles for business-driven integration of respect for the environment, human rights, labour rights and anti-corruption and a number of other widely recognised international conventions and norms endorsed by the EU or the Danish government. If companies fail to comply with the policy, Nykredit chooses to engage in a dialogue focused on improvements or to exclude the company if it does not show any interest or willingness to remedy the problems. Nykredit's policy is based on the precept that dialogue is the best way to influence companies to improve their compliance with legislation and conventions.
- In this process, Nykredit collaborates with a screening agency, GES Investment Services, which undertakes the screening of Nykredit's portfolio.
- Nykredit has established a committee for sustainable investment whose members have been appointed from among the company's directors. The committee is supported by an SRI secretariat. The committee decides whether to exclude a specific company from Nykredit's investment universe or exercise active ownership and enter into dialogue with the company. In connection with these dialogues, Nykredit also works with GES Investment Services, which is responsible for the dialogue on behalf of Nykredit and often a large group of other investors.

In addition, Nykredit offers its clients a special unit trust in which companies where more than 5 per cent of the turnover is generated by weapons, alcohol or tobacco are deselected. Companies that fail to comply with generally recognised international conventions (on the environment, labour rights, human rights and anti-corruption) are also deselected".

Nordea and Principle 1[5]

"Nordea regards it as a commercial advantage to incorporate environmental and social considerations as well as active ownership into investment decisions and has chosen to integrate Principle 1 (PRI) in its investment policy in the following manner:

- The share portfolio is reviewed on an ongoing basis to identify companies that fail to comply with the UN Global Compact and international CSR norms. Nordea employs a screening agency for this process.
- Nordea exercises active ownership by entering into dialogue with the companies in the event the standards are breached. For this purpose,

5 Source: Nordea (Tom Holflod, Chief Business Development Officer, Nordea Invest and Sasja Beslik, Director ESG Analysis).

Nordea has set up a committee to discuss the screening results. In connection with the dialogue with the companies, Nordea works with Hermes Equity Ownership Services Limited, which handles the dialogue on behalf of Nordea and often a large group of other investors, but also enters into dialogue with companies using house experts.

- If a dialogue does not lead to a change in behaviour by the company, Nordea sells its shares.

In 2009, Nordea developed a new strategy for the integration of environmental, social and governance considerations (ESG considerations) as part of the general investment and decision-making process. In accordance with Principle 1, we have developed a procedure for integrating ESG considerations into our main assets across all our local market portfolios. First, the portfolio managers are consulted about their general knowledge of ESG issues relevant to specific industrial sectors and the shareholdings as a whole. Following completion of the internal consultation process, the companies are contacted in order to gather information about their business procedures in relation to key ESG issues. The companies in which we have the ten largest shareholdings in each country are contacted directly, and ESG issues of particular relevance for their business are discussed. Based on the information obtained, the "Responsible Investment and Governance Team" at Nordea Invest draws up ESG scorecards for use by Nordea's portfolio managers. These ESG scorecards indicate the level of risks and opportunities of each individual company in terms of ESG issues, and important ESG information is thus incorporated into the investment process.

ESG scorecards are updated on an ongoing basis in accordance with available information and recorded progress. This process also gives portfolio managers an opportunity to learn more about ESG trends of relevance to the companies in their portfolio.

In practice, Nordea prefers to enter into dialogue with companies involved in confirmed breaches of international norms relating to the environment, human rights, labour rights and anti-corruption. At the moment, Nordea is involved in dialogues with 16 companies that have breached international norms. We favour proactive dialogue with the companies in which we have our largest shareholdings. In 2010, we thus held meetings with representatives of approximately 40 Nordic and global companies. In practice, we engage in direct dialogue with the companies. This process is handled by our internal experts in collaboration with Hermes Equity Ownership and other stakeholders.

Engagement/dialogue with positive results

In recent years, several companies have been criticised for their involvement in the exploitation of natural resources in the Western Sahara. The companies with which Nordea has commenced engagement/dialogue in this area have been involved in the exploitation of phosphate deposits. However, we have also engaged in a dialogue with companies within shipping, the fishing industry and the oil and gas industry.

Nordea's engagement/dialogue with the Australian company Wesfarmers was successfully completed in 2009. As a result of our engagement, Wesfarmers publicly announced that they had decided, due to shareholder pressure, to invest in a new production facility to remedy the human rights issue associated with the exploitation of phosphate in Western Sahara. The new facility will make it possible for Wesfarmers to access phosphate from sources other than the Western Sahara after approximately one year.

Nordea's engagement/dialogue with The Mosaic Company was successfully completed in June 2010. At that time, Mosaic publicly announced that they would no longer buy phosphate from the Western Sahara, thus acknowledging the human rights issues associated with the importation of phosphate from this area."

Danske Bank and Principle 1[6]
(Including Danica Pension and Danske Invest).

"The aim of the SRI (Socially Responsible Investment) policy of the Danske Bank Group is to ensure that the money managed by the Group on behalf of its clients is not invested in companies that violate international principles. The Danske Bank Group has therefore decided to screen its investment portfolios in accordance with a number of internationally recognised norms and guidelines for human rights, weapon production, labour rights, environmental protection and anti-corruption. In the opinion of the Danske Bank Group, long-term value creation in companies is dependent on decent behaviour. The SRI policy is therefore not in conflict with the Group's aim to manage their clients' investments with the aim of maximising the return.

Danske Bank's SRI policy (using norm-based deselection of specific investment objects) is of a general nature and is implemented across the entire investment universe. For Danske Bank, a broad international approach to responsibility (based on UN norms) has been appropriate due to our desire to have a concept that can be explained in all the Group's markets.

Incorporation of the SRI policy in our processes
The SRI screening is undertaken by Ethix SRI Advisors, an independent and specialised SRI advisor. Ethix endeavours to investigate matters in which companies are linked to violations of international norms. As part of the screening, Ethix tries to enter into dialogue with the companies in question and other relevant stakeholders.

The SRI Board of the Danske Bank Group receives the results of the Ethix analysis and decides whether to exclude the securities of the company in question from the investment universe or whether to pursue a dialogue with the company. The aim of the dialogue is, on the one hand, to provide complete and correct information for the decision-making process and on the other to clarify whether the company intends to change its behaviour in the area in question. The following diagram illustrates the process:

6 Source: Danske Bank (Thomas H. Kjærgaard, Danske Capital).

Internal organisation

The internal implementation focuses on embedding SRI-related processes and decisions throughout the organisation.

Responsibility for SRI has therefore been assigned to one dedicated employee who is assisted by a working group with members from relevant departments within the Group.

The working group meets at least once every three months with the primary aim of preparing recommendations for the SRI Board.

Unipension and Principle 1[7]

"For Unipension, the main challenge with regard to compliance with Principle 1 (PRI) was to accept that, despite the claim that the Principles are subject to individual interpretation, the PRI nevertheless has very specific expectations as to the way in which the Principles are applied in practice. The PRI's approach is evident from the questions in the questionnaire and the way in which they are weighted. The interpretation of Principle 1, in particular, has caused us a lot of problems, because you do not get any points for integrating ESG into your investment processes by excluding companies with unethical behaviour. Despite the theoretical reasons for this, Unipension is of the opinion that norm-based screening and exclusion of companies is an acceptable way to integrate ESG into investment processes. We are therefore willing to discuss this issue with the PRI, especially because it seems that norm-based screening and exclusion are the most common way of handling Principle 1 in the Nordic countries.

Unipension's guidelines for responsible investment and a description of our work processes are available at www.unipension.dk."

Principle 2 – Active ownership

» We will be active owners and incorporate ESG issues into our ownership policies and practices

Principle 2 regarding active ownership is the very core of the Principles for Responsible Investment and PRI collaboration. In brief, active ownership means that investors must

7 Source: Unipension (Zaiga Strautmane, Head of ESG). This example should be read together with the Unipension example under Principle 6.

take responsibility for their investments by demanding that the companies in which they invest take social considerations (ESG) into account. The reason for this is that compliance with this principle has a better chance of contributing to sustainability and improving reprehensible conduct than the sale of the investment.

As mentioned, the principle of active ownership indicates that the PRI places a certain emphasis on methods that involve some form of engagement rather than methods based entirely on negative screening and avoidance of specific companies.
Active ownership can be exercised in different ways, using different levels of engagement, collaboration and dialogue with the companies. The PRI suggests the following activities:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard-setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement activities
- Ask investment managers to undertake and report on ESG-related engagement

Apart from instances where companies voluntarily change their behaviour and pay more regard to the interests of society, there are, by and large, two overlying mechanisms through which active ownership/engagement can be translated into results in the form of more socially responsible companies: 1) by forcing them to change their behaviour as a result of shareholder resolutions and voting at the annual meeting, etc. and/or 2) by convincing the company to change its behaviour through direct dialogue with the management.

The confidentiality of the dialogue and the negotiations with companies about their social responsibility can make it difficult to give detailed examples of how investors can influence and perhaps change inappropriate company behaviour. For some PRI members (the professional service partners) who often are in charge of dialogue with companies on behalf of investors, details about the exercise of active ownership can also be seen as a business secret and part of their core service.[8].

Danish investors have been involved in cases where dialogue/active ownership is likely to have played an important role in changing undesirable behaviour in specific companies. This form of active portfolio management is sometimes handled by the investors on their own behalf, but as it often involves protracted negotiations requiring both knowledge and expertise, the active ownership is often exercised by the above-mentioned professional service partners on behalf of the investors.

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8 This report contains several examples of the use of service partners. The service partners used by Danish investors and mentioned in this report represent only a small selection of the many investment service providers.

DANISH INVESTOR APPROACHES TO PRINCIPLE 2

Nykredit and Principle 2[9]

"Nykredit Invest: Exxon Mobile – active ownership via GES Investment Services
Together with GES Investment Services (Nykredit's external advisor) and a number of other institutional investors, Nykredit has engaged in a dialogue with a number of the companies in which they invest. One of them is the Exxon Mobile oil company in which the US department of Nykredit Invest International and the Global department of Nykredit Invest have chosen to invest.

Bribery case in an African dictatorship
In 2004, an American senate commission linked the Exxon Mobile power company to extensive bribery in the small, oil-rich African dictatorship, Equatorial Guinea. Some of the things the commission discovered were that oil revenue to a value of DKK 2-3 billion had been placed in a secret bank account; that Exxon Mobile owned 85 per cent of an oil distribution company in which the other shares were owned by a company controlled by the president and that Exxon Mobile rented a large number of buildings through companies controlled by the president's wife. In addition, the oil giant refused to explain approximately 500 controversial payments to public servants of the regime and their relatives.

Dialogue with Exxon Mobile
This case caused GES Investment Services, institutional investors and NGOs from around the world to bombard Exxon Mobile with questions. The questions mainly related to the actual circumstances and the company's general policy and management systems for the control of illegal business practices such as bribery. Since then, GES Investment Services has monitored the case on an ongoing basis and engaged in a dialogue with the company to improve these reprehensible practices.

Positive results
You can read about the results in the interim report of GES. Exxon Mobile has now changed its business practices so convincingly that they can no longer be linked to serious violations of international conventions and norms relating to the environment, human rights and business ethics. In addition, Exxon Mobile is becoming increasingly active in the fight against bribery in the industry. The company has, for example, made a very constructive contribution to increasing the transparency of financial transactions between oil companies and the regime in Equatorial Guinea. Finally, Exxon Mobile has tightened the company's internal policies and systems to combat bribery and corruption, including annual training courses for employees in countries that are particularly exposed to these illegal business methods. As a result of Exxon Mobile's changed behaviour, Nykredit Invest will continue to invest in the company. The screening of Exxon for other violations will of course continue, as is the case with the rest of Nykredit's portfolio."

9 Source: "Nyt fra Nykredit Invest", second quarter 2009.

PBU and Principle 2[10]

"Child labour in the cotton industry in Uzbekistan

In December 2007, the PBU, Pædagogernes Pensionskasse wrote to the Swedish clothing group Hennes & Mauritz (H&M) to draw their attention to reports of serious problems with harmful child labour in the cotton industry in Uzbekistan. A BBC hidden camera documentary recorded that children as young as 11 are employed to pick cotton by hand for a period of two months of every year, October-November. Each school has a production quota allocated by the central government, and during the harvest season the schools close and children are ordered to work in the cotton fields.

The problem is particularly serious because it is the suppressive political regime in Uzbekistan that upholds this practice. The children work 10 hours a day, seven days a week, without the necessary respiratory protection or protection of hands and feet, in an environment hazardous to their health in fields that have been sprayed with hazardous chemicals. The number of child labourers employed during the harvest season is estimated at two million.

Reactions from manufacturers and investors

The world's criticism was directed against large textile and clothing manufacturers such as H&M, GAP and large retail chains including Wal-Mart whose suppliers manufactured textiles and clothing using cotton sourced in Uzbekistan. In reply to the PBU's enquiry, H&M wrote in December 2007 that they had decided:

- to start mapping the use of child labour in the cotton industry
- to demand that the cotton used in H&M products has not been picked by children

Uzbekistan is the world's third largest exporter of cotton after the USA and Australia, and it is therefore difficult to boycott the importation of cotton or to boycott suppliers using cotton from Uzbekistan. However, several large international manufacturers including H&M have chosen to encourage their suppliers not to use cotton from Uzbekistan as long as the problem of comprehensive abuse of child labour persists.

Combating child labour

The example from Uzbekistan illustrates a complex problem that an individual company is unable to solve on its own. In 2008, a broad coalition never before seen was formed consisting of government interests, companies from the textile and clothing industry, the UN's International Labour Organisation (ILO), NGOs and institutional investors, including F&C Investments - the PBU's advisor on ethically responsible investments - in order to put maximum pressure on the government of Uzbekistan to put an end to child labour. The role of F&C Investments in the coalition has been to garner the support of like-minded investors and convince large global companies like Walt Disney, GAP, Wal-Mart, Carrefour, Tesco, etc. to take the problem seriously and to implement traceabil-

10 Source: PBU – Pædagogernes Pensionskasse (Pension Fund of Early Childhood Teachers), (Rasmus Juhl Pedersen, Communications Consultant, Responsible Investment).

ity. The aim is that the companies should put pressure on the trading companies to stop purchasing from Uzbekistan for as long as the problem with harmful child labour exists.

The government of Uzbekistan has complied with demands to introduce legislation prohibiting harmful child labour in line with the UN Global Compact, but the problem remains unsolved. Most recently, at a meeting in Brussels in March 2010, the coalition tried to place the problem on the agenda of European investors and fund managers.

With its endorsement of the UN Global Compact, the PBU has undertaken to support the elimination of harmful child labour in a way that provides better conditions for the children in the form of improved schooling and some form of financial compensation for potential loss of income. The ILO estimates that there are 218 million child labourers around the world, of which 70 per cent work in the agricultural sector in developing countries and emerging markets."

Unipension and Principle 2[11]

"Unipension's guidelines and work procedures regarding active ownership are available from our website: www.unipension.dk.

Dialogue regarding good governance

Unipension has shares in the clothing company IC Companys. The agenda for the general meeting of IC Companys on 21st October 2009 contained a proposal for an amendment of an article that would authorise the Board to increase the share capital by up to the nominal amount of DKK 20 million. The proposed article indicated that the issue price in connection with the capital increase was to be determined by the Board. Unipension contacted the company to protect its position[12] as a shareholder and ensure compliance with current Danish legislation. Following a discussion with the company, Unipension managed to have the proposed article amended before the general meeting. After the dialogue, the proposal contained a clause to the effect that the issue price had to be equivalent to the market price, if the capital increase in the form of a subscription of new shares took place without granting existing shareholders a pre-emptive right.

Through its dialogue with the company, Unipension thus succeeded in changing the wording of a proposed amendment to an article for the benefit of the shareholders before the general meeting took place.

Voting

At Unipension, we vote in all the companies in which we own shares, both Danish and foreign. Decisions about how to vote on Danish shares are made internally, as we have the necessary knowledge of the market, practices and legislation. In addition, we have a close relationship with the companies. When voting in foreign companies, we use Hermes

11 Unipension (Head of ESG, Zaiga Strautmane).

12 Including Arkitekternes Pensionskasse, MP Pension – Pensionskasse for Magistre og Psykologer and Pensionskassen for Jordbrugsakademikere og Dyrlæger.

Equity Ownership Service Limited to vote on our behalf in accordance with our guidelines. The reason for this is that we do not have the necessary knowledge of practices and legislation, etc. in the foreign markets.

Transparency is important for our work with responsible investment. We therefore display an overview of how we vote on our shares worldwide on our website www.unipension.dk under Unipension Proxy Voting Results. The overview is updated daily."

Sydinvest and Principle 2[13]
"To ensure that ESG considerations are included in the investment decision process, Sydinvest has entered into collaboration with GES Investment Services, which screens the companies in which Sydinvest invests. Investments in companies from emerging markets represent a large proportion of total investments in Sydinvest. In the light of the above, and the fact that emerging markets potentially present greater risks in terms of ESG, Sydinvest has extensive emergency procedures in place for companies from emerging markets. According to these procedures, GES Investment Services screens for investments in weapons and rates the exposure of the companies to ESG factors as well as their ability to handle issues relating to ESG. GES Investment Services engages with companies if it thinks that the ability of the companies to manage ESG issues is not commensurate with the potential risks that have been identified."

Danske Bank and Principle 2[14]
(Including Danica Pension and Danske Invest).

"Screening and dialogue via an external partner
Danske Bank uses an external service partner, Ethix SRI Advisors, an independent, specialised SRI advisor, to carry out a number of activities in connection with active ownership. Ethix undertakes the initial screening and fact finding when companies are linked to violations of international norms. The cases are often complex, unique and dynamic in nature. The whole process, as applied to a specific company, often takes place as follows:

The advisor processes information from a large number of sources (e.g. the UN, other member state organisations, national authorities, NGOs and media) about companies accused of being involved in violations of international norms. The advisor tries to verify the accusations via official sources in order to determine whether the company is involved in a violation and whether this violation is ongoing, serious and systematic. Throughout this process, the advisor endeavours to engage in a dialogue with the company and other relevant stakeholders. This dialogue, which can be written or verbal, contains a number of elements:

- A request for additional information from the company in question

13 Source: Sydinvest (Senior Vice President, Niels Skovvart).
14 Source: Danske Bank (Thomas H. Kjærgaard, Danske Capital).

- A request to the company for clarification of any ambiguities
- An assessment of whether the company plans to change its behaviour in the area in question

Following the initial dialogue and screening process, the SRI Board at Danske Bank assesses whether the company should be excluded from the investment universe or whether there are reasons to continue the dialogue. Danske Bank will then continue the dialogue, either on its own or in collaboration with other investors and fund managers. The dialogue process is finalised when the company is informed of the conclusion to the dialogue.

Once a company that has been excluded as a result of the screening of the portfolios no longer commits violations of the norms, its securities are again included in the investment universe. The Danske Bank Group reports on an ongoing basis which companies have been excluded from the portfolios. The list of excluded companies is available from the Danske Invest, Danica Pension and Danske Bank websites."

Principle 3 – Requesting information from the companies

» We will seek appropriate disclosure on ESG issues by the entities in which we invest

To seek information and request transparency from the companies in which you invest is a prerequisite for an assessment of ESG factors and the social consequences of investments, including the performance of different forms of screening of a portfolio. Information is also a prerequisite for exercising active ownership, engagement and dialogue with the companies. The PRI suggests the following initiatives:

- Request standardised reporting on ESG factors (for example reporting in accordance with the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/ adherence to relevant norms, standards and codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

For some investors, the request for openness and transparency about a number of issues can constitute a more or less fixed requirement for corporate governance by the companies in their portfolios. Both general requirements for openness and research of specific ESG issues can form part of the screening of potential investment objects. As is the case with practical initiatives and active ownership, research can be handled either by the investor or by external specialists.

DANISH INVESTOR APPROACHES TO PRINCIPLE 3

PFA and Principle 3[15]

"Climate reporting – the need for comparable data

ESG represents the three main parameters that PFA and many other investors focus on in their risk assessment and due diligence processes for a given investment. The integration of environmental and climate change considerations in the company strategy has grown in importance in recent years and is increasingly becoming the focus of investor attention in connection with the assessment of company performance. This also applies to PFA. In this regard, the availability of comparable climate data is an advantage to both companies and investors. The international investor initiative, the Carbon Disclosure Project (CDP) has become very important in this context.

The CDP is an independent non-profit organisation with the world's largest database containing climate data from private companies in addition to being the most important investor network. The CDP collects information about climate change strategies and CO2 emissions from the world's largest companies. The data is made available to investors in a format that is comparable at industry level. The CDP thus makes it easy for companies to report on the climate data and strategies they put in place to counteract the commercial consequences of climate change.

At the time of printing, the CDP represents 534 institutional investors and USD 64 trillion in assets. Investors supporting the CDP contribute to increased transparency about the CO2 emissions of the companies. PFA has endorsed the CDP as an important part of the work to obtain ESG information from the companies in which it has invested; information that can have an impact on the PFA's investment decisions."

BankInvest and Principle 3[16]

"Collection of ESG information

For a number of years, BankInvest, via our Emerging Markets SRI funds based in Luxemburg, has engaged in dialogues about ESG issues with the companies in which we invest. Twice a year we receive reports from our external research provider on all companies with anything from accusations about violations of international conventions to complaints about insufficient disclosure of information. This information forms the basis of our contact with the companies, carried out by our own portfolio managers.

Our enquiries do not always lead to more openness or transparency, but over the last four years we have noticed that our dialogues reflect a growing interest from the emerging market companies in what we as investors would like information about. The more questions they receive from investors about ESG issues, the more they have to consider them."

15 Source: PFA (Kristin Parello-Plesner, CSR manager).

16 Source: BankInvest (Katja Karas, Responsible Investment Specialist).

Principle 4 – Disseminating knowledge about the PRI

» We will promote acceptance and implementation of the Principles within the investment industry

As members of the PRI, investors are also expected to contribute to the dissemination and endorsement of the Principles for Responsible Investment. This is particularly the case in the financial sector, but it is also a part of the work to collaborate with governments, authorities and international institutions to promote responsible investment. The PRI mentions the following as possible investor initiatives:

- Include Principles-related requirements in Requests for Proposals (RFPs)[17].
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

Several Danish institutional investors participate actively in the debate about responsible investment, and Danish members of the PRI help spread the knowledge of the PRI by talking about their strategies for responsible investment and the reasons for their membership of the PRI.

DANISH INVESTOR APPROACHES TO PRINCIPLE 4

Nykredit and Principle 4[18]
"Nykredit has promoted the acceptance and implementation of the Principles by inviting clients to seminars. At these seminars, we have explained how we work with SRI, including the importance of good and strong collaboration with the companies in the form of dialogue and active ownership, and informed them about the potential results of such work."

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17 A 'Request for Proposal' is an invitation to suppliers of a product or service to tender for the right to supply this product or service to the individual or the company that has issued the RFP. Within the investment world, it is possible for investors (the asset owners) to demand that the portfolio managers (investment managers) are members of the PRI, for example, and/or that they include ESG considerations in their portfolio management in order to be considered as a supplier.

18 Source: Nykredit (Claus Bilde, Head of Department).

Nordea and Principle 4[19]
"Nordea collaborates with other investors in a number of forums. We talk about our policy on responsible investment in all situations where it is relevant and recommend that others endorse the PRI. In our collaboration with external investment advisors we emphasise that they must use investment processes that address social responsibility. We also encourage our external advisors to endorse the PRI."

Sydinvest and Principle 4[20]
"Each year, Sydinvest organises a seminar for the financial institutions advising on and distributing equity and fixed income funds included in the Sydinvest product range. To promote the acceptance and implementation of the PRI in the financial sector, Sydinvest provides information at the seminar about the results achieved with responsible investment and about its objectives and plans for the coming year."

Unipension and Principle 4[21]
"We promote the implementation of the Principles in the investment industry in the following manner:

- We demand that our external managers have endorsed the PRI and/ or the UN Global Compact or have similar guidelines in place
- Our external managers must update us on an ongoing basis about their implementation of the Principles
- We volunteer to speak at different seminars and conferences
- We support surveys, reports, etc. on the topic
- We purchase data from suppliers of ESG products"

The ATP and Principle 4[22]
"The ATP has provided the PRI's secretariat with a list of potential Danish investors who may be interested in signing up to the PRI. ATP has, together with representatives of the PRI secretariat, given lectures at Danish investor conferences, describing ATP's experience and results of implementing the PRI to encourage more investors to sign up to the Principles..

In 2009, the ATP extended the Principles to other asset classes besides listed equities. The ATP is also participating i a steering committee focussed on how to apply social responsibility to private equities.
In 2009, ATP joined a new PRI steering committee which aims to ensure that private equity funds undertake SRI and report to their investors on relevant SRI issues. Initial work

19 Source: Nordea (Tom Holflod, Chief Business Development Officer, (Nordea Invest) and Sasja Beslik, Director ESG Analysis).

20 Source: Sydinvest (Senior Vice President, Niels Skovvart).

21 Source: Unipension (Head of ESG, Zaiga Strautmane).

22 Source: The ATP Group. Social Responsibility in Investments 2009.

has focussed on advising funds on how to include SRI within their investment decisions. ATP believes that future work should focus on ensuring that private equity funds report on central SRI indicators of relevance to the funds' specific investments. This reporting requirement should include details of how the funds are contributing to promoting a focus on SRI in partnership with the companies in which they invest.
ATP firmly supports the creation of indicators which are of relevance to specific investments rather than generating a culture of extensive and superficial reports on social responsibility."

Principle 5 – Collaboration

>> We will work together to enhance our effectiveness in implementing the Principles

Collaboration around the implementation of the Principles is the very objective of the PRI as an institution. Through its different work streams, the PRI creates an institutional framework for this collaboration. Active participation and use of the tools made available by the PRI is therefore essential. The PRI's Engagement Clearinghouse is perhaps the most obvious example of this collaboration, which can make the work of the individual investors more effective. The PRI therefore encourages its members to:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning.
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

In addition to utilising the potential for collaboration around active ownership within the PRI, thus pooling investor clout and skills, collaboration around active ownership is generally effective and in agreement with Principle 5. Some investors in fact collaborate with other investors outside the scope of the PRI. They may, for example, be customers of the same professional service partner and try in this way to make identical demands for social responsibility, or they may coordinate their efforts to issue resolutions[23] with like-minded shareholders, when relevant.
In addition to the individual impressions of Danish investors, the following includes a couple of examples of collaborative initiatives between Danish and Nordic investors. An initiative by the British PRI member, Aviva Investors (an asset manager), is included here as an example of the use of the PRI Clearinghouse to promote company reporting to Global Compact in the form of a Communication on Progress (COP).

23 Resolutions can consist of decisions made by the shareholders at a general meeting, which orders the management of the company to act in a particular manner.

DANISH INVESTOR APPROACHES TO PRINCIPLE 5

The PRI Nordic Network
In spring 2010, a group of Nordic investors contacted the PRI secretariat about the possibility of creating a network for Nordic members of the PRI. The purpose would be to give members an opportunity to meet and discuss issues specific to the Nordic region, which could potentially result in engagement between investors. Similar PRI networks already exist in Australia, Brazil, South Korea and South Africa.

The first meeting was held at the offices of the ATP in Hillerød in May 2010 with the participation of more than 60 Nordic PRI members.

DANSIF – an example of collaboration between Danish investors [24]
In 2009, a number of Danish investors got together to establish DANSIF (the Danish Social Investment Forum). This initiative targets investors, fund managers and professional investment advisors with the aim of sharing knowledge between the members of the forum and create a more nuanced debate on Socially Responsible Investment in the public sphere. In addition to similar forums in countries like the UK, Sweden, Norway, Germany and Switzerland, there is also a European SIF, EUROSIF, which safeguards the interests of European investors at an EU level.

One of DANSIF's focus areas has been oil companies and the risks involved in oil exploration. In May 2010, DANSIF organised a seminar where members met some of the parties involved, representatives from local authorities, and a company in the industry in question as well as an interest group that was critical of the activities.

Cooperation within the PRI Clearinghouse in relation to UN Global Compact reporting [25]
For three years running, the British Portfolio Manager Aviva Investors has spearheaded a PRI Clearinghouse engagement targeting a number of Global Compact members listed on the stock exchange. Together with a number of other PRI investors, Aviva has sent letters to the top management of the companies in order to: 1) acknowledge particularly good reports or the opposite, or 2) ask companies that have failed to submit their annual Communication on Progress (COP) to Global Compact to do so and thereby regain full membership status.

In 2009, as a result of the annual PRI Engagement, 47.6 per cent of the companies (50 out of 105) that had failed to report subsequently submitted their reports. In 2010, this collaboration between 130 companies (of which 44 have been praised for their COP report and 86 have fallen behind with their reporting) was launched on 12 February 2010.

24 For information about Dansif, see www.dansif.dk.
25 www.unpri.org. (translated, ed.).

The ATP and Principle 5[26]

Clearinghouse actions for the environment

"In 2009, ATP joined up with other investors to enter into dialogue with the mining company Freeport McMoRan Copper and Gold. At the company's AGM in June 2009, a group of PRI signatories tabled a proposal to require the company to appoint a Supervisory Board member with environmental and business expertise. ATP supported the proposal as it was in line with the targeted dialogue that ATP was already conducting with the company. The proposal was not carried, but it was met with support from a considerable minority of the company's shareholders.

Oil sand extraction in Canada's Alberta Province was an issue in the public debate in many countries in 2009. In order to gain insight into this issue, ATP, together with a large group of PRI members, contacted 19 oil companies involved in the extraction of oil sand in Canada. The oil companies were encouraged to actively address the social responsibility risks associated with the extraction of oil sand. Moreover, the investors encouraged the oil companies to enhance transparency to the public. This dialogue is ongoing."

Nykredit and Principle 5[27]

"The entire Nykredit philosophy about dialogue and active ownership is based on the idea that working together makes us stronger. We therefore mainly engage in dialogue and active ownership activities in collaboration with other investors via our partner GES Investment Services.

In addition, Nykredit has had a number of discussions with clients and other asset managers about Nykredit's experience with the implementation of an SRI policy prior to the introduction of similar policies."

Danske Bank and Principle 5[28]

"In 2010, Danske Bank endorsed a PRI Clearinghouse initiative in which a number of investors approach selected oil companies, asking them to address the risks associated with the mining activity.

In addition, Danske Bank is a co-founder of DANSIF (the Danish Social Investment Forum), an initiative that targets investors, fund managers and professional investment advisors with the aim of sharing knowledge between the members of the forum and create a more nuanced debate on Socially Responsible Investment in the public sphere.

Danske Bank participated in the above-mentioned Dansif seminar and panel debate in May 2010 regarding oil companies and the risks associated with oil exploration."

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26 The ATP Group. Social Responsibility in Investments 2009.

27 Source: Nykredit (Claus Bilde, Head of Department).

28 Source: Danske Bank (Thomas H. Kjærgaard, Danske Capital).

BankInvest and Principle 5[29]
"In December 2009, BankInvest co-signed a letter to the Minister of Justice of South Korea via PRI's Clearinghouse as a consequence of our work with the implementation of the PRI principles and in particular our focus on governance (as an ESG component).

The Minister of Justice wished to amend the law to allow companies to introduce poison pills[30], which is against the interests of investors. Twenty-three institutional investors (with investments totalling more than USD 2.5 billion) therefore signed a letter addressed to the Minister of Justice to draw attention to the fact that the amendment, if adopted, would negatively affect the conditions of investors.

Since then, the Korean government has approved the proposed amendment, and the bill will pass to the National Assembly, which will vote on the bill in September (the following year). The combined investor group has therefore sent another letter to the Ministry of Justice to once more emphasise the importance of avoiding the introduction of poison pills.

In addition, BankInvest has forwarded the letters to two state-owned banks (in whose bonds we invest) to express our concern in this way."

Nordea and Principle 5[31]
"Collaboration with other investors in Sweden and Norway
In September 2009, Swedish and Norwegian investors launched the Sustainable Value Creation Initiative in their respective domestic markets. The group of Swedish investors that backed the initiative represents SEK 3,800 billion in assets under management (AUM), while the AUM of the Norwegian investor group amounts to NOK 2,500 billion.

The 100 companies on NASDAQ OMX Stockholm, and the 74 companies on the Oslo Stock Exchange Benchmark Index (2008-2009), were all asked to participate in the survey about their governance and policy on Sustainable Value Creation. The result of the survey was published in January 2010.

Companies can reduce risks and costs and at the same time get new business opportunities by incorporating environmental and social factors in their production and processes. By incorporating these factors, the companies contribute to Sustainable Value Creation, which we, as investors, consider fundamental for the future financial return on our clients' savings. The aim of the initiative is to promote sustainability by highlighting the importance of

29 Source: BankInvest (Katja Karas, Responsible Investment Specialist).

30 The term 'poison pill' typically refers to provisions in the Articles designed to prevent takeovers, for example by favouring certain (existing) shareholders at the expense of others. The classical poison pill gives existing shareholders the right to buy new shares at a favourable price if a buyer purchases a certain amount of the company's shares. This reduces the influence of the buyer and makes it more expensive to buy shares with a view to obtaining a controlling influence. See "Debatoplæg om aktivt ejerskab". (The Danish Ministry of Finance, May 1999).

31 Source: Nordea (Tom Holflod, Chief Business Development Officer, Nordea Invest and Sasja Beslik, Director ESG Analysis).

good governance. This is the second year the survey has been carried out in Norway, but it is the first time Swedish investors participate in the initiative.

The survey, carried out by the investors about the companies' policies on Sustainable Value Creation, covering human rights, labour rights, environment and corruption, focused on the following four main areas:

1. Company policies on governance and obligations
2. Implementation and compliance
3. Communication and reporting
4. Board accountability

Other initiatives to enhance the effectiveness in implementing the PRI Principles:

- In 2009, Nordea hosted a seminar on responsible investment "Næste generation af ESG spørgsmål" (The next generation of ESG issues), to which we invited our colleagues in the financial sector. The agenda for the seminar was to discuss the development in the production of oil from oil sand and the complex environmental and social risks associated with this production for both the companies and their investors.
- In 2009, Nordea commenced collaboration with the "Veckans Affärer" weekly magazine. Through this collaboration, we wish to promote the inclusion of ESG considerations as a fixed component of investment analysis. The collaboration extends the share analyses of Veckans Affärer by including an analysis of company approaches to environmental, social and governance factors.
- Nordea participates actively in DANSIF, which is also a member of the active SIFs in the other Nordic countries: SWESIF (chairman and member of the Board) and FINSIF (founder and member of the Board)".

Principle 5 – Collaborative initiative with several Danish investors[32]
The participating Danish investors included Nykredit, Funktionærpension, Jyske Invest and LD (The Employees' Capital Pension Fund).

Improvement of G4S labour rights, active ownership and the use of proxies
G4S plc is a global supplier of international security solutions. For a number of years, the company was criticised for its unacceptable labour conditions and for grossly neglecting labour rights.

G4S operates in more than 110 countries and has more than 595,000 employees worldwide. In December 2006 and January 2007, the international labour organisation, UNI, lodged two complaints against the company with the British government. G4S was accused of systematic violations of OECD guidelines for multinational corporations in twelve countries, primarily emerging markets. More specifically, the

32 Source: GES Investment Services Denmark (Managing Director, Erik Alhøj).

accusations involved illegal dismissals and denying employees the freedom of association.

GES Investment Services made a number of Danish institutional investors aware of the violations of the international norms. Through their membership of the GES Engagement Forum, they proceeded with a number of investors from other countries to put pressure on G4S to remedy the situation. The external advisor investigated the conditions in five countries: Indonesia, Israel, Malawi, Mozambique and the USA through dialogues with the company, the international labour movement and legal experts. Specific goals were defined for the improvements to be achieved through active ownership. Specific initiatives were proposed at meetings with representatives of G4S. At the same time the company was informed that a lack of willingness to remedy the situation could lead to the investors voting at the general assembly and submitting joint proposals.

From 2008 onwards, G4S finally took decisive steps to improve labour rights in emerging markets. This was a result of the ongoing criticism and constructive dialogue with the advisor on behalf of the institutional investors.

After a number of labour conflicts, G4S signed an agreement with the UNI in 2008. Today, G4S' new Corporate Responsibility Report shows that real improvement has already been achieved as a result of the process. Both G4S and the UNI acknowledge the importance of investor engagement in achieving this progress.

It is the impression of the participating investors that their collaborative efforts convinced G4S to collaborate, and the use of an external advisor who can speak on behalf of a number of investors was a successful as well as cost-saving experience for the individual investors.

Principle 6 – Transparency and reporting

» We will each report on our activities and progress towards implementing the Principles

One of the most important components of PRI collaboration is the knowledge sharing that takes place between members, for example via the completion of the PRI questionnaire and the annual reporting on their work. Reports and descriptions of how social considerations are incorporated into strategies and investment practices should, in general, be disclosed and made publicly available to all interested parties. PRI therefore suggests that investors:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles

- Communicate with beneficiaries about ESG issues and the Principles.
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

Principle 6 specifically encourages investors to share their knowledge and experience with responsible investment with other investors by completing the annual PRI questionnaire. The PRI questionnaire includes 88 (2010) different questions about the way the investors handle each of the six Principles. The completion of the PRI questionnaire can to some extent be time-consuming and demanding. The questionnaire can be completed online and, with effect from 2010, the completion process has been simplified, as investors are only taken to the sections of the questionnaire that are relevant for their particular organisation.

Until now, it has been up to the investors to decide whether to disclose their responses to the questionnaire[33]. The PRI treats the responses as confidential so the information is only available to other PRI members. Relatively few members of the PRI disclose their responses to the questionnaire and their report to the PRI. Only 72[34] members have disclosed their responses to the 2009 questionnaire on the PRI website, and only one of the Danish members[35].

Transparency and knowledge sharing about responsible investment can also be of interest to the general public, and it is part and parcel of the compliance with Principle 6 that the investors disclose their policy and experiences to some extent, for example in their annual report.

In Denmark, it is already a legal requirement to disclose the policy on Socially Responsible Investment, if such a policy exists. Reporting to the PRI and completion of the PRI questionnaire could be a way in which companies can comply with this obligation[36] Although Principle 6 only deals with PRI reporting and the completion of the annual questionnaire, openness and transparency in general are important. Although most Danish members of the PRI have not disclosed their replies to the questionnaire, the investors therefore nevertheless report on their responsible investment policy and activities, in part due to Danish legal requirements in this area.

33 With effect from 2011, disclosure of the responses to the questionnaire will be made compulsory. At the time of printing, no detailed information was available about the form and scope of the compulsory disclosure.

34 In 2009, a total of 375 PRI signatories were invited to complete the questionnaire, cf. the PRI Report on Progress 2009.

35 See www.unpri.org.

36 At the present time, PRI reporting and the completion of financial statements in accordance with the Danish Financial Statements Act take place at different times of the year. The completion of the questionnaire from PRI will therefore, for most companies, take place after the completion of the financial statements (see also Note 6). In practice, this can make it difficult to include PRI reporting in the financial statements.

DANISH INVESTOR APPROACHES TO PRINCIPLE 6

Unipension and Principle 6[37]

"At Unipension we had heard many horror stories about the reporting from colleagues in the industry but were surprised when it turned out that our first report was not a major problem. Our work with ESG is based on PRI guidelines, and right from the beginning we carefully considered what measures we wanted to take to implement each of the Principles. We use both external managers and suppliers so, to avoid running out of time with our reporting, we immediately forwarded any questions to our partners that they would be better at answering.

As far as we can see, the reporting is an excellent way to check whether all procedures function as intended. We also quickly became aware of gaps and weak points that we can incorporate in our list of tasks for the coming year.

We think the Executive Summary prepared on the basis of the replies to the questionnaire is very useful. It gives a very good picture of your work with ESG. You can easily look up answers if asked about the implementation of a specific principle, and at the same time the document is suitable for disclosure to the target group, which has no need to read the entire report. Unipension chose to publish the Executive Summary on its website.

Transparency is important for Unipension's work with responsible investment. Our website www.unipension.dk therefore shows the following information and documents relating to our work with responsible investment:

1. Member survey of the attitude to ethical investment, undertaken by Capacent Epinion in 2008
2. Guidelines for socially responsible investment
3. A diagram illustrating the work process involved in screening, dialogue, exclusion and inclusion
4. A list of exclusions
5. Unipension Proxy Voting Results – a summary of how we vote on our shares, updated daily
6. PRI Reporting and Assessment Survey 2010, Executive Summary"

The ATP and Principle 6[38]

"At the time of printing, the ATP has taken part in the annual reporting three times. We (the SRI Team) have been responsible for completing the questionnaire the last two years.

We experience that there is a lot to learn in connection with the process. This obviously makes us reflect on our approach to responsible investment and it also gives us an opportu-

37 Source: Unipension (Head of ESG, Zaiga Strautmane).

38 Source: ATP (Senior SRI Adviser Susanne B Pedersen and Senior ESG Adviser Ole Buhl).

nity to identify areas for development. In the past, the ATP received, for example, a very low score for Principle 6 (Reporting). That is one of the reasons why the ATP has increased its focus on communication in 2010. (See the Annual Report on Socially Responsible Investment and a website dedicated to the ATP's work with social responsibility). In recent years, the PRI has been the main source of inspiration for the ATP's work with Socially Responsible Investment. We therefore take the completion of the questionnaire very seriously. It is important to mention that the completion of the questionnaire also presents challenges. Several questions do not match the ATP's approach to Socially Responsible Investment, for example.

The ATP is therefore involved in the ongoing process of optimising the questionnaire. It is very important for the ATP, for instance, that the questionnaire can be made more flexible so that it covers more of the many different approaches to responsible investment."

Nykredit and Principle 6[39]

"Nykredit's Financial Sustainability business concept describes our way of doing business. It is an integral part of Nykredit's business to focus on sustainability and long-term relationships and to be conscious of the company's social responsibility. At Nykredit, we wish to be transparent about our work. That is why we have published different reports, including the report "Om Nykredit 2009. Finansiel Bæredygtighed" (About Nykredit 2009. Financial Sustainability).

Nykredit has decided to disclose both the full response[40] and the executive summary [41]of the 2010 PRI report, in which we explain our approach to the six Principles. In addition, we have published articles for our clients in the "Nyt fra Nykredit Invest" (News from Nykredit Invest) magazine about our policy and have given specific examples of what can be achieved through dialogue and active ownership".

Nordea and Principle 6 [42]

"We report on activities relating to responsible investment on Nordea's website and in our annual reports. The result of our responses to the PRI survey for 2010 will also be disclosed in this way. In 2010, Nordea will also publish its first report on responsible investment, which will include a description of the reporting process, our engagements/ dialogues, and the results of our field trips as well as other activities."

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39 Source: Nykredit (Claus Bilde, Head of Department).

40 http://www.nykredit.dk/omnykredit/ressourcer/dokumenter/pdf/baeredygtighed/unpri_full_report.pdf

41 http://www.nykredit.dk/omnykredit/ressourcer/dokumenter/pdf/baeredygtighed/unpri_executive_summary.pdf

42 Source: Nordea (Tom Holflod, Chief Business Development Officer, (Nordea Invest) and Sasja Beslik, Director ESG Analysis).

FAQ about PRI

What is the overall goal of the PRI?
The PRI initiative is concerned with strengthening the role of the financial sector in establishing a more stable, sustainable and socially inclusive global economy. The PRI contributes to this by providing both private and public investors with an institutional framework for integrating ESG considerations into their investment decisions and the management of their assets.

Why does it pay to sign the PRI agreement?
As a member of the PRI, you get access to a shared institutional framework and a network of investors, which allows you to develop and strengthen your strategy for responsible investment and integration of ESG considerations. The PRI secretariat offers its members a number of activities that support them in their work to translate the Principles for Responsible Investment into practice.

What is the importance of SRI for the investment supply chain?
A systematic focus on environment, social conditions and good governance can reduce the risk of investments and help minimise the capital costs for investors. In addition, employees, companies and local communities benefit when investors focus on responsible investment.

Who can sign?
The PRI divides potential signatories into three main groups:

1. Asset owners typically include pension funds, government funds, municipalities and regions, insurance and investment funds, etc. **2. Investment managers** include professional fund managers and unit trusts. **3. Professional service partners** include organisations that offer products or services to asset owners and/or investment managers such as screening agencies and other consultancy firms.

How much does it cost to be a member of the PRI?
There is currently no compulsory fee for membership of the PRI. Many investors choose to pay, and their contributions help finance the PRI secretariat. From 2011, an annual compulsory fee will be introduced for all signatories. The fee will depend on the size of the fund, but will not exceed USD 10,000 per year.

What happens if we sign but find it difficult to comply with all the Principles?
PRI membership primarily consists in signing and endorsing the six Principles for Responsible Investment. The one mandatory requirement of PRI membership is the completion of the annual Reporting and Assessment process. After signing up, members have a grace year but must complete the questionnaire for the second year of their membership. For many investors, the first report will thus be completed during the third year of their membership. Members that fail to complete the questionnaire are delisted by the PRI.

Who governs the PRI?
The PRI is governed by a Board made up of 11 elected representatives from the asset

owners membership group and two representatives from the UN. The PRI secretariat reports to the Board.

Members of the PRI Board (August 2010):

- Donald MacDonald, Trustee, British Telecom Pension Scheme
- Howard Jacobs, Trustee, Universities Superannuation Scheme
- Daniel Simard, General Coordinator, Comité syndical national de retraite Bâtirente
- Glen Saunders , Trustee, New Zealand Superannuation Fund
- Antoine De Salins, Executive Director, Fonds de Réserve pour les Retraites (FRR)
- Else Bos, CIO and Executive Director, PGGM
- Sopawadee Lertmanaschai, Government Pension Fund of Thailand
- Sergio Rosa, President, PREVI
- Patrick Mngconkola, Trustee, Government Employees Pension Fund of South Africa
- David Atkin, CEO, CBUS
- Wolfgang Engshuber, Senior Vice President and Chief Administrative Officer, Munich Reinsurance America
- Achim Steiner, Executive Director, UNEP (Paul Clements-Hunt as special designate)
- Georg Kell, Executive Director, UN Global Compact (Gavin Power as special designate)

Working group and stakeholders

Comments and input have been received from a number of stakeholders, including investment industry representatives and NGOs. Representatives of the following organisations have been involved in the process:

Working group

- ATP (represented by Ole Buhl, Senior ESG Adviser)
- The Danish Insurance Association (represented by Sara Løchte, Senior Consultant)
- The Danish Bankers' Association (represented by Lene Andersen, Head of Department and Christine Habel, Head of Department)
- The Danish Financial Supervisory Authority (represented by Mette Tidemann Juul, Specialist Consultant)
- GES Investment Services (represented by Erik Alhøj, Managing Director)
- The Federation of Danish Investment Associations (represented by Henrik F Hansen, Economist)

Other consulted stakeholders

- Amnesty International (represented by Sanne Borges, Advisor)
- DanChurchAid (represented by Christian Friis Bach, International Manager)
- GreenPeace (represented by Jon Burgwald, Climate Specialist)
- IBIS (represented by Lars Koch, Head of Policy)
- WWF (represented by John Nordbo, Environment Manager)

The responsibility for the contents, analyses and conclusions of this guide to responsible investment, however, rests entirely with the Danish government and no responsibility shall attach to any of the mentioned stakeholders.