

Investments





Introduction

Realdania is a philanthropic association working to improve the quality of life and benefit the common good by improving the built environment. Our non-philanthropic investment assets forms the foundation for our philanthropic activities, our association and membership activities, and for our daily operations.

The non-philanthropic investment activities at Realdania are based on a strategic foundation that has developed gradually over time.

In line with reductions in our shareholding stake in Danske Bank, our strategies have gradually increased focus on investment diversification; both geographically and across different asset classes.

The non-philanthropic investment strategy is reviewed and enhanced every four years, and the Investment Strategy 2016-2019 is the fourth strategy for our non-philanthropic investment assets. Realdania's philanthropic investments in real estate are not covered by this strategy.

The Investment Strategy 2016-2019 was drawn up in 2015 and took effect 1 January 2016.

Realdania is a philanthropic association with a representative democracy including a Board of Representatives as the supreme authority.

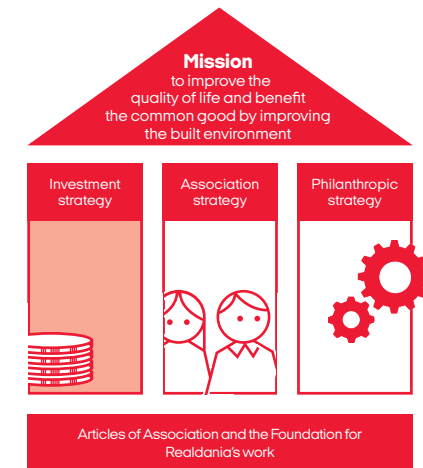
The objective of Realdania is to support non-profit-making and charitable objects within the built environment throughout Denmark.

Realdania applies a problem-oriented, agenda-setting approach in its work. The association has supported more than 3,000 projects over the past 15 years.

Realdania had more than 145,000 members at the end of 2015.

Our mission is being realised through three strategies that set the strategic course for each of the three central areas of activity at Realdania: non-philanthropic investment activities, association and membership activities, and philanthropic activities.

The strategies build on Realdania's articles of association and the foundation for Realdania's work laid down by the board of directors.

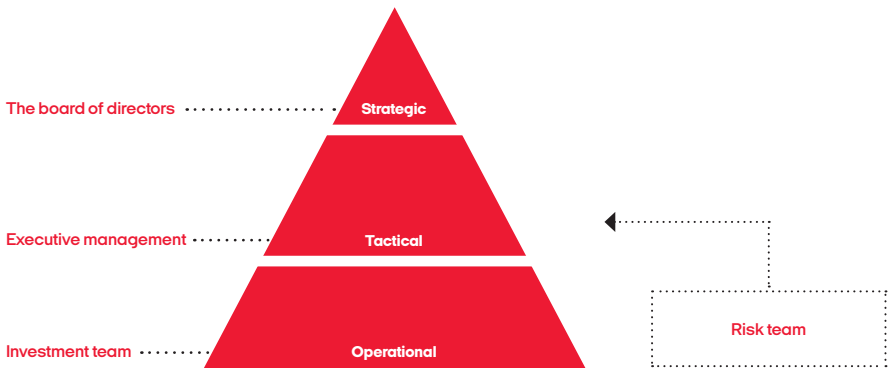




Governance

Realdania's non-philanthropic investment strategy is based on allocation of responsibilities between the board of directors, the executive management and the investment team, reflecting the classical split between strategic, tactical and operational responsibilities.

All investment decisions are made within the guidelines of the investment strategy. The governance structure is illustrated below. An independent risk team at Realdania monitors investment activities on a daily basis. The team reports to the executive management and the board.



Strategic

The board of directors – with its investment committee as the preparatory body – decides:

- New investment strategies and asset classes and it evaluates the strategy
- The annual mandate for the executive management on investment strategic targets and guidelines, including strategic asset allocation, investment universe, risk budget, etc.
- Budgets for philanthropic grants

Tactical

The executive management decides on:

- Tactical asset allocation and contingency plans for risk hedging
- Targets and guidelines for the investment team, including guidelines for cash management
- Use of derivatives

Operational level

The investment team decides:

- How to implement investment decisions including strategic and tactical asset allocation implementation
- Manager selection and external mandates
- Investment within internally managed mandates

Investment philosophy

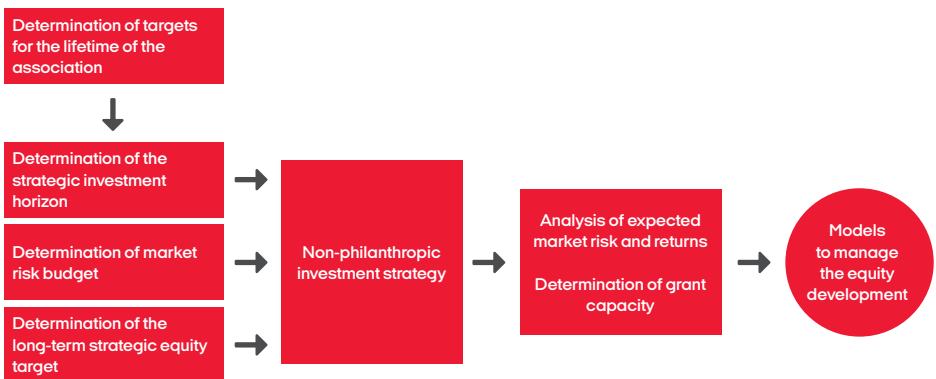
The investment strategy is based on Realdania's strategic decisions regarding the lifetime, risk tolerance [i.e. the level of market risk Realdania is willing to accept] and strategic long-term equity target.

Based on the investment strategy, we analyse the expected long-term returns, and the board of directors stipulates the level of capacity for philanthropic grants. This process is illustrated in the figure on the right.

Financial markets fluctuate, and to ensure that the actual changes in Realdania's equity are as close to the expected long-term strategic target as possible, we have implemented various models and methods for equity management. Therefore, the board has set management processes and rules that are triggered if equity falls by more than expected. Similarly, the board can increase philanthropic activity in periods when Realdania's equity rises by more than expected.

More specifically, the non-philanthropic investments at Realdania are based on the following principle decisions and philosophy:

- The lifetime of the association is to be 25 years or more
- In practice, the strategic investment horizon is ‘infinite’
- Strategically, Realdania perceives itself as an equity investor, and this is reflected in the strategic risk tolerance [i.e. the market risk budget]
- The long-term strategic equity target is constant-value inflation-adjusted equity based on the level as at 30 June 2013
- We have a risk approach to investing. This means that our strategic risk tolerance is the basis for the expected return on the non-philanthropic-investment portfolio
- The budgeted level of philanthropic grants is set on the basis of the long-term expected return of the portfolio. The current budget for philanthropic grants and investments is DKK 500-600 mill. [approx. EUR 65-80 mill.] per year. The level of grants is adjusted regularly, but the aim is to maintain a stable level going forward



Strategic targets and guidelines

The ambition and the long-term strategic targets for non-philanthropic investments are two-fold.

Market risk and return targets

We diversify the investments across different main asset classes and we manage these investments actively. In the long term, this approach entails a lower market risk than global equities. At the same time, our risk tolerance reflects the market risk global equities, and therefore, in the long term, we

expect a return on our non-philanthropic investment assets at a level similar to global equities.

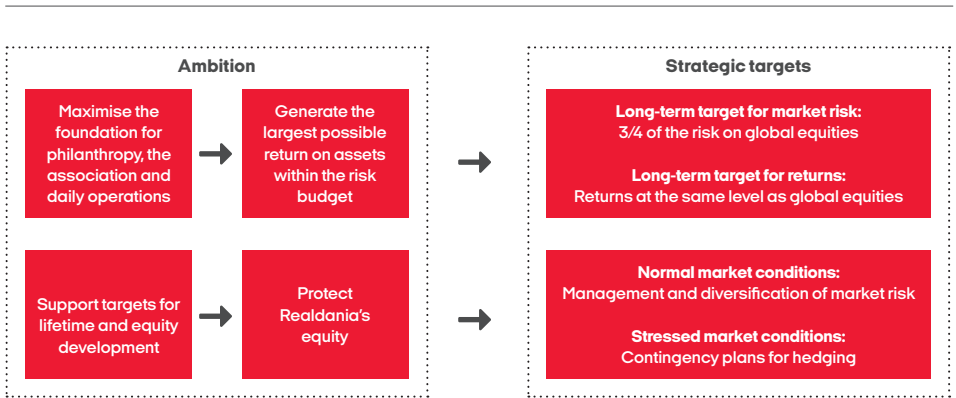
Equity protection targets

In order to meet our ambition to protect and maintain Realdania's equity, we have established specific contingency plans and we regularly develop new tools and processes in order to protect our investment portfolio, and thereby equity, in periods of turbulence on the financial markets.

Guidelines for our non-philanthropic investments

In order to manage the investments, we have outlined the following specific strategic guidelines:

- We are an active investor and we invest globally
- We have a risk approach to investing and we sharpen our focus on risk management
- We aim to diversify the market risk by investing in different asset classes with increased focus on less liquid asset classes
- Our non-philanthropic investments are not mission-driven
- We do not make investments that entail majority ownership or controlling influence
- We are a responsible investor and we regularly update our targets and guidelines for socially responsible investment



Asset management

On the basis of the targets and guidelines in the investment strategy, each year the Board of directors sets the course for the investment activities. This is through a mandate for the Executive Board which describes the following:

- Asset classes and benchmarks
- Strategic asset allocation, frameworks for tactical asset allocation and risk budget
- Targets for hedging and frameworks for managing currency risk

Realdania creates value through active management, while tactical asset allocation is expected to contribute significantly to performance.

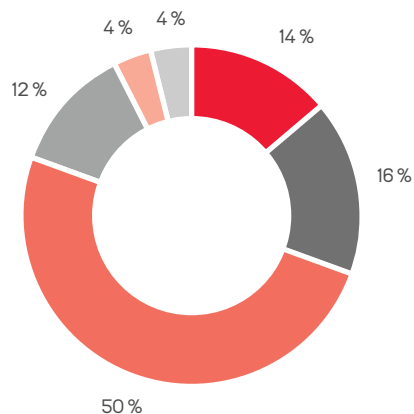
The tactical decisions are based on both a medium-term horizon of 3-5 years (primarily based on expected developments in the economic cycle) and a shorter horizon of 3-12 months (primarily based on expected market developments and current events).

Investments in six main asset classes

Our non-philanthropic investments are allocated to six main asset classes. On the 1 January 2016 the allocation was as follows:

Investment assets as at 1 January 2016 [%]

- Fixed Income Investment Grade
- Fixed Income Non-Investment Grade
- Equities
- Private Equity
- Alternative Investments
- Real Estate



The six main asset classes are:

- 1 Fixed Income Investment Grade**
Global government, corporate and mortgage-credit bonds with higher credit rating
- 2 Fixed Income Non-investment Grade**
Global government, corporate and mortgage-credit bonds with lower credit rating
- 3 Equities**
Investments in global listed equities
- 4 Private Equity**
Investments in global unlisted equities
- 5 Alternative Investments**
Investments with special characteristics in relation to other main asset classes
- 6 Real Estate**
Non-philanthropic global investments in real estate

We take responsibility

Realdania is a responsible investor. This covers both social responsibility and ethical considerations with regard to our non-philanthropic investment activities.

We include environmental, social and governance-related [ESG] aspects in our investment policies, philosophy and processes. This way, we seek to balance our efforts for the highest possible returns on our non-philanthropic investment portfolio with socially responsible behaviour.

We expect our external capital managers to sign Principles for Responsible Investment [PRI], to incorporate similar processes for socially responsible investments, or in some other way to document behaviour in accordance with this.

We monitor the international standards for ESG-related investments. In the current strategy period, we will continue to develop our approach to responsible investment.



Who we are

Realdania is a philanthropic association that supports activities within what we call 'the built environment'. Funds for our philanthropic work are generated through our investment activities.

Realdania is an association with more than 145,000 members who elect the Board of Representatives of the association. Read more at realdania.org





“Funds for our philanthropic work are generated through our investment activities.”

– Jesper Nygård, CEO

**Quality of life through
the built environment**