



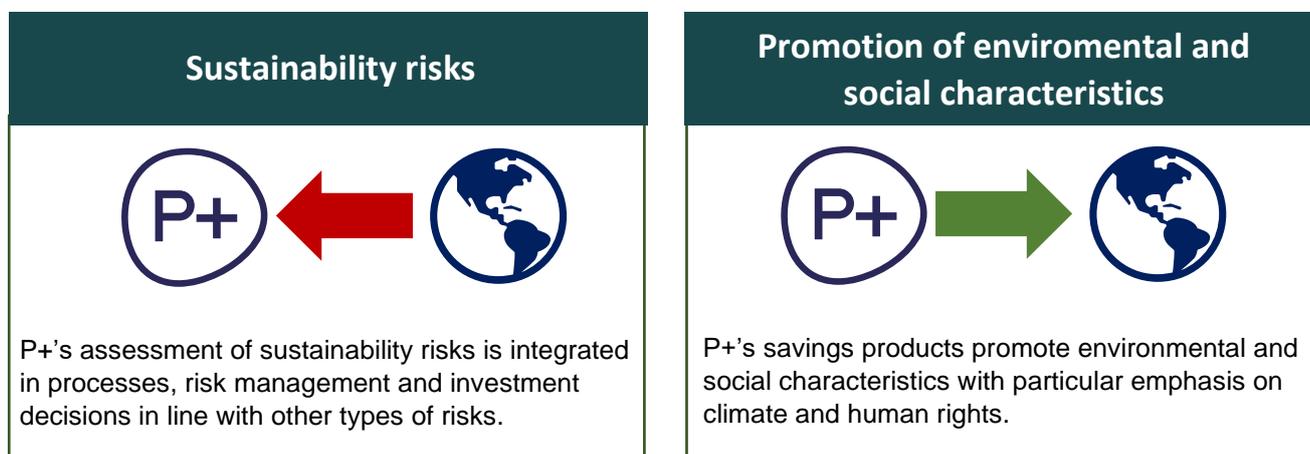
# **Disclosure on integration of sustainability risks and promotion of environmental and social characteristics**

May 2022



*In case of any discrepancy between the Danish text and the English translation, the Danish text shall prevail.*

In P+ responsibility is an integrated part of the investment strategy. In this document, you can read about how P+ works with sustainability risks<sup>1</sup>, and how P+ works with promoting environmental and social characteristics. The information applies to all P+'s savings products i.e., P+ Lifecycle, P+ Sustainable, P+ Balance, P+ Aktiemax, P+ Obligationsmax, P+ Vælger and P+ Grundlag. The information is based on sustainability-related disclosure requirements from EU which P+ is subject to<sup>2</sup>.



## 1. Sustainability risks are integrated in processes, risk management and investment decisions

P+'s assessment of sustainability risks is integrated in processes, risk management and investment decisions in line with other types of risks.

P+'s decision-making process related to potential new investments (due diligence) includes sustainability risks which might have a significant adverse impact on the value of the investment.

As a part of the pension fund's risk management, investments which are already made are monitored i.a. for the purpose of identifying new potential or actual sustainability risks. In case such risks are identified, P+ assesses the essentiality of the risks and the likelihood of adverse impact on the value of the investment and takes the necessary steps relevant for the investment type in question.

## 2. Promotion of environmental and social characteristics

P+'s savings products must generate the highest possible return and at the same time promote environmental and social characteristics.

P+ promotes environmental and social characteristics through the savings products (P+ Lifecycle, P+ Sustainable, P+ Balance, P+ Aktiemax, P+ Obligationsmax and P+ Vælger) being characterized by:

- Choosing investment managers, funds and companies based on a thorough assessment of them complying with P+'s policy for responsible investments.
- Choosing investment managers, funds and companies which support the solution of societal challenges, e.g. renewable energy and health.
- Ensuring a wide sector exposure focusing on choosing investment managers, funds and companies which take responsibility for preventing and addressing potential adverse impact on people and environment originating from their activities.
- Exercising active ownership across investments.
- Deselecting countries with a low quantitative score on environmental and social conditions.

<sup>1</sup> A sustainability risk is an environmental, social or management incident or circumstance which, if it occurs, could have actual or potential substantial adverse impact on the value of an investment.

<sup>2</sup> The European Parliament's and the Council's Regulation 2019/2088 of 27 November 2019 on sustainability-related disclosure in the financial services sector (the Disclosure Regulation).

- Deselecting companies and sectors which engage in activities within controversial weapons, coal, oil, tobacco as well as other companies with adverse sustainability impacts where active ownership is assessed being pointless.

Due to the improved focus on sustainability, P+ Sustainable stands significantly out from the other savings products in relation to selected characteristics. Compared to the other savings products, P+ Sustainable is characterized by:

- having a lower carbon footprint and a target of carbon neutrality in 2030
- having a higher share of climate-friendly investments
- selecting companies that are sustainability pioneers
- making more and increasingly consistent deselections of controversial companies
- making more and increasingly consistent deselections of controversial countries.

### 3. Environmentally sustainable investments

#### 3.1 The savings products: P+ Lifecycle, P+ Sustainable, P+ Balance, P+ Aktiemax, P+ Obligationsmax and P+ Vælger

Even though these savings products promote environmental and social characteristics, sustainability is not the purpose of the products. EU's Taxonomy Regulation defines when an economic activity can be considered as environmentally sustainable. P+ expects that a minor part of the investments meet the criteria. According to the Taxonomy Regulation, P+ must point out that for the products P+ Life cycle, P+ Sustainable, P+ Balance, P+ Aktiemax, P+ Obligationsmax and P+ Vælger the following declaration applies:

*The "do no significant harm" principle applies only applies to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable activities.*

#### 3.2 Pension product: P+ Grundlag

As the only one of P+'s savings products, P+ Grundlag does not promote neither environmental nor social characteristics. This is due to the fact that the purpose of the product's portfolio is to cover the pension commitments, and thus the portfolio primarily consists of bonds, illiquid credit investments and derivatives. Cf. the Taxonomy Regulation, P+ must point out that for P+ Grundlag the following declaration applies:

*The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.*

### 4. Processes to reduce adverse sustainability impacts and to promote environmental and social characteristics

P+ considers its measures related to the principal adverse sustainability impacts as being initiatives which also contribute to promote environmental and social characteristics.<sup>3</sup> And conversely, P+ considers its activities, which promote environmental and social characteristics, as activities which also contribute to preventing and addressing principal adverse sustainability impacts. In the following it is described:

1. How P+ works with principal adverse sustainability impacts and measures.
2. How P+'s savings products promote environmental and social characteristics.

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<sup>3</sup> An adverse sustainability impact is used about adverse impact from investments on sustainability factors where a sustainability factor means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

#### 4.1 Description of principal adverse sustainability impacts

According to P+'s policy for responsible investments, principal sustainability impacts have to be identified and assessed before and after an investment is made. P+ focus on the themes described in the table below:

<b>Principal adverse sustainability impacts</b>	
<b>Sustainability factor</b>	<b>Description</b>
Human rights and employee rights	In line with the UN Guiding Principles on Business and Human Rights, the pension fund must work with human rights and employee rights and respect the rights of the International Bill of Human Rights, including the International Labor Organisations Declaration of Fundamental Principles and Rights at Work.
Climate	The pension funds work is based on the Paris Agreement, and whether the business models of P+'s investees comply with the Paris Agreement's aim to keep the average global temperature rise well below 2 degrees Celsius and pursue efforts to limit the temperature increase to 1.5 degrees Celsius.
Environment	The pension fund must focus on whether companies constitute a risk for the environment or cause irreversible damage to the environment, including e.g. water and biodiversity.
Tax	The pension fund's work is based on that no investment structure, which the pension fund is a part of, must be arranged for the purpose of aggressive tax planning. Furthermore, the pension fund must focus on governance and transparency related to companies' tax payment.
Corruption	The pension fund's work with anti-corruption must focus on that the investees of P+ have established processes to prevent and compensate for corruption.

In 2021 and 2022 P+ focuses particularly on climate and human rights as the pension fund has identified principal actual adverse sustainability impacts in these areas.

##### 4.1.1 Climate

P+'s ambition is to contribute to a green transition. This is i.a. done by way of membership of Net-Zero Asset Owner Alliance where P+, together with many other investors, has target to net zero emissions in 2050 at the latest. For the savings product P+ Sustainable the target is net zero emissions in 2030. Every fifth year partial aims are determined and published. Up until 2025 P+ has committed itself to put the efforts in three areas:

1. The carbon footprint from P+'s total investments in listed equities, corporate bonds and directly owned properties have to be reduced by 30 percent compared to the 2019 level.
2. P+ will strengthen its active ownership related to the 20 largest carbon emitters in the portfolio of listed equities and corporate bonds.
3. P+ will continually make climate-friendly investments, e.g. in renewable energy and energy saving restorations of buildings, such that this type of investments constitute at least 15 percent of P+'s total investments in 2030. For P+ Sustainable the share of climate-friendly investments will constitute 50 percent of the savings product's total investments in 2030.

In practice, the two first areas imply, among other things, that P+ in 2020 and 2021 has divested companies with large carbon emissions that do not comply with the pension fund's climate targets, and where dialogue with the companies was assessed being pointless.

##### 4.1.2 Human rights

P+ works actively with human rights in relation to its investments and within the framework of different investor initiatives and international organisations. The purpose is to promote companies' considerations of human rights and at the same time promote measures that prevent and address adverse sustainability impacts. In 2020, P+ has among other things:

- contributed to the development of the new guidelines to human rights from the UN-backed organisation Principles for Responsible Investment (PRI)
- in cooperation with Investor Alliance for Human Rights (IAHR) urged governments to incorporate in legislation that companies need to include human rights in their risk management processes, such that their activities' potential risks for people are assessed on equal terms with other risks
- supported the European Commission's upcoming bill on human rights and environmental due diligence legislation as well as a number of motions for implementing in legislation
- focused on companies with activities in Myanmar after the country's military coup and companies that provide weapons or military equipment to the United Arab Emirates or Saudi Arabia which are used in the war in Yemen.

P+ works actively on influencing investment managers and companies to systematically give greater priority to their approach to human rights. Related to portfolio companies P+ focuses on whether the portfolio companies practice corporate governance which prevents and addresses adverse impact on people.

The ambition for P+'s work with human rights is to contribute to that the companies, which the pension fund invests in, respect human rights.

#### 4.2 Tools for handling principal adverse sustainability impacts

In the work with the assessment (due diligence) and monitoring of investments, P+ focus on whether investment managers and companies, which the pension fund invests in, have management systems to identify, prevent and address actual and potential adverse impact on sustainability factors.

P+ also makes its influence count towards investment managers and companies, which P+ has invested in, by making demands on their work with sustainability both in the form of general policies and targets and their regular monitoring and reporting.

##### 4.2.1 Policy for active ownership used for reducing adverse sustainability impact

Active ownership is an important tool for promoting companies' long-term value creation and reducing risks related to environmental, social and governance conditions as well as financial risks for the pension fund after the investment is made.

Active ownership includes monitoring of portfolio companies, dialogue with selected companies, cooperation with other investors as well as voting on portfolio companies' general meetings to the extent that it is possible. The active ownership can be executed alone or in cooperation with other shareholders.

##### 4.2.2 Deselection of companies may be necessary

If P+ cannot vouch for an investment, meaning that the investment violates the pension fund's policy for responsible investments and active ownership is pointless, the investment is divested and put on P+'s exclusion list. P+ acknowledges that divestment of companies and countries does not necessarily reduce adverse sustainability impacts or promote environmental or social characteristics as P+ in case of divestment loses the possibility of making its influence count via active ownership.

Currently, the stricter criteria for deselection in P+ Sustainable apply only to listed equities and government bonds. For other asset classes the same criteria for deselection apply as specified for the remaining savings products.

Companies and countries are placed on the exclusion list for different reasons.

<b>Reasons for deselection of companies and countries</b>		
<b>Reason</b>	<b>P+ Life cycle, P+ Balance, P+ Obligationsmax, P+ Vælger, P+ Aktiemax</b>	<b>P+ Sustainable</b>
<b>Violating the policy for responsible investments</b>	Companies that systematically violate the pension fund's policy for responsible investments and active ownership is pointless.	
<b>Controversial weapons</b>	Companies that violate the UN treaties and conventions, which Denmark has signed related to nuclear weapons, anti-personnel mines, cluster ammunition, chemical weapons, biological weapons, and other types of controversial weapons.	Companies having industrial connections to controversial weapons.
<b>Tobacco</b>	Companies producing cigarettes and other tobacco products, and where more than 60 percent of the turnover origin from this activity.	Companies producing, distributing and supplying cigarettes and other tobacco products. Companies where more than 5 percent of the turnover origin from selling tobacco products via retail.
<b>Coal mining companies</b>	Companies with a turnover from coal mining.	See 'fossil fuels' in below chart applying to P+ Sustainable.
<b>Oil companies</b>	Companies where more than 30 percent of the turnover origin from extraction of conventional oil, and where more than 20 percent of the turnover origin from extraction of unconventional oil (including oil sands). Large companies with a turnover from extraction of oil which does not fall within these limits, but where it is assessed that their business model has a substantial adverse impact on the climate. Companies can be kept in the portfolio if they are assessed to be in a sufficient transition to reduce their adverse impact on the climate.	See 'fossil fuels' in below chart applying to P+ Sustainable.
<b>Utility companies</b>	Companies where more that 25 percent of the turnover origin from coal-fired production of electricity, or companies with a coal-fired production of electricity of more than 10,000 MWh. Companies can be kept in the portfolio if they are assessed to be in a sufficient transition to reduce their adverse impact on the climate.	Companies with a turnover from coal-fired production of electricity, and companies with industrial connections to thermal coal, including through substitute ownership or related turnover.
<b>Overall conditions in countries</b>	Countries can be deselected on basis of an assessment of state institutions' governance as well as environmental and social conditions in the country.	Several countries are deselected on basis of sharpened criteria for state institutions' governance as well as environmental and social conditions in the country.

Besides, there is a number of reasons for deselection of companies related specifically to P+ Sustainable. This implies that deselection of companies with e.g. low ESG rating results in investments in companies with a high ESG rating as it is those companies that are left in the investment universe.

<b>Further reasons for deselection of companies – specifically for P+ Sustainable</b>	
<b>Reason</b>	<b>P+ Sustainable</b>
<b>Controversies</b>	Companies with a low score on parameters related to environmental, social and governance controversies with our data supplier.
<b>Alcohol, pornography and gambling</b>	Companies where more than 5 percent of the turnover origin from alcohol, pornography and gambling.
<b>Fossil fuels</b>	Companies that extract, have a turnover from or industrial connections to fossil fuels – that is thermal coal, conventional and unconventional oil or gas, including through substitute ownership, related to turnover or electricity production.
<b>Weapons</b>	Companies where more than 5 percent of their turnover origin from military equipment, and where more than 1 percent of the turnover origins from civilian firearms.
<b>ESG rating</b>	Companies with low ESG ratings. ESG ratings are an indication of how well a company addresses its most essential ESG risks compared to its peers.
<b>Ownership of excluded countries</b>	Companies from excluded countries where the state’s ownership exceeds 50 percent.

When a company or a country is placed on the exclusion list, the pension fund cannot invest further in the company – this applies to equities as well as corporate bonds – or the country’s government bonds and bonds issued by the country’s public authorities. When the market conditions allow for it, the pension fund must divest the investment. For the illiquid funds, which P+ has invested in, it is typically not possible to update the exclusion list after entering into the investment agreement, and in these cases, it will be the exclusion list, which applied at the time of the investment, that applies throughout the entire life of the fund.

Typically, divestment from funds of unlisted companies and companies owning forest, infrastructure and real estate needs to be done in agreement with other investors in the fund.

The assessment of companies and countries is done continuously as needed. P+ reconsiders annually if companies and countries on the exclusion list needs to remain on the list, or if the companies and countries have improved compared to the reason for the exclusion and should be included again.

**P+, the Pension Fund for Academics**

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