the Pension Fund for Academics

# Declaration on the most essential sustainability impacts

May 2022

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

As a responsible investor P+ is aware that investments can have an adverse impact on e.g., environmental, social, and employee-related matters, and P+ seeks to reduce the adverse impact that the pension fund's investments can have on these areas. In this document, you can read about how P+ takes principal adverse sustainability impacts into account. The information applies to P+, the Pension for Academics and is described on basis of the sustainability-related disclosure requirements from EU which P+ is subject to.[1]

| | |
|---|---|
| **Adverse sustainability impact**  | Adverse sustainability impacts are adverse impacts from investments related to sustainability factors - the sustainability factors being environmental, social and employee-related matters, respect for human rights and anti-corruption and anti-bribery. |
| **Identification and prioritisation** | As a responsible investor P+ has several policies to identify and prioritize the principal adverse sustainability impacts related to the pension fund's investments - both before and after the investment is made. |
| **Processes** | P+ has identified a number of significant sustainability factors related to investments. The most important measures for alleviating adverse impact are screening of investments, active ownership and in some cases deselection of companies. |
| **International standards** | P+'s work with adverse sustainability impact complies with international standards. |

## 1. Policies to identify and prioritize principal adverse sustainability impacts

P+'s objective is to generate the highest possible return and at the same time be a responsible investor. A key element in this is that P+ integrates the consideration of adverse sustainability impact in the assessment and monitoring of investments.

According to P+'s policy for responsible investments, P+ focuses on whether companies in the pension fund's investment portfolio practice good governance and thus prevent and alleviate adverse impact on human rights, labor rights, the climate, the environment, tax and corruption. The assessment of adverse sustainability impact is integrated in P+'s overall due diligence related to new investments and in the ongoing monitoring after the investment is made. The pension fund's approach to adverse sustainability impact is adjusted according to the investment type and structure as well as the significance and likelihood of risks for people, the environment, and the value of the pension fund's investments.

P+ prioritises the work with adverse sustainability impact by comparing where there is a potential significant adverse impact on the environment and people and the likelihood of it occurring.

[1] 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).

## 2. 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.[2] 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.

### 2.1 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:

**Principal adverse sustainability impacts**

| Sustainability factor | Description |
|---|---|
| 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.

#### 2.1.1 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 committed itself to goal of net zero emissions in 2050 at the latest. 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] 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.

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 regularly make climate friendly investments e.g., in renewable energy and energy saving restorations of buildings, such that this type of investments constitutes at least 15 percent of P+'s total investments in 2030.

In practice, the two first areas imply i.a. 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.

### 2.1.2 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 Arabic 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.

## 2.2 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.

### 2.2.1 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.

### 2.2.2 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.

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

**Reasons for deselecting companies and countries**

| Reason | Description |
|---|---|
| Violating the policy for responsible investments | Companies that systematically violate the pension fund's policy for responsible investments and active ownership is pointless. |
| Controversial weapons | 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. |
| Tobacco | Companies producing cigarettes and other tobacco products, and where more than 60 percent of the turnover origin from this activity. |
| Coal mining companies | Companies with a turnover from coal mining. |
| Oil companies | Companies where more than 30 percent of the turnover origin from extraction of oil and, 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 do not fall within above-mentioned limits, but where their business model is assessed to have 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. |
| Utility companies | Companies where more than 25 percent of the turnover origin from coal-fired power stations, 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. |
| Overall conditions in the country | Countries can be deselected on basis of an assessment of state institutions' governance as well as environmental and social conditions in the country. |

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 when the investment was made, 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.

## 3. Reference to codes of conduct for responsible business practice and international standards

P+'s work with responsible investments is based on the UN Global Compact's 10 principles, the 6 principles for responsible investments defined by the UN-supported network of investors, UNPRI, and the UN's 17 Sustainable Development Goals.

P+'s work with climate is based on the Paris Agreement and whether the business model of the companies, that P+ invests in, complies 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.

Furthermore, P+ aims to structure the work with responsible investments such that it is aligned with the UN Guidelines for Human Rights and Business, the OECD Guidelines for Multinational Companies as well as the IFC Performance Standards.

P+ has joined a Danish trade initiative on a joint tax code of conduct which has the purpose of supporting responsible tax behavior related to unlisted investments through external managers.

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

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