Benchmark on Responsible Investment by Pension Funds in the Netherlands 2023

Navigating uncharted waters

Benchmark on Responsible Investment by Pension Funds in the Netherlands 2023

Navigating uncharted waters

Project lead and author
Sara Heinsbroek

Co-author
Maarten Busch

Contributions from
Sanne Jansen | Florine Kits van Heijningen
Steven Remiëns | Freek van Til

More information
Sara Heinsbroek, Project Manager
Sustainability & Responsible Investment
sara.heinsbroek@vbdo.nl | +31 (0) 30 234 00 31

Utrecht, The Netherlands
November 2023

Special thanks to our sponsor FNV and to all participating pension funds for their indispensable contributions and cooperation.

Table of contents

Ranking 5

Preface 6

Introduction 8

Key findings 10

Recommendations 11

1. Results per category 13
1.1 Governance 13
1.2 Policy 14
1.3 Implementation 17
1.4 Accountability 18

Appendix I. Methodology 20

Appendix II. Responsible investment strategies and asset classes 24

Ranking

Ranking 2023	Change		Ranking 2022	Name of pension fund	Overall score 2023	Gover-nance	Policy	Imple-mentation	Accoun-tability	Stars
1	▲	1	2	bpfBOUW	4,8	4,6	4,5	4,9	4,9	★★★★★
2	▼	1	1	ABP	4,7	4,6	4,2	4,8	4,9	★★★★
3	–		3	PME	4,5	4,6	4,2	4,4	5,0	★★★★
4	▲	9	13	Pensioenfonds Rail & Openbaar Vervoer	4,4	4,6	3,0	4,6	4,9	★★★
5	▼	1	4	PMT	4,2	4,2	4,2	4,1	4,8	★★★★
6	–		6	Pensioenfonds PostNL	4,1	4,2	3,5	4,4	3,8	★★★★
7	▼	2	5	PFZW	4,1	4,6	3,5	4,3	3,5	★★★★
8	–		8	Pensioenfonds DSM Nederland	4,0	3,7	3,2	4,2	4,4	★★★
9	▼	3	6	SPW	3,9	4,2	3,2	4,3	3,5	★★★
10	▲	7	17	Pensioenfonds Vervoer	3,8	3,5	3,3	4,2	3,1	★★★
11	▲	4	15	BPL Pensioen	3,7	4,0	2,3	3,9	4,5	★★
12	▼	1	11	Bpf Schilders	3,6	4,6	3,2	4,0	2,0	★★
13	▼	3	10	Pensioenfonds KPN	3,6	4,6	3,2	3,5	3,4	★★★
14	▼	5	9	Stichting Pensioenfonds SNS REAAL	3,6	4,6	2,6	3,7	3,3	★★★
15	▲	7	22	Stichting Pensioenfonds voor Fysiotherapeuten (SPF)	3,6	4,2	3,0	3,9	2,7	★★★
16	▼	2	14	Stichting Pensioenfonds PGB	3,6	3,8	2,5	3,7	4,1	★★★
17	▲	10	27	Pensioenfonds Detailhandel	3,5	3,5	2,6	3,7	3,5	★★
18	▲	2	20	St. Bedrijfspensioenfonds voor het Bakkersbedrijf	3,4	4,2	2,6	3,7	2,9	★★
19	▲	11	30	Pensioenfonds Achmea	3,4	3,8	3,5	3,6	2,6	★★
20	▼	1	19	Pensioenfonds Horeca & Catering	3,4	3,8	2,3	3,8	3,2	★★
21	▼	9	12	Stichting Algemeen Pensioenfonds Unilever Nederland kring 'Progress'	3,4	4,4	2,3	3,7	2,4	★★
22	▲	7	29	Bpf Schoonmaak	3,2	4,2	2,0	3,3	3,1	★★
23	▲	2	25	Pensioenfonds UWV	3,2	3,1	3,5	3,1	3,0	★★
24	▼	8	16	SBZ Pensioen	3,1	3,5	2,6	3,3	2,9	★★
25	▼	7	18	Philips Pensioenfonds	3,1	4,4	3,2	2,9	2,6	★★
26	▼	3	23	PWRI	3,1	4,3	2,3	3,2	2,6	★★
27	▼	3	24	Rabobank Pensioenfonds	3,1	4,2	3,2	2,9	2,2	★★
28	▼	7	21	Pensioenfonds Shell	3,0	3,5	3,0	3,1	2,2	★★
29	▲	2	31	SPMS	3,0	4,2	2,6	3,0	2,2	★★
30	▼	2	28	Pensioenfonds PNO Media	3,0	3,1	2,2	3,3	2,8	★★
31	▲	2	33	Stichting Pensioenfonds TNO	3,0	4,4	1,8	3,0	2,7	★
32	▲	2	34	Pensioenfonds ING	2,9	2,7	3,5	2,8	3,1	★★
33	▲	2	35	Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf	2,9	3,1	2,5	2,9	2,9	★★
34	–		-	Pensioenfonds Delta Lloyd**	2,9	3,0	1,7	3,8	1,1	★
35	▼	3	32	Pensioenfonds Medewerkers Apotheken (PMA)	2,8	2,7	1,9	3,2	2,5	★
36	▲	4	40	Bpf Koopvaardij	2,8	1,8	3,2	3,1	2,6	★
37	▼	1	36	Ahold Delhaize Pensioen	2,8	4,4	2,3	2,4	2,9	★★
38	▲	1	39	Bpf MITT	2,8	2,2	3,2	2,9	2,6	★★
39	▼	13	26	Stichting Pensioenfonds Huisartsen (SPH)	2,7	4,0	2,3	2,4	3,0	★★
40	▲	4	44	Heineken Pensioenfonds	2,7	2,6	3,0	2,6	2,8	★★
41	▼	4	37	Pensioenfonds Architectenbureaus	2,7	3,1	3,2	2,6	2,0	★★
42	▼	5	37	Stichting Algemeen Pensioenfonds KLM	2,7	3,5	2,0	2,4	3,2	★★
43	▲	2	45	Pensioenfonds Hoogovens	2,6	3,5	2,0	2,8	1,9	★
44	▼	1	43	Pensioenfonds APF	2,6	3,8	2,3	2,5	1,9	★
45	▼	4	41	Stichting Pensioenfonds Vliegend Personeel KLM	2,5	3,1	2,0	2,4	2,5	★
46	▲	2	48	Stichting Pensioenfonds KLM-Cabinepersoneel	2,3	3,1	2,5	1,9	2,9	★
47	▼	5	42	Oak Pensioen (Stichting Bedrijfstakpensioenfonds voor de Meubelindustrie en Meubileringsbedrijven)	2,3	2,7	1,7	2,5	2,0	★
48	▼	2	46	ABN AMRO Pensioenfonds	2,0	2,6	2,2	1,6	2,5	★
49	–		49	Stichting Bedrijfstakpensioenfonds voor Vlees, Vleeswaren, Gemaksvoeding en Pluimveevlees (Pensioenfonds VLEP)	1,9	2,7	2,0	1,9	1,1	★

* The scores are rounded to one decimal place. However, pension funds are only given a shared place in the ranking if they have the same score to two decimal places.

** New respondent.

Preface

Sustainability challenges are not new. At the time of writing, it has been eight years since the Paris Agreement was signed, ten years since the Rana Plaza collapse, 22 years since the Enron scandal and 51 years since the Club of Rome published its first report. During this time, the financial sector has increasingly incorporated sustainability in its processes. The act of doing so has been known by many names over the years, including corporate social responsibility (CSR), socially responsible investing (SRI), environmental, social and governance (ESG) investing, sustainable investing and impact investing. And yet, we are still far away from addressing the most pressing sustainability challenges of our time head on, nor are we much closer to solving them.

In last year's preface, I set out the three core aims of the benchmark: inspiring reflection, encouraging collaboration and instigating change. I singled out reflection and asked pension funds to reflect on how responsible investment (RI) began, how it has evolved and what actions should be taken to drive it forward. This year, I would like to stress the importance of instigating change. Much has been said about a pension fund's responsibility to ensure its participants' comfortable retirement by providing sufficient funds to do so. But what about its responsibility to ensure this retirement takes place in a society and world which can sustain this in the first place? It is time to put the 'R' back in RI: take responsibility in order to bring about the changes that you and your participants want to see in the world. This won't be easy; it will take conviction, backbone and ambition, and it will require the fund to commit to a clear vision of the world it wants its participants to retire into.

It is time to put the 'R' back in RI: take responsibility in order to bring about the changes that you and your participants want to see in the world.

Over the 17 years we have conducted this benchmark research, we have seen incremental changes and improvements in the RI policies and activities of pension funds. We applaud this march forward, which is strengthened by regulations such as the Sustainable Finance Disclosure Regulation (SFDR). After careful consideration and in-depth consultation with the sector, it has been decided to start updating the methodology to keep up to date with current RI trends and to raise the bar on what VBDO expects from pension funds with regards to sustainable investment. In practice, this means that we will make fundamental changes to our methodology, making this the last year that the current methodology will be used. We trust that our changes will help the sector to take the necessary steps forward.

I would like to express my gratitude to the participating pension funds and their fiduciary and asset managers for their contribution to this research. I am highly appreciative of your active involvement and invaluable input.
A sincere thank you to our members and our sponsor, FNV, whose support contributed to the creation of this report. Finally, I hope you will read this benchmark report with interest and will use the outcomes outlined within it to take further action.

Angélique Laskewitz
Executive Director of VBDO

Introduction

This report is based on research on the current status and developments relating to the responsible investment practices of 49 of the largest Dutch pension funds[1]. Together, they have €1.338 billion in assets under management (AuM). The pension funds were assessed on how they formulate, govern, implement and report on their responsible investment practices. We've included discussion points for each category. Pension funds can use these to stimulate internal conversations about responsible investment. The report covers a one-year period – the calendar year 2022. However, we refer to this report as the 2023 benchmark. The response rate for this year's study was 100%.

HOW TO INTERPRET THE SCORES

Pension funds have been given a score between 0 and 5 for each category in this benchmark, with 5 being the highest achievable score. It should be noted that a score of 5 does not mean that a pension fund is the 'most sustainable' or that no further improvements can be made. Rather, it gives an indication of how well a pension fund has performed on the criteria that have been set in the current questionnaire. The questionnaire is reassessed and revised periodically to reflect developments in RI. The overall score given to a pension fund reflects how well that pension fund has scored across the four categories (figure 1). The scoring does not focus on individual investments but instead takes a more holistic approach.

The pension funds in scope differ greatly in size. The AuM of the largest pension fund, ABP, is almost equal to the combined AuM of the 44 smallest funds in scope. For this reason, Table 1 shows the leading and lagging pension funds within four categories of size based on AuM.

Figure 1 | **Overview scoring model**

FINAL SCORE (between 0-5)

GOVERNANCE (16,7%)	POLICY (16,7%)	IMPLEMENTATION (50%)	ACCOUNTABILITY (16,7%)

Total score on category Implementation =
Score public equity X % of the portfolio
Score corporate bonds X % of the portfolio
Score sovereign bonds X % of the portfolio
Score real estate X % of the portfolio

This figure shows the scoring model. The categories are weighted differently. Governance, policy and accountability each account for 16.7%, and implementation 50%. The weighted percentage for implementation is 50% because this category determines the final output and quality of the responsible investment practices of a pension fund. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class.

[1] Originally, this year's scope included 50 pension funds. During the first assessment phase, one pension fund indicated it was unable to participate this year due to capacity constraints. Thus, the pension fund has been excluded from this year's scope.

Figure 2 | **Average asset allocation of assets within scope**

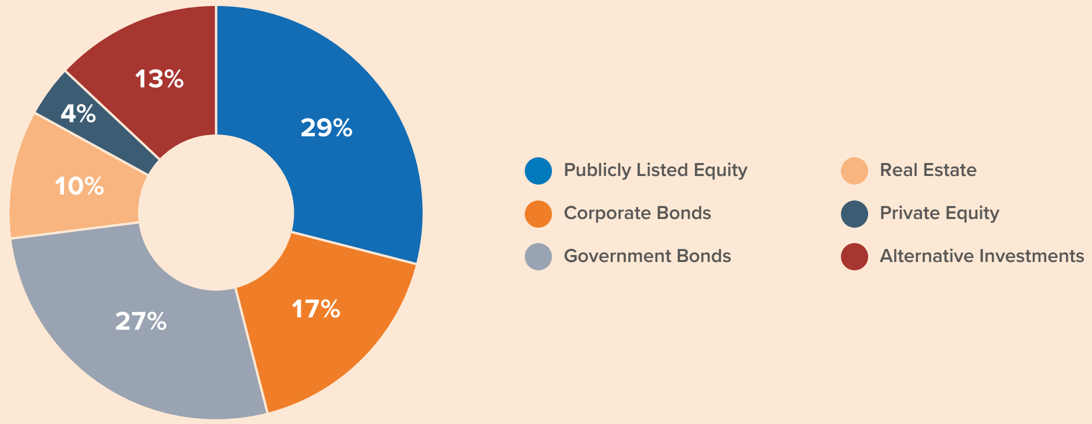


Table 1 | **Performance in relation to size**

Ranking 2023	Name of pension fund	Overall score 2023
Large pension funds (> 30 billion AuM)		
1	bpfBOUW	4,8
2	ABP	4,7
3	PME	4,5
7	PFZW	4,1
17	Pensioenfonds Detailhandel	3,5
Medium- large pension funds (10 - 30 billion AuM)		
4	Pensioenfonds Rail & Openbaar Vervoer	4,4
9	SPW	3,9
10	Pensioenfonds Vervoer	3,8
32	Pensioenfonds ING	2,9
48	ABN AMRO Pensioenfonds	2,0
Medium pension funds (5 - 10 billion AuM)		
6	Pensioenfonds PostNL	4,1
8	Pensioenfonds DSM Nederland	4,0
12	Bpf Schilders	3,6
44	Pensioenfonds APF	2,6
45	Stichting Pensioenfonds Vliegend Personeel KLM	2,5
Small pension funds (< 5 billion AuM)		
14	Stichting Pensioenfonds SNS REAAL	3,6
15	Stichting Pensioenfonds voor Fysiotherapeuten (SPF)	3,6
18	St. Bedrijfspensioenfonds voor het Bakkersbedrijf	3,4
47	Oak Pensioen (Stichting Bedrijfstakpensioenfonds voor de Meubelindustrie en Meubileringsbedrijven)	2,3
49	Stichting Bedrijfstakpensioenfonds voor Vlees, Vleeswaren, Gemaksvoeding en Pluimveevlees (Pensioenfonds VLEP)	1,9

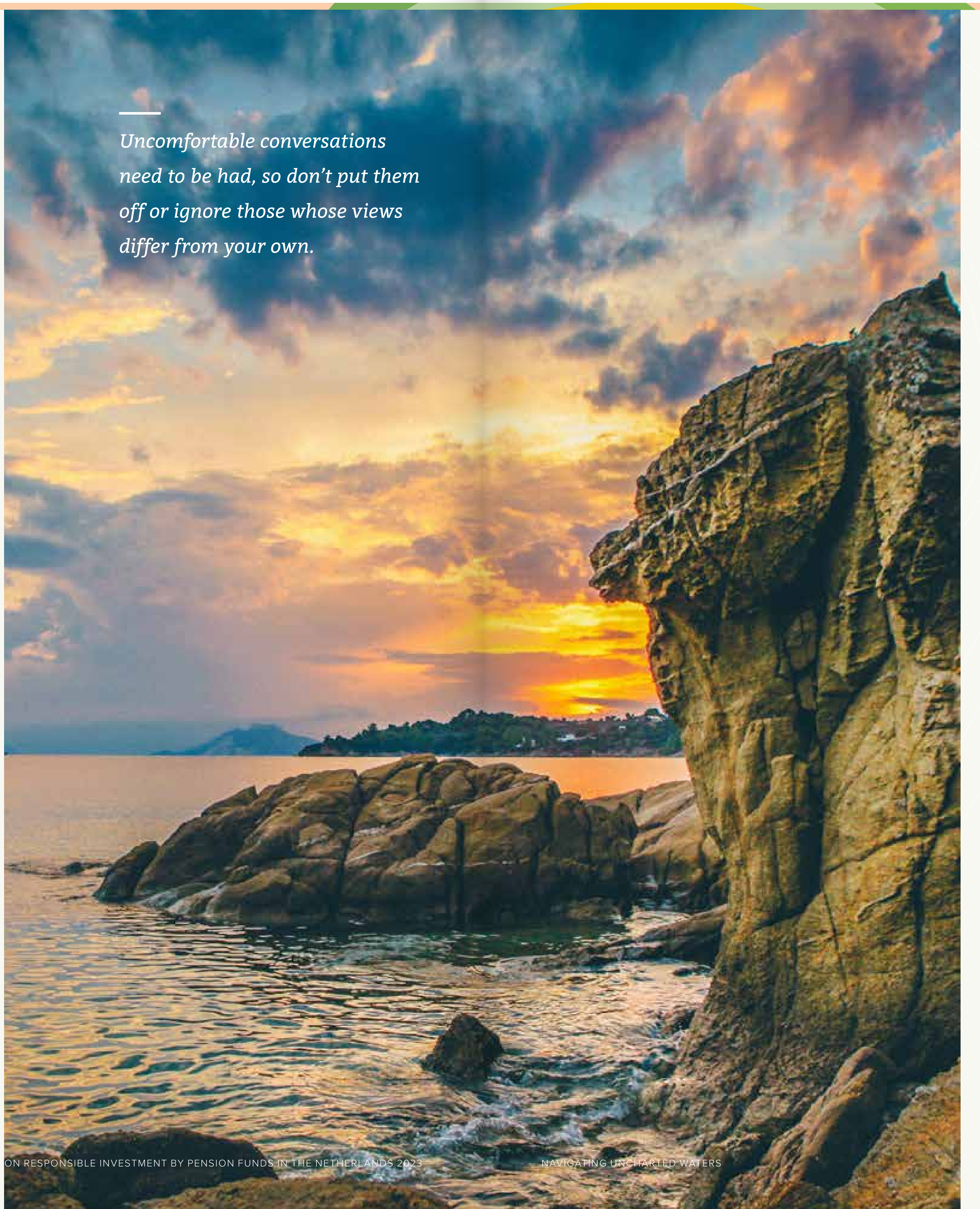
Key findings

Female board representation remains low
In the 2015 benchmark report, it was reported that only 16% of Dutch pension fund board members were women. In this year's research, this percentage has risen to 32%. This is still well below 50%. More than half (61%) of the funds in scope have boards where at least two thirds (66%) of members are male.

Head start on the incorporation of biodiversity
54% of pension funds reported that they had a biodiversity policy in place (self-reported) in 2022. Several others indicated that the development of such a policy is currently underway. However, only 5% of pension funds indicated that their biodiversity policy includes concrete and timebound elements.

In-depth engagement for the government bond portfolio still a challenge
The challenges and various transitions global society at large is facing cannot be addressed without collaboration with governments and policy makers. As financiers, pension funds are uniquely positioned to support and collaborate with relevant institutions and policy makers. An investor statement is a strong signifier of desired change, but the importance of confidential direct dialogue should not be underestimated. 47% of pension funds reported direct engagement dialogues with policy makers.

Solid overall implementation of responsible investment processes and instruments
As concluded in the 2021 benchmark report, responsible investment and its related processes, such as ESG risk analysis, are now mainstream. This year, we have seen continued implementation of these processes and an advancement in the use of RI instruments.



Uncomfortable conversations need to be had, so don't put them off or ignore those whose views differ from your own.

Recommendations

Take ownership of your choices regarding responsible investment and sustainability
Doing the bare minimum on sustainability is as much of a choice as doing more than legally required. It is therefore no longer sufficient to mostly rely on external parties when determining the fund's sustainability strategy and related activities and when making choices with regards to RI and sustainability. The pension funds themselves, and their boards in particular, must be in control of determining their vision with regards to RI and setting the course to make this vision a reality. VBDO sees a key role for boards in moving beyond process-based improvements towards in-depth approaches tailored to each fund's specific vision and topics.

Take action and work towards change
As the need to address complex and interlinked sustainability challenges grows more urgent, pension funds will need to take action and do so quickly. This means decisions will need to be made based on less than perfect information and data sets. Grow comfortable using alternative sources of information and making decisions based on incomplete pictures.

Uncomfortable conversations need to be had, so don't put them off or ignore those whose views differ from your own. At the same time, ensure you keep fostering relationships and collaborating with peers and like-minded parties to broaden your knowledge and effectively work towards the goals you want to accomplish.

1. Results per category

1.1 Governance | Good governance is crucial if a policy is to be successfully implemented. It relies on several factors, including sufficient knowledge on responsible investment existing at board level, insight into the preferences of participants, clear guidance from the board to asset managers when it comes to setting targets and measuring results, and effective oversight of the board.

RESULTS 2023

The average score for governance is 3.7, with a range of 1.8 to 4.6.

DISCUSSION POINTS ON GOVERNANCE

- **What does diversity of board members mean to your pension fund? What are possible pitfalls to achieving greater diversity and what opportunities would be created if you succeeded in increasing the diversity of the board?**
- **How does the pension fund define board responsibility and board leadership on sustainability and RI? What is needed to raise ambition and to ensure this ambition can be accomplished?**
- **Which outside perspectives are you already consulting? Which voices could add to the conversation?**

STRIDES TO BE MADE ON BOARD (GENDER) DIVERSITY

As quoted in a 2022 Netspar (Network for Studies on Pensions, Aging and Retirement) paper on board diversity, a diverse pension fund board ensures a creative and robust decision-making process, as well as increased legitimacy in the eyes of various stakeholders[2]. Accordingly, board diversity has been incorporated in theme 5, 'Appointing carefully', of the Code of the Dutch Pension Funds (Code Pensioenfondsen) under norm 33. This norm states: "The board of trustees, the VO and the BO shall include at least one woman and one man, and will include people both under and over 40 years of age. The board of trustees prepares an action plan to promote diversity on the board."[3] VBDO found that the overwhelming majority (98%) of pension fund boards had at least one female member in 2022. However, more than half (61%) of pension funds are governed by a board of which at least two thirds of its members are men. 12% of the pension funds have a board with an equal number of men and women, and just 4% have a board consisting of more women than men.

There has been some improvement over the last decade. However, it is vital that funds keep working to make boards more diverse, and that all types of diversity are addressed, not just gender. Pension funds should ensure a diverse group of future leaders is being prepared. Initiatives supporting this endeavour already exist, such as the Pensioenlab[4], which aims to get younger generations more interested in pensions and diversify pension fund boards.

BOARD LEADERSHIP ON RESPONSIBLE INVESTMENT

Boards will need to respond quickly to RI-related and societal changes. Due to the rapid nature of these challenges, it is vital that boards have up-to-date knowledge on sustainability issues, and perhaps even more importantly, are comfortable making decisions based on a (perceived) lack of sufficient data and information. Sustainability is a complex topic, and this complexity is likely to grow as the challenges faced by pension funds and wider society increase. No one can afford to wait for complete data sets with perfect data points. Action is needed now.
If a firm vision on what the pension fund aims to accomplish has been established, for example by anchoring this in the investment beliefs, a board must set course with this goal in mind regardless of potential gaps or obstacles.

In 2021, 20% of pension funds had a person in each of the following positions with demonstrable RI knowledge:
- The person formally responsible for the RI policy;
- The governing body;
- The supervisory board;
- The accountability body.

in 2022, this percentage increased to 49%. 49% of the pension funds stated that at least one member of either the governing body, supervisory board or accountability body has demonstrable knowledge of RI (compared to 67% in 2021).

[2] Ashikali, Tanachia, Fontein, Floortje (2022). Diversiteit en inclusie in pensioenfondsbesturen. Netspar, 7: https://www.netspar.nl//assets/uploads/P20220715_Netspar-Design-Paper-212_WEB.pdf

[3] https://mcpf.nl/wp-content/uploads/2020/01/PF_CodePensioenfondsen_ENG.pdf

[4] www.pensioenlab.nl

1.2 Policy | A comprehensive RI policy is the foundation of a pension fund's responsible investment practices and provides a clear investment framework. This framework reflects the values of the pension fund and its stakeholders by formalising its vision, investment principles and approach to RI. To this end, articulating a long-term vision, including specific and measurable goals and a clear roadmap, is vital for the success of the RI policy. The RI policy should include ESG themes and ideally show how related topics overlap, and it should apply to all asset classes.

RESULTS 2023

The average score for policy is 2.8, with a range of 1.7 to 4.5.

DISCUSSION POINTS ON POLICY

- **How can the complexity of climate change best be addressed without reducing the issue to simply measuring CO_2 emissions? Is there value in a holistic approach?**
- **How can your pension fund ensure that its biodiversity policy is as effective as it can be?**
- **Should the pension fund address societal transformations/transitions in its RI policy? If so, which topics should be addressed and how can this best be accomplished?**

MORE SPECIFICATION OF RI TOPICS

An increasing number of pension funds in scope state that they choose specific issues to address through their RI policy. In many cases, these issues have been chosen due to participants' preferences. The topics included in the RI policy range from climate change to specific (societal) transitions that have been identified as being of particular importance to its participants. In practice, this means RI policies are growing more and more detailed and by extension often more ambitious. An important point to note is that these developments are not necessarily reflected in the scores for this category, as the scope of this benchmark is 2022 and many new RI policies came into effect in 2023. Nevertheless, VBDO applauds this development and is looking forward to seeing more ambitious and detailed RI policies in the coming years.

INCLUDING BIODIVERSITY

Over the past few years, the subject of biodiversity loss has gained momentum in the public discourse on climate change and sustainability. In the previous benchmark, we reported that 35% of pension funds who answered our question on which ESG themes need more attention stated that biodiversity should be more prominent. This year, 54% of pension funds indicated that they have implemented biodiversity in their RI policy. 5% reported that they have a more detailed biodiversity policy in place, which includes concrete and timebound elements.[5]

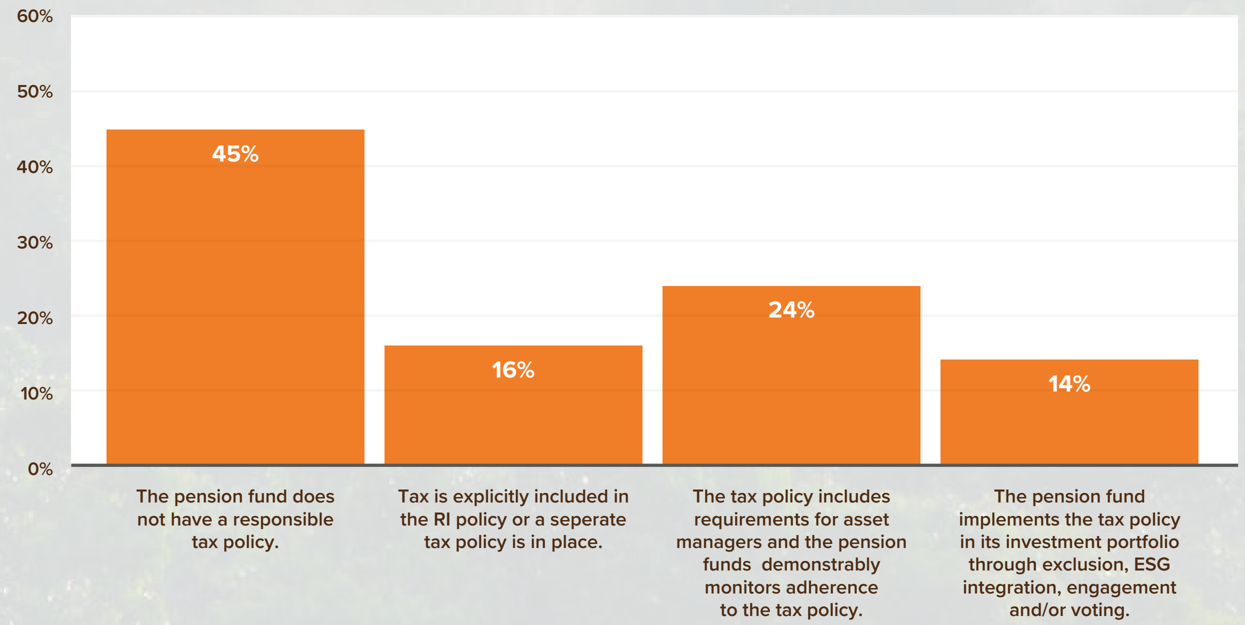
INCREASE IN INCLUSION OF RESPONSIBLE TAX

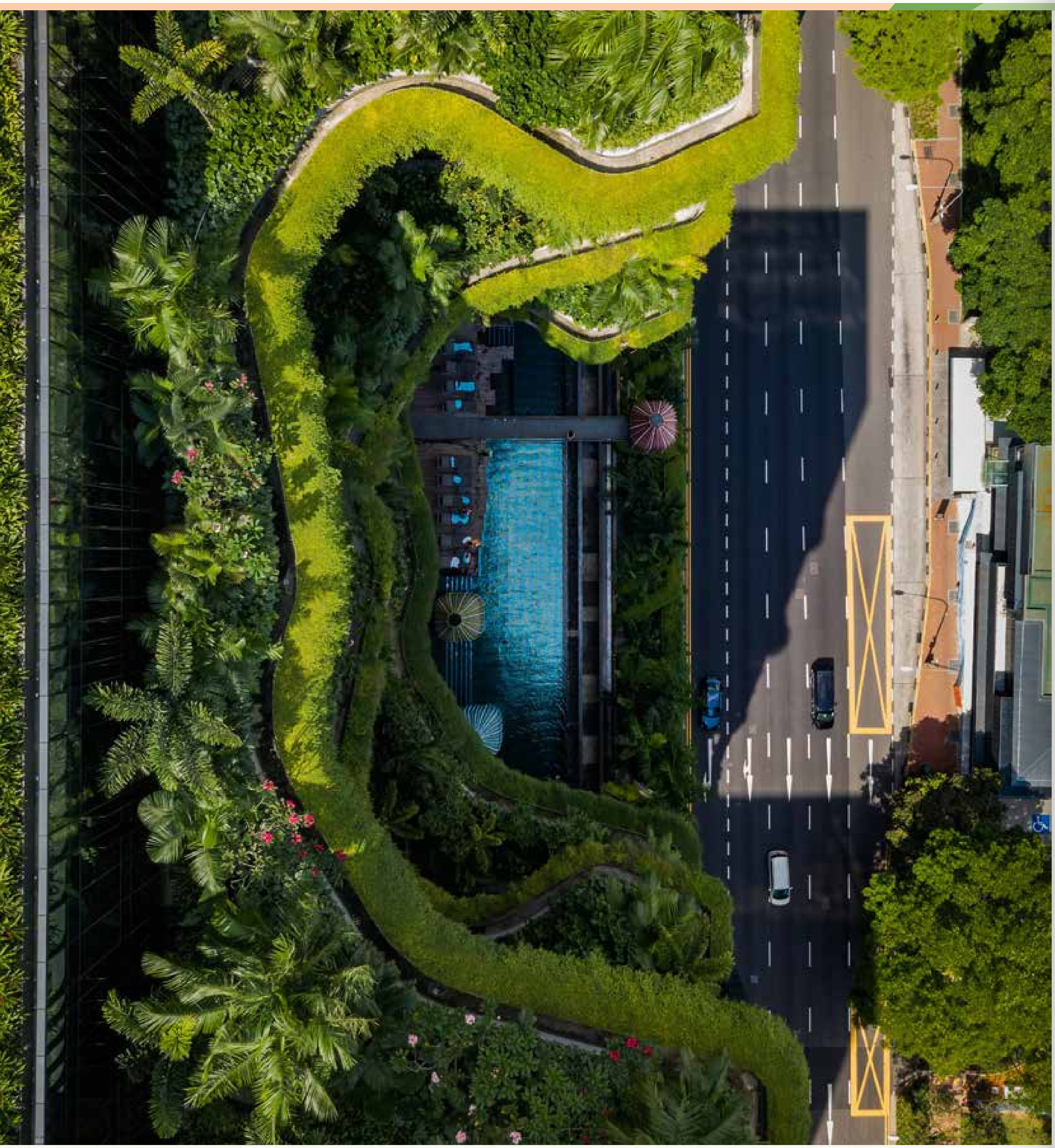
This year, we have seen a significant increase in the number of pension funds addressing responsible tax, either through the RI policy or a separate dedicated responsible tax policy (55% compared to 43% in last year's benchmark). An important point to note is that only policies that go beyond merely meeting relevant OECD guidelines are accepted as explicitly including responsible tax. 14% of all respondents have implemented responsible tax in at least three RI instruments (compared to 12% in the 2022 benchmark).

By embedding responsible tax in a dedicated paragraph or policy, pension funds can ensure that tax is rightly recognised as an important part of the pension fund's contribution to society, and that it is not just seen as an afterthought or something that is automatically covered by existing guidelines and ratings. Doing so helps to underscore both the importance of transparency on taxes and the treatment of tax as a material topic for both companies and the financial sector.

[5] Scope: 43 pension funds.

Figure 3 | **Responsible tax policy**





1.3 Implementation | Executing the RI policy throughout the portfolio is crucial. Pension funds should invest responsibly across all of the various asset classes and implement the applicable RI instruments. The scores in this category reflect how well the RI policy is being executed. VBDO analyses implementation for the various asset classes and the applicable RI instruments. The allocation of the assets is the basis for determining the final score on implementation. A detailed explanation of the available RI instruments can be found in Appendix II.

RESULTS 2023

The average score for implementation is 3.3, with a range of 1.6 to 4.9.

DISCUSSION POINTS ON IMPLEMENTATION

- **How can RI instruments be combined holistically to ensure the optimal effectiveness of active ownership activities?**
- **Which active ownership themes can be expanded to better address complex topics?**

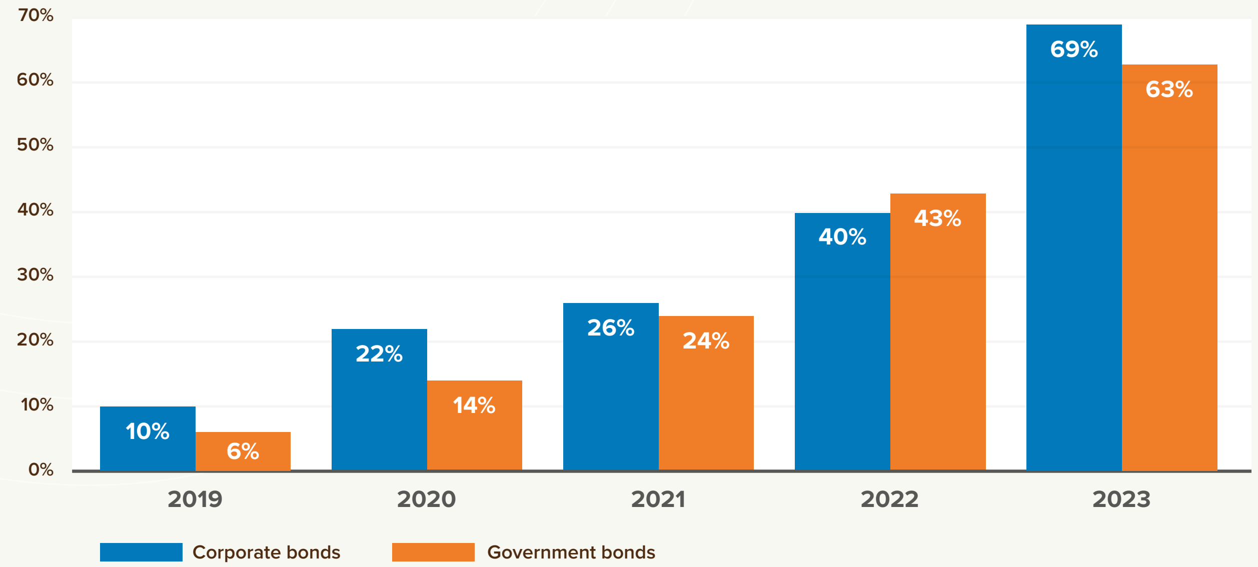
GROWING AMBITION ON CLIMATE CHANGE-RELATED ACTIVE OWNERSHIP

Active ownership on climate change is getting more ambitious; investors are incorporating more complex topics, such as deforestation, plastic pollution and the just transition in their activities. This year, for the first time, the survey included a dedicated question on active ownership on biodiversity. 65% (self-reported) of pension funds indicated that they have used at least one RI instrument, such as engagement, to address biodiversity concerns in their publicly listed equity portfolio. focus on a limited number of key issues, or is a broader approach more effective?

CONTINUED INCREASE OF GREEN BOND ALLOCATION

As noted in the previous benchmark report, green bond allocations are on the rise. This trend continued in 2022, with the actual allocation of green bonds in the corporate and government bond portfolio increasing for the fifth year in a row.

Figure 4 | **>5% allocated to green bonds**



1.4 Accountability | Concrete and transparent reporting provides stakeholders and society as a whole with an insight into the strategy and results of the pension fund regarding responsible investment. Part of this transparency is to show how the RI policy has been designed. It is also important to report regularly and at depth on strategies, goals, results and the impacts of responsible investment. Information in such reports can serve as the starting point for communication with (and accountability to) the pension fund's participants, while also being informative for other relevant stakeholders.

RESULTS 2023
The average score for accountability is 3.0, with a range of 1.1 to 5.0.

DISCUSSION POINTS ON ACCOUNTABILITY
- **Which communication channels are most effective at reaching participants?**
- **How can pension funds ensure reporting on RI is comprehensive, yet easily grasped by participants?**
- **What is the pension fund aiming to achieve when reporting publicly (for example, more support for investor letters)? Which forms of transparency could best be used in order to achieve this goal?**

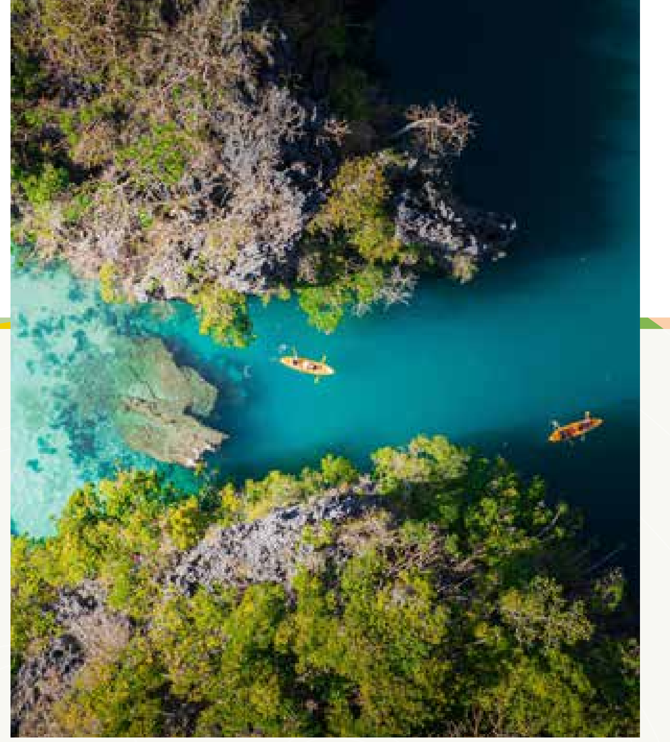
HEIGHTENED TRANSPARENCY
Overall, transparency on pension funds' RI policy and related activities and their results continues to grow, partially aided by relevant standards and regulations. Pension funds who want to highlight the importance of their RI-related activities should consider giving this information to their participants actively in addition to making the information publicly available. VBDO found that 63% of pension funds used multiple communication channels in 2022, such as (digital) newsletters, social media and webinars, to inform participants about the contents of their RI policy and/or the results of this policy.
Another area showing (slight) improvement is the verification of RI information contained in the annual report and/or sustainability report. In 2022, 16% of pension funds had the contents of the sustainability report and/or relevant information in the annual report, including the output of RI instruments, verified by an external accountant. Verification of such information increases the validity for stakeholders.

With the increased regulation covering sustainability disclosures, more information is being made available for stakeholders. However, this is not necessarily easy to understand for those who are not sustainability or RI professionals. If reporting is used as a vehicle to accommodate discussion and promote certain activities, such as support for shareholder resolutions and investor letters, the sector cannot rely on mandatory reporting alone.

Standards and regulations
To some extent, reporting on responsible investment is encouraged by voluntary codes, guidelines and standards. However, mandatory legislation and current national and international developments indicate that disclosure standards are likely to become stricter and a legal requirement. Current legislation and guidelines include:

- The New Pensions Act (Wet Toekomst Pensioenen) entered into force on 1 July 2023. Pension funds are required to transfer to the new system by 1 January 2028 at the latest. It is a significant piece of pension reform legislation intended to modernise the Dutch pension system. The reform is intended to make the system more flexible, sustainable and adaptable to changing economic and demographic conditions.

- The International Resonsible Business Conduct (IRBC) Agreement for Pension Funds (Convenant Internationaal Maatschappelijk Verantwoord Beleggen Pensioenfondsen, IMVB Convenant) was a commitment made by Dutch pension funds to incorporate responsible investment principles in their investment practices. The objective of the agreement was for the signatory parties to prevent, mitigate and remediate the negative social and environmental consequences of their investments. The agreement formally ended on 31 December 2022. Participating parties, such as the Dutch Federation of Pension Funds (Pensioenfederatie) are discussing how the collaboration can be continued.



- The EU Sustainable Finance Taxonomy (Regulation (EU) 2020/852) for climate change mitigation and adaptation standardises the criteria for determining whether an economic activity can be considered sustainable. Institutional investors are required to disclose how and to what extent they use the criteria for environmentally sustainable economic activities to determine the environmental sustainability of their investments.

- The Sustainable Finance Disclosure Regulation (SFDR) requires financial market participants and financial advisers to disclose certain sustainability information, including adverse impacts on sustainability. Both asset managers and pension funds are financial market participants that provide financial services to end investors. Therefore, they have to adhere to the SFDR's articles, which should help to ensure the transparency of sustainability claims.

Pension funds should provide:

- Transparency of sustainability risks in precontractual information (Articles 3 & 6), and transparency of the remuneration policy concerning the integration of sustainability risks (Article 5);

- Transparency of any adverse effects on sustainability relating to investment decisions, at entity level (Article 4);

- How a product fulfils sustainable objectives (Article 9 or characteristics (Article 8).

Articles 8 and 9 are designed to classify the sustainability impact disclosure of financial products. Article 9 focuses on financial products that have a sustainable impact as an objective. Article 8 focuses on financial products that promote ecological or social aspects. Article 6 focuses on financial products that are not promoted as being sustainable. Pension funds need to determine which article applies to their investments. The classifications should not be seen as a sustainability benchmark because the articles do not guarantee the sustainability impact of the investment. The only goal of the SFDR is to ensure sustainable impact claims made by financial institutions are valid.

- The European Institutions for Occupational Retirement Provision (IORP II) Directive requires that pension funds assess the ESG risks of their investments following a specific set of criteria, and that ESG risks acquire an equal level of attention compared to operational, liquidity or asset risks.

- The Task Force on Climate-related Financial Disclosures (TCFD) guidelines recommend that reporting on material climate risks is integrated into companies' ordinary financial reporting. The TCFD divides its recommendations into governance, strategy, risk management, and metrics and targets.

- The Global Reporting Initiative (GRI) helps companies and other organisations to report on their sustainability efforts. It provides guidelines for disclosing information about environmental, social and economic impacts. The GRI Standards are globally used sustainability reporting standards. Reporting in line with the standards helps stakeholders to understand how the company is addressing its responsibilities in these areas. GRI's framework promotes transparency and accountability in sustainability practices.

With these developments in mind, pension funds should ensure that they comply with relevant environmental regulatory standards and recommendations that are applicable to their operations. In addition, the RI policy and information on its implementation should be easily accessible through an RI report or substantial section in the pension fund's annual report. Ideally, these reports should be verified by an external auditor.

Appendix I - Methodology

Over the years, this benchmark has developed significantly and it has become an effective tool to measure responsible investment by pension funds in the Netherlands. The study is impartial. The participating pension funds and VBDO share a common goal - to enhance the sustainability performance of individual pension funds and bring about sector-wide improvements regarding responsible investment.

UNDERLYING PRESUMPTIONS

The most important underlying presumptions in this benchmark are:

I. The scope of the benchmark is determined by selecting the 50 largest pension funds active in the Netherlands, based on figures provided by the Dutch Central Bank.
II. The assets that are included in this benchmark are those of Dutch pension funds, irrespective of where these are being managed.
III. The implementation of the responsible investment policy is considered to be the most important element of the assessment as this is how the actual impact is achieved. Therefore, this section is responsible for 50% of the total score. The governance, policy and accountability sections account for the remaining 50%.
IV. The topic of 'governance' is to be considered from the viewpoint of the management of the pension fund and not from the asset manager's perspective.
V. The total score for 'implementation' is dependent on the different scores of the asset classes (publicly listed equity; corporate bonds; government bonds; real estate; private equity; and alternative investments). The weight of the asset classes in the determination of the implementation score is dependent on the asset allocation. Other assets, such as cash, interest swaps and currency overlays are not included in this benchmark study.
VI. It is determined by VBDO within each asset class which responsible investment instruments are (reasonably) implementable.
VII. VBDO does not differentiate between investors taking an active or passive and direct or indirect investment approach but does assess what responsible investment strategies are being applied.

The above-mentioned underlying presumptions are based on VBDO's consultation with pension funds participating in this study. This consultation is based on an annual face-to-face meeting with participating pension funds. Of key importance to this meeting are the quantified survey results.

THE BENCHMARK

The VBDO Benchmark 'Responsible Investment by Pension Funds in the Netherlands 2023' compares the responsible investment performance of 49 of the largest pension funds in the Netherlands based on 2022 data. VBDO assesses responsible investment through detailed profiles of each pension fund.

The practice of responsible investment is subject to continuous innovations. To reflect this, the methodology of the benchmark is revised yearly to reflect these developments.

A question regarding biodiversity was added. Whilst the question does not lead to points, the answers to the question provides insight into how well biodiversity is currently integrated in the responsible investment policies of pension funds. Moreover, by asking whether concrete and timebound targets are in place, the VBDO hopes that pension funds will do more than merely describing the urgency of tackling biodiversity issues.

The revision also led to the removal of two questions. One of these concerned Strategic Asset Allocation and ALM modelling. As a certain level of detail is now required by the regulator, VBDO does not deem it necessary to push for improvement on this subject for the time being.

The second question that was removed enquired about impact investing in the publicly listed equity portfolio. This question was removed from the implementation category as there are no consensus about the suitability of this asset class for impact investing. Instead, an open question has been added about active ownership relating to biodiversity for the publicly listed equity asset class.

Figure 5 | Benchmark process

Table 2 | **Responsible investment instruments and the different asset classes included in the benchmark**

	Publicly listed equity	Corporate bonds	Government bonds	Real estate	Private equity	Alternatives
Exclusion	■	■	■			
ESG integration	■	■	■	■	■	■
Engagement	■	■	■	■	■	
Voting	■					
Impact investing		■	■	■	■	■

VBDO BENCHMARK PROCESS

This benchmark was set up to motivate pension funds to raise their awareness of their current status on responsible investment and to challenge them to take further steps. The research process consists of several phases (see figure 5).

Setup

The questionnaire is composed of four themes:

I. Governance I The first theme relates to the governance of pension funds on matters of responsible investment, including boardroom awareness and expertise of RI, boardroom accountability and oversight, and consultation with participants and relevant stakeholders.

II. Policy I This theme focuses on the responsible investment policy in place during the year assessed. Its applicability to the entire portfolio, its depth and its quality are all assessed.

III. Implementation I When assessing the implementation of the responsible investment policy, VBDO looks at six different asset classes. Table 2 shows the asset classes with the corresponding responsible investment strategies that are covered in the study. VBDO believes that asset owners should take responsibility for the investments made on their behalf. Therefore, all implementation questions cover the whole investment chain from pension fund to asset manager or fund manager. Questions relate to the status of implemented strategies in 2022.

IV. Accountability I This section discusses the transparency of responsible investment policies, strategies, results and reports.

Scoring model

The categories are weighted differently. Governance, policy and accountability each account for 16.7%, and implementation 50%, totalling 100%. The weighted percentage for implementation is 50% because this category determines the final output and quality of the responsible investment practices of a pension fund. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class. In the accountability category, 5 subcategories are distinguished: the publication of the responsible investment policy; list of investments; transparency on implementation; actively informing participants and other stakeholders; and verification of the responsible investment report. Figure 7 gives an overview of the scoring model.

Figure 6 | **Overview scoring model**

FINAL SCORE (between 0-5)

GOVERNANCE (16,7%)

POLICY (16,7%)

IMPLEMENTATION (50%)

ACCOUNTABILITY (16,7%)

Total score on category Implementation =

Score public equity X % of the portfolio

Score corporate bonds X % of the portfolio

Score sovereign bonds X % of the portfolio

Score real estate X % of the portfolio

Score private equity X % of the portfolio

Score alternative Investments X % of the portfolio

This figure shows the scoring model. The categories are weighted differently. Governance, policy and accountability each account for 16.7%, and implementation 50%. The weighted percentage for implementation is 50% because this category determines the final output and quality of the responsible investment practices of a pension fund. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class.

Star ranking

VBDO uses a star ranking based on a 0 – 5 star range in addition to a 1 – 49 ranking in numbers. The star ranking is based on the total score and on the scores of the individual categories of the pension fund; governance, policy, implementation and accountability. These minimum standards might be expanded in the future. The following scores and minimum standards determine the number of stars awarded:

★★★★★
5 STARS
A score of at least 4.5 on all categories
(governance, policy, implementation, accountability)

★★★★
4 STARS
A total score of at least 4.0
A score of at least 3.5 on all categories
(governance, policy, implementation, accountability)

★★★
3 STARS
A total score of 3.5 up to and including 3.9
A score of at least 2.5 on all categories
(governance, policy, implementation, accountability)

★★
2 STARS
A total score of 2.5 up to and including 3.4
A score of at least 2.0 on all categories
(governance, policy, implementation, accountability)

★
1 STAR
A total score of 1.5 up to and including 2.4

☆
0 STARS
A total score below 1.5

Appendix II - Responsible investment strategies and asset classes

Responsible investment strategies

Based on reviews of implementation practices by investors worldwide and our own vision on responsible investment, VBDO has identified a range of responsible investment instruments that are applicable to one or more asset classes:

- **Exclusion**

Certain products, processes or behaviours of some companies and governments are at such odds with international agreements and treaties that they should be excluded from the investment portfolio. We recommend that pension funds go beyond merely checking whether or not there have been reports of environmental, social and governance problems (for example, human rights violations) when deciding whether to exclude certain investments. Instead, it is better to look at these issues in more detail and assess companies on them using well-defined environmental, social and governance (ESG) criteria or international guidelines. In relation to the exclusion of government bonds, pension funds can exclude countries based on the official sanction lists of the EU and UN, for example, or based on other criteria.

In VBDO's opinion, responsible investment goes beyond merely following legal obligations. For example, the legal ban on investments in cluster munitions came into force in the Netherlands in January 2012, so we would expect to see investments automatically excluded for this reason. Therefore, pension funds can only receive points in this benchmark for exclusion criteria that go further than merely excluding on the basis of cluster munitions.

- **ESG integration**

Even when the worst offending companies are excluded, there are still significant differences in terms of corporate responsibility between the companies in which institutional investors invest. Whereas one company may only comply with the current environmental and social laws of the country in which it operates, another may follow high social and environmental standards in every country in which it is active. Institutional investors should consider this when developing their own investment policy and should give preference to companies that perform well in relation to corporate responsibility.

VBDO defines ESG integration as the process by which ESG criteria are incorporated into the investment process. This involves more than just screening the portfolios against exclusion criteria, but it does not mean that an investor merely selects the best-in-class companies. ESG integration can go one step further by identifying and weighing ESG criteria, which may have a significant impact on the risk-return profile of a portfolio. An example of ESG integration is positive selection; this is defined as choosing the best performing organisation out of a group of similar organisations (e.g. in terms of sector, industry or class) by using ESG criteria. In this case, ESG criteria form the basis for selecting companies that perform above average on ESG issues. Integration of ESG criteria in the investment selection can be applied to all of the selected asset classes in this research. This benchmark takes both the extent and volume of ESG integration into account.

- **Engagement**

Pension funds can actively exert influence by entering into dialogue with the organisations in which they invest. If the policy and behaviour of a company are at odds with the investor's responsible investment policy, pension funds should, to some extent, use their influence to alter the conduct of the company. Institutional investors that have formulated an engagement policy actively seek dialogue with companies outside the shareholder meeting. In order to obtain optimal engagement results, it is essential to evaluate and monitor the engagement activities and take further steps based on the outcome of the engagement activities. Engagement can be used for publicly listed equity as well as for fixed income, real estate funds and private equity.

- **Voting**

Institutional investors can actively exert influence on the companies in which they invest by voting during shareholder meetings. Many institutional investors vote at shareholder meetings, but their voting policy is limited to subjects regarding corporate governance. This might push companies towards a better sustainability policy, but that in itself is not enough. A clearly defined voting policy is required, one that explicitly emphasises social and environmental issues. By proactively introducing or supporting resolutions on sustainable development and corporate social responsibility proactively, investor can push companies to make improvements and take corrective action. For this benchmark, voting is assessed only for the publicly listed equity asset class.

- **Impact investing**

Impact investing means actively investing in companies or projects which clearly offer added value for sustainable development. Examples include investments in sustainable energy sources, innovative clean technology, affordable medicine to protect against tropical diseases, micro-credit, and sustainable forestry. Impact investing is more than a best-in-class approach, even though companies may use similar ESG criteria and invest in specially constructed funds. With impact investing, investors choose a specific theme or development issue and search for companies or projects that can make a positive impact on this issue. For this reason, impact investing can create added value for society in a way that is unlikely to be realised with mainstream investments or solutions. VBDO believes it is important to measure and evaluate the actual environmental and social impact of the investments. When it comes to this benchmark, this RI instrument is applicable to all asset classes except for publicly listed equity.

Asset Classes

- **Publicly listed equity**

The public equities market consists of the publicly traded stocks of large corporations. The risks and opportunities connected to ESG issues are important to understand
in order to analyse and adjust an equity portfolio. There are many ways to integrate ESG issues into investment decisions, including through the exclusion and selection of companies within the portfolio, voting and engagement. Since emerging markets are increasingly seen as interesting investment opportunities because of their potential for economic growth, they deserve special attention from investors when it comes to ESG integration. As a result of the growing demographic and resource challenges within these markets, and the potential for environmental damage, a more sustainable approach to economic development is crucial for emerging markets. In many cases, these countries are already responding to the above-mentioned challenges. Nevertheless, sourcing the relevant ESG data on emerging market companies can require a huge amount of research. It is, however, also possible to take ESG criteria into account for passive investments by following a sustainable index or by using an engagement overlay.

- **Corporate (including covered) bonds**

For corporate bonds, responsible investment activities can be similar to equities; however, corporate bonds do not have voting rights and they have a fixed return. This not only reduces the financial risk but also offers fewer opportunities to take advantage of high returns and to influence the policies of a company. Because bondholders lack the voting power that shareholders have, most ESG integration activity has been in equities. However, with growing client demand, bond managers are working to integrate ESG factors into fixed-income portfolios. Furthermore, VBDO emphasises the value of collaborative engagement initiatives.

- **Government / sovereign bonds**

As with corporate bonds, government bonds (together often referred to as fixed income) are generally regarded as one of the safer, more conservative investment opportunities. They are issued to fund public services, goods or infrastructure. The first consideration for responsible investment and this asset class may often be the exclusion of countries with dictatorial regimes because of their human rights violations. This is a clear example of acting on the results of an ESG risk analysis. ESG rating agencies increasingly offer products to screen bond portfolios on corporate governance regulatory practices, environmental policies, human rights issues, and international agreements. Investors can also seek government bonds that support the creation of public goods, such as infrastructure improvements and schools, or which support the development of sustainable energy sources. They can then purchase government debt targeted at a specific activity. As with corporate bonds, VBDO encourages pension funds to engage with government bodies. This practice is certainly not common amongst institutional investors yet, but given the size and value of the public goods financed by government bonds, VBDO sees great value and opportunity for engagement with government bodies.

- **Real estate**

Real estate investments encompass a wide range of products, including home ownership for individuals, direct investments in rental properties institutional investments in office and commercial space, publicly traded equities of real estate investment trusts, and fixed-income securities based on home-loans or other mortgages. This benchmark assessment is limited to direct investments in buildings and indirect investments via real estate funds. Investors can screen their portfolio by developing ESG criteria for: specific locations; the construction of new buildings; the maintenance of existing buildings; machinery and other facilities within buildings, such as those used to make buildings more environmentally efficient; sustainable construction and materials; and fair labour practices. For real estate investments that are managed externally, it is important to select fund managers based on their experience with and implementation of ESG. Additionally, the managers of real estate funds can be engaged to improve their social and environmental performance.

- **Private equity**

With regard to private equity, an institutional investor can motivate companies to become more innovative and sustainable by directly influencing management and encouraging entrepreneurs to focus on developing businesses with high-impact social and/or environmental missions. This can be particularly effective in regions and communities that are under-served and where companies can promote the creation of local business and jobs. With this in mind, integrating the responsible investment policy in the selection process can be an important tool for institutional investors.

- **Alternative investments**

Depending on the asset allocation and definitions of an investor, alternative investments can include many kinds of assets. Experience with and strategies for responsible investments are in their infancy for this asset class. In addition, these investments usually only account for a small portion of the total portfolio. For these reasons, this benchmark only assesses certain types of investments within this asset class; hedge funds, infrastructure, commodities, mortgages, and impact investments. Information provided on other investments within this asset classes will not be taken into account. There are several opportunities for responsible investment that pension funds should consider, including:

I. Although hedge funds are often handled as a separate asset class, the underlying assets are generally publicly-listed securities (stocks and bonds) and their derivative products. Thus, investors could consider an ESG analysis of underlying assets and theoretically use the same tool for ESG management as they do for public equity and fixed income. Likewise, integrating the responsible investment policies in the selection process can be an important RI tool.

II. Infrastructure is widely considered to have a positive social impact. Infrastructure investors should take into account the broad range of material ESG risks that these investments might face over the assets' lifetime. Examples of ESG include: biodiversity impact; labour, health and safety standards; resource scarcity and degradation; extreme weather events; and supply chain sustainability. It is, therefore, worthwhile monitoring how ESG is integrated into infrastructure investments.

III. Regarding commodities, investors could direct capital to commodities with better ESG profiles and consider the source (region) of the commodity. As there are few ways in which to foster positive ESG changes, investors may advocate change on a broader level within commodities exchanges. The integration of the responsible investment policy in the selection process for commodity investments or asset managers can be an important RI tool for this category.

Vereniging van Beleggers voor
Duurzame Ontwikkeling (VBDO)
Pieterstraat 11, 3512 JT Utrecht
+31 (0) 30 234 00 31 | info@vbdo.nl

Dutch Association of Investors for Sustainable Development (VBDO) Please email us at info@vbdo.nl if you would like to receive regular updates from VBDO. Follow VBDO on Twitter at http://twitter.com/VBDO