

## LD Pensions - Communication on Progress 2022

### Statement of continued support by the Chief Executive Officer

*Statement of the company's chief executive (CEO or equivalent) expressing continued support for the Global Compact and renewing the company's ongoing commitment to the initiative and its principles.*

To our stakeholders:

I am pleased to confirm that LD Pensions reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment and Anti-Corruption.

In this annual Communication on Progress, we describe our actions to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. We also commit to share this information with our stakeholders using our primary channels of communication.

Sincerely yours,

Lars Mayland Nielsen

CEO

## Human Rights

### Assessment, policy and goals

*Description of the relevance of human rights for the company (i.e. human rights risk-assessment). Description of policies, public commitments and company goals on Human Rights.*

LD Pensions holds a fundamental respect for human rights, and we actively seek to ensure that our work does not in any way contribute to human rights violations. The fund is located in Denmark and is operated by a relatively small, but highly skilled labour force. The environment in which LD Pensions operates, is not considered to be prone to human rights violation, and is further under the scope of regulatory institutions and national law. Our attention to human rights is therefore focussed on the impact of our services.

Our main service is providing pensions for our members, including investing in securities issued by companies. The main area of concern is therefore the behaviour of the companies in our investment portfolio.

The sustainable goal of our investments, which is articulated in our policy for responsible investing, is to contribute to sustainable and responsible business behaviour in the companies we invest in. This includes a high focus on human rights.

### Implementation

*Description of concrete actions to implement Human Rights policies, address Human Rights risks and respond to Human Rights violations.*

LD Pensions considers the safeguarding of Human Rights as a cornerstone in Responsible Investing. Our investment unit therefore actively incorporate human rights screenings of our equity portfolio, in order to ensure that we steer clear of investing in companies, that may consistently or deliberately violate any human rights.

We facilitate the Human Rights screenings through our partnership with the world-renowned engagement company Sustainalytics. The partnership with Sustainalytics allows the screening to effectively cover our wide equity portfolio, resulting in a swift and effective identification of any company involved in a human rights violation. Following the identification of a human rights violations, LD Pensions will initiate an engagement process with the responsible company. The engagement process is carried out by Sustainalytics, which ensures that the engagement carries a strong degree of influence. The goal of the engagement is to halt the given human rights violation and to motivate the company to implement policies to avoid potential subsequent violations.

LD Pensions furthermore actively votes at all annual and extraordinary general meetings with all companies that are involved in an engagement process. In doing so, we contribute to pushing the given company into a more sustainably compliant path regarding human rights.

The main purpose with our engagement and active ownership processes, is to exhaust all possibilities to influence a company into choosing a sustainable path, before exclusion and divestment is considered. We understand that an exclusion limits our possibilities to exercise our influence, which is why exclusion and/or divestment is seen as the last possible resort. However, if a company fails to change its behaviour in response to an engagement, we will decide to divest. LD Pensions additionally excludes all companies generating significant revenues for governments accused of human rights violations because we consider the companies' ability or willingness to engage with the government unrealistic and highly unlikely to succeed.

## Measurement of outcomes

*Description of how the company monitors and evaluates performance.*

LD Pensions monitors and evaluates the performance of the human rights screening by overseeing Sustainalytic's engagements processes with companies that are identified to have violated human rights. The oversight is facilitated through a notification subscription on Sustainalytic's progression on active engagements, which is evaluated on a weekly basis. We additionally receive data reports from Sustainalytics on quarterly basis. These reports consist of updates on the companies in our portfolio that must be excluded given our guidelines. We disclose the yearly progress of our engagements and our exclusions in our annual report.

## Labour Rights

### Assessment, policy and goals

*Description of the relevance of labour rights for the company (i.e. labour rights-related risks and opportunities). Description of written policies, public commitments and company goals on labour rights.*

LD Pensions operates in a highly developed country where labour rights are upheld, and we have put internal policies in place, to ensure that our internal operation are less likely to violate labour rights. The board composition in LD Pension furthermore signifies a strong relationship to Danish unions and worker associations, given that four out of the seven LD Pensions' board members (including the Chairman) are representatives from unions and worker associations. Labour rights are thus upheld, and we inherently support freedom in choice of union, large degrees of freedom in planning your own work assignments and 6 weeks + 4 days paid annual leave. Our attention to labour rights is therefore focussed on the impact of our services.

Our main service is providing pensions for our members, which include investing in securities issued by companies. The main area of concern is therefore the behaviour of the companies in our investment portfolio. The sustainable goal of our investments, which is articulated in our policy for responsible investing, is to contribute to sustainable and responsible business behaviour in the companies we invest in. This includes a high focus on labour rights.

### Implementation

*Description of concrete actions taken by the company to implement labour policies, address labour risks and respond to labour violations.*

We commit to incorporate labour rights screenings of our investment portfolio to avoid investing in companies that consistently or deliberately violate any labour rights. The screening of labour rights violations is carried out through our partnership with the world-renowned engagement company Sustainalytics, which allow us to cover our wide equity portfolio. A screening allows us to identify which companies in our portfolio, that violate labour rights. Following the identification of a human rights violations, LD Pensions will initiate an engagement process with the responsible company. The engagement process is carried out by Sustainalytics, which ensures that the engagement carries a strong degree of influence. The goal of the engagement is to halt the given human rights violation and to motivate the company to implement policies to avoid potential subsequent violations.

LD Pensions furthermore actively votes at all annual and extraordinary general meetings with all companies that are involved in an engagement process. In doing so, we contribute to pushing the given company into a more sustainably compliant path regarding labour rights.

The main purpose with our engagement and active ownership processes, is to exhaust all possibilities to influence a company into choosing a sustainable path, before exclusion and divestment is considered. We understand that an exclusion limits our possibilities to exercise our influence, which is why exclusion and/or divestment is seen as the last possible resort. However, if a company fails to change its behaviour in response to an engagement, we will decide to divest.

## **Measurement of outcomes**

*Description of how the company monitors and evaluates performance.*

LD Pensions monitors and evaluates the performance of the labour rights screening by overseeing Sustainalytics' engagements processes with companies that are identified to have violated labour rights. We additionally receive data reports from Sustainalytics on quarterly basis. These reports consist of updates on the companies in our portfolio that must be excluded given our guidelines. We disclose the yearly progress of our engagements and our exclusions in our annual report.

## **Environment**

### **Assessment, policy and goals**

*Description of the relevance of environmental protection for the company (i.e. environmental risks and opportunities). Description of policies, public commitments and company goals on environmental protection.*

Our environmental impact of operations is limited. Our business does not manufacture physical products, and our activities do not produce harmful emissions. The only waste we produce, is at our office, where we have access to recycling facilities for paper. The only water we use, is for our employees' drinking and sanitary needs. The only energy that we use, is for our office (a small office in a shared building). Our business only procures office equipment and consumables. Our attention to environmental issues is therefore focussed on the impact of our services.

Our main service is providing pensions for our members, which includes investing in securities issued by companies. The biggest challenge facing our business is ensuring that the companies in our portfolio cause no harm and contribute positively to society.

The goal of our policy is to support and encourage the companies in our investment portfolio to act sustainably and responsibly towards all stakeholders, including the environment.

### **Implementation**

*Description of concrete actions to implement environmental policies, address environmental risks and respond to environmental incidents.*

Climate action and environmental risk are central pillars in LD Pensions' responsible investment strategy, and we therefore dedicate an extensive focus to environmental issues in our work. We initiate engagements in cooperation with Sustainalytics when a company is identified to be involved in activities with adverse environmental impact or is associated with high environmental risk. The purpose of the engagements is similarly to

human and labour rights engagements: to stop current violations and help the company in building measures to prevent potential subsequent violations regarding environmental issues. Additionally, LD Pensions subscribes to forward looking engagements through Sustainalytics that helps high-risk portfolio companies to better identify, understand and manage their ESG risks, including environmental risks.

LD Pensions furthermore actively votes at all annual and extraordinary general meetings with all companies that are involved in an engagement process. In doing so, we contribute to pushing the given company into a more sustainably compliant path regarding environmental protection.

We generally seek to exhaust all possible options to influence a company into taking a more sustainable path, before exclusion and divestment takes place. Hence our emphasis on engagements and active ownership. LD Pensions prioritizes this approach, because we understand that an exclusion limits our possibilities to exercise our influence, which is why exclusion and/or divestment is seen as the last possible resort. However, if a company fails to change its behaviour in response to an engagement, we will decide to divest.

LD Pensions furthermore acknowledges that raising awareness about environmental protection is only one part of the solution. LD Pensions additionally excludes all companies that generate a revenue from thermal coal and oil sands above 5 pct. of the total revenue and companies with a more than 25 pct. ownership in companies that produce thermal coal.

LD Pensions are also allocating 10% of our equity portfolio to an environmental and climate fund, which exclusively invests in companies with business models focused on environmental restoration and wellbeing. Our environmental and climate fund's investment universe is thus limited to only encompass stocks that are in accordance with the UN Sustainable Development Goals and match the Future-Fit Business Benchmarks for positive pursuit. For a company to be included in the universe, the company must either create positive influence for the environment, amplify the positive influence of others or reduce the negative environmental influence of others.

### **Measurement of outcomes**

*Description of how the company monitors and evaluates environmental performance.*

LD Pensions monitors and evaluates the environmental performance of companies by overseeing Sustainalytics' engagements progression on active engagements. In 2021, LD Pensions both directly and collectively, engaged on a range of companies in the portfolio (150+). The issue of environmental protection has in these engagements been a central topic; either because a company has violated one of the environmental principles of Global Compact or because environmental risk is registered to be high in a company.

We disclose the yearly progress of our engagements and our exclusions in our annual report. A lack of transparency and relevant data currently hinder monitoring the investment portfolio's environmental progress, but we are actively seeking to close this gap by engaging our mandated investment managers and third-party data vendors.

LD Pensions have in 2022 expanded the investment team with an ESG-analyst, who will assist in furthering the funds' work with ESG, active ownership and sustainability.

## Anti-Corruption

### Assessment, policy and goals

*Description of the relevance of anti-corruption for the company (i.e. anti-corruption risk-assessment). Description of policies, public commitments and company goals on anti-corruption.*

LD Pensions operates in Denmark, which along with New Zealand, has generally been categorized as being the least corrupt country in the world since year 2012 (Transparency International)<sup>1</sup>. The position of being amongst the world's least corrupt countries, indicates that the risk of experiencing corruption, bribery and extortion is low. The nature of our business does nevertheless entail, that relatively few individuals make decisions about the allocation of significant sums of money via our mandates. Our investment mandates are however awarded based on the EU public procurement process, which warrants a regulated process, with fully disclosed evaluation criteria along and with an audit trail to avoid any risk of bribery. Multiple people from our organization are additionally involved in every major decision-making process, and we include a board sign-off to mitigate the risk for corruption.

In addition, LD Pensions has policies and guidelines in place for handling private, non-public information, and for accepting gifts and representation as part of the daily relationships with current and prospect counterparts. All employees in LD Pensions are furthermore contracted a fixed annual salary and a relatively small supplementary bonus which mitigates excessive risk taking by individuals for their own benefits. The board is furthermore subject to a fixed salary with no possibility of bonuses.

### Implementation

*Description of concrete actions to implement anti-corruption policies, address anti-corruption risks and respond to incidents.*

LD Pensions has put in place rigorous processes to mitigate potential ethical breaches, and we acknowledge that it is essential that we systematically seek to identify and prevent specific issues regarding corruption proactively. We have, for instance, implemented policies, procedures and checks in place for all high-risk areas involving money, personal data and procurements. Policies and procedures are reviewed regularly (at least annually) to mitigate risk of ethical breaches.

We are furthermore governed by the Danish Public Administration Act, which imposes an obligation on LD Pensions, that require us to be able to account for our administration. We have therefore ensured a systematic way of collecting and storing data across our business. The Danish Financial Authority reviews policies, processes and governance regularly. LD Pensions have a whistle-blower line as well, which allows potential whistle-blowers to seek external legal counsel.

### Measurement of outcomes

*Description of how the company monitors and evaluates anti-corruption performance.*

Policies, processes and governance is reviewed regularly by the board and the Danish Financial Authority. External audits on all risk-taker's personal dealings are undertaken semi-annually.

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<sup>1</sup> <https://www.transparency.org/en/cpi/2021>