Principles for Responsible Investment in Farmland

PKA and Responsible Investing

As a responsible investor, investments made by PKA are not merely based on economic considerations but in conjunction with non-economic factors such as environmental, social, and governance factors, which often will be a prerequisite for businesses ability to sustain strong earnings over time. PKA is of the belief that a responsible approach towards investments is essential in order to provide stable future returns for PKA's members.

In terms of investments in farmland to which this report is devoted, a sustainable and responsible approach is of even greater importance due to the possible political, social, and environmental risks associated with this asset type. However, conducted responsibly, investments in farmland have the potential to create value for both the investor and the local community of the host country.

As a natural continuation of PKA's 'Guidelines for Responsible Investment' and our members' expectations of a responsible agenda, PKA signed the the 'Farmland Principles'[1] in 2011. The 'Principles' were initiated by a group of institutional investors, and they provide a framework for responsible investing in farmland. PKA encourges investors who invest in farmland to adopt the 'Principles' in order to strengthen the necessary agenda of sustainability and transparency when investing in farmland.

PKA is pleased to submit its first report on the implementation of the 'Farmland Principles' and this report will serve as an overview on how PKA has implemented the 'Principles' in the investment process, and how PKA continuingly monitors current farmland investments. Further, PKA hopes this report will help our members to achieve an even greater understanding of how PKA's investments in farmland are managed.

Peter Damgaard Jensen
- CEO

[1] www.unpri.org/areas-of-work/implementation-support/the-principles-for-responsible-investment-in-farmland/

The Case for Agricultural Investments

The world's growing population and an expanding middle class in the developing countries both lead to an increased demand for agricultural products supporting the economic fundamentals in agriculture. Further, we see the trend of rising food prices enhanced by the changing climate, which increasingly have a negative effect on farmers' yield.

Population Growth

As a result of an increased understanding of welfare, diet, medicine, and a high fertility rate in developing countries, we are facing a continuing growing population, which we have seen unfold the last fifty years with the world's population doubling. Moreover, all estimates indicate that this development will continue in the future and the world's population is estimated to reach 9 billion in the year 2050. This development has and will put a considerable pressure on the world's farmland in order to provide the needed supply of agricultural products.

Climate Change

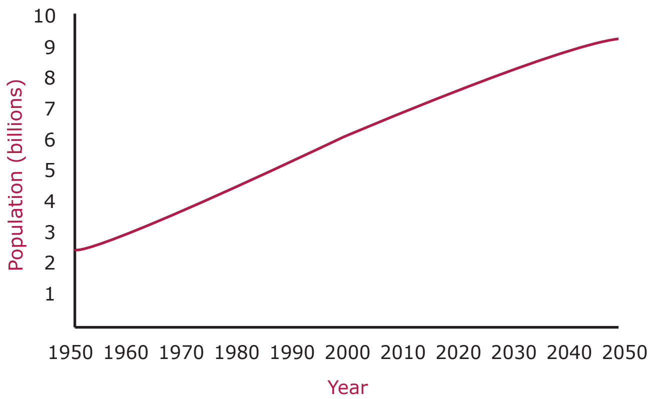
Climate change has effected weather patterns around the world and has led to more extreme weather phenomena best illustrated by intensive droughts, floods, and higher temperatures.[2] Last year, 900 disasters caused insured losses worldwide of $65 billion, which is more than double the 30- year average of $29 billion. These factors all represent a risk to the global food supply and to the price volatility of agricultural products. A direct consequence of higher temperatures were particular seen in 2010 with a Russian ban on grain export due to a poor harvest affected by the highest national temperatures in 130 years. The ban resulted in a substantial spike in grain prices affecting consumers globally.

Growth in Developing Countries

The strong economic growth in the frontier- and emerging markets has led to a vastly growing middle class with a substantial purchasing power demanding high quality agricultural products, which support the global demand.

In this equation, the African continent plays a crucial role in the future demand by now being the continent with the fastest growing economy in the World.[3]

World Population 1950-2050

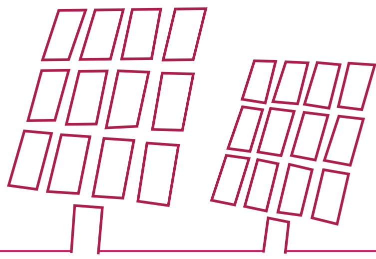


Source: U.S. Census Bureau, International Data Base, April 2005 version

Summary

The above factors strengthen the need for a future sustainable agricultural sector due to the extensive pressure on the world's farmland to feed a growing population. Integration of new and sustainable agricultural management systems is a critical necessity to make better use of already existing farmland in order to prevent soil depletion and deforestation.

[2] IPCC: 'Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation'
[3] African Development Bank Group: 'Annual Development Effectiveness – Review 2013'



The Five Principles

The Principles for Responsible Investment in Farmland (known as the 'Farmland Principles') were developed in 2011 by a group of institutional investors who are all signatories to the United Nations Principles for Responsible Investment. 'The Farmland Principles' consist of five principles, which all together create a basis for securing a sustainable, transparent, and responsible approach towards investments in farmland.

Principle one: Promoting environmental sustainability

We will promote measures aimed at protecting the environment and contributing to the sustainability of specific crops and locations, for example by reducing soil erosion, protecting biodiversity, reducing chemical emissions, effectively managing water, and mitigating climate impacts.

We will require investment managers and operators acting on our behalf to conduct an environmental assessment identifying the relevant environmental impacts and risks of a planned investment.

Based on this environmental assessment, investment managers and operators will be expected to implement mitigation and management measures relevant and appropriate to the nature and scale of the proposed investment.

Principle two: Respecting labour and human rights

We will respect labour and human rights in our farmland investments. We will require investment managers and operators acting on our behalf to do the same and to avoid complicity in human rights abuses.

We will require investment managers and operators to identify relevant labour and human rights risks and impacts of a planned investment and to implement mitigation and management measures to address them appropriately.

Depending on the location and the nature of the investment, we expect investment managers and operators to explicitly implement policies to respect rights such as those relating to indigenous peoples, vulnerable groups, unique cultural systems and values, local food security, labour and any other relevant rights in the scope of their risk assessment and mitigation measures.

Principle three: Respecting existing land and resource rights

We will respect the existing use of and ownership rights to land and other resources and we will require investment managers and operators acting on our behalf to do the same.

Investment managers and operators acting on our behalf will be required to implement processes for land acquisitions and related investments that are culturally appropriate and transparent, are monitored, ensure accountability and the engagement with relevant stakeholders.

For investments with potential significant adverse impacts on affected communities, the investment managers are expected to implement processes to ensure their free, prior and informed consultation and facilitate their informed participation as a means to establish whether a project has adequately incorporated affected communities' concerns.

Principle four: Upholding high business and ethical standards

We will promote high business and ethical standards in our farmland investments.

We will require that investment managers and operators acting on our behalf respect the rule of law even where it is poorly enforced. We will also require them to implement processes aimed at avoiding corruption in all its forms, including extortion and bribery, and to reflect an informed view of industry best-practice in their operations.

Principle five: Reporting on activities and progress towards implementing the Principles and promoting the Principles

We will report publicly on our activities and progress towards implementing the Farmland Principles, taking into account appropriate confidentiality considerations.

We will encourage other institutional investors to endorse and implement the Farmland Principles.

Investing in Farmland

Since 2011 PKA has been pursuing investments in farmland. PKA's investment allocation into farmland is still limited compared to the total investment portfolio and represents 0,5% of the total assets under management.

PKA's decision to invest in farmland is based on the current and expected future fundamentals in the agricultural sector as a way to secure our members' future stable returns hedged from inflation. In addition, investing in farmland is a continuation of our investment strategy focusing on a diversified portfolio benefitting from our long-term investment profile. The current decision to invest in farmland reflects the recognition of the need to ensure our members' stable return in uncertain times and take part in the growth of countries which are only now emerging.

Responsible Investment Structure

PKA's 'Guidelines for Responsible Investment' are directly reflected in the investment mandate of PKA why PKA is not able to invest in companies or funds not complying with 'PKA's Guidelines for Responsible Investment'. PKA has a structured process in place prior to an investment which enables PKA to assess relevant ESG-factors[4]. Every investment mandate made by PKA is a subject of approval by PKA's investment committee consisting of PKA executives. This process ensures that PKA executives have access to all available ESG-data on potential investments. This includes a complete ESG due diligence report covering how the manager of a potential investment complies with our responsible investment guidelines, and how the 'Farmland Principles' will be addressed and monitored post investment. This process enables PKA executives to evaluate the potential ESG impacts of an investment.

Selecting Responsible Managers

PKA has done a great work to find investment managers who share PKA's responsible approach towards investments and comply with and support the 'Farmland Principles'. Our managers will prepare and report an annual ESG-report covering areas related to the 'Farmland Principles'. PKA has selected two managers who meet our requirements. One is UK-based and one is Australian-based.

Our UK-based manager has signed 'The United Nations Principles for Responsible Investment' and has sustainability and responsibility as core values. Prior to an investment a thorough ESG due diligence will be made in order to determine the extent to which an investment object complies with the ESG policies of our manager and PKA. The 'Investment Code' of our manager is consistent with the environmental, social, and governance principles stated in the UN Global Compact[5]. Therefore the manager has policies covering e.g. child labour, human rights, health and safety standards, community engagement and environmental matters. As a natural continuation, our manager requires entities in which the manager invests to adhere to the managers' 'Investment Code'.

An annual on-site review of our investments is made to ensure portfolio companies comply with the ESG policies of our manager and PKA. Annually, PKA will receive an extensive report covering the development and implementation of environmental and social management systems including completed training of staff, ESG performance, compliance with the 'Investment Code', measures taken with regard to an 'ESG Action Plan', and information on development impact. Furthermore, PKA will receive reporting on how specific investments comply with the 'Farmland Principles'.

Our Australian-based investment manager, in which PKA is the lead investor, consist of proven experts in sustainable land management. Our manager makes specific reference to the 'Farmland Principles' in the investment strategy covering environmental and social impacts of investments. The strategy of our manager is to purchase grazing properties and to improve produ-

[4] Environment, Social, and Governance

[5] www.unglobalcompact.org/

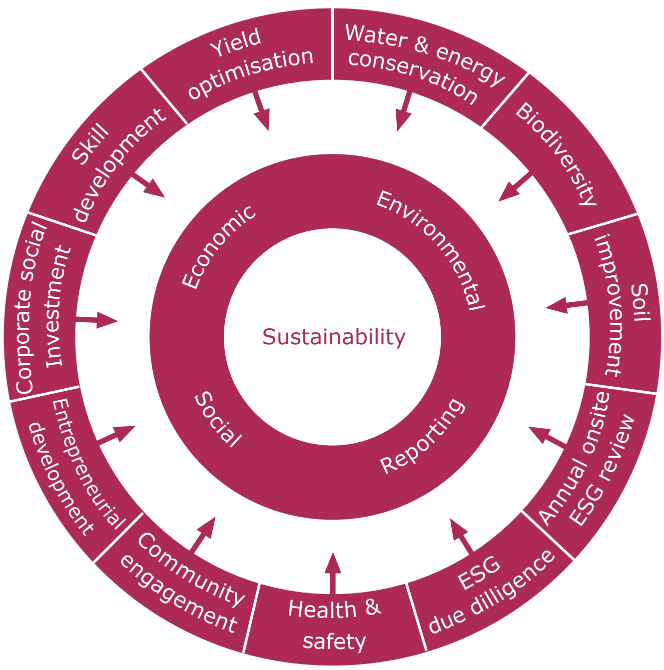
ctivity and ecological health by implementing a proven strategy that uses grazing animals in a manner consistent with natural ecosystems. In addition, investments of our manager will add jobs to the local community in which investments are made.

The manager provides an end-of-year report to PKA covering the environmental and social impacts of our investments. This will include an assessment of e.g. soil carbon, soil condition, water usage and biodiversity. Soon after the acquisition of properties, academic institutions will be invited to conduct long-term evaluations of the properties to demonstrate the improvements delivered by the changed management in terms of soil health, soil carbon, water retention and biodiversity. This will allow investors to refer to third-party verification of the environmental benefits produced by the investment strategy.

In terms of reporting directly related to the 'Farmland Principles', the manager will submit a thorough report at the end of 2013.

Summary

The reporting framework in place with our managers ensures an overview of how our investments are complying with the 'Farmland Principles' and in general how our investments impact a broad range of stakeholders including the environment, the local community, and employees.



Selecting responsible managers that integrate a deep ESG analysis in cooperation with economic factors ensures that we meet our 'Guidelines for Responsible Investment' while ensuring our members a stable return.

PKA's Investments in Farmland

The following provides an overview of our investments and will serve as practical examples on how our responsible approach towards investments in farmland is reflected in our investment strategy.

Sugarcane Plantation, Fruits and Grains in South Africa, Mozambique, Zambia, Swaziland

PKA has invested in a leading sugarcane producer in South Africa, which is now moving into the production of fruits and grains. Although the spot global sugar price has declined somewhat since 2012, it is well above its lows of the past and the increased prosperity in Africa and Asia will help to support the demand of sugar. The company is a signatory to both the 'King Code for Governance for South Africa'[6] and the 'Code of Business Ethics'[7], which together cover all relevant ESG areas. Furthermore, the company supports local development by training local farmers in sugarcane and fruit production and by supporting schools, supplying potable water, timber, and HIV-awareness.

The company is committed to a sustainable development, by which is meant striking an optimal balance between economic, environmental and social development. Moreover, the company will strive to innovate and adopt best practice, working in consultation with stakeholders. This includes minimizing consumption of natural resources, waste generation, impact of operations on the environment, and maximize recycling.

As an ongoing process to evaluate and implement even better practices in the company, an independent consultant will undertake an ESG review of the company during 2013.

Livestock in Zambia

A report from the World Bank in 2011 noted that relative to its outstanding natural grazing advantages, Zambia has a comparatively low cattle population of approximately 3 million, with stocking per hectare of pasture at a much lower level than other African countries such as Kenya and Zimbabwe. Around 80% of cattle are today owned by traditional small-scale farmers, which often use fewer and lower quality inputs and their cattle have poorer nutrition, lower product yields and higher rates of disease. Our manager will contribute with extensive know-how, and the farm, in which PKA has invested, will act as a hub by working with small-scale farmers in their production of cattle as well as acting as an off-taker to create a sustainable value chain. Our manager will work closely with a NGO, which supports this initiative.

Poultry Farming in Tanzania

Tanzania looks likely to remain one of the fastest growing countries in Africa, leading to continuing changes in eating habits and greater poultry consumption. The fragmented and inefficient nature of the industry presents a substantial opportunity to develop a significant poultry and feed business. The manager will establish a feed-mill, which will feature a soya processing plant. The plant will be the first of its kind in Tanzania since all soya in Tanzania at present is imported. The soya processing plant should be the key in spurring soy bean production amongst small-scale farmers in Tanzania, and our manager has worked with local NGOs, which have been trying to encourage small-scale farmers to grow soya alongside maize, since soya typically is worth twice the price of maize per tonne.

Grain Farming in Tanzania and Zambia

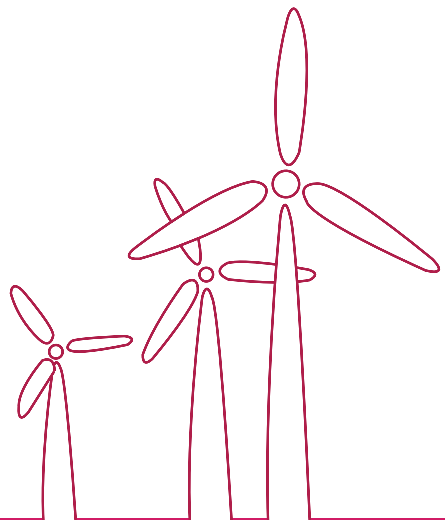
Our manager is in the process of establishing grain farms in both Tanzania and Zambia. The farms will be producing a broad variety of crops including soya, grains, maize, oats, and potatoes. The manager is currently undertaking and ESG due diligence report which will be provided to PKA at the end of 2013.

[6] http://www.ecgi.org/codes/documents/king3.pdf
[7] http://www.busa.org.za/docs/BUSA_Charter_of_Ethical_Business_Practice.pdf

Livestock in Australia

PKA has via an Australian-based manager invested in grazing properties in Australia. Through investments in mainly degraded soil, our manager aims to improve productivity and ecological health by implementing a 'holistic grazing system'. A 'holistic grazing system' uses grazing animal in a manner consistent with natural ecosystems and thereby implementing a sustainable livestock management system.

Holistic management involves moving the herd frequently from one paddock to the next according to a carefully-planned written programme that ensures plants are not re-grazed before they have fully recovered from the previous visit by the animals. The programme provides a carefully-documented daily, seasonal and annual monitoring of animals, soil and plant performance to fine-tune the land management plan. A 'holistic grazing system' is expected to produce a number of environmental benefits. These will include: Improved soil health, increased soil carbon (up to 2 tons of CO_2 sequestered per hectare per year), reduced soil erosion, better water retention, and more biodiversity.



Going Forward

Farmland will continue to have the interest of international investors as a new asset class. The speed in which this asset class is growing and the lack of transparency and governance of the targeted countries still requires the attention of investors.

Facing ESG Challenges

Since the millennium, foreign investors have purchased approximately 83 million hectares of land in developing countries, which covers around 1.7% of the world's agricultural area.[8] In addition, the majority of investors originate from emerging countries aiming at securing their future national need of agricultural products. This fact combined with the aggregate number of transactions aimed at farmland in developing countries underpins the need for investors to act responsible and implement ESG practices in their investment process. With farmland being a relatively new asset class emerging in developing countries, the need for guidelines such as the 'Farmland Principles' governing how investments in farmland are conducted and monitored are of utmost importance. Developing countries will in many cases have challenging legal frameworks governing existing land and resource rights and national environmental laws will often be weak and ineffective. In this perspective, it is vital to actively review and monitor ESG-related risks and further understand that it is ultimately in the interest of investors to support local stakeholders and thereby creating the basis for a more long-term viable business case. In the recognition of the genuine concerns of farmland investments in e.g. Africa, PKA has chosen managers who share our approach to local community engagements, which includes involving NGOs in the dialogue with local communities and seek to retain the economic growth in the host country.

Despite the debate concerning farmland investments in developing countries there are signs of an enhanced awareness of the need to act responsible as a way to mitigate risks related to investing in farmland. Combined, the ability to integrate a sustainable agenda addressing social and environmental factors will increasingly have a direct effect on the return of farmland investments by mitigating potential risks. Enhanced financial returns will help to support and drive integration of sustainability and will further call investors to address sustainability as part of their beneficiary duty to provide the best possible return.

[8] www.landmatrix.org

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