

DANSIF



The Current State of Responsible Investment in Denmark

Dansif 2014 Study

May 2014

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Executive Summary

For the fourth time, Dansif has carried out a survey on responsible investment among the 50 largest institutional investors in Denmark. The purpose of the study is to map responsible investment policies, strategies and tools applied by Danish institutional investors and identify new trends on current topics.

In 2013, a number of Danish institutional investors decided to leave the international organization for responsible investors, the PRI, due to concerns about the governance and the direction of the organization. The collective action may have raised some doubts in the public space about the Danish investors' commitment to Responsible Investment, but the Dansif 2014 SRI Survey confirms that the commitment is intact and the 50 largest Danish institutional investors continue to develop and expand the Responsible Investment policies and practices.

The main results of the survey are:

- Dansif is the network representing the largest number and the largest AUM of the 50 largest institutional investors in Denmark. Dansif represents 87 per cent of the AUM, while PRI represents 55 per cent of the AUM in Denmark.
- Responsible Investment is widely accepted among the largest Danish institutional investors and the trend compared to previous years continue to show a broader adaptation of Responsible Investment policies.
- 44 of the 50 largest institutional investors in Denmark have a Responsible Investment policy. These 44 investors represent 99 per cent of the combined assets under management (AUM).
- 56 per cent of the investors (80 per cent of AUM) have a specific engagement policy, up six points from the previous survey in 2012.
- The CEO, CIO and/or an investment committee have the main oversight of Responsible Investment, but board members have increasingly oversight responsibility too. The implementation is driven by dedicated ESG staff and portfolio managers.
- 48 per cent of the survey respondents (a total of 24 investors responded to the survey) confirm that a process for responsible investment in government bonds is in place, while another 38 per cent are working on this with the expectation to have a process in place within 12 months.
- 24 per cent of the survey respondents say that the UN Guiding Principles are fully integrated into the investment process, while 48 per cent say they are to some extent integrated.
- Screening, such as value-based and norm-based screening, continues to be the most widely used responsible investment tool for ESG incorporation among the largest Danish institutional investors. Integration is becoming more widely used for listed equity, but it is used in combination with screening and not alone.
- Nine out of ten survey respondents engage with listed equity and/or corporate bonds. The vast majority of the engagement cases are driven by service providers on behalf of the investors. About half of the investors use also their own staff for engagement, but typically in relatively few occasions.
- Proxy voting continues to be more widely used. 62 per cent of the survey respondents cast their votes on some or all of the equities.
- Besides Dansif and PRI, Danish institutional investors are often active in networks focused on climate change.

Hovedresultater

For 4. gang har Dansif foretaget en undersøgelse af ansvarlige investeringer blandt de 50 største institutionelle investorer i Danmark. Formålet med undersøgelsen er at kortlægge anvendelsen af politikker, strategier og redskaber for ansvarlige investeringer blandt de institutionelle investorer og identificere nye tendenser for aktuelle temaer.

I 2013 besluttede en række danske institutionelle investorer at melde sig ud af den internationale organisation for ansvarlige investorer – PRI - på grund af organisationens retning og governance. Denne kollektive aktion kan have rejst tvivl i omverden om investorerens tilslutning til principperne om ansvarlige investeringer, men Dansif's 2014-undersøgelse viser tydeligt at tilslutningen er intakt og de 50 største danske institutionelle investorer fortsætter med at udvikle og udvide både politik og praksis inden for ansvarlige investeringer.

De primære resultater fra undersøgelsen er:

- Dansif er det netværk, som repræsenterer det største antal og de fleste aktiver under forvaltning blandt de 50 største institutionelle investorer i Danmark. Dansif repræsenterer 87 procent af aktiverne, mens PRI repræsenterer 55 procent af aktiverne i Danmark.
- Ansvarlige investeringer er vidt udbredt blandt de største danske institutionelle investorer og tendensen sammenlignet med tidligere år er, at stadig flere investorer tilegner sig politikker for ansvarlige investeringer.
- 44 ud af de 50 største institutionelle investorer i Danmark har en politik for ansvarlige investeringer. Disse 44 investorer repræsenterer 99 procent af de samlede aktiver blandt de 50 største investorer.
- 56 procent af investorerne (80 procent af aktiverne) har en specifik politik for aktivt ejerskab, hvilket er en stigning på seks point fra den forrige undersøgelse i 2012.
- CEO, CIO og/eller en investeringskommitte har det overordnede ledelsesansvar for ansvarlige investeringer, men stadig flere bestyrelsesmedlemmer deler dette ansvar. Selve implementeringen er drevet af medarbejdere dedikeret til ESG og portefølje managers.
- 48 procent af respondenterne i spørgeskemaet (24 investorer svarede på spørgeskemaet) bekræfter at de har en proces for ansvarlige investeringer i statsobligationer på plads, mens yderligere 38 procent arbejder på det, med forventning om at have en proces på plads inden for 12 måneder.
- 24 procent af respondenterne i spørgeskemaet bekræfter, at UN Guiding Principles er fuldt integrerede i investeringsprocessen, mens 48 procent siger de til dels er integrerede.
- Screening, i form af værdibaseret eller norm-baseret screening, er stadig det mest udbredte værktøj for ansvarlige investorer i Danmark. Integration bliver i højere grad end tidligere anvendt til børsnoterede selskaber, men synes at være et yderligere tiltag, efter at screeningsdelen er på plads. Således anvender ingen investorer integration uden først at have screening.
- Ni ud af ti respondenter i spørgeskemaundersøgelsen driver aktivt ejerskab med de børsnoterede selskaber og/eller selskaber, der udsteder virksomhedsobligationer. Langt hovedparten af disse processer med aktivt ejerskab bliver drevet af konsulenter på vegne af investorerne. Ca. halvdelen af investorerne anvender også egne medarbejdere til aktivt ejerskab, men der er typisk tale om få selskaber.
- Proxy voting bliver fortsat mere udbredt. 62 procent af respondenterne i spørgeskemaundersøgelsen stemmer på nogle eller alle deres investeringer i børsnoterede selskaber.
- Udover Dansif og PRI er de danske institutionelle investorer ofte aktive i netværk med fokus på klimaforandringer.

Methodology

The 2014 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 – similar to the 2012 survey - been selected from the PRI questionnaire in order to benchmark future editions with this population and save the Danish PRI members the trouble of filling out two surveys. PRI has, however, made significant changes from the previous questionnaire, which has limited the possibility to directly benchmark the new survey results with the 2012 survey. Similarly, PRI has not yet released any statistics from the 2013-14 reporting cycle that could be used for benchmarking of the Danish data. 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

24 out of the 50 largest institutional investors in Denmark have responded to the survey. This represents a similar participation rate as previous years. The largest institutional investors have, however, responded, which means that the survey results cover 89 per cent of the collective assets under management of all 50 investors. It is important to mention that this represents a bias in the data towards the large institutional investors among the 50 largest institutional investors in Denmark.

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 to the survey.

Assets under management (AUM)

The respondents of the survey have provided the AUM figure as of 31 December 2013 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 2013. If necessary, the AUM has been changed to USD with the exchange rate as of 31 December 2013: DKK/USD 1/5.41.

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 represents 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 or 33 32 43 66 for questions or feedback related to this report.

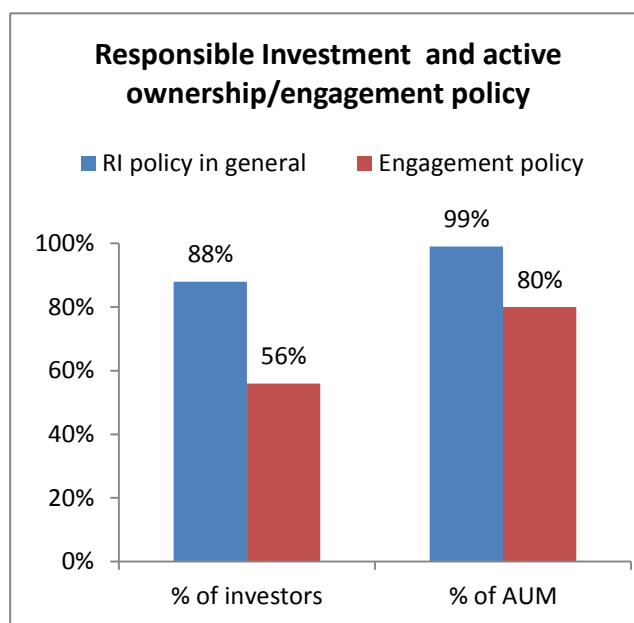
Overview of the 50 largest institutional investors in Denmark

By the end of 2013, the 50 largest institutional investors in Denmark had combined assets under management of 991 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. In the past two years, the asset owners as well as the investment managers have grown the AUM significantly with 26 and 19 per cent.

The 50 largest institutional investors in Denmark			
	Number	AUM USD billion 31.12.2013	Change since 31.12.2011
Asset Owners	28	449	+26%
Investment Managers	22	543	+19%

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. 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.

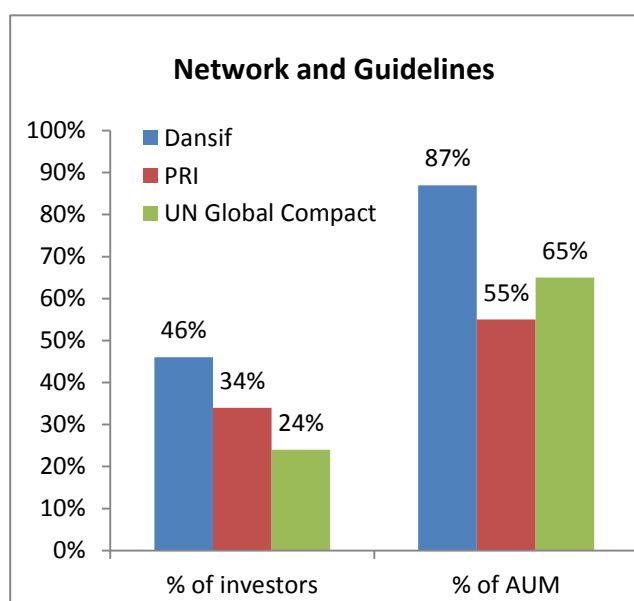
The vast majority of the largest Danish institutional investors have a responsible investment policy and more than half of the investors have also a specific policy for active ownership/engagement. The investors guided by an RI policy manage 99 per cent of the assets, while 80 per cent of the AUM are guided by an engagement policy. The survey confirms again that Responsible Investment is widely accepted among the largest Danish institutional investors and the trend compared to previous years continue to show a broader adaptation of Responsible Investment policies.



77 per cent of the investors having a Responsible Investment policy disclose it on the website.

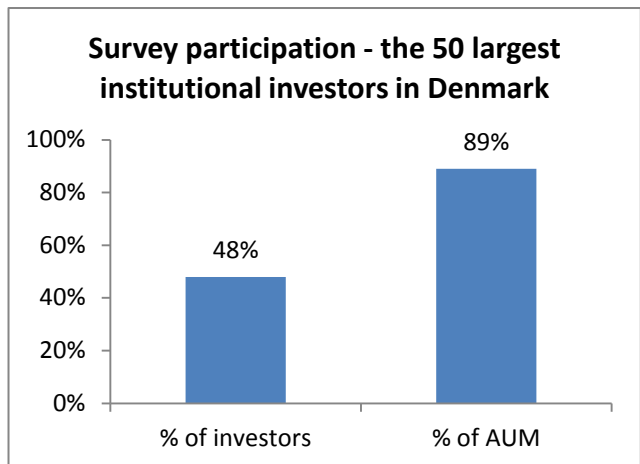
By the end of 2013, six Danish institutional investors announced that they were dropping out of PRI due to governance concerns with the organization of PRI. Other investors have followed. This has led to a significant drop from 54 to 34 per cent in the membership rate of PRI among the 50 largest Danish institutional investors. Among the 17 remaining PRI members, 15 are investment managers.

In the same period, Dansif has experienced a small increase in membership, while the commitment to UN Global Compact remains the same as in 2012. Dansif members represent today 87 per cent of the total AUM of the 50 largest institutional investors in Denmark. The PRI members represent 55 per cent.



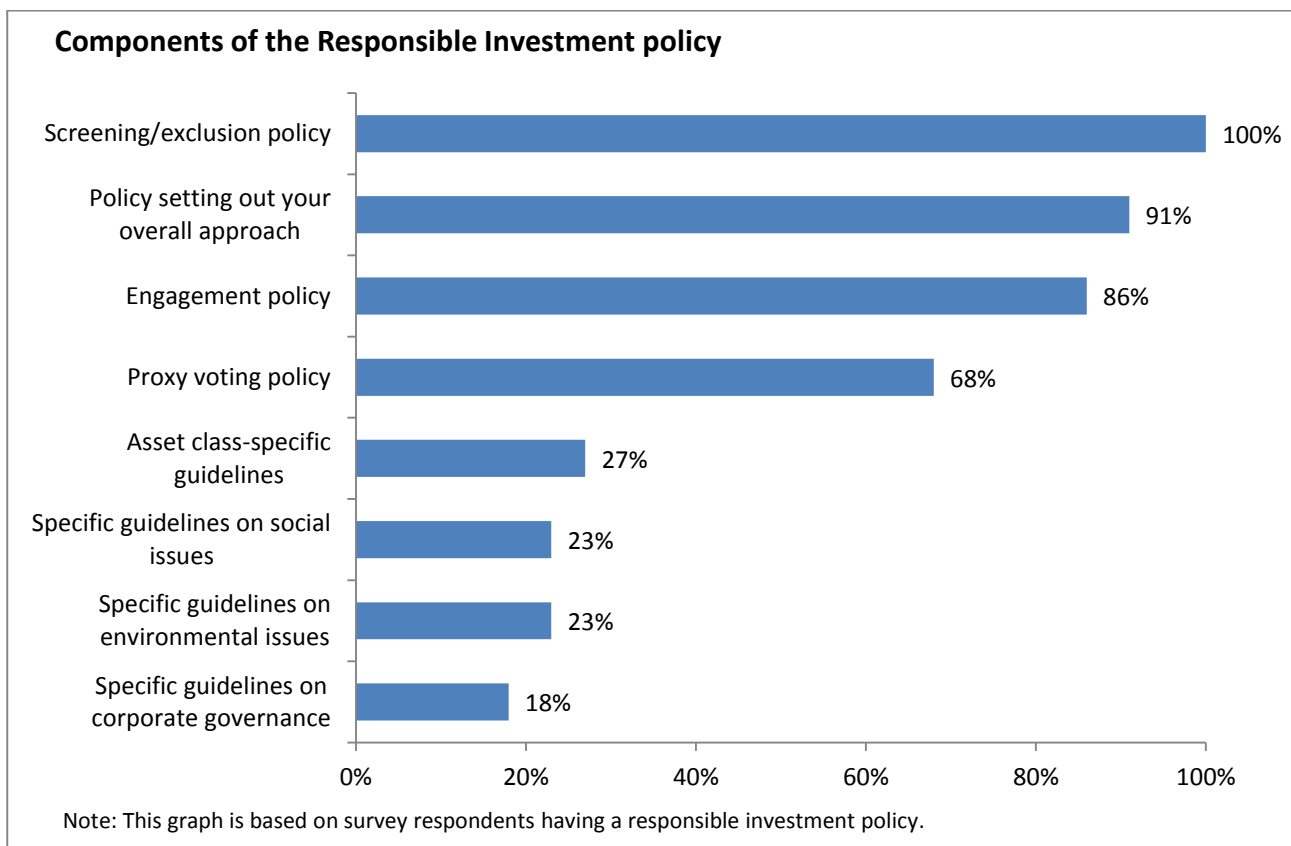
The 2014 Dansif Survey

The following section is solely based on the responses from the 2014 annual Dansif survey. 11 asset owners and 13 investment managers responded to the survey, which represent a survey participation rate of 48 per cent 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 89 per cent of the total AUM of the 50 largest institutional investors in Denmark.



Components of the Responsible Investment policy

96 per cent of the survey respondents have a Responsible Investment policy and all but one respondent make it available publically. All of these Responsible Investment policies include a specific mentioning or policy on screening and exclusions. A specific policy on engagement/active ownership is also included in 86 per cent of the cases, while two out of three have developed explicit policies for proxy voting. About 20-30 per cent of the policies have guidelines specifically for asset classes or either environmental, social or governance issues.



Responsible Investment Governance

The oversight of Responsible Investment activities at the survey respondents often reaches high into the organizations. The main oversight responsibility falls mostly with the CEO, the CIO and/or an investment committee, but in 85 per cent of the cases, and more than in the 2012 survey, the oversight responsibility reaches the board as well. The oversight is in many cases a shared responsibility among several roles in the organizations.

Governance of Responsible Investment at survey respondents		
<i>Roles involved with Responsible Investment:</i>	Oversight	Implementation
Board members/Board of trustees	85%	5%
CEO, CIO and/or investment committee	95%	45%
Other Chief-level staff or head of department	73%	60%
Portfolio managers	50%	94%
Investment analysts	30%	50%
Dedicated responsible investment/ESG staff	83%	100%
External managers or service providers	27%	80%

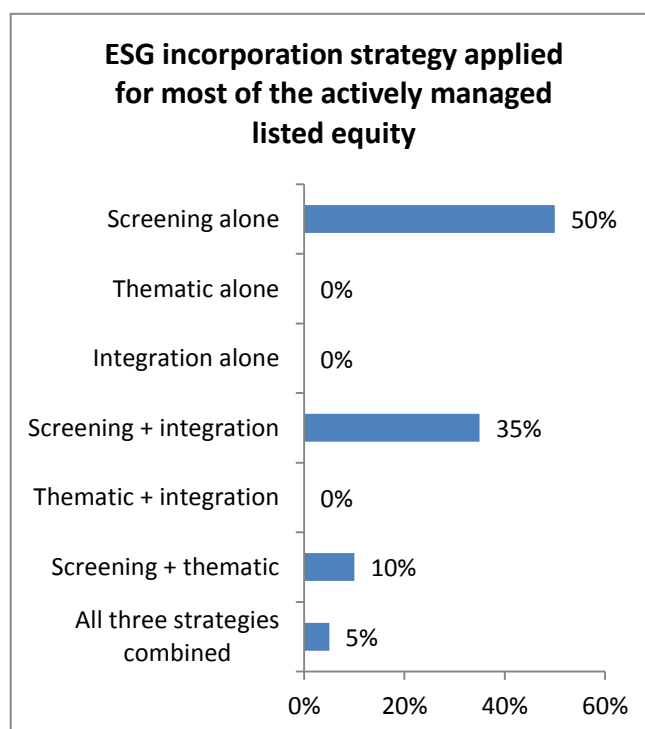
The CEOs continue to have a more hands-on responsibility, where almost half of them are involved in the implementation of Responsible Investment. Most of the implementation relies, though, on dedicated RI/ESG staff and the portfolio managers, while only half the investment analysts are involved with the implementation of Responsible Investment. Four out of five use also external managers or service providers for the implementation.

Implementation: General ESG incorporation

For the actively managed listed equity, half the investors in the survey prefer to apply screening strategies only, while 35 per cent adopt a combination of screening and integration for most of the listed equity. One out of ten applies a combination of screening and thematic strategies and one out of twenty investors applies all three strategies at the same time. None of these investors does integration or thematic strategies alone or in combination of the two.

Integration and thematic seem to be a second step for investors already having the screening in place.

Like previous years, screening strategies are the most widely used strategies for ESG incorporation in listed equity among Danish institutional investors. The negative/exclusionary screening is applied by 83 per cent and the norm-based screening is applied by 72 per cent of the survey respondents. Only 6 per cent apply the positive/best-in-class screening.

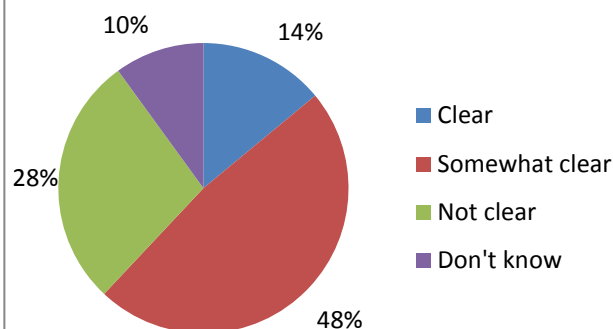


Responsible investment in government bonds

The survey asked specifically for the implementation of a process to manage responsible investments in government bonds and 48 per cent of the respondents confirm that a process is in place, while another 38 per cent are working on this with the expectation to have a process in place within 12 months. Taken these figures into account with the components of the responsible investment policies, it indicates that a significant number of the institutional investors adopt an approach to manage government bonds within the general responsible investment policy and not as a separate policy.

The Danish Council for CSR (Rådet for Samfundsansvar) launched towards the end of 2013 a guideline for responsible investments in government bonds. About half of the survey respondents say that the guideline made the expectations for institutional investors somewhat clear, while 14 per cent say it is clear. One out of four says that it is not clear at all.

Did the guidelines on responsible investments in government bonds published by Rådet for Samfundsansvar clarify the expectations for institutional investors in this asset class?



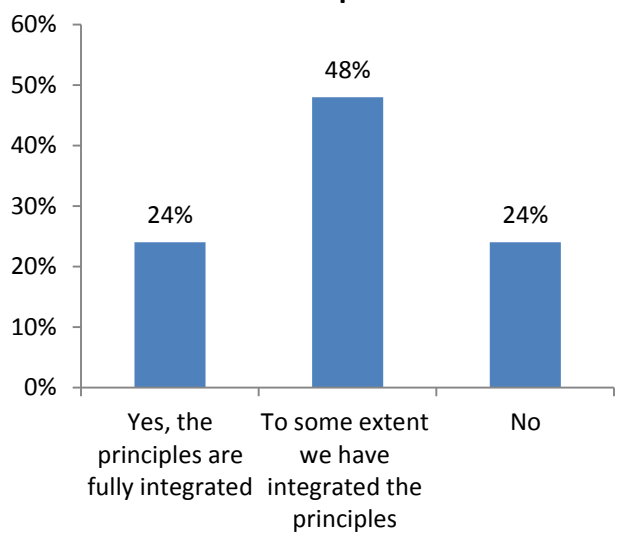
The implementation of the UN Guiding Principles

One of the most significant new international norms introduced in the last couple of years is the UN Guiding Principles on Business and Human Rights, in short the UN Guiding Principles. More informally, these principles are also known as the "Ruggie Principles" after the lead author John Ruggie.

Danish as well as international institutional investors have discussed the implications of the principles for investing and Dansif has taken initiative to a study on the issue to be finalized in the late spring 2014.

The SRI survey inquired the Danish institutional investors, if the UN Guiding Principles had been integrated into the investment process. Almost half the investors in the survey respond that the principles to some extent have been integrated, while the other half of the investors are split between a full integration of the principles and no integration.

Have your organization integrated the UN Guiding Principles into the investment process?



The Dansif study on the subject seems to be well timed for the 72 per cent of the investors having no or some integration of the principles in the investment process.

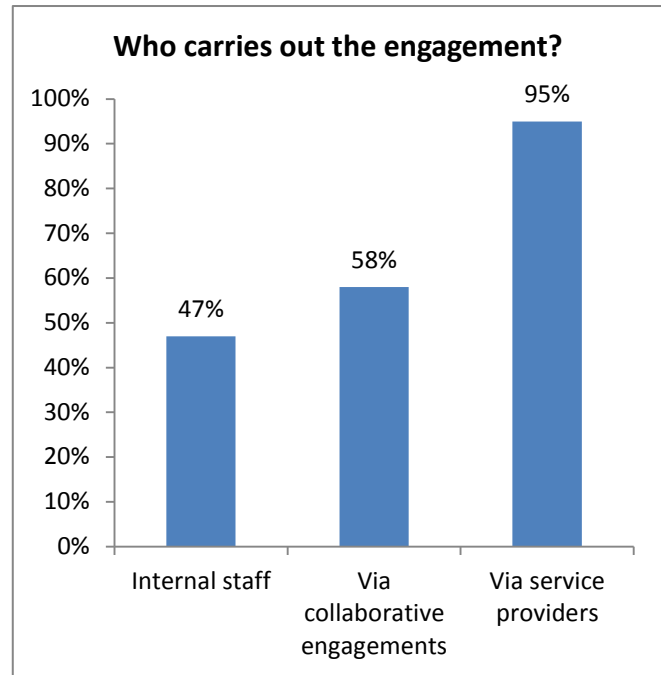
Engagement

Nine out of ten survey respondents carry out engagement. About half of these carry out engagement with internal staff, while 58 per cent engage via collaborative engagements like the PRI Clearinghouse. 95 per cent of the survey respondents use a service provider to carry out at least some of the engagement. Compared to last year, fewer investors use internal staff for engagement, but slightly more use service providers.

The scope of engagement activities varies a lot among the respondents - from 1 to 401 engagements. 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 median¹ 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 4, while the median for engagements conducted by a service provider is 45 per year. Compared to the previous survey, the number of engagements carried out by the internal staff is at the same level, while the service providers have doubled the median number of engagements on behalf of the investors in the survey.

More than half (57 per cent) of the investors using engagement do not proactively disclose information on its engagements to the public and/or clients/beneficiaries. 10 per cent disclose it to clients/beneficiaries only and 33 per cent do share the information publicly. There is often reluctance to share company-specific information about engagements, because it may have a negative impact on the engagement process.

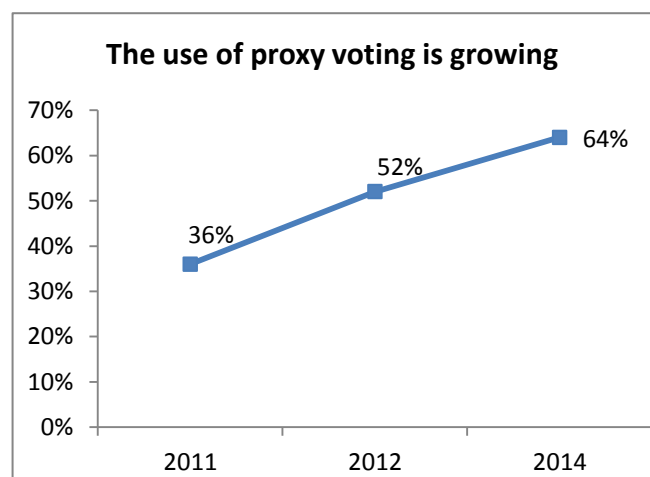


Proxy voting

Proxy voting continues to be more widely used among Danish institutional investors. In the current survey, 64 per cent confirmed to cast votes in 2013, which is an increase of 12 points since the previous survey.

The survey shows two different approaches to proxy voting, where some investors vote on the vast majority of equities and others vote at a relatively low number of equities.

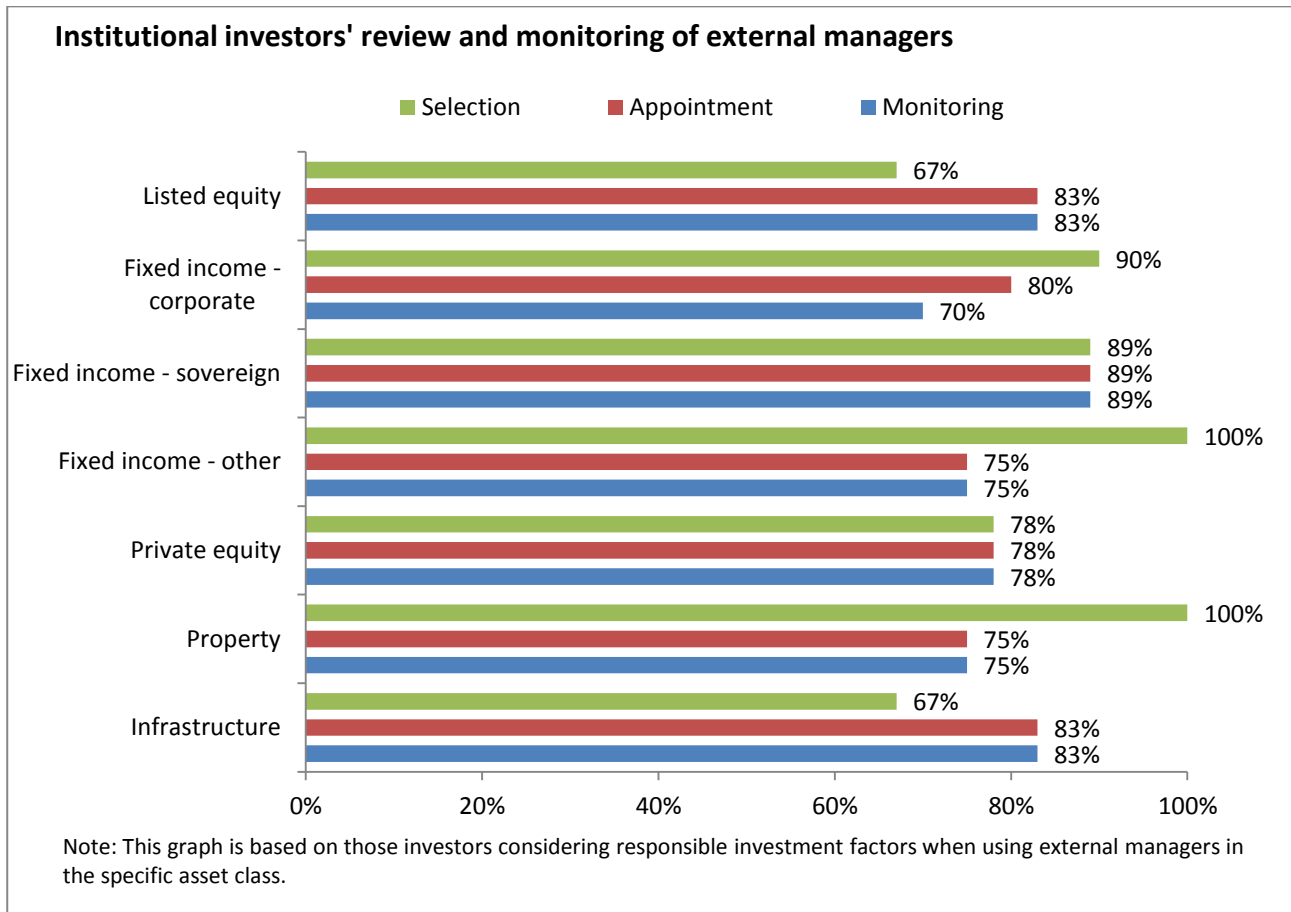
Information on proxy voting activities is more often shared publically than the engagement activities. 43 per cent of those voting, share information about it publically and another 14 per cent share this information with the clients/beneficiaries only.



¹ The median shows the middle number in a set of numbers.

Responsible Investment processes when using external managers

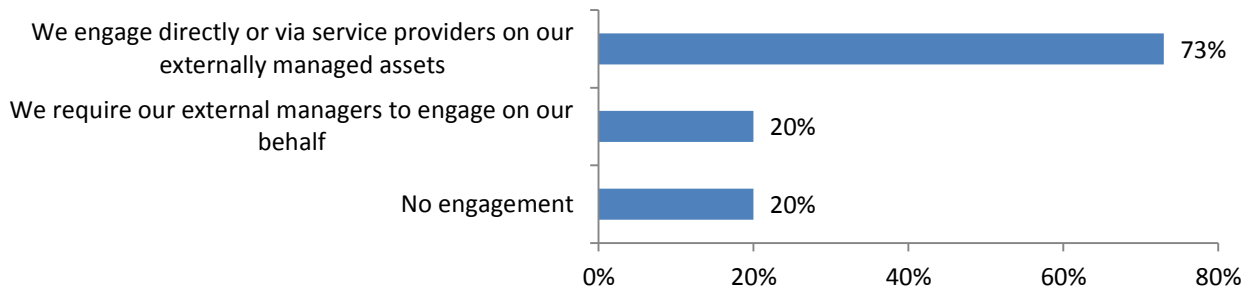
77 per cent of the survey respondents using external managers consider responsible investment factors in selection, appointment and monitoring of external managers. The majority of these investors take responsible investment factors into account for selection, appointment and monitoring of the external managers, but it varies from asset class to asset class.



When it comes to what kind of incorporation strategies that the investors encourage or require the external managers to implement, it is clear that screening strategies remain the most popular incorporation strategy among Danish institutional investors. Only with regards to listed equity, the survey respondents indicate some use of integration strategies for the active as well as passive investment strategies through external managers. The thematic strategy is to some extent implemented for passive investment strategies for listed equity.

Four out of five investors performs engagement on externally managed listed equity and/or corporate bonds. The vast majority of those investors would engage directly or via service providers, while just seven per cent (one respondent in this question) would rely only on the external manager to engage on behalf of the investor. Some investors would in addition to their own engagement require the external manager to engage.

Who performs engagement on externally managed listed equity and corporate bonds?

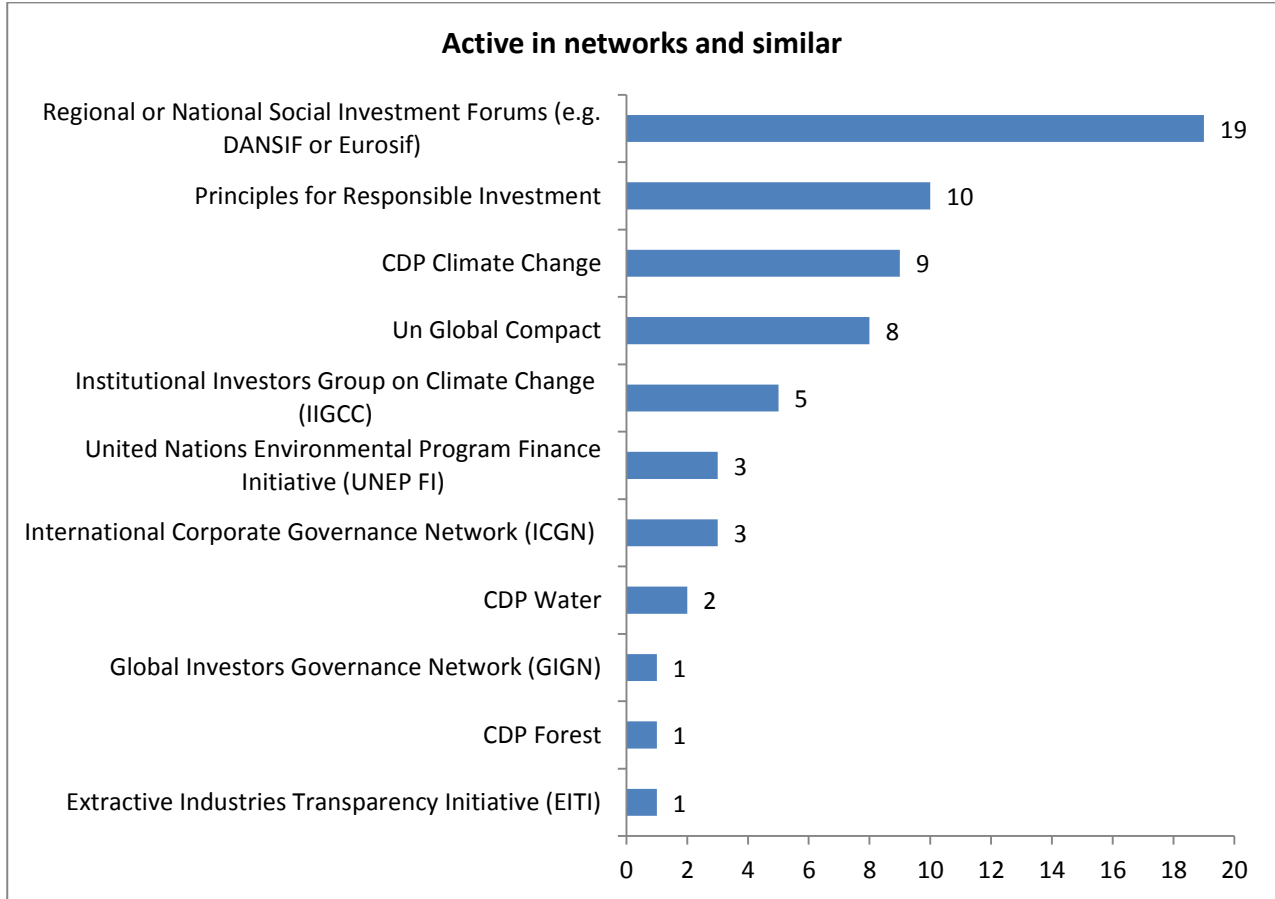


Note: There is overlap, where some investors engage themselves AND require external managers to do the same.

A similar pattern is seen with regards to proxy voting on externally managed listed equity, where 62 per cent of the investors would vote directly or via service providers, while 8 per cent would rely on the external manager to vote on their behalf. The remaining 31 per cent do not vote at all.

Investors active in networks

Besides the most widespread networks for responsible investors, like Dansif and PRI, the Danish institutional investors seem to be mostly engaged with networks focused on climate change. Nine of the survey respondents are active in CDP Climate Change and five are involved with the Institutional Investors Group on Climate Change on Climate Change.



For this year, the survey included a question related to the importance of having a local network for institutional investors focused on responsible investments. 64 per cent responded that it was very important, while another 23 per cent meant that it was somewhat important. 14 per cent of the respondents did not see it as important.