

**DANSIF**



# **The Current State of Responsible Investment in Denmark**

## **Dansif 2012 Study**

**December 2012**

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## Executive Summary

The Danish organization for responsible investors, Dansif, is presenting the third annual Responsible Investment study and survey among the 50 largest institutional investors in Denmark. It has this year been decided to fully align the questionnaire with the new PRI questionnaire, which limits the possibility to benchmark the current results with the previous Dansif surveys, but it will provide better international benchmark data moving forward. The 2012 study shows that:

- 86 per cent of the 50 largest institutional investors in Denmark – investing 98 per cent of the Assets Under Management (AUM) – have a policy for Responsible Investment. This fact shows that Responsible Investment in the past years has become widely accepted among Danish institutional investors.
- Half of the same investors have a policy for active ownership/engagement – these investors manage 88 per cent of the AUM.
- ESG exclusions – covering norm-based as well as value-based screening – is the most popular Responsible Investment approach, 89 per cent applies this strategy for the actively managed listed equity. A similar proportion of the largest institutional investors apply engagement on listed equity, which characterizes the Danish approach of norm-screening and engagement.
- The use of Proxy Voting is increasing – from 36 per cent in 2011 to 52 per cent of the survey respondents in 2012.
- The use of ESG Integration is increasing – from 36 per cent in 2011 to 67 per cent of the survey respondents in 2012.
- With regards to listed equity, 79 per cent of the institutional investors responding to the survey consider ESG issues when appointing an external manager. The institutional investors look first and foremost, if the external manager has a Responsible Investment policy and how the ESG issues are incorporated into the investment process.
- The main difference in the application of Responsible Investment between asset owners and investment managers is that the investment managers more often use the Responsible Investment approaches ESG exclusions and ESG integration.
- The coverage of Responsible Investment policies and the implementation of ESG approaches is becoming more mainstream in other asset classes than listed equity and corporate bonds.

The study also shows that the oversight of the Responsible Investment activities is often a shared responsibility reaching high into the investor organizations. In 95 per cent of the investors responding to the survey the CEO has oversight of the Responsible Investment activities and in two out of three cases the Responsible Investment oversight reaches the board level.

## Hovedresultater

Dansif præsenterer hermed den tredje årlige undersøgelse af ansvarlige investeringer blandt de 50 største institutionelle investorer i Danmark. Det er i år blevet besluttet, at spørgeskemaundersøgelsen skulle tilpasses det nye PRI spørgeskema, hvilket har begrænset muligheden for at sammenligne resultaterne med tidligere Dansif-undersøgelser. Til gengæld vil det fremadrettet blive muligt at benchmarke resultaterne internationalt. 2012-undersøgelsen viser at:

- 86 procent af de 50 største investorer i Danmark – repræsenterende 98 procent af kapitalen under forvaltning – har en politik for ansvarlige investeringer. Dette faktum illustrerer, at ansvarlige investeringer er blevet bredt accepteret blandt danske institutionelle investorer i de senere år.
- Halvdelen af de samme investorer har en politik for aktivt ejerskab/engagement – disse investorer repræsenterer 88 procent af kapitalen under forvaltning.
- "ESG exclusions" – som omfatter både normbaseret og værdibaseret screening – er de mest populære værktøjer for ansvarlige investeringer. 89 procent anvender et eller begge af disse værktøjer for de aktivt forvaltede børsnoterede aktier. Et tilsvarende antal store, institutionelle investorer anvender engagement, hvilket illustrer den "danske model" med fokus på norm-screening og engagement.
- Anvendelsen af Proxy Voting stiger – fra 36 procent i 2011 til 52 procent af respondenterne i 2012-spørgeskemaet.
- Anvendelsen af ESG Integration stiger ligeledes – fra 36 procent i 2011 til 67 procent af respondenterne i 2012-spørgeskemaet.
- For børsnoterede selskaber svarer 79 procent af de institutionelle investorer i spørgeskemaundersøgelsen, at de inddrager ESG forhold i evalueringen af nye eksterne forvaltere. De institutionelle investorer ser først og fremmest på, om forvalterne har en politik for ansvarlige investeringer, og hvordan ESG er integreret i investeringsprocessen.
- Den primære forskel i implementeringen af ansvarlige investeringer imellem "asset owners" og "investment managers" er, at investment managers oftere anvender forskellige screeningsværktøjer og ESG Integration.
- Politikker og værktøjer for ansvarlige investeringer dækker i højere grad også andre aktivklasser end børsnoterede aktier og virksomhedsobligationer.

Undersøgelsen viser desuden, at det ledelsesmæssige ansvar for aktiviteterne inden for ansvarlige investeringer ofte rækker højt i organisationen og er delt imellem forskellige roller hos de institutionelle investorer. For 95 procent af respondenterne i undersøgelsen har den administrerende direktør et ledelsesmæssigt ansvar for aktiviteterne for ansvarlige investeringer og i to ud af tre tilfælde tager bestyrelsesniveauet også del i dette ansvar.

## Methodology

The 2012 Dansif Study of the state of Responsible Investment in Denmark is focused on the 50 largest institutional investors, who manage the vast majority of capital invested by institutional investors in Denmark. The analysis is based on two different data sources:

- A survey questionnaire has been distributed among the 50 institutional investors and data has been collected by the Dansif administration. The questions in the survey have been selected from the new PRI questionnaire in order to benchmark future editions with this population and save the Danish PRI members the trouble of filling out two surveys. The questions in the new survey are, however, significantly different from the previous Dansif surveys, which limits the possibility to directly benchmark the new survey results with the previous editions. The Dansif administration has generated basic statistics on the survey data and ensured the anonymity before sending the survey results to GES, who has carried out the analysis and written the report.
- For those institutional investors not responding to the survey, the Dansif administration has carried out desk research to collect the following basic data points for all 50 investors: AUM, investor type, Dansif, PRI and UN Global Compact membership, Responsible Investment policy publicly available, and active ownership/engagement policy publicly available.

### Participation rate in the survey

Exactly 50 per cent of the 50 largest institutional investors in Denmark have responded to the survey. This is a similar participation as the previous two years. The largest institutional investors have, however, responded, which means that the survey results cover 87 per cent of the collective assets under management of all 50 investors.

The survey was distributed by email with a follow-up email reminder and a personal phone call to encourage people to respond. The majority of the non-respondents mentioned a lack of time and resources as the main reason for not responding the survey.

### Assets under management (AUM)

The respondents of the survey have provided the AUM figure as of 31 December 2011 in USD. For those investors not responding to the survey, the figure has been found in the annual report or by adding the value of shares, bonds, property and funds as of 31 December 2011. If necessary, the AUM has been changed to USD with the exchange rate as of 31 December 2011: DKK/USD 1/5,75.

### Type of investors

The institutional investors included in the study and the survey process have been categorized either as Asset Owner or Investment Manager in line with the PRI survey. Through the survey, the investors have been able to select the category which best represent their primary activity. Some of the Danish institutional investors have significant activities in both categories, in particular banks with pension funds, but in this study these investors are included in the Investment Manager category.

### Questions or feedback

Dansif can be contacted on [dansif@dansif.dk](mailto:dansif@dansif.dk) or 33 32 43 66 for questions or feedback related to this report.

## Overview of the 50 largest institutional investors

By the end of 2011, the 50 largest institutional investors in Denmark had combined assets under management of 812 billion USD. The figure includes a significant overlap, because the investment managers in the study manage some of the assets of the asset owners also among the 50 largest institutional investors.

The 50 largest institutional investors in Denmark		
	Number	AUM USD billion
Asset Owners	28	357
Investment Managers	22	455

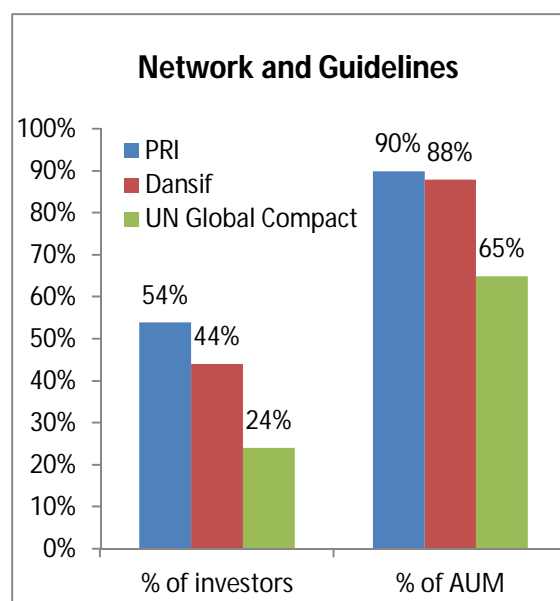
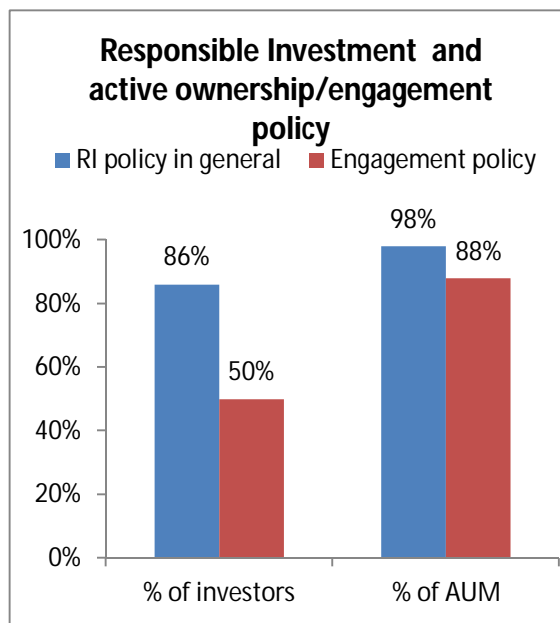
28 of the 50 largest institutional investors are asset owners – typically pension funds or private corporate funds. The remaining 22 investors are characterized as investment managers, typically banks and mutual funds, but it is important to notice that the Investment Manager category also includes the financial institutions who are both asset owners and investment managers, such as banks with pension funds.

43 of the 50 largest institutional investors in Denmark (86 pct.) have a policy for Responsible Investment. These 43 investors have 98 per cent of the assets among the 50 largest institutional investors. This fact shows that Responsible Investment has become widely accepted among the largest Danish institutional investors and it is putting Denmark in the front in Europe and probably the world in terms of having policies for Responsible Investment.

79 per cent of the investors having a Responsible Investment policy disclose it in detail on the website.

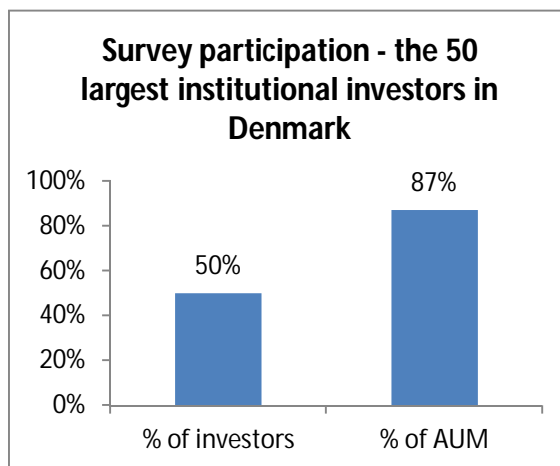
Exactly half the 50 largest institutional investors, managing 88 per cent of the AUM, have a policy on active ownership/engagement. The extension of Responsible Investment and engagement policies is the same as the year before. The two per cent lower figure for the Responsible Investment policy is probably due to changes in the group of the 50 largest institutional investors in Denmark.

There is a variety of Danish and international forums related to Responsible Investment and the largest Danish investors tend to be active in various of those. More than half of the 50 largest institutional investors in Denmark have signed PRI, and these investors represent 90 per cent of the AUM. Fewer of the investors, but yet 88 per cent of the AUM, are members of Dansif and 24 per cent of the investors have signed UN Global Compact.



## The 2012 Dansif Survey

The following section is solely based on the responses from the 2012 annual Dansif survey. 12 asset owners and 13 investment managers responded to the survey which was distributed among the 50 largest institutional investors in Denmark. The survey results are strongly biased towards size, where the response rate among the largest investors is much higher than among the smaller institutional investors - 18 of the largest 20 investors have responded to the survey. Thus, the survey results represent 87 per cent of the total AUM of the 50 largest institutional investors in Denmark.

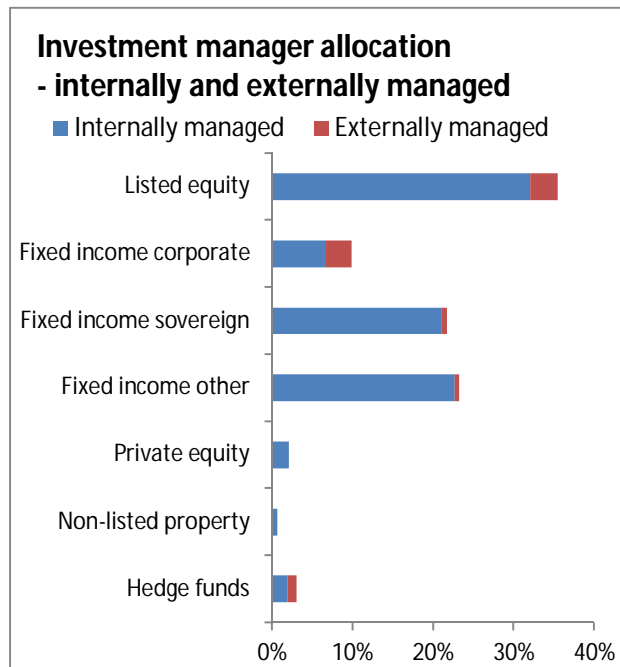
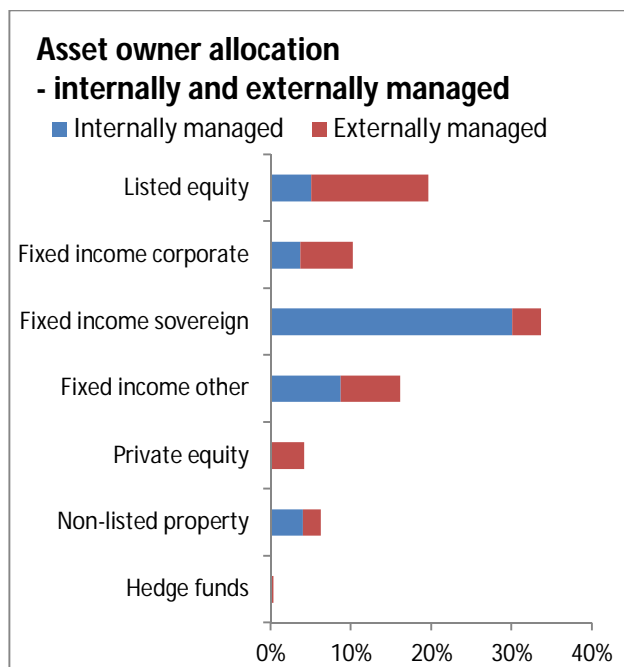


### Asset allocation

The institutional investors responding to the survey invest the majority of the AUM in developed markets. About 88 per cent is invested in developed markets, while the remaining 12 per cent is invested in emerging, frontier, and other markets. Investment managers invest slightly more than asset owners outside the developed markets.

Looking at the asset allocation, the asset owners in the survey invest about 60 per cent of all assets in fixed income, in particularly sovereign bonds. On average, 20 per cent of the assets are invested in listed equity. Among the asset owners responding to the survey, about 33 per cent of the AUM is managed externally.

The investment managers have about 55 per cent of the AUM allocated to fixed income and 35 per cent in listed equity.



The asset allocation to non-listed infrastructure, commodities, inclusive finance, and non-listed forestry and farmland is less than 1 per cent and thereby not included in the graph.

## Responsible Investment Governance

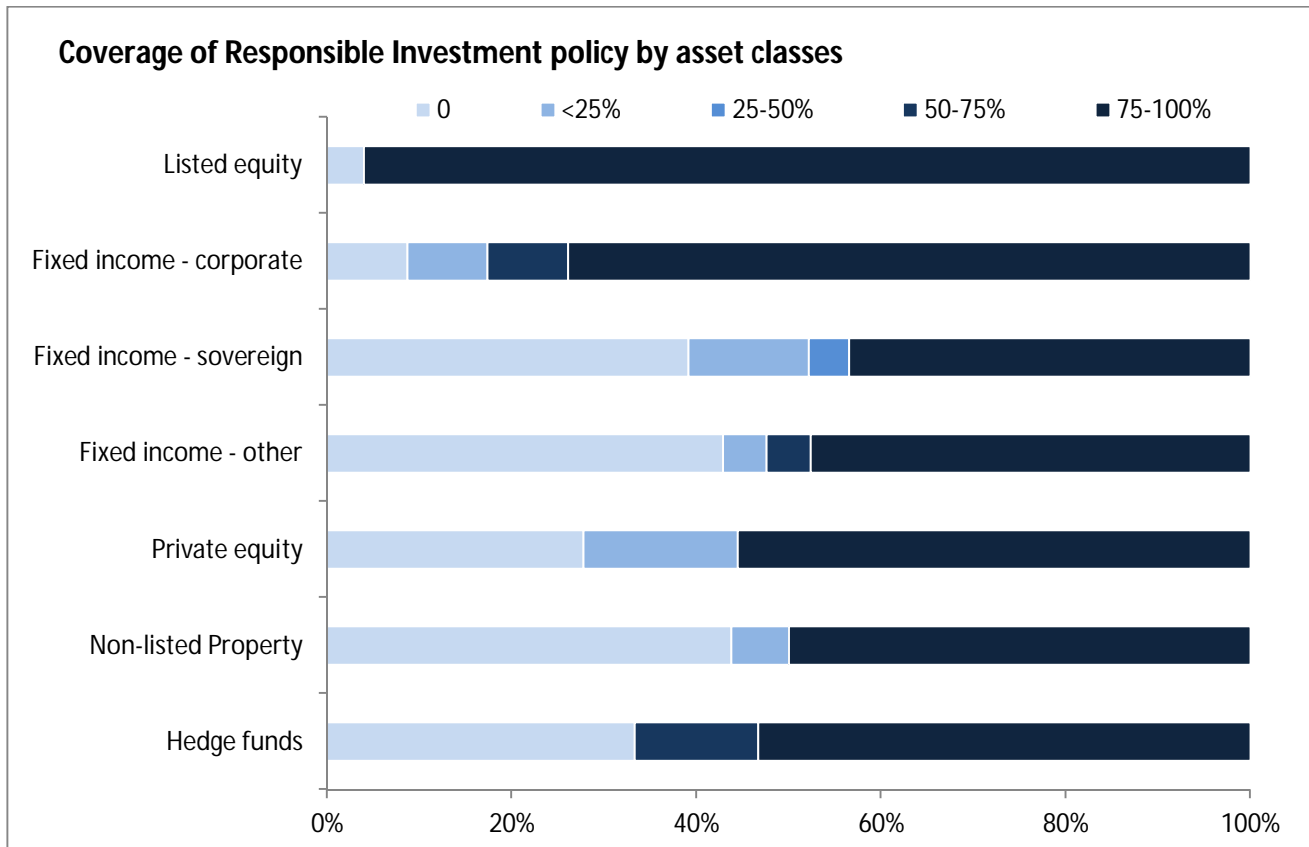
The oversight of Responsible Investment activities at the survey respondents reaches often high into the organizations. The main oversight responsibility falls mostly with the CEO, but in two out of three investors, the oversight responsibility reaches the board as well. The oversight is in many cases a shared responsibility among several roles in the organizations.

In 30 per cent of the cases the CEOs keep a hands-on responsibility with the implementation of Responsible Investment, but in general the implementation responsibility for responsible investment is placed with the portfolio managers and/or dedicated RI/ESG staff.

Governance of Responsible Investment at survey respondents			
	Roles present	Oversight of RI (% of those having the role)	Implementation of RI (% of those having the role)
Board members/Board of trustees	92%	68%	5%
Chief Executive Officer (CEO)	96%	95%	30%
Chief Investment Officer (CIO)/Investment committee	83%	81%	63%
Portfolio managers	79%	50%	90%
Financial analysts	46%	22%	36%
Dedicated responsible investment/ESG staff	63%	60%	93%

## Policy coverage

All but one of the 25 institutional investors responding to the survey have a Responsible Investment policy. These Responsible Investment policies cover consistently between 75 and 100 per cent of the investments in listed equities. The below graph shows to what extent different asset classes tend to be covered by the policies for Responsible Investment. Corporate bonds are also to a large extent covered by the Responsible Investment policy, while other asset classes are less covered.

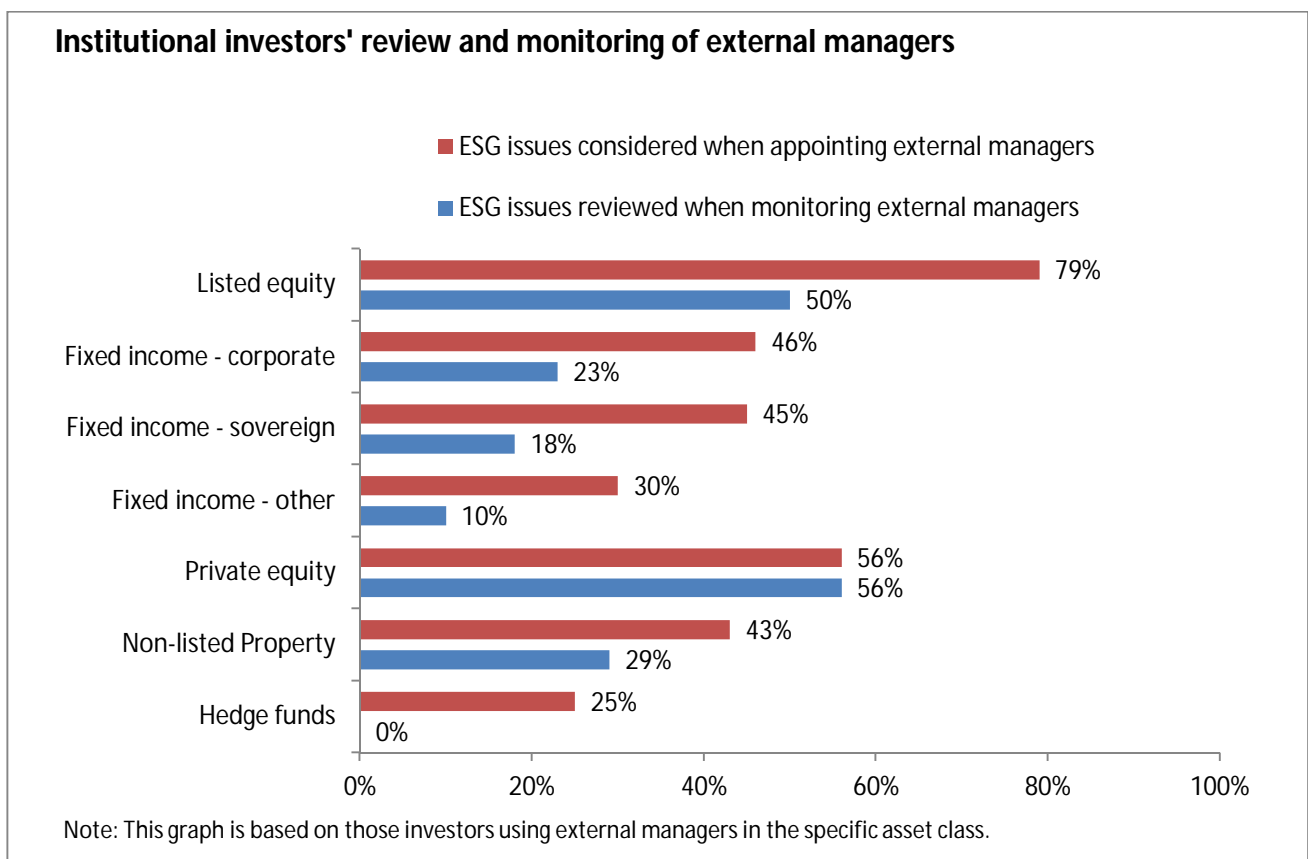


There is in general little difference in the coverage of the Responsible Investment policy in developed market investments compared with investments on emerging, frontier and other markets.

The Responsible Investment policy coverage of different asset classes show an upwards trend compared with the 2011 Dansif survey, where 84 per cent had the listed equity covered by the Responsible Investment policy and approach. This year, the comparable figure is 96 per cent. Similarly, the coverage of sovereign bonds has increased from 34 per cent in 2011 to 43 per cent having covered 75-100 per cent of the investments in this asset class.

### Responsible Investment processes when using external managers

With regards to listed equity, 79 per cent of the institutional investors responding to the survey consider ESG issues when appointing an external manager. Not all of them include the ESG issues when monitoring the external managers. Only when it comes to the externally managed private equity, the investors follow up reviewing ESG issues in the monitoring process to the same extent that ESG is included in the selection of the external manager.





The institutional investors look first and foremost, if the external manager has a Responsible Investment policy and how the ESG issues are incorporated into the investment process, when evaluating external managers. Almost two thirds (64 per cent) also look into, if the external manager is a PRI signatory.

Less than half of the investors look deeper into the implementation of the Responsible Investment policy with reviews of governance and management of the Responsible Investment activities, while 36 per cent evaluate specific skills, competencies and experience of the individuals charged with implementing responsible investment.

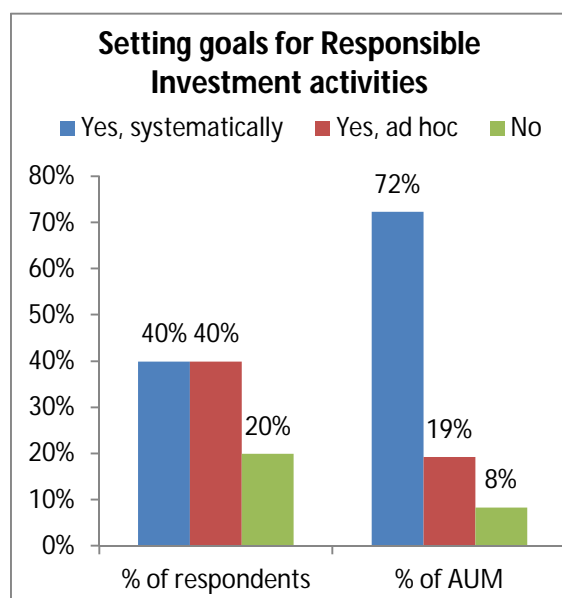
ESG issues evaluated for external manager selection	
Responsible investment policy (ies)	91%
How ESG issues are incorporated into the investment process	73%
Whether the organisation is a signatory to the PRI	64%
The governance and management of responsible investment activities	45%
The skills, competencies and experience of the individuals charged with implementing responsible investment	36%
How engagement and active ownership processes are implemented	27%
Engagement outcomes	9%
The reporting that is provided on ESG performance and outcomes	9%
Voting records	0%
The collaborative and other initiatives that the organisation is a signatory to	0%
The organisation's responses to the PRI annual survey	0%
Note: Based solely on responses from investors, who use external managers.	

## Responsible Investment approaches and implementation

80 per cent of the investors responding to the survey representing 91 per cent of AUM are setting goals for the Responsible Investment activities. The large investors tend to be more systematic in setting goals, while 40 per cent of the investors would set goals on an ad hoc basis.

Most investors – 60 per cent – review performance on goals once a year, while 25 per cent will have more frequent reviews. The remaining 15 per cent will review performance every two years or less.

The vast majority (89 per cent) of the institutional investors responding to the survey applies negative screenings, such as norm-based or value-based screenings, of most or all actively managed listed equity. All investment managers responding to the survey use these screening tools, while 71 per cent of the asset owners do. Two out of three institutional investors also apply the negative screenings on specific funds or mandates. The wide use of norm-based and value-based screening is the so-called “Scandinavian model”, which characterizes most of the institutional investors in Scandinavia. In the PRI terminology the negative screening is framed as ESG exclusions, but in a Danish context it is important to notice that the companies are not necessarily excluded, if they fall out negatively in a norm-based screening, where most of the largest Danish institutional investors would engage instead of exclude. 88 per cent of the respondents in the survey engage with listed equity and 60 per cent engage with corporate bonds.

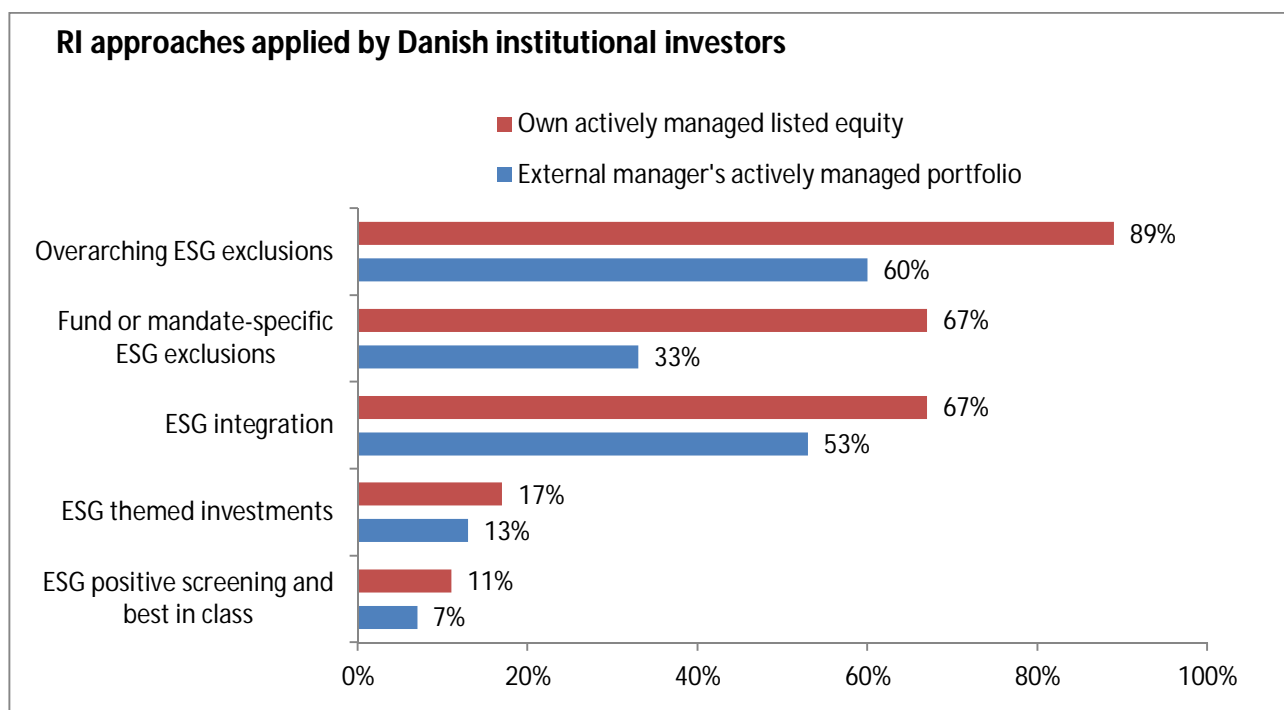


According to the latest Eurosif study of Responsible Investment in Europe, norm-based screening is the fastest growing Responsible Investment strategy in Europe, which could suggest that institutional investors across Europe are becoming inspired by the Scandinavian model.

But it also seems to go the other way that Danish investors are becoming inspired by European colleagues. Compared with the 2011 Dansif survey, ESG integration has become much more popular among the Dansif survey respondents increasing from 36 to 67 per cent in just one year. More investment managers (75 per cent) than asset owners (57 per cent) use ESG integration, which is more widely used in particular in France and the Netherlands.

Besides being inspired by other investors, the development of ESG integration in Denmark could suggest that the largest Danish institutional investors are looking to integrate Responsible Investment deeper into the organization and the investment processes as the ESG integration often will directly involve portfolio managers.

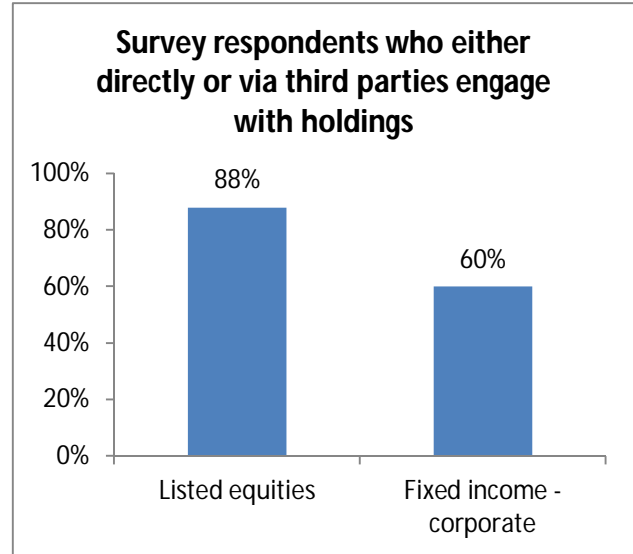
On the other hand, relatively few institutional investors have ESG themed investments or apply ESG positive screening and best in class. These approaches show more or less the same use as the year before.



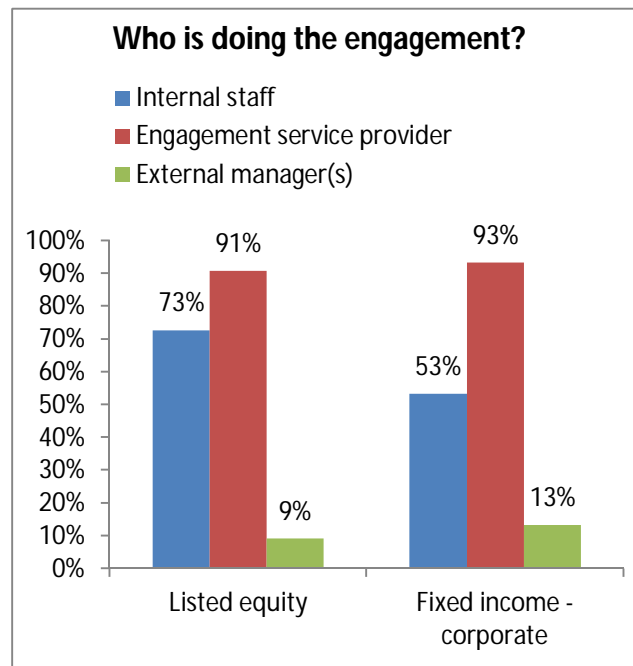
## Engagement

Engagement with listed companies is used to the same extent than the overarching ESG exclusions – the norm-based and value-based screenings – among the 25 respondents in the Dansif survey. Fewer investors engage based on corporate bond holdings.

According to the 2012 Swesif survey of 38 Swedish institutional investors, who apply Responsible Investment, the approach most often used in Sweden is the value-based exclusions (63 per cent) followed by norm-based screenings (47 per cent). Both of these approaches are included in the PRI category “ESG exclusions”. The Swedish survey showed that 45 per cent of the 38 investors were using engagement.



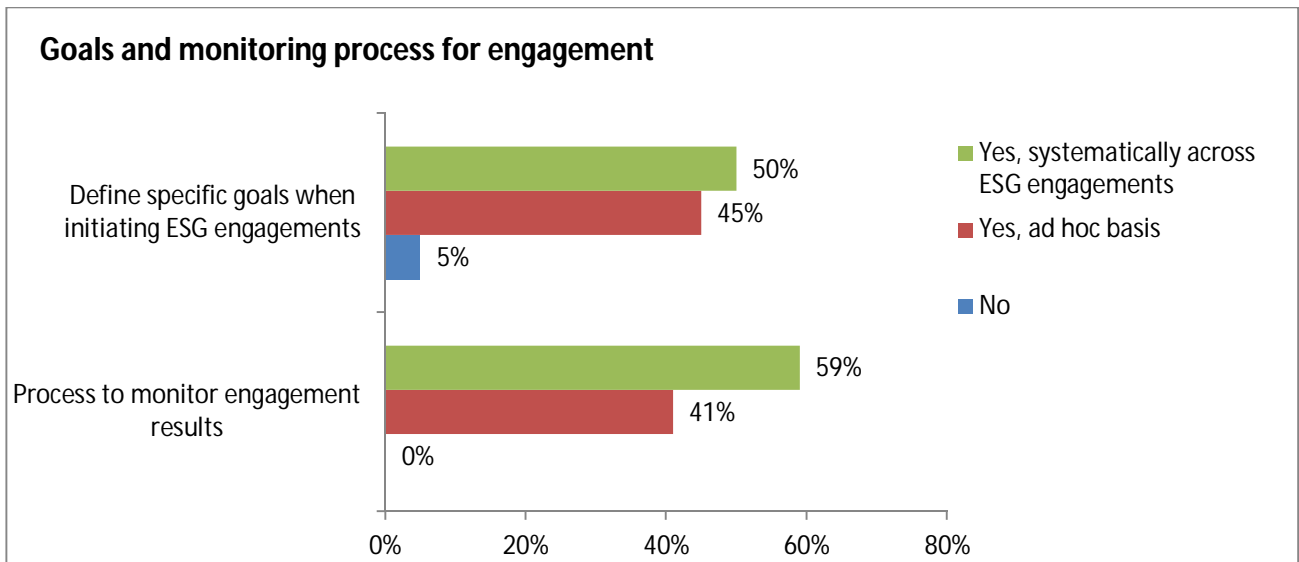
The Dansif survey shows that in more than 90 per cent of the cases, where engagement is conducted towards listed equity as well as corporate bonds, there is an engagement service provider involved. This is a significant increase from last year, where the Dansif survey showed 73 per cent of the investors used service providers for engagement. The institutional investors' internal staff members are also conducting engagement in three out of four investors with engagement towards listed equity and about half the investors with engagement activities on corporate bonds. In relatively few cases the external managers are involved in the engagement activities on behalf of the investor.



The scope of engagement activities varies a lot among the respondents - from 5 to 464 engagements towards listed equity. In general, the service providers engage with a larger number of companies than the investors themselves. Given the large spread in the number of engagements, it is more reasonable looking at the median<sup>1</sup> rather than the average, which is biased by a few very high numbers. The median number of direct engagements conducted by the investors themselves is 5, while the median for engagements conducted by a service provider is 22 per year.

Half of the institutional investors in the survey conducting engagement define goals systematically across ESG engagements. 45 per cent define goals on an ad hoc basis, while 5 per cent do not have goals defined for the engagement process. However, all the investors with engagement has a process to monitor whether the companies have made the desired changes following the engagement, 59 per cent do it systematically across all ESG engagements, while 41 per cent do it on an ad hoc basis.

<sup>1</sup> The median shows the middle number in a set of numbers



Despite all investors have a process to monitor engagement results, only 32 per cent of them can provide a reliable estimate of the number of companies where changes or change commitments followed the engagement conducted by the investor and/or the service provider. The responses from these seven investors show that 2 companies were influenced by direct engagement by the investor, 1 by collaborative engagement and 529 companies were influenced by service provider driven engagement. There might be overlap in the latter figure, when several service providers engage with the same company or the same service provider engage on behalf of more than one investor in the survey.

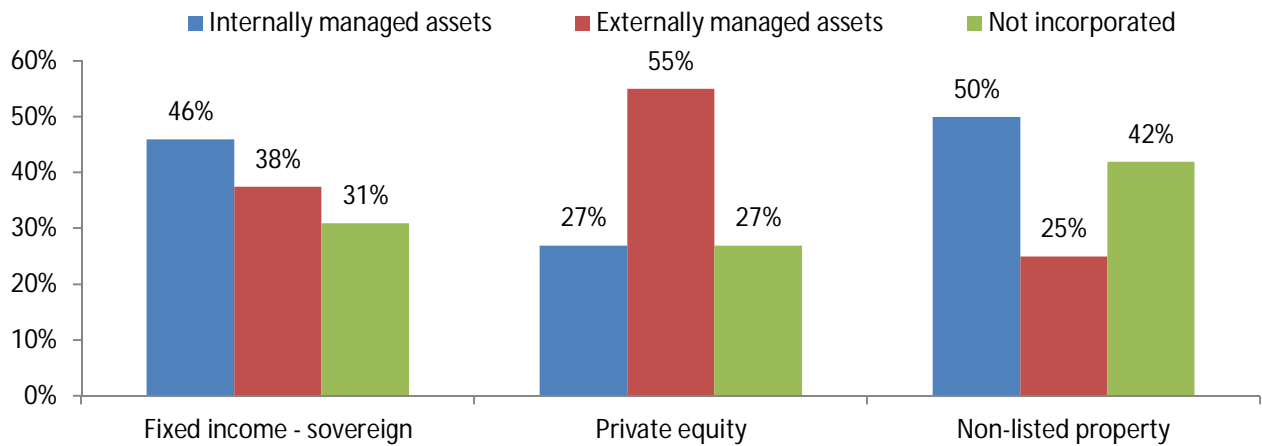
#### Proxy voting

Proxy voting is one way of engaging with listed equities and 52 per cent of the institutional investors responding to the survey confirm that they do proxy voting. This indicates a significant increase in the use of proxy voting among the largest Danish institutional investors, since the 2011 Dansif survey showed 36 per cent. But in this area the Danish investors are still behind the international Responsible Investment investors. The 2011 PRI survey among the PRI signatories found that 88 per cent of the respondents vote at least a portion of their listed equities.

#### Responsible Investment in other asset classes

For other asset classes than listed equity and corporate bonds there is a larger proportion of investors not implementing a Responsible Investment approach. However, the survey shows that about two out of three sovereign bonds investors incorporate ESG in the investment process and/or perform active ownership activities and for private equity a Responsible Investment approach is implemented for 73 per cent of the investors investing in this asset class. For non-listed property 42 per cent do not apply a Responsible Investment approach. Other asset classes are not included, because too few of the respondents invest in these asset classes.

### ESG incorporated in the investment process and/or active ownership activities in other asset classes

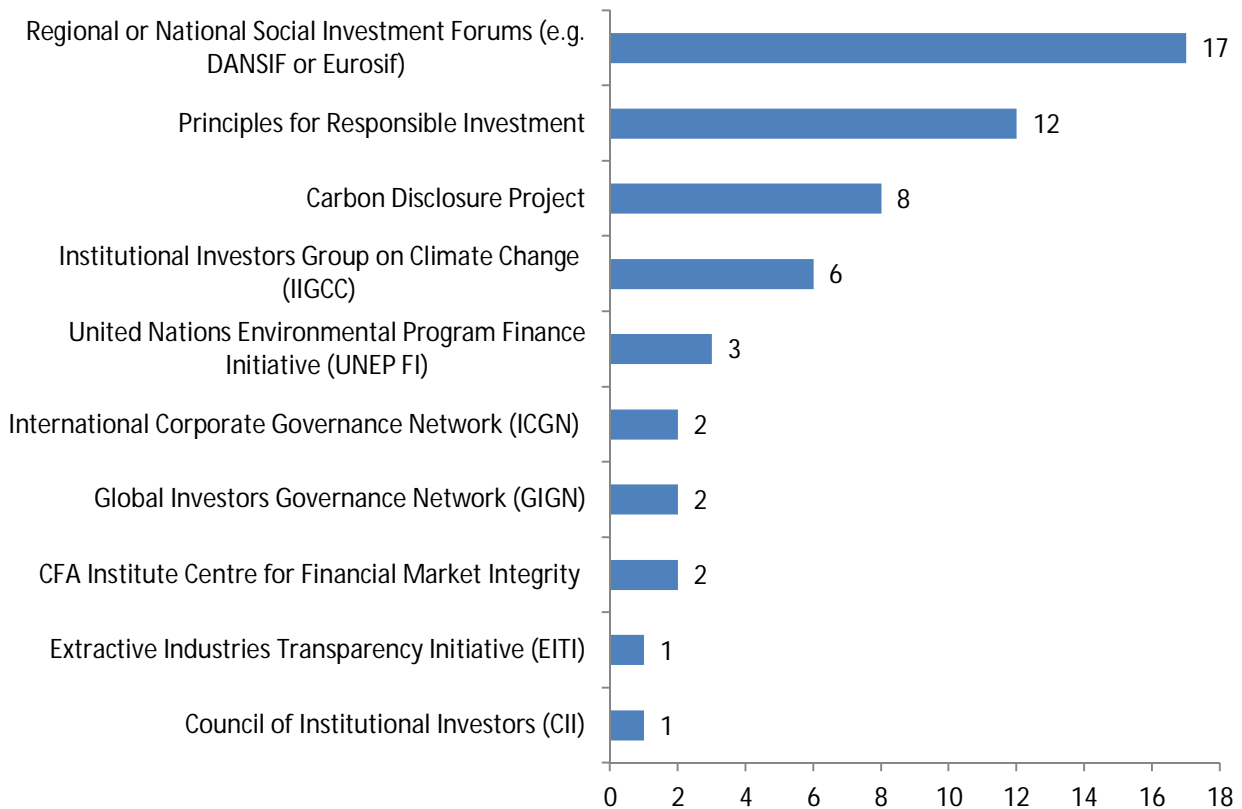


Note: Only included responses from investors indicating asset allocation in these asset classes. N is between 11-13.

### Investors active in networks

17 of the 25 investors responding to the survey are members of Dansif and/or Eurosif. About half of them are PRI signatories, while 8 are part of the Carbon Disclosure Project. Relatively few investors are active in some of the other networks highlighted in the questionnaire.

### Active in networks and similar



## **Concluding comments**

The Dansif 2012 Study confirms that Responsible Investment policies are widely applied by the largest institutional investors in Denmark. Danish responsible investors are still characterized by the extensive use of norm-based screening and engagement on listed equity. The new trends are the increased use of ESG integration, proxy voting, and the implementation of Responsible Investment tools in other asset classes than listed equity and corporate bonds.