

# Responsible Investment and Stewardship Policy

OCTOBER 2019

## Purpose

Lægernes Pension's Responsible Investment and Stewardship Policy forms part of our overall investment policy, which aims to provide members with the best possible long-term return on their assets in due consideration of the associated investment risk. We do not find this aim of providing long-term returns to be incompatible with responsible investment, as investing in companies that act responsibly often enhances expected long-term value creation.

The Board of Directors of Lægernes Pension reviews this Responsible Investment and Stewardship Policy annually.

## Regulatory framework and other guidelines

In laying down our investment policy, we are required to safeguard the interests of our members in the best possible way<sup>i</sup>, that is by providing the best possible return on their assets. We are also required to report on our corporate social responsibility <sup>ii</sup>and to establish a stewardship policy and annually give an account of our exercise of stewardship<sup>iii</sup>. Moreover, a Danish practice based on the Danish Business Authority' Guide to Responsible Investment<sup>iv</sup> and the Committee on Corporate Governance's Stewardship Code<sup>v</sup> sets out practical approaches to responsible investment and stewardship.

Our Responsible Investment and Stewardship Policy is based on the Danish government's official country- and company-specific policies, i.e. requirements adopted by Danish authorities and requirements by recognised international organisations endorsed by the Danish government. Accordingly, our Responsible Investment and Stewardship Policy complies with the internationally recognised guidelines, principles and conventions set out in the appendix to this Policy.

## Scope

Our Responsible Investment and Stewardship Policy applies to investments in listed securities, such as equities and corporate, mortgage and government bonds.

Investment in unlisted securities, etc. including unlisted equities, properties and infrastructure is often undertaken indirectly and in collaboration with other parties. Accordingly, we often do not control such investments, although we always seek to enforce our Policy. In such investments, we independently consider their compliance with, or any divergence from, our Policy.

## Responsible Investment Guidelines

Lægernes Pension's guiding principle on responsible investment is to assess companies and countries according to an objective and universal benchmark that is unbiased by religious, cultural or financial differences between different parts of the world. With our Policy, the aim is to invest only in companies that comply with local legislation, universal human rights, international labour rights and international norms and conventions on anti-corruption, bribery, climate, environment and weapons production.

Moreover, we aim to avoid investing in companies that supply drugs for use in capital punishment.

It is furthermore our policy not to invest in companies that produce tobacco or tobacco products. We also do not invest in service or distribution companies with significant activities in, or source of income from, tobacco or tobacco products.

#### **Implementation and monitoring of Responsible Investment and Stewardship Policy**

Lægernes Pension invests in a vast number of companies and countries. In the implementation of our Responsible Investment Policy we therefore engage the services of an independent screening agency and place demands on the asset managers undertaking our investments. Compliance with the Policy is ensured by these measures along with our own analyses.

The screening agency monitors most of the companies that we have investments in. The screening agency uses global media monitoring to detect any breaches of non-financial standards or laws. We regularly review the monitoring results to assess and follow up on companies that fail to meet the Policy's guidelines. This assessment is supplemented by information from asset managers and any separate examinations to ensure the return on our investments. Our overall assessment constitutes a company-specific assessment that includes, for example, an assessment of the scope and duration of the issue, whether the company is a party to any litigation, whether the company is willing to discuss the issue and how long it will take before the company can satisfactorily remedy the issue.

The asset managers are in charge of the day-to-day monitoring of the strategy, capital position and financial performance of the companies. However, the asset managers undertaking our investments also have to monitor non-financial issues, as they are required to report to us if any company in their portfolios deliberately or repeatedly breaches applicable legislation in the countries in which it operates. The asset managers are required to report to us if they become aware of a company violating universal human rights or international labour rights, breaching anti-corruption norms, unduly impacting the environment or opposing necessary measures to fulfil the global climate agreement. The asset managers confirm to us on a quarterly basis that they have taken steps to ensure this.

#### ***Stewardship***

It is our policy to act as a steward and a constructive investor towards companies as well as asset managers. The aim is to influence behaviour and developments in accordance with our Responsible Investment Policy to minimise risk and drive long-term value creation for companies. Stewardship activities include dialogue, use of voting rights and exclusion of companies.

#### ***Dialogue***

Dialogue is considered to be one of the most effective means we have to promote our Responsible Investment Policy. Divesting in a company does not promote responsible behaviour and prevents us from influencing the company.

The aim of our dialogue with companies is to promote responsible behaviour in accordance with our Policy. As Lægernes Pension's investments are spread over a large number of companies, we often engage in dialogue with companies collectively with other, like-minded investors through the screening agency. As our stake in each company is very small, coordinating dialogue with like-minded investors enhances our ability to promote our Policy. Dialogue with companies is often confidential, as we have no wish to expose companies in situations where we are called upon to be a constructive investor. However, dialogue is a long process yielding only gradual results. It is not unusual for several years to pass from we identify behaviour in conflict with our Policy until it is clear whether the company is willing to implement satisfactory changes. This is in part because international companies often have a different culture and corporate governance standards than Danish companies and in part because we also wish to include and hear the views of other stakeholders, such as trade organisations and NGOs, when we examine a company's non-financial issues.

We use dialogue with the asset managers as a supplement to the responsible investment guidelines and requirements set out in our asset management agreements. The aim of the dialogue is to gain an insight into the asset managers' practical approach to responsible investment and to ensure that the asset managers continually develop and include issues of ethics along with financial issues in their investment analyses.

#### *Using voting rights*

In relation to equity investments, Lægernes Pension's stewardship policy is supplemented by a policy on the use of voting rights. Voting rights and the right of shareholders to submit proposals may influence and, ultimately, force a company to change its behaviour.

It is our policy to use voting rights to the widest extent possible. For this purpose, we have engaged an independent proxy voting adviser.

*Lægernes Pension does not engage in securities lending, including equities lending. Our portfolio of listed equities is thus not accessible to other investors.*

#### *Exclusion of companies*

Companies that fail to comply with our Policy and cannot be influenced to change their behaviour are excluded from our investment universe. Such exclusion is not effected until all other measures have proven unproductive.

Excluded companies are added to the restriction list for equities and credit bonds, which is provided to the asset managers, who have a contractual obligation to invest in accordance with the restriction list. Excluded companies are removed from our investment universe. If we hold investments in an excluded company, these will be settled as soon as possible, in due consideration of the market conditions.

Companies on the restriction list for equities and credit bonds are regularly reconsidered and are reintroduced in the investment universe if there is evidence that the cause of the exclusion has been addressed or otherwise ceases to be relevant.

### **Specific provisions on government bonds**

#### *Guidelines*

It is our policy to only invest in government bonds issued by a country if the country, or key individuals in the country, are not subject to Danish or international financial sanctions and if the country meets, or is taking measures to meet, internationally recognised principles on good governance, democracy, human rights, political rights, civil rights, social conditions, anti-corruption and the environment.

#### *Implementation*

For the implementation of the Policy, we have engaged an independent screening agency to monitor and assess developments in countries around the world. We regularly examine these monitoring results, supplemented by information on countries that are subject to Danish or international financial sanctions. On the basis of this information, we identify countries in conflict with the Policy.

Countries deemed to be in conflict with our Policy are added to the restriction list for countries. The list is provided to the asset managers, who have a contractual obligation to invest in accordance with the restriction list. Excluded countries are removed from our investment universe. If we hold investments in an excluded country, these will be settled as soon as possible, in due consideration of the market conditions.

Countries on the restriction list for countries are regularly reconsidered and are reintroduced in our investment universe if there is evidence that the cause of the exclusion has been improved, addressed and/or the sanctions lifted.

### **Joint investment in listed assets**

We participate in a number of investment communities or invest in mutual funds, in which we do not necessarily control the responsible investment policy. Consequently, we may have investments that are not in compliance with the guidelines set out in this Responsible Investment Policy.

However, we always seek to have our Policy implemented in dialogue with other investors or the mutual fund's asset manager. We regularly monitor joint investments for compliance with our Policy in order to consider and agree to an acceptable level of divergence, if any.

### **Handling of conflicts of interest in relation to stewardship**

Our Responsible Investment and Stewardship Policy is implemented on the basis of analyses and recommendations from an independent screening agency to ensure that decisions in relation to, for example, exclusion of companies or countries, are made on the basis of reliable and objective criteria. Our use of voting rights is also based on analyses and recommendations from an independent screening agency, except where we have a specific policy on a given subject. Against this background, our conflicts of interest in relation to stewardship activities are deemed to be limited.

The Group's banking division does not provide lending to the business community at large, including listed equities, which would give rise to conflicts of interest within the Group.

### **Information**

We provide information about our Responsible Investment and Stewardship Policy on our website ([www.lpb.dk](http://www.lpb.dk)), in the members' magazine Pecunia, in our annual report and at the annual general meeting.

On our website, the restriction list for equities and credit bonds is available as well as a list of all our listed investments in equities and bonds at 31 December.

### ***Information regarding the annual general meeting***

At the annual general meeting in 2016, it was resolved that Lægernes Pension must report annually on past experience and future measures in relation to the Paris Agreement's goal of keeping the global temperature increase below 2 degrees Celsius – or as close as possible to 1.5 degrees.

## Appendix. International guidelines, principles and conventions

- Geneva Conventions of 1949
- ILO Core Conventions of 1930, 1948, 1949, 1951, 1957, 1958, 1973 and 1999
- OECD Guidelines for Multinational Enterprises of 1976
- UN Convention against Corruption of 2003
- UN Convention on Biological Diversity of 1992
- UN Convention on Cluster Munitions of 2008
- UN Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction of 1972
- UN Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction of 1992
- UN Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction of 1997
- UN Declaration on the Rights of Indigenous Peoples of 2006
- UN Framework Convention on Climate Change, Kyoto Protocol and Paris Agreement of 1992, 1997 and 2015
- UN Global Compact of 2000
- UN Guiding Principles on Business and Human Rights of 2011
- UN International Covenant on Civil and Political Rights of 1966
- UN Montreal Protocol on Substances that Deplete the Ozone Layer of 1987
- UN Principles for Responsible Investment of 2006
- UN Treaty on the Non-Proliferation of Nuclear Weapons of 1968
- UN Universal Declaration of Human Rights of 1948

## Notes

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<sup>i</sup> Section 158 of the Danish Financial Business Act

Article 132(2) of Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II)

<sup>ii</sup> Section 132b of the Danish Executive Order amending Executive Order on financial reporting for insurance companies and multi-employer occupational pension funds

<sup>iii</sup> Sections 159-160 of the Danish Financial Business Act

<sup>iv</sup> The Danish Business Authority's Guide to Responsible Investment, March 2018

The Danish Business Authority's Guide to Responsible Investment in Government Bonds, December 2013

<sup>v</sup> The Committee on Corporate Governance Stewardship Code, November 2016