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Torben Möger Pedersen

Sustainability in the time of coronavirus

2020 underlined just how closely connected the world is. The pandemic broke out in a market in China but quickly spread to the rest of the world. The health crisis soon escalated into a serious economic crisis – a crisis of which we still do not know the full consequences of. Being able to act quickly and safely in a changing world is more important than ever.

Many of PensionDanmark’s members and companies have endured periods of lockdown, and jobs have been lost as a consequence. The hotel and restaurant industry, the transport industry and the many employees at Denmark’s airports have been particularly hard hit. Many of the companies that were not shut down had to implement restrictions and other measures to protect themselves against COVID-19.

Throughout the crisis, we stayed focused on our core mission: Enable our members to have a long and productive working life and give them a financially secure retirement. Our highly digitalised and automated work processes – combined with the responsible and professional conduct of our employees – proved to be key assets in those periods when most of our employees had to work from home. Our call centre operated smoothly with response times of just a few seconds, web service traffic was record-high, and our investment team was busier than ever.

We were born with a long-term perspective. Members joining us in 2020 will receive their pension benefits from 2070 or so and for the following 20 years. We are responsible for investing members’ savings in a way that adds value and at the same time contributes to making the world of our future retirees sustainable. We call this approach “Do good and do well”.

The financial markets had a turbulent year in 2020 due to the corona pandemic, new geopolitical tensions, Brexit and

uncertainty ahead of the US presidential elections. However, a variety of government relief packages lent support to the economy and helped the financial markets climb back into positive territory following the massive losses sustained in the spring. Early on in 2020, we chose to grow our portfolio of sustainable listed companies. Our purpose was to produce solid returns and help achieve the 17 UN Sustainable Development Goals. This was a wise decision. Thanks to the returns on our portfolio of sustainable equities and on our investments in green energy and sustainable real estate, we closed the year with very satisfactory returns for both our younger and our older members.

Our 2020 Corporate Social Responsibility Report sets out to measure the impact of our various efforts – in healthcare, supplementary training and investing – on the UN Sustainable Development Goals. And we have begun setting targets for what we want to achieve. This work, which has only just begun, will continue in the years ahead. By focusing on measuring our impact – negative as well as positive – and by disclosing our targets, we are raising the bar for our corporate social responsibility efforts.

The pandemic has been and still is an unwelcome guest. But we will incorporate the lessons learnt – and the many good new initiatives – into our future endeavours. In 2020, we celebrated the 30th anniversary of public labour market pension schemes. And in December, we won the European Pension Fund of the Year award at the IPE Awards 2020 – for the fifth time. Being recognised as Europe’s top pension provider both encourages and obliges us to continue our important work of giving our members a financially secure retirement – through a sustainable approach.



Torben Möger Pedersen
CEO, PensionDanmark
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2020 IN NUMBERS



PensionDanmark has **391,400** active members employed in **21,500** companies



A typical 45-year-old member received a return of **7.6%** on his or her savings



PensionDanmark is Denmark's most cost-effective pension fund with annual administrative expenses of DKK **297** per member



Member savings have grown by DKK **248** billion since 2000 to amount to DKK **269** billion in 2020 against DKK 180 billion in 2015



Our members had access to **600** clinics against 122 in 2015



1.5 million logins to pension.dk compared with 1.2 million logins in 2019



1,900 companies received grants for 47,900 supplementary training programmes, an increase of just under 2,800 compared with 2015



Green infrastructure investments grew to DKK **15.3** billion in 2020 from DKK 13.5 billion in 2015



The carbon footprint of our total investments was reduced to **49.5** tonnes/EURm from 58.7 tonnes/EURm in 2019



Progress on **307** milestones through PensionDanmark's active ownership, compared with 253 milestones in 2019



PensionDanmark is the owner/co-owner of **159** properties totalling 1.4 million sqm



For the **5th** time, PensionDanmark was named European Pension Fund of the Year at the IPE Awards 2020

BUSINESS MODEL

PensionDanmark pursues a 360-degree approach to engaging with our members. We are committed to giving our members a financially secure retirement by generating solid returns on their savings. We want to enable them to have a long and productive working life by offering them an active and preventive approach to health-care. We want our members to maintain and upgrade their skills through lifelong learning, and we want to protect them by means of insurance policies that provide financial security if accident or illness occurs.

PRODUCTS

PENSION

Pension savings consist of three savings products: Retirement savings, lifelong pension and annuity pension.

INSURANCE

Our members are covered by insurance in case of death, critical illness, anticipatory disability pension or having to take a subsidised job.

HEALTHCARE PROGRAMME

The healthcare programme gives our members access to interdisciplinary preventive treatments, healthcare counselling, Prompt Diagnosis and online consultations.

LIFELONG LEARNING

PensionDanmark manages a number of educational funds which provide financial support for various types of supplementary training programmes.

COUNSELLING

Members can access our member services by phone Mondays-Fridays from 8:00 a.m. to 9:00 p.m. – and at pension.dk 24/7.

300,000 members have signed up to receive messages with personalised information.

VALUES

Members are ensured a financially secure retirement. Investment risks are aligned with members' age. Savings are invested in a sustainable and responsible manner.

These policies provide security for our members during their working lives. Members can raise or reduce insurance amounts to align them with their current needs. Through integration with public registers, we make sure our members always receive what they are entitled to.

The healthcare programme helps prevent repetitive strain injuries and potential disability and assists members in combating health problems and returning to the labour market faster. This provides security for each individual member.

Lifelong learning helps our members maintain and upgrade their skills and thus remain active members of the workforce.

Members receive proactive, personalised advice aligned with their current life situation. Members can choose their preferred platform of communication, which ensures a high degree of accessibility and readiness to meet our members' needs. Members receive personalised information by e-mail, text messages, e-Boks (secure digital postbox), website or telephone.

RESULTS

Our members received solid returns despite uncertainty and considerable financial market volatility. The 45-year pool produced a return of 7.6%, while the 67-year pool yielded a return of 3.9%.

999 members were awarded supplementary anticipatory disability pension, 2,986 members received a lump sum of typically DKK 100,000 on critical illness, and 3,072 beneficiaries received a lump sum on the death of a member. Our members received insurance benefits of DKK 4.4 billion in all.

39,000 members received 266,000 preventive treatments. 27,000 members contacted our healthcare team.

7,700 members received a Prompt Diagnosis, a year-on-year increase of 19%.

47,900 employees in 1,900 companies were able to upgrade their skills through supplementary training paid for by the educational funds managed by PensionDanmark. Grants totalling DKK 71.7 million were paid out.

Our members received 1.1 million personalised messages. Our members logged in to pension.dk 1.5 million times – a year-on-year increase of almost 27%.

The average call waiting time was 7.8 seconds.

A sustainable DNA

Corporate responsibility and sustainability are part of PensionDanmark’s DNA. The 17 UN Sustainable Development Goals are the fundamental values on which we base our business. We want to be open and transparent and therefore also disclose the negative impact we have and the challenges we face.

As a labour market pension fund, we are committed to enabling our members to have a long and productive working life and to giving them a financially secure retirement. We demonstrate responsibility to the world around us by contributing to a more sustainable society, and we are aware that what we do today as a company and an investor has an impact on society – now and in the future.

In 2015, world leaders defined the world’s key challenges going forward to 2030 in the shape of the UN Sustainable Development Goals (SDGs), which consist of 17 goals and 169 targets. We have embraced the SDGs as the fundamental values on which we base our business, as they provide new business opportunities as well as a framework and an objective to work towards. Based on our members, the world around us and our employees, we have selected the SDGs where we can contribute the most towards positive change. SDG 17 is our overriding goal, as partnerships are fundamental to most of what we do and because the impact is greater when we work with others.

Here, we report on selected SDG targets. An example: SDG 4 on quality education, which we support through the management of a number of educational funds (see p. 28). Our efforts in this respect also contribute towards SDG 8 on decent work and economic growth (see p. 42).

In addition to the SDGs and targets, we decided in 2020 to implement the new Danish sustainability indicators defined by Statistics Denmark and the 2030 Panel. Translating the SDGs into a Danish context, these indicators define how Danish companies can and should measure their efforts towards achieving the SDGs. We have selected four indicators that are relevant for our business.

New standards for reporting

The focus of PensionDanmark’s reporting on corporate social responsibility has changed from our efforts and the scope of our efforts to measuring the impact of our efforts. The theme of this report, “Our measurement” (p. 32), examines in depth how far we have come in terms of measuring our impact, the challenges we face and how we set our first-ever targets for what we want to achieve. Going forward, we will measure our performance against these targets.

Why does PensionDanmark not have a sustainability strategy?

PensionDanmark was established to carry out an important social mission: Provide financial security for Danish retirees – and thus contribute to ensuring the financial sustainability of the Danish society. Accordingly, sustainability is firmly rooted in PensionDanmark’s DNA and our entire business. While we do not have a separate sustainability strategy, sustainability is an integral part of our business strategy. In 2020, we added 2025 targets to our business model and ESG ratios. Going forward, we will evaluate our performance based on those targets.

We want to be open and transparent. While we have selected SDGs based on our stakeholders and on where we can achieve the greatest effect, we believe it is equally important to disclose the negative effects our activities may have on the SDGs.

PensionDanmark has committed to reporting on the ten principles of the UN Global Compact for ethical business conduct as regards human rights, labour rights, the environment and anti-corruption. Potential negative effects and challenges are described in the report in the form of our dilemmas.

2020 RESULTS

- > PensionDanmark reports on 11 SDG targets and four Danish indicators.
- > We discuss six dilemmas in this report.

OUR MEMBERS



OUR WORLD



OUR EMPLOYEES



Partnerships for change

PensionDanmark was created and built on strong partnerships as a part of the Danish labour market model. Collaboration with private and public partners in Denmark serves the interests of our members and ensures the best services under our various schemes. Thanks to our international collaboration, we remain a pioneer in reporting on and achieving climate goals.

Labour market pensions were born out of the 1987 Joint Statement – a mutual agreement between the social partners and the Danish government on, among other things, labour market pensions. More than 30 years later, this social contract remains the cornerstone of our work and our structure, which is shaped around a Board of Directors comprising 14 social partner representatives.

PensionDanmark’s ongoing partnership efforts are rooted in a fundamental belief that what we do has a greater and more widespread impact when we do it together with others. Partnerships, whether they concern the climate crisis, COVID-19 or the pandemic’s repercussions on the global economy, have only become more important as the world has become more closely connected. This is true in relation to our members, our impact on the world around us and our employees.

Partnerships for members

PensionDanmark works with a large number of partners, both public and private, as well as with NGOs to serve the interests of our members as best as possible and provide them with the best services under our various schemes. In the educational field, PensionDanmark works with the Danish Agency for Labour Market and Recruitment (STAR), their regional labour market divisions and local labour market offices. During the coronavirus crisis, STAR and PensionDanmark have hosted a number of webinars on grant options under the educational funds and on the

overview provided by the supplementary training site at pension.dk for companies, job centre employees, suppliers and labour market offices.

In relation to the healthcare programme, PensionDanmark in 2020 established a close dialogue with Danske Fysioterapeuter, the labour union for physiotherapists, and the Danish Chiropractors’ Association, which has resulted in significantly improved access for our members to treatments – both in terms of the number of clinics and the number of available slots with physiotherapists and chiropractors. Members book treatments through a new booking platform developed in collaboration with the insurance company Tryg.

Going forward to 2030, up to 20,000 new residential care units are to be established in Denmark. Therefore, PensionDanmark in 2020 formed a new partnership with Diakonissestiftelsen (institution for a semi-religious order of nursing sisters) to develop privately run residential care units for senior citizens. This partnership is shaped around PensionDanmark’s focus on developing sustainable real estate that meets tomorrow’s climate and health requirements combined with the experience of Diakonissestiftelsen in providing general social welfare services and specialised eldercare and nursing care.

Global partnerships move the world

PensionDanmark is member of a large number of international partnerships under the auspices of the UN, the OECD, the EU and the World Economic Forum. In 2020, we confirmed our continued support for the SDGs and global

17 PARTNERSHIPS FOR THE GOALS



Target 17.17

Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

PensionDanmark engages in partnerships, including public-private partnerships, in all its business areas to secure the best and most effective solutions.

2020 RESULTS

- > The number of clinics was expanded to 600 in 2020 in close dialogue with Danske Fysioterapeuter and the Danish Chiropractors’ Association, an increase of 453 from the 147 clinics included in our offering in 2019.
- > Development of privately run residential care units for senior citizens in collaboration with Diakonissestiftelsen.
- > Reduction of 16-29% in greenhouse gas emissions by 2025 through collaboration with the Net-Zero Asset Owner Alliance.

collaboration by signing the UN Global Compact's United in the Business of a Better World – A Statement from Business Leaders for Renewed Global Cooperation, and also the climate initiative Uniting Business and Governments to Recover Better.

In 2020, Torben Möger Pedersen, our CEO, joined The B Team, a group of global business leaders committed to promoting responsibility and a sustainable future. Among other initiatives, the group has participated in a global campaign on how to ensure a green post-pandemic economic recovery. In 2020, Torben Möger Pedersen was also appointed co-vice chair of the Institutional Investors Group on Climate Change (IIGCC), which works to enable climate-friendly investors to exert maximum influence on companies and policy-makers.

The Net-Zero Asset Owner Alliance, which PensionDanmark co-founded in 2019, has grown its membership to 33 pension funds, including five Danish funds, with a total investment portfolio of USD 5,100 billion. As a member of this alliance, PensionDanmark is helping to pioneer standards for the measurement and reporting of investment portfolio carbon emissions. The target is for all alliance members to have CO₂-neutral portfolios by 2050 (for more information, see the theme on p. 32). These international partnerships and collaborations enable PensionDanmark to remain a frontrunner in raising standards for the reporting and achievement of climate goals, as most recently exemplified by the Net-Zero Asset Owner Alliance's target for a reduction of 16-29% in greenhouse gas emissions by 2025.



Lars Sandahl, CEO of DI, and Jan Villadsen, chairman of 3F Transport, both serve on PensionDanmark's Board of Directors

Collective bargaining in 2020

Collective agreements are crucial to the entire labour market as they lay down the rules applying to more than 600,000 employees. In 2020, a large majority of employees voted in favour of the collective agreements for the next three years. The main pension-related achievements of the 2020 collective agreement are:

- > Increased Optional Pay Account contributions: The Optional Pay Account contribution is raised from 4% to 7% over a period of three years, giving members more money for days off, the senior employee scheme, pension savings, children's care days or cash payments.

- > Pension for apprentices and trainees: Apprentices and trainees receive a pension contribution of 6% when they turn 18 and are expected to be entitled to full pension contributions (12% of their wages) from 1 January 2022.
- > Choice between savings and payout of pension savings: Members who keep working after they reach the state retirement age are entitled to have their pension contributions paid out rather than have them placed in their pension savings account.



OUR WORLD



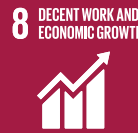
Our contribution to Denmark

“Do good and do well”: Through attractive returns on our investments, we grow and future-proof our members’ pension savings, while at the same time contributing actively towards creating growth, jobs, housing, socially critical infrastructure and renewable energy.

When buying bonds issued by Danish banks and mortgage credit institutions, we support the provision of loans to Danish companies, home owners and housing associations. By investing in equities and direct loans, we help provide capital for small and large businesses, enabling them to evolve and create growth and jobs. By investing in commercial real estate, we help create jobs for construction workers during the construction period and provide up-to-date workplaces for the many workers who staff PensionDanmark’s office buildings and hotels. By investing in wind farms and biomass power plants, we help produce green energy and create jobs in sustainable businesses and at their many sub-contractors.



The consortium’s proposal for a future energy island



Target 8.5

By 2030, achieve productive and decent jobs for all men and women, including for young people and persons with disabilities, and equal pay for work of equal value.

PensionDanmark's real estate investments are estimated to provide 800 constructions jobs for each billion kroner invested.

Climate partnership roadmap

In 2020, the climate partnership for the financial sector, chaired by Torben Möger Pedersen, launched a roadmap for how Denmark can reach the target of a 70% reduction of carbon emissions by 2030. The companies in the financial sector plan to reduce their own greenhouse gas emissions by at least 70% by 2030. However, as the sector’s own emissions are limited, so is the overall effect of this initiative. The climate partnership for the financial sector therefore considers funding initiatives in other sectors to be its most important task. The climate partnership’s roadmap includes a number of recommendations for the government regarding a green restart in various areas.

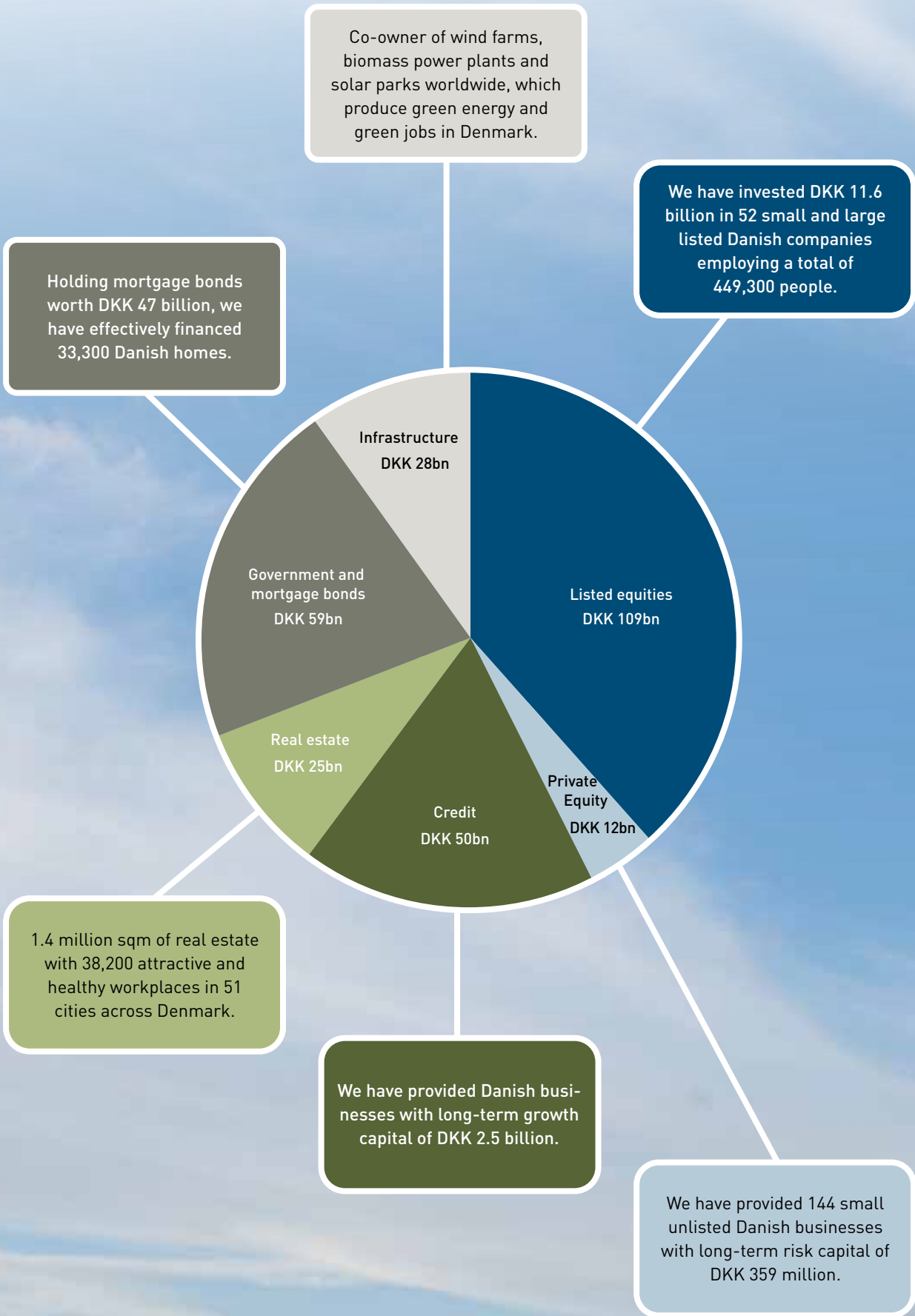
First of all, the government is encouraged to accelerate energy efficiency measures in housing and commercial units, e.g. by extending the tax deduction when using craftsmen for extensive renovation projects. Expanding the use of energy rating reports for housing units and updating them more frequently is also recommended.

Secondly, the government is encouraged to focus on renewable energy expansion and to proceed with the

plans for an energy island in the North Sea. Investments in sea-based wind energy not only support green energy production but also help create jobs in Danish businesses. A consortium consisting of PensionDanmark, PFA, the Danish energy company Anel and Nykredit has committed to funding and operating a planned energy island in the North Sea.

Thirdly, the government is encouraged to expand infrastructure that supports the electrification of society to replace fossil fuels. The production of electricity and central heating is already well on the way to becoming 100% green. The next step should be to roll out new electricity-based solutions for end-user energy consumption, including the necessary funding.

The partnership’s recommendations have been well received. Since their launch, the Danish parliament has decided to subsidise the replacement of oil- and gas-fired boilers with electrically powered heat pumps, to double the deduction for energy-efficient home improvements and to establish two energy islands in the Baltic Sea and the North Sea, respectively.





Peter and Charlotte enjoying the herb bed at their allotment shed

We generate responsible returns

Companies which make positive contributions to the world and fulfil their social responsibilities generate solid, long-term returns for our members. We are therefore increasingly focusing our investments on companies engaged in developing sustainable solutions.

Investing responsibly requires knowledge about companies' ways of doing business and their impact on society and the environment. The term ESG (Environmental, Social and Governance) is used to describe the way companies conduct their business and can be used to measure how sustainable a company is in relation to environmental, social and governance aspects. ESG is an integral part of PensionDanmark's investment decisions.

Already massively invested in energy and infrastructure projects, we are now increasingly directing our investments towards companies engaged in developing solutions to global challenges. Investing to make the greatest possible positive impact on society, we channel our investments towards companies with ambitions that contribute to concrete change.

In 2020, our investment department worked on building a portfolio of sustainable listed companies with a view to generating solid returns while at the same time documenting progress towards achieving the SDGs.



Target 16.6
Develop effective, accountable and transparent institutions at all levels. This includes combating tax evasion and securing funding for basic welfare benefits, especially in third world countries.

The common tax code co-established by PensionDanmark is focused on combating aggressive tax planning. A responsible approach to tax ensures long-term sustainability because the SDGs are highly dependent on tax payments.

Responsible tax

Tax revenues are an important part of a well-functioning society and a crucial source of income for the achievement of the SDGs. In 2020, we continued our endeavours to promote responsible tax behaviour in Denmark and internationally.

In 2019, PensionDanmark and three other Danish pension funds adopted a common tax code for the private equity funds we invest in. In 2020, an additional seven companies and six foundations and associations endorsed the code. The tax code focuses on externally managed unlisted fund investments.

The key message of the code is that pension funds do not accept aggressive tax planning. Our focus on responsible tax practices also extends to our listed investments.

PensionDanmark's approach to responsible investment is governed by the 17 SDGs, the Principles for Responsible Investment (PRI), the principles of the OECD's Responsible Business Conduct for Institutional Investors, the Paris Agreement, international conventions and norms and the recommendations of the UN Global Compact.



2020 RESULTS

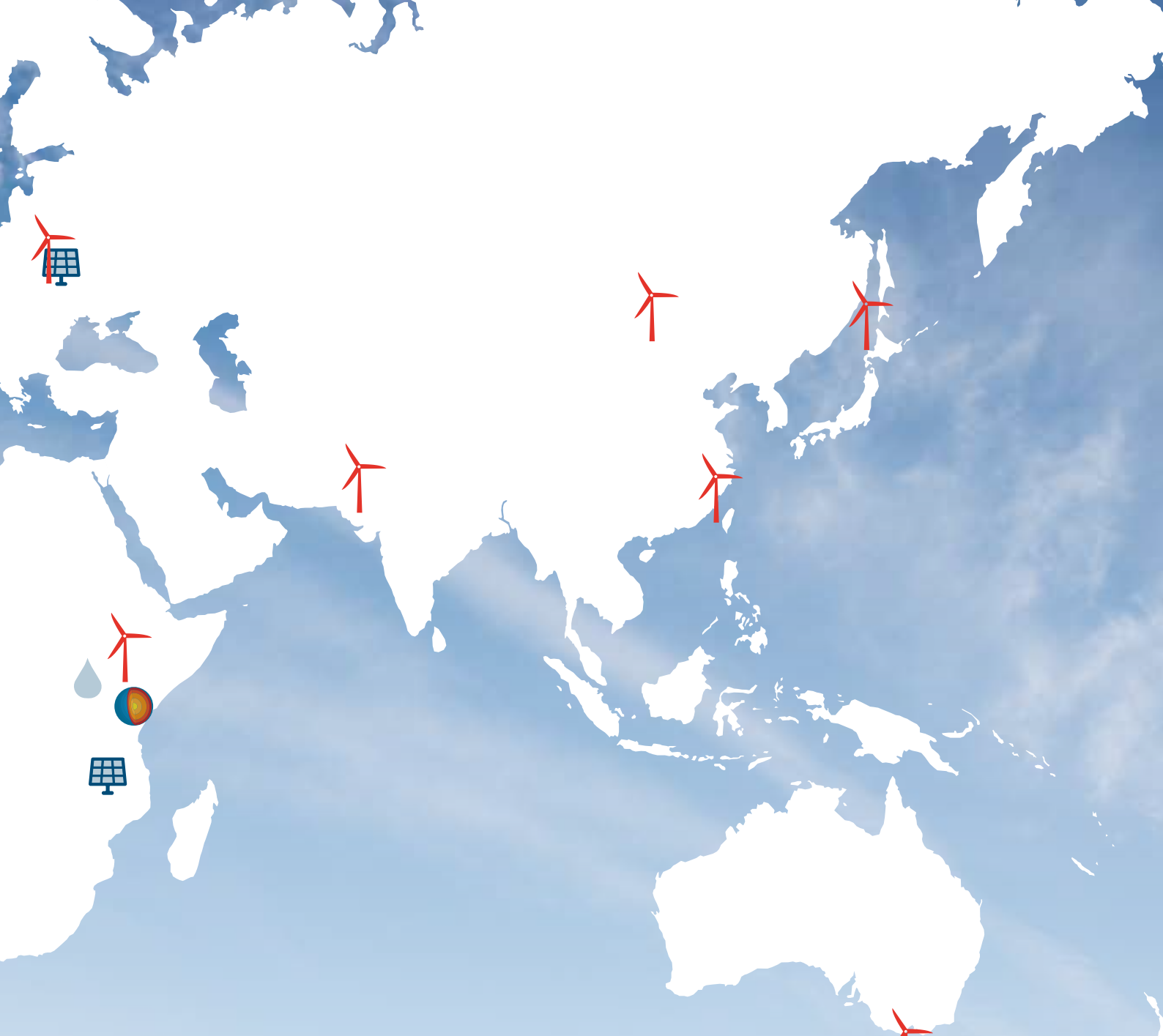
- > At end-2020, PensionDanmark's portfolio of listed shares and bonds in companies focused on green solutions and the green transition totalled DKK 11 billion, a year-on-year increase of DKK 4 billion.
- > Our investments in green infrastructure total DKK 15.3 billion.




More high-return green investments

At the end of 2020, our green infrastructure investments totalled DKK 15.3 billion. In 2020, PensionDanmark committed to invest a total amount of DKK 4 billion in Copenhagen Infrastructure Partners' (CIP) newest fund, CI IV, which is expected to become one of the world's largest renewable energy investment funds and a significant contributor towards achieving the global climate goals of the Paris Agreement.

PensionDanmark was a co-founder of CIP, which has evolved into a world-leading renewable energy infrastructure investor in onshore and offshore wind energy, solar energy and transmission assets in Europe, North America and parts of Asia. Some DKK 11 billion of PensionDanmark's green infrastructure investments were made through CIP.










7 AFFORDABLE AND CLEAN ENERGY



Target 7.2
Substantially increase the share of sustainable energy in global energy consumption by 2030.

Danish indicator 7.2.ii: The share of overall energy consumption generated by renewable energy categorised by purpose.

PensionDanmark has been invested in green infrastructure for the past ten years and currently has investments in wind, biomass and solar cells worth DKK 15.3 billion. Renewable energy investments are an important contributor to robust and stable pension savings for our members. At the same time, these investments effectively contribute to overcoming climate challenges, as a higher proportion of renewable energy will help replace other energy sources, such as coal, in the global energy mix. The derived CO₂ savings for 2020 amount to just under 1.9 million tonnes.

-  Wind farm
-  Biomass power plant
-  Transmission grid
-  Solar power plant
-  Hydro power plant
-  Geothermal power plant
-  Energy from waste

With responsibility come tough choices

Responsible investors are bound to face dilemmas and tough choices from time to time. At PensionDanmark, we are aware of our social responsibility and the challenges that come with it, and we wish to be transparent on both our inclusion and our exclusion decisions.



In 2017, PensionDanmark co-established the Maritime Investment Fund for investing in ships

Dilemma:

Pollutes, but crucial to the green transition

Mining is an energy-intensive process that accounts for 4-7% of global greenhouse gas emissions and involves the risk of various adverse environmental and social impacts. Pollution from mining is harmful to ecosystems and biodiversity, and the industry has adverse impacts on humans and communities due to the loss of nature providing the livelihood and the home of poor and vulnerable populations. Moreover, despite the efforts of several countries, the risk of occupational accidents, illness and death remains higher than in other industries. This was the reason why we excluded the coal industry from our investments in 2018.

On the other hand, minerals and other geological materials are the backbone of many industries – and absolutely crucial to the green transition. For instance, demand for metals such as aluminium, cobalt, iron, lead, lithium, manganese and nickel, which are used in the production of batteries for electronic devices and electric vehicles, is expected to increase strongly in the next few years.

The mining industry is also important because it creates direct and indirect jobs that are essential to local communities. In developing countries, in particular, mines have the potential to generate jobs and growth, both direct jobs during the construction phase and the en-

suing mining operations and indirect jobs as a result of the demand for retail goods and infrastructure improvements, etc. The mining sector supports more indirect jobs than any other sectors, including the hotel industry, retail and agriculture.

PensionDanmark puts a lot of effort into seeking out and motivating the most visionary and responsible companies. In 2020, we engaged in a lengthy dialogue with English-Australian mining company Rio Tinto. Earlier in the year, the company was responsible for the destruction of cultural heritage in the form of 46,000-year-old caves of great importance to particularly aboriginal Australians. The incident, which took place in the course of the company's expansion of its iron mine in Juukan Gorge in western Australia, set off a firestorm against the company. In response to this, the company at the end of the year presented an extensive and ambitious plan setting out a number of measures aiming to protect the cultural heritage and rights of indigenous peoples through free, prior and informed consent. In addition, the company dismissed its CEO as a direct consequence of the incident and replaced him with former Mærsk CFO Jakob Stausholm. We welcome these initiatives and are confident that Jakob Stausholm can transform the culture into one that is focused on ESG.

PensionDanmark has mining investments worth DKK 640 million.

Dilemma:

Exclusion or inclusion?

The role of responsible investor is often associated with exclusion, meaning that certain companies or sectors are excluded from an investment universe altogether. At PensionDanmark, we also have an exclusion list, which includes companies acting in defiance of international conventions by, for instance, producing cluster bombs or landmines. We have also decided to exclude tobacco production as we find it incompatible with the SDG on health.

Excluding companies is not a goal in itself, as it deprives us of the opportunity to exert influence as a co-owner. A company's incentives to deliver sustainable change and show social responsibility are reduced when less critical shareholders take over the shareholdings of responsible investors. Moreover, the exclusion of entire sectors can have a devastating impact on efforts to promote the green transition of, for instance, traditionally energy-

intensive sectors, as responsible investors are more likely to motivate for change.

While PensionDanmark has decided not to exclude sectors with a substantial negative climate footprint, such as the cement and shipping sectors, our general approach is to invest in the most visionary and progressive companies within these sectors. They are faced with demands for a green transition, but the global economy depends on their production, so the best solution to this dilemma is therefore to promote and invest in the companies that lead the green transition. This approach gives the best solutions for society and, by extension, the best investment returns for our members. This group includes several Danish companies, among them Ørsted, Aalborg Portland and A.P. Møller Mærsk.

PensionDanmark holds shares worth DKK 1,125 million in Ørsted, DKK 28 million in Cementir, which owns Aalborg Portland, and DKK 853 million in A.P. Møller Mærsk.

Dilemma:

Can you be committed to social responsibility at the same time as being invested in Chinese companies?

China has long been in the world community spotlight as a result of its actions in Xinjiang, Hong Kong and Tibet and its military threats against Taiwan. Other points of criticism are China's violation of human rights in the form of discrimination and oppression of minorities and the violation of the freedom of speech. At the same time, China represents more than 17% of the world economy and the Chinese market is growing, which means that Chinese companies are yielding attractive returns. Many companies in the financial sector are therefore faced with the dilemma that investments in Chinese companies are attractive but may at the same time jeopardise the UN norms and values typically governing investment.

At PensionDanmark, we have chosen to deal with this dilemma based on a dual goal: generate attractive returns for our members and pursue the great potential for exerting a positive influence on the environment and society offered by investing in China.

We invest in Chinese companies but are aware of our social responsibility. Large Chinese companies are increasingly open to dialogue. We follow up on the progress made in the dialogues we engage in when planning our investment strategy. If a dialogue is considered to not be progressing, we will be less keen to remain invested in the company.

Together with a group of other investors, PensionDanmark is currently engaged in dialogue with Alibaba, the operator of one of the world's largest online trading platforms. Investors are pushing for the publication of relevant policies for working conditions and have inquired about the risk of forced labour in the supply chain in light of the repression of the Uyghurs in northwest China. Through Federated Hermes, PensionDanmark is also engaged in dialogue with Tencent and Ping An Insurance about their use of big data and artificial intelligence (AI) in collecting sensitive personal data.

PensionDanmark has investments in Chinese equities totalling DKK 4,332 million, in Chinese bonds totalling DKK 524 million and in Chinese government bonds totalling DKK 159 million.

2020 RESULTS

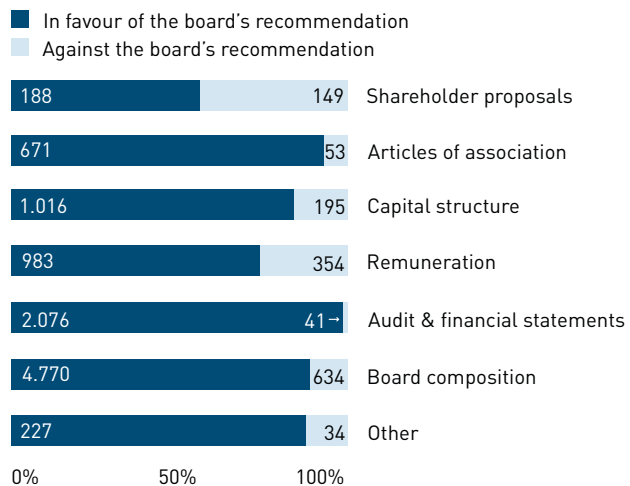
- > PensionDanmark engaged in 632 dialogues with 385 companies.
- > Progress on 307 milestones in companies in which PensionDanmark is invested.

Active ownership pays off

As active owners, we engage in dialogue with companies on their challenges and criticisable conditions instead of just exiting our investment. Through constructive dialogue, we can drive positive change, even on difficult issues. We apply our own voting policy when voting at general meetings. For the sake of transparency, we decided to disclose this policy in 2020.

With investments come owner responsibilities. PensionDanmark fulfils this responsibility by means of active ownership. We exercise active ownership by engaging in dialogue with management on specific issues that call for special attention and by voting at general meetings. We vote based on our own voting policy, which stipulates that the companies must be run in the best interests of the shareholders and society at large. We believe that attempting to steer a company in a sustainable direction rather than divesting our investment is the responsible approach in the vast majority of cases.

General meetings in 2020



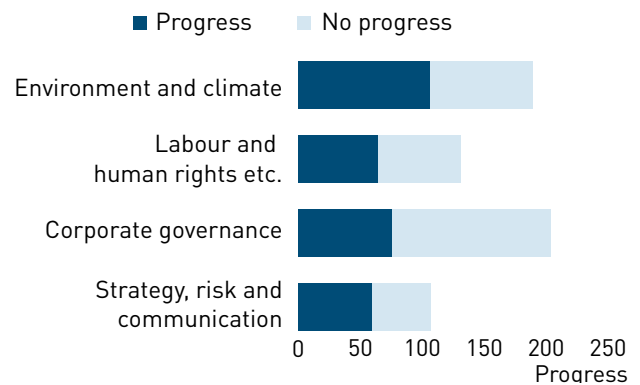
As a new feature, we have decided to disclose how we voted at all general meetings. We believe that being open and promoting transparency is important.

Our active ownership in 2020

Typically through Federated Hermes, PensionDanmark is engaged in several hundred dialogues in an effort to drive positive change together with other investors.

The purpose of these dialogues is to remedy objectionable conditions, but they also serve to give us greater insights into a company's business model, including how it contributes positively to its customers and society at large. This is what ultimately decides whether an investment is attractive for PensionDanmark.

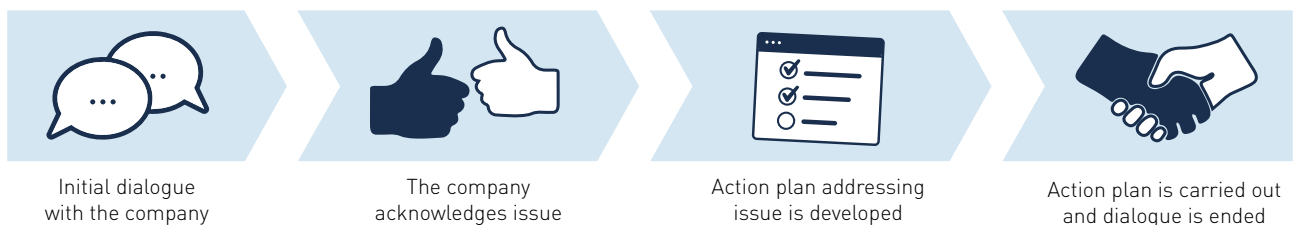
Milestones in 2020



In order to measure our work, we set specific milestones for the dialogue conducted with companies. These milestones may concern increased transparency through reporting of climate risks or the definition of targets for improved representation of certain ethnic groups and women in management positions.

The subjects to be addressed are often complex, and the process of prompting a company to take action and thus reach a milestone is therefore time-consuming. We understand this and therefore practise our ownership with equal portions of patience and persistency in our endeavours to drive positive change towards a more sustainable world.

Our approach to engaging with companies



Active ownership in practice

- > We are in direct contact with Danish companies ourselves, while we work with a number of other responsible investors at international level.
- > Our international adviser, Federated Hermes, facilitates dialogue with the companies and collects input from us and other investors ahead of general meetings.
- > A common position is formulated, which gives us more clout in relation to the individual companies, but we can always deviate from this position if desired.



Corona-friendly rooftop meeting



Stephen, Marianne and Søren at PensionDanmark's domicile at Langelinie Allé

Active ownership brings valuable change

Active ownership means understanding, encouraging and setting expectations for long-term sustainable value creation through dialogue. PensionDanmark's active ownership is increasingly driven by a wish to engage even more actively in corporate dialogue. Sony, Alphabet and Visa are three of the global companies we engaged in dialogue with in 2020.

Sony – diversity on the agenda

Sony is a Japanese multinational electronics and entertainment conglomerate. In terms of diversity, Sony ranks relatively high compared with other Japanese companies as four of its 12 board members are women. Conversely, there are no women on Sony's executive board, and PensionDanmark is therefore focused on the company's efforts to attract women. Sony has defined diversity as one of its core values and has set relevant targets, not only for management but for the organisation as a whole. Getting women to study engineering is a challenge, not only in Japan, and this makes it difficult to build a diverse workforce. PensionDanmark regularly follows up on its dialogues and Sony's efforts in relation to diversity.

PensionDanmark's equity investments in Sony amount to DKK 291 million.

Visa – dialogue on human rights

Visa is an international supplier of digital payment solutions. In 2020, PensionDanmark engaged in dialogue with Visa's management on the implementation of its human rights policy. The dialogue focused on the handling of inequality, artificial intelligence (AI) and the company's presence in high-risk areas.

Visa works to promote financial inclusion and combat inequality through Visa Foundation's philanthropic programmes, etc. Today, Visa is much more open about its efforts to protect itself against fraud. As regards Visa's presence in high-risk areas, the company has conducted an extensive risk assessment and process for the protection of human rights in these areas. Visa believes it has the best chance of contributing to the protection of human rights by maintaining its presence if possible. PensionDanmark supports this approach but has encouraged the company to maintain stringent attention to and monitoring of this area.

PensionDanmark's equity investments in Visa amount to DKK 697 million.

Alphabet – data protection and the right to privacy

Alphabet is the holding company behind internet firm Google, which, in addition to its search engine, provides advertising, software and hardware solutions and processes gigantic volumes of data from users across the globe.

In 2020, Google was accused of collecting information on online searches by users who had activated Google's privacy settings, which were supposed to anonymise their search activity. In the course of the shareholder dialogue, Google was encouraged to involve its board of directors more and to have it monitor the handling of personal data and risks of human rights abuse. If data security is breached, there is also a risk of violation of the right to privacy. In response to the dialogue, Alphabet announced later in the year that the company's audit committee now also supervises the handling of personal data and risks of human rights abuse. Alphabet was also encouraged to report on its compliance with the UN Guiding Principles on Business and Human Rights.

We are keeping our investment in Alphabet but will monitor future developments as we wish to maintain the dialogue and contribute to responsible handling of data that respects the right to privacy.

PensionDanmark's equity investments in Alphabet amount to DKK 1,144 million.

8 DECENT WORK AND ECONOMIC GROWTH



Target 8.8

Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and employees with loose ties to the labour market.

It is important to PensionDanmark that the right to collective bargaining and the freedom of association are respected by the companies in which we are invested. We engaged in 18 dialogues on labour issues in 2020, two of which have recorded measurable progress.