

Future-Fit Pioneer Progress Report

March 2020

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1. About this report

At LD Pensions we are committed to playing our part in the transition to an environmentally restorative, socially just and economically inclusive future. This report represents an important step on that journey, by presenting an initial assessment of our progress toward becoming a Future-Fit Business.

The focus of this report is threefold. First, to articulate how we are seeking to drive positive impact for society through our investment approach (Section 2). Second, to explain what we are already doing in pursuit of the two Break-Even Goals which are most critical to our business (Section 3.1). Third, to summarize where we are today with respect to all other Break-Even Goals (Section 3.2).

For any business, the path to future-fitness is going to be as challenging as it is necessary. At LD Pensions we expect the journey to take us a number of years. We're not yet sure when we will get there, but we are committed to sharing our progress annually, using the Future-Fit Business Benchmark as our guide.

Readers familiar with traditional sustainability reports or ESG ratings may be surprised by what they find here. We're not here to celebrate where we are today, or to go into exhaustive detail about how we got here. Rather, we are seeking to present a clear and concise summary of where we're going, why, and how we're going to get there.

We hope that our clients, employees and other stakeholders will find this forward-looking approach both credible and compelling – and we hope others will feel inspired to join us on this journey.

What is Future-Fit?

To solve today's challenges, we must rethink how we do business

Our global economic system has evolved to value financial performance at the expense of social and environmental wellbeing. As a result, the basic needs of billions of people around the world are not being met, and Earth's natural processes – which humans and all other life rely upon – are undergoing massive disruption.

For years, many businesses have tried to reduce their negative ESG impacts, with a view to being at least as good as their peers. But gradual improvements to best practice are not enough to drive the rapid and radical transformation we now need.

If humanity is to thrive in the 21st Century, every business must strive to become truly responsible, regenerative and resilient. And a new kind of management tool is required to guide this transition: one grounded in a clear understanding of what *extra-financial success* really means.

Future-Fit is designed to drive and recognise real progress

The Future-Fit Business Benchmark is designed to meet this need. It equips any business to manage and report on its extra-financial performance with as much rigor and relevance as its financial performance.

At the Benchmark's core are 23 Break-Even Goals and a complementary set of indicators, which any business can use to track its progress toward being truly responsible. The Benchmark also defines 24 Positive Pursuits, which characterize all the ways in which a purposeful business may seek to have a regenerative impact on people and the planet.

For more details see FutureFitBusiness.org

Section 2 of this report is focused on the positive impact we are aiming to create. Section 3 summarises our position with respect to each of

the 23 Break-Even Goals, with a particular emphasis on the two which we identified as being of highest priority (see the below table).

Positive Pursuits	Purpose <i>What positive outcomes are your business creating?</i>	How are the business’s activities – from philanthropy and supplier engagement through to the goods and services it offers – helping to move us toward an environmentally restorative, socially just, and economically inclusive future?							
	Break-Even Goals	<table border="1"> <tr> <td>Priority <i>How relevant is this goal to your business, and why?</i></td> <td>What level of attention does the goal demand, based on how difficult it is for the business to reach, how much negative impact the business is causing, and how much risk the business is exposed to if action isn’t taken?</td> </tr> <tr> <td>Progress <i>Where are you now, and why?</i></td> <td>How systematically and comprehensively does the business gather data relating to this issue? Exactly how much progress has the business made toward reaching this goal?</td> </tr> <tr> <td>Pathway <i>Where are you planning to get to, and by when?</i></td> <td>Has the business publicly acknowledged the need to reach this goal? What specific commitments does the business have and what progress does it expect to make?</td> </tr> <tr> <td>Preparedness <i>How are you going to get there?</i></td> <td>What is being done to ensure that pursuit of the goal is embedded into the core of the business, so that stakeholders can be confident that its stated commitments will be met?</td> </tr> </table>	Priority <i>How relevant is this goal to your business, and why?</i>	What level of attention does the goal demand, based on how difficult it is for the business to reach, how much negative impact the business is causing, and how much risk the business is exposed to if action isn’t taken?	Progress <i>Where are you now, and why?</i>	How systematically and comprehensively does the business gather data relating to this issue? Exactly how much progress has the business made toward reaching this goal?	Pathway <i>Where are you planning to get to, and by when?</i>	Has the business publicly acknowledged the need to reach this goal? What specific commitments does the business have and what progress does it expect to make?	Preparedness <i>How are you going to get there?</i>
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2. Our Purpose

LD Pensions currently manages DKK 35 billion on behalf of 540,000 members.

LD Pensions has a very lean organisation, largely based on outsourcing, and mandated investment managers to invest the money. We are acutely aware of the diverse challenges facing society, including climate change, and social inequality. We see it as our responsibility as a significant investor to take part in the solution.

This is a journey for us as an investor, but this report is our commitment to keep focus on reducing our own negative impact in the world.

It is imperative that as universal owners, our management strategy accounts for the seismic shifts our economy is facing. To that end, we are seeking to minimize the negative impact associated with our Investments primarily by engaging our portfolio companies to have good governance and to act responsibly towards all stakeholders, including society and environment. We utilise the company insight from our investment managers and the direct access to company management they provide, to voice our intent. Because our mandated investment managers are important elements in the strategy, we actively encourage investment managers to consider environmental and social impacts in every decision that they make.

Going forward, for all new actively managed mandates, we will require our investment managers to engage companies to reduce their own negative impact down to targets aligned with planetary boundaries.

LD Pensions acknowledges that engagement is only part of the solution and it may take time before meaningful results materialize. For a number of years, we have invested part of the portfolio in an investment strategy, which only includes companies that provide solutions to the world's environmental issues. This mandate was recently relaunched with an extended scope, so that it now seeks to invest in companies which contribute positively to our collective transition to an environmental restorative, social just, and economical inclusive future.

We also acknowledge that LD Pensions cannot overcome these systemic challenges alone, so we are supporting industry initiatives, such as Future-Fit Business and the UN Sustainable Development Goals, to send a clear message to the markets that a coordinated effort is required to minimize our collective negative impacts and incentivise positive changes.

The Future-Fit Business Benchmark and especially Break-Even Goal 23 (Financial Assets) helps us assess our own effort in the journey towards future-fitness, but more importantly helps us to improve our engagements with investment companies making our ownership count towards a society, where everyone can exist and flourish.

3. Our Impacts

For a business to be considered Future-Fit, all Break-Even Goals must be reached. But the impacts of every business are different, so some goals may require more attention than others.

For this report, we looked at each Break-Even Goal in turn, and considered three factors: how difficult it is for our business to reach the goal; how much negative impact our business is causing by *not* reaching the goal; and how much

risk the business is exposed to if insufficient action is taken. This assessment led to a relative prioritisation – High, Medium or Low – across all Break-Even Goals.

The results of this assessment are summarised in Section 4. Section 3.1 explains what we are doing with respect to our high-priority Break-Even Goals, while Section 3.2 covers the remaining Break-Even Goals.

3.1 High-Priority Goals

We identified two Break-Even Goals as having a high priority for LD Pensions. These are described below.

BE20: Business is conducted ethically

Prioritization	
Corporate assessment	Rationale for assessment
	<p>The nature of our business means that relatively few individuals are making decisions about the allocation of significant sums of money via our mandates. Rigorous processes are in place to mitigate potential ethical breaches, and it is essential that we continue to identify and prevent specific issues proactively.</p>
Progress	
Data awareness	Detail for data awareness
<p>Systematic</p>	<p>We are governed by the Danish Public Administration Act, which imposes an obligation on LD Pensions to be able to account for its administration. This means collecting and storing data in a systematic way across the business. Policies, processes and governance is reviewed regularly by the Danish Financial Authority.</p>
Pathway	
Statement of Intent	
<p>It is essential that all areas of the business are conducted with the highest ethical standards. Policies, procedures and checks are in place for all high-risk areas involving money, personal data and procurements. Policies and procedures are reviewed regularly to mitigate risk of ethical breaches.</p>	

BE23: Financial assets safeguard the pursuit of future-fitness

Prioritization	
Corporate assessment	Rationale for assessment
	The biggest challenge facing our business is ensuring that companies in our portfolio cause no harm and contribute positively to society. A lack of transparency and relevant data currently hinder our progress, but we are actively seeking to close this disclosure gap by engaging our mandated investment managers.
Progress	
Data awareness	Detail for data awareness
None	We have not yet systematically assessed how our financial assets safeguard the pursuit of future-fitness. Though for the equity portfolio we are going to require each investment manager we work with to disclose this information to us.
Pathway	
Statement of Intent	
We understand the importance of the transition to a Future-Fit society. Therefore, we require all newly mandated equity investment managers to engage with their underlying portfolio companies to improve their future-fitness, as well as assessing any negative impact resulting from owning the companies within the portfolio.	
Preparedness	
Type of action	Action detail
Financial alignment: How are financial resources allocated to achieve objectives?	In 2019 we launched a Positive Pursuits mandate with an initial value of €160m centered around environmental restoration and wellbeing. The fund has a limited investment universe and will include companies with a purpose, product or service that match the Future-Fit Business Benchmark's Positive Pursuits.
Corporate influence: How is corporate influence leveraged throughout value webs to achieve objectives?	The investment managers for the <i>Positive Pursuits</i> fund and a new <i>Danish Equities</i> fund will be encouraged to actively engage at least five portfolio companies per year on the Future-Fit approach. We will host a workshop to introduce the investment managers to the approach, and we are co-developing corporate engagement packs to support companies on their journey to future-fitness.

3.2 Low & Medium Priority Goals

This section summarises LD Pensions' positions with respect to all other Break-Even Goals.

Future-Fit Property	Future-Fit Break-Even Goal	Corporate assessment	Rationale for our assessment
Energy	BE01: Energy is from renewable sources		The only energy that we use is for our office (a small office in a shared building).
Water	BE02: Water use is environmentally responsible and socially equitable		Our business does not manufacture physical products, and the only water we use is for our employees' drinking and sanitary needs.
Natural Resources	BE03: Natural resources are managed to respect the welfare of ecosystems, people and animals		We do not own or manage any natural resources, including land.

Pollution	BE05: Operational emissions do not harm people or the environment	L	We do not undertake any manufacturing or other activities that could produce harmful emissions.
	BE06: Operations emit no greenhouse gases	L	Our only greenhouse gas emissions come from the use of purchased energy for our office.
	BE17: Products do not harm people or the environment	L	We do not produce or sell physical goods or provide services that may harm people or the environment. Break-Even Goal 23 Financial Assets covers the management of our assets.
	BE18: Products emit no greenhouse gases	L	We do not produce or sell physical goods or provide services that emit greenhouse gases. Break-Even Goal 23 Financial Assets covers the management of our assets.
Waste	BE07: Operational waste is eliminated	L	The only waste we produce is at our office, where we have access to recycling facilities for paper, and other items (e.g. old IT equipment).
	BE19: Products can be repurposed	L	We do not produce or sell physical goods.
Physical Presence	BE08: Operations do not encroach on ecosystems or communities	L	Our office is in an area that has been urbanised for many years, and so – coupled with the nature of our business – we are unlikely to encroach on ecosystems or communities.
People	BE09: Community health is safeguarded	L	Given the nature of our business and where we operate, we are unlikely to negatively impact local communities.
	BE10: Employee health is safeguarded	M	This goal is important to us, as people is our main resource. Our employees are not engaged in safety-critical physical activities, but LD Pensions provides health insurance and access to health checks. Mental and emotional wellbeing is important and access to professional care is covered by health insurance.
	BE11: Employees are paid at least a living wage	L	Our employees are highly skilled and work in one the most developed nations in the world.
	BE12: Employees are subject to fair employment terms	M	This issue is important to us, but the risk is no greater than for other office-based businesses operating in a highly developed country. LD Pensions supports freedom in choice of union, large degrees of freedom planning your own work assignments and 6 weeks + 4 days paid annual leave.
	BE13: Employees are not subject to discrimination	M	This issue is important to us, but the risk is no greater than for other office-based businesses operating in a highly developed country.
	BE14: Employee concerns are actively solicited, impartially judged and transparently addressed	M	This issue is important to us, but the risk is no greater than for other office-based businesses operating in a highly developed country. Our management have an open-door principle to employee concerns. Yearly employee development dialogues and anonymous work-place assessments are conducted, and employees have access to a whistle-blower scheme operated by a third-party legal counsel.
	BE16: Product concerns are actively solicited, impartially judged and transparently addressed	M	Given that we are responsible for managing the funds of our pension holders, where concerns are raised, it is important that we address the issue transparently, through investigation and remedial action.
Drivers	BE04: Procurement safeguards the pursuit of future-fitness	M	Our business only procures office equipment and consumables. The management of our assets is covered by Break-Even Goal 23 Financial Assets.
	BE21: The right tax is paid in the right place at the right time	M	This goal is medium priority for us. Pension funds are tax-exempt in the country that we operate in, but the risk is high if not appropriately addressed. LD Pensions is subject to taxation in accordance with the Pension Tax Act, which taxes all return from investments.
	BE22: Lobbying and corporate influence safeguard the pursuit of future-fitness	L	This goal is not of high priority to us as we do not undertake any lobbying, nor fund anyone involved in lobbying activities.

4. Appendix

Table 4.1 shows the relative priority which LD Fund has assigned to each Future-Fit Break-Even Goal (High, Medium or Low). These results differ slightly from Future-Fit Foundation’s “Finance

Industry Heat Map”, which specifies the relative priority of each Break-Even Goal based on the systemic risks facing the finance industry as a whole.

Table 4.1

Future-Fit Properties	Future-Fit Break-Even Goals	Sub-industry heatmap	Our assessment
Energy	BE01: Energy is from renewable sources	L	L
Water	BE02: Water use is environmentally responsible and socially equitable	L	L
Natural resources	BE03: Natural resources are managed to respect the welfare of ecosystems, people and animals	L	L
Pollution	BE05: Operational emissions do not harm people or the environment	L	L
	BE06: Operations emit no greenhouse gases	L	L
	BE17: Products do not harm people or the environment	L	L
	BE18: Products emit no greenhouse gases	L	L
Waste	BE07: Operational waste is eliminated	L	L
	BE19: Products can be repurposed	L	L
Physical Presence	BE08: Operations do not encroach on ecosystems or communities	L	L
	BE09: Community health is safeguarded	L	L
People	BE10: Employee health is safeguarded	L	M
	BE11: Employees are paid at least a living wage	L	L
	BE12: Employees are subject to fair employment terms	M	M
	BE13: Employees are not subject to discrimination	M	M
	BE14: Employee concerns are actively solicited, impartially judged and transparently addressed	M	M
	BE15: Product communications are honest, ethical, and promote responsible use	M	M
	BE16: Product concerns are actively solicited, impartially judged and transparently addressed	M	M
	BE04: Procurement safeguards the pursuit of future-fitness	L	M
Drivers	BE20: Business is conducted ethically	H	H
	BE21: The right tax is paid in the right place at the right time	M	M
	BE22: Lobbying and corporate influence safeguard the pursuit of future-fitness	H	L
	BE23: Financial assets safeguard the pursuit of future-fitness	H	H

Our priorities diverge from the industry norm for three of the 23 Break-Even Goals. Table 4.2 explains these differences.

Table 4.2

Future-Fit Break-Even Goals	Our assessment
BE04: Procurement safeguards the pursuit of future-fitness	Because we rent our workspace, we have little influence on the procurement of energy etc., which makes the goal difficult to reach.
BE10: Employee health is safeguarded	With a lean organisation we rely on relatively few employees to perform the tasks needed. Risk to the organisation is high if employee health is not safeguarded.
BE22: Lobbying and corporate influence safeguard the pursuit of future-fitness	We do not engage in any lobbying or other activities covered by this Break-Even Goal.