

PBU

Pædagogernes Pensionskasse

**Communication on Progress**  
**UN Global Compact**

**2009**

# Contents

- Contents ..... 2
- Statement of Continued Support ..... 3
- Structure of the Report ..... 4
- About PBU ..... 4
- Actions to Implement the UN Global Compact Principles ..... 4
  - Investments ..... 5
    - Active Ownership and Engagement ..... 6
    - Focus on Public Health Care ..... 9
    - Renewable Energy and Clean Technology Investments ..... 9
    - Partnership Projects in Support of Broad UN Goals ..... 10
  - Workplace and Environment ..... 10
- Communication to Board, Members and Delegates ..... 11
- Participation in Networks on Responsible Investment and Sustainability ..... 11

## Statement of Continued Support

Pensionskassen for Børne- og Ungdomspædagoger - PBU exercises its responsibility as an institutional investor, and employs still greater resources in addressing our corporate responsibility.

Starting in February 2010, PBU will deepen our active ownership strategy by exercising our rights and responsibilities by voting at the annual general meetings of publicly listed companies. PBU views the proper management of Environmental, Social and Governance (ESG) factors as both the right thing to do as well as a driver of value. We see active ownership as part of PBU's corporate responsibility.

Therefore, we welcome the new Danish law that requires all large corporations and institutional investors to report on their corporate responsibility (samfundsansvar) from 2009 onwards.

During 2009, PBU supported an investor call for an ambitious international climate agreement at the Copenhagen Climate Summit in December 2009. In the "2009 Investor Statement on a Global Agreement on Climate Change", 181 signatories with over USD 13 trillion in assets – the largest group of investors ever - called on governments to act on climate change.

PBU agrees with the goal to develop policy guidelines and targets to envelop and support the contribution from private financial sources in order to finance investments in the reduction and mitigation of climate change.

PBU has consequently committed itself to additional investments in renewable energy and clean technology funds in collaboration with other institutional investors. This we do, primarily because it is a sound investment in financial terms, but also because it is a contribution to a healthier society. We are also committed to influencing oil/gas companies, utility companies and the extractive industries to be more socially and environmentally conscious.

In 2009 PBU took the first steps in a project called "Healthy House" to address resource consumption and energy efficiency in our own organisation, and we established a CSR committee with representatives from all departments to drive and encourage this project.

We look forward to the ongoing work in living up to our responsibilities and remain firmly committed to the principles in the Global Compact.

Leif Brask-Rasmussen  
Managing Director

## Structure of the Report

The report provides an overview of PBU's progress in implementing the 10 principles forming the UN Global Compact. The period covered by the report is from January 2009 – December 2009.

The Communication on Progress (COP) concentrates on PBU's most important and most material business area in terms of corporate responsibility, namely our investments and first and foremost our equity investments.

In comparison to the COP covering 2008 activities, this year's COP includes more information on activities affecting PBU's immediate environment and surroundings.

This report covers PBU's parent company and subsidiaries, and aims at providing a balanced account of PBU's corporate responsibility performance and our social, ethical and environmental challenges.

The COP is shared with PBU's board, PBU's delegates, the board of The Danish National Association of Early Childhood Teachers and Youth Educators (BUPL), and is made available to our members on our website – [www.pbu.dk](http://www.pbu.dk)

## About PBU

Pensionskassen for Børne- og Ungdomspædagoger, PBU – Pension Fund of Early Childhood Teachers - is a Danish occupational pension fund with approximately 100,000 members and was established in 1976. The scheme is a mandatory 100 per cent funded direct contribution (DC) scheme. The benefits cover old age retirement and the risks of death, disability, and critical illness. The members' contributions amount to approximately USD 350 million per year, which corresponds to 13 – 14 per cent of their salaries. The total assets amount to approximately USD 6 billion invested in shares, bonds, property and alternatives. All asset management is outsourced to external managers in Denmark and abroad.

In addition to the mandatory pension scheme, PBU manages the additional voluntary pension contributions from early childhood teachers and their spouses and develops and manages private and commercial real estate projects in Denmark.

## Actions to Implement the UN Global Compact Principles

PBU is a member of the UN Global Compact since March 2007, and Global Compact forms the basis and guiding principles for PBU's corporate responsibility including PBU's policy on environmental, social and governance factors in investments.

In the following, the Communication on Progress (COP) gives an account of PBU's targets and outcomes as they relate to our implementation of the ten principles of the Global Compact.

## Investments

PBU is in the financial services industry, and PBU's core business is to manage the pension contributions and entitlements of its members. As such, PBU's fiduciary duty is to provide the best possible return on investment and to safeguard the long term value of the pension contributions while not compromising our obligations as a responsible investor. The role as a responsible investor means that we respect fundamental human rights, rights at the workplace and respect for the environment and the people living in communities impacted by companies and other investment activities where PBU has an involvement.

PBU has chosen Global Compact's 10 principles as the foundation for our work with respect to our relationship to external asset managers and with companies that we invest in. With the role as institutional investor, PBU has chosen to prioritise equity investments as the area of our corporate social responsibility which is:

- Most material to PBU's management of risk and financial performance and
- Where we impact on the social and natural environment based on our investments in companies.

### About the Global Compact

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

#### Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

#### Labour Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

#### Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

#### Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

This emphasis is reflected in the initiatives that PBU has taken in 2009 on corporate responsibility and consequently mirrored in the account of progress that we have made in 2009.

**Active Ownership and Engagement**

Since 2008 PBU collaborates with the UK asset manager “F&C Investments” and its specialised Governance & Sustainable Investment team. F&C Investments provides PBU with active engagement services and their engagement activities reinforce the 10 principles of the UN Global Compact.

In 2009, F&C Investments engaged with 496 companies in PBU’s portfolio on:

- **Environment:** Environmental management, climate change and biodiversity
- **Social:** Human rights and labour standards.
- **Governance:** Corporate Governance, transparency and performance, and bribery and corruption.

As part of the engagement:

- 100% of holdings receive F&C’s market specific governance guidelines outlining expectations of good governance practice and sustainable reporting
- F&C engaged **496 companies** held in PBU’s portfolio in 2009
- F&C recorded **230 milestones** of companies held in PBU’s portfolio in 2009

The sectoral spread of the engagement was as follows:

<b>Sectoral</b>	<b>Number of companies engaged</b>	<b>Number of companies – (milestones)</b>
Basic Materials	55	19
Consumer Goods	67	29
Consumer Services	47	15
Financials	108	53
Health Care	23	18
Industrials	66	31
Oil and Gas	37	23
Technology	36	29
Telecommunication	34	8
Utilities	23	5

The spread on different engagement programmes was as follows:

<b>Split by engagement programme name</b>	<b>Number of companies engaged</b>	<b>Number of Milestones</b>
Corporate Governance	338	76

<b>Split by engagement programme name</b>	<b>Number of companies engaged</b>	<b>Number of Milestones</b>
Sustainability Management and Reporting	227	36
Business Ethics	97	12
Human Rights	137	7
Labour Standards	72	11
Public Health	36	7
Environmental Management	126	11
Ecosystem Services	168	8
Climate Change	295	62

In 2009 discussions in PBU's ethics and ESG committee have included important challenges such as:

#### **Human rights and ESG in conflict-affected countries**

An increasing amount of raw materials and minerals are extracted from countries either affected by conflict such as Sudan, Burma or the Democratic republic of Congo (DRC), or from countries where the political, social and environmental conditions pose many challenges to companies operating there.

With respect to business in conflict-affected countries, the UN Global Compact has in association with the UN Principles for Responsible Investment (PRI) convened an Expert Group Consultation Meeting on Responsible Investment in Conflict-Affected Countries. PBU is represented by F&C Investments in the consultation that aims to develop a guidance paper for companies on the expectations, risks and rewards of responsible business practices in conflict-affected countries around the world. The guidance paper will be launched at the UN Global Compact Leader's Summit in June 2010.

#### **Climate change**

During 2009 the agenda of institutional investors and pension funds was heavily influenced by the UN Climate Summit in Copenhagen (COP15) that was held in December and the pressing need to address climate change and prepare business and investment for a low-carbon economy. PBU supported the "2009 Investor Statement on a Global Agreement on Climate Change", whereby 181 signatories with over USD 13 trillion in assets – the largest group of investors ever - called on governments to act on climate change.

PBU was also a co-signatory of the Carbon Disclosure Project (CDP) that works for transparency in companies' disclosure of actions to reduce Co2. The CDP is a major force in shifting companies attention to improving energy efficiency and reducing emission of greenhouse gasses.

### **Oil sands**

Oil sands in Alberta, Canada and other regions of the world contain large oil reserves. The extraction is expensive and draws heavily on natural resources, is very energy intensive and emits 10 times more Co2 to the atmosphere compared to conventional oil extraction. PBU's engagement with the companies centres on improved disclosure of the impacts on climate change, water use, waste management, biodiversity and native peoples.

### **Proxy voting**

During 2009, PBU has developed plans and policies for implementing voting by proxy at the annual general meetings of listed companies in our equity portfolio. Proxy voting is scheduled to commence in February 2010.

F&C Investments represents a large pool of investments under its Responsible Engagement Overlay (reo) totalling £ 75 billion in a collaborative effort of a large number of institutional investors. In this way, PBU gains influence and a better basis for influencing ESG management strategy and practises in the large number of companies where PBU holds equity.

#### **Strategy and Guidelines for Responsible Investment**

PBU's ambition is to be an active and critical partner for companies that we invest in and to challenge companies to build strong corporate responsibility organizations to handle emergencies and to be well prepared for future market developments, future governmental regulation and future expectations from their stakeholders. As such, PBU's responsible investment strategy builds on active engagement.

Divestment based on ethical criteria and poor environmental, social and governance performance of individual companies only takes place as a last resort and only after careful consideration and decision in the board whether the preceding engagement has produced the desired results or not.

Also, PBU promotes transparency in its investments by making lists of its equity portfolio available on the PBU homepage.

PBU focuses its attention on equity investments. When appropriate, PBU will eventually look into ways how responsibility may be managed effectively and cost efficiently in relation to its remaining asset classes.

## Focus on Public Health Care

In addition to the responsible engagement overlay on the equity portfolio, PBU pursues a more active engagement role on public health care related issues. The engagement is primarily aimed at selected global companies within the following industries:

- Food producers and retail companies
- Pharma and pharmaceutical companies
- Household product manufacturing companies

The engagement focus and targets for engagement with the companies are developed and implemented in a close collaboration with F&C Investments and the engagement centres on three issues:

Issue	Areas of concern	Main engagement objectives in 2009
Access to medicines	<ul style="list-style-type: none"> <li>• Making essential medicines accessible to socially vulnerable groups through a.o. pricing and distribution</li> <li>• Problems of protecting patents</li> </ul>	Encourage relevant companies to adopt responsible approach to access to medicines
Nutrition	<ul style="list-style-type: none"> <li>• Life style related illnesses such as obesity, diabetes and cardio related diseases due to high contents of sugar, salt and fats in combination with too little physical exercise</li> <li>• Product enrichment</li> <li>• Labelling to enable informed dietary choices</li> </ul>	Encourage companies to enhance the nutritional profile of its products, establish clear labelling standards and adopt a responsible approach to marketing
Product safety	<ul style="list-style-type: none"> <li>• Food contamination</li> <li>• Chemical residues</li> </ul>	Encourage companies to ensure that strong quality control systems are in place, applying to all company suppliers

In 2010 PBU intends to further develop our engagement on public health which is critical to hundreds of millions of people around the world who are deprived of and who depend on the provision of public health care services including the access to essential medicines and on the access to safe and healthy foods and products.

## Renewable Energy and Clean Technology Investments

In 2009 PBU's investment in renewable energy and clean technology was expanded. It is an investment area that PBU believes will grow in the future and which we believe will produce a sound investment return in the long term. The investments conserve scarce and depletable resources, improve energy use and resource efficiency and take advantage of renewable energy sources.

PBU is part of three sustainable energy and clean tech investment funds:

- A global equity fund that invests in renewable energy, alternative energy, pollution and waste control, resource optimization and recycling.
- A fund that invests in renewable energy projects in Eastern Europe. The projects will generate income from the electricity sales and from the sale of CO2 emission rights.
- A fund that invests in renewable energy (solar power and wind power) projects in Europe (Italy, France, Spain, and Ireland).

### **Partnership Projects in Support of Broad UN Goals**

Since 2007, PBU together with another Danish investor is part of an ongoing public private partnership project on private equity investment in Vietnam, Egypt and other emerging and LDC markets with co-financing and technical support from the Public Private Partnership Programme (PPP) of the Danish Ministry of Foreign Affairs (Danida).

As part of the collaboration the companies' standards on environmental, social and governance criteria are evaluated, and the companies received training to enhance their corporate social responsibility standards.

In 2009, PBU committed additional funds to a similar private equity fund, this time without financial and technical support from Danida.

### **Workplace and Environment**

PBU is governed by sound economics and restraint in keeping administrative costs low. Also, PBU evaluates efforts aimed at continually making PBU an attractive work place and a professional pension's provider.

Since joining the Global Compact in 2007, PBU is in a continued process of strategically and systematically identifying areas of how we live up to our corporate responsibility.

In 2009 management and staff in unison developed the framework and contents of PBU's corporate responsibility ambitions. The following priority areas were identified to form a project called "Healthy House". The project involves PBU's head office and subsidiary companies, PBU's members, suppliers and asset managers and community & society. To start with the project has centred on initiatives in our head office.

- Climate: The ambition is to have a positive effect on the environment and on the climate.
- Health. The ambition here is promoting the health of employees and in our immediate surroundings.
- Corporate governance. The ambition here is being open, fair and professional

Throughout 2009, a number of steps and initiatives have been taken in order to reduce resource consumption and waste in order to economize and in order to reduce our impact on the environment. In the following, the most important initiatives are summarised.

PBU is committed to providing its employees with an attractive workplace and good opportunities for job and career relevant training. In addition, all employees enjoy access to activities aimed at improving their health such as a private health insurance, an annual health check up and healthy and varied meals. PBU is also encouraging its staff to exercise regularly and taking part in job place recreational activities.

PBU in 2009 has taken concrete steps to reduce resource consumption of heating, electricity and water based on an analysis of our energy use by a certified energy consultant. More materials and waste are sent for recycling and we are starting to address resource use in relation to the communication with members, e.g. sending pension overviews electronically rather than in hard copy.

In 2010 PBU aims to develop a plan for further implementation of Global Compact, including targets for achieving progress in relation to the Global Compact principles as well as developing indicators for measuring progress.

## **Communication to Board, Members and Delegates**

PBU prepares a quarterly written report to the board and the delegates about the status of the implementation of corporate responsibility as part of PBU's investments. The reporting contains highlights in the engagement with companies and milestones achieved.

PBU welcomes the dialogue with its stakeholders and particularly its members. PBU has e.g. developed a blog for discussions with PBU's delegates, and one of the topics here is ethics and how PBU's lives up to its responsibilities as an investor.

Regularly, PBU's strategy for responsible investment and the active engagement activities are discussed with the delegates. The strategy will be evaluated at the end of 2010.

## **Participation in Networks on Responsible Investment and Sustainability**

PBU believes that it is essential to be part of networks of peers where experiences and learning may be shared, and where new ideas can be generated.

PBU is a member of a number of networks on corporate responsibility and responsible investment, notably:

The Global Compact Nordic Network which is a regional network under the umbrella of the United Nations Global Compact.

The purpose of the network is to:

- Promote the Global Compact
- Provide a learning forum for Nordic members of the Global Compact
- Showcase good practice
- Inspire and assist other companies in implementing the ten principles

There are currently approximately 75 members of the Global Compact Nordic Network. Membership of the Nordic Network is open for businesses and business associations from Denmark, Finland, Iceland, Norway and Sweden that are signatories to the Global Compact.

Dansif – the Danish Social Investment Forum is a multi stakeholder forum for asset owners, invest managers and advisors with a significant role in responsible investment. Dansif was established in late 2008 with PBU as one of the founders.

NVIR - Netværket for god virksomhedsetik og ikke-finansiell rapportering, is a forum for Danish companies and institutional investors, which have an interest in debating and establishing a common opinion in relation to business ethics and non-financial reporting.