



# Benchmark Responsible Investment by Pension Funds in the Netherlands 2016

## Ready for the next step?





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## Preface VBDO



**Angélique Laskewitz**  
Executive Director VBDO

VBDO is delighted to introduce the 10<sup>th</sup> edition of its benchmark study on the state of responsible investing by pension funds in the Netherlands. The pension fund sector has come a long way in its efforts to integrate responsible investing principles into its business practices.

VBDO published its first edition of the responsible

investment pension fund benchmark study in 2007. While the financial crisis of 2008 wreaked havoc on investment portfolios it also served as a wake-up call, inspiring many to reframe responsible investment as indispensable to the fabric of a new, more sustainable, economic order, rather than as an annoying distraction of daily business.

In a parallel dynamic the pension fund sector's perception of responsible investment went through a full reversal over the past 10 years. Initially seen as conflicting with its fiduciary duty vis-à-vis customers, the axiom of responsible investing as nothing less than a prerequisite to fulfil this very duty seems to have gained all but universal acceptance.

This turnaround is reflected in the ever increasing scores achieved in the VBDO benchmark. While all this is indeed good news we also note that there is a need to take the next step. While all pension funds in the benchmark have responsible investment policies, not all of these policies address current societal challenges. This could be done by incorporating the Sustainable Development Goals (SDGs) into the responsible investment policies. Additionally, there is an increasing demand for measuring the impact of the investments on societal themes, such as climate change, against predefined KPIs. These challenges call for increased cooperation within the pension fund sector in the Netherlands, in order to prevent a fragmentation of policies and impact measurement methods.

I wish to thank our main sponsor FNV without whose generous support this project would not have been possible. I also want to take the opportunity to thank the participating pension funds and their asset managers for their invaluable contributions.

In this report we do not only pose challenges for the sector, we at VBDO will actively take part in taking the next step by providing seminars, working groups and by producing reports in order to continually move responsible investment forward in the upcoming 10 years.

## Preface DNB



**Frank Elderson**  
Director DNB

De Nederlandsche Bank (DNB) strongly promotes financial stability and therefore contributes to sustainable prosperity in the Netherlands. Prosperity that is long-term and remains stable, thus benefiting future generations. Sustainable prosperity is accompanied by a sustainable financial sector; a sector that considers economic, social and ecological consequences in their transactions.

It is in the long-term perspective that we, DNB and the pension sector, find each other. For years the pension sector has already been oriented toward providing a good pension for now and the future. Accordingly, the issue of sustainable investing has become increasingly significant. Important questions such as, “are my investments effectively protected from environmental, social and governance risks?” and, “do my investments also contribute to a good living environment?”, are becoming more frequent and taking priority in the planning of pension funds.

Sustainable investing, defined by DNB, involves four core principles: the prudent person principle, the dialogue, transparency, and adequate risk management. The prudent person principle demands that investments are made in the interest of entitlement and pension beneficiaries. In order to accomplish this, a dialogue with stakeholders is necessary. Transparency in the sustainability aspects of investment decisions and the results thereof form a start and end point for the dialogue. Adequate risk management also plays an important role as financial institutions must include all relevant risks, including relevant ESG risks, in their management principles.

At DNB, our role is to bring together and catalyze further sustainability in the financial sector. For example, we accomplish this by being chairman of the Platform for Sustainable Financing, which is a cross-sector platform initiated by DNB. In this capacity we stimulate rather than compel participants. This means we choose for a positive approach and work together with the sector to find best practices. We work and think together to solve hurdles we have yet to overcome.

The benchmark from VBDO is precisely such an instrument that brings progress in thinking about sustainability and further anchors the topic. The benchmark increases transparency and contributes to the dialogue. This is done in the conviction that this contributes to sustainable prosperity.





## Overall conclusions

RANKING			OVERALL SCORE	GOVERNANCE	POLICY	IMPLEMENTATION	ACCOUNTABILITY
2016	2015	NAME OF PENSION FUND					
SCORES PER CATEGORY							
1	=	1 Pensioenfonds Zorg en Welzijn (PFZW)	4.61	5.0	5.0	4.2	5.0
2	▲	3 Algemeen Burgelijk Pensioenfonds (ABP)	4.44	5.0	4.5	4.1	4.8
3	▼	2 Bedrijfspensioenfonds voor de Landbouw	4.40	5.0	5.0	4.0	4.4
4	=	4 Pensioenfonds SNS Reaal	4.12	4.3	4.0	4.1	4.2
5	▲	6 Bedrijfstakpensioenfonds voor de Bouwnijverheid	4.11	4.0	4.5	4.0	4.2
6	▼	5 St. Pensioensfonds voor Woningcorporaties (SPW)	3.97	3.5	4.5	3.9	4.0
7	=	7 Spoorwegpensioenfonds	3.93	4.3	4.0	3.6	4.5
8	=	8 St. Pensioenfonds Openbaar Vervoer (SPOV)	3.86	4.5	4.0	3.4	4.5
9	▲	14 Pensioenfonds van de Metalektro (PME)	3.77	5.0	4.0	3.0	4.6
10	▼	9 Ahold Pensioenfonds	3.62	4.5	4.0	3.3	3.3
11	★	23 Bedrijfstakpensioenfonds Schilders	3.61	4.5	4.0	3.1	4.0
12	▲	13 Pensioenfonds Metaal en Techniek (PMT)	3.60	4.3	3.0	3.3	4.5
13	▲	16 Rabobank Pensioenfonds	3.49	3.5	3.2	3.5	3.7
14	▼	12 Pensioenfonds Progress (Unilever)	3.48	4.3	3.5	3.2	3.5
15	▼	10 St. Bedrijfstakpensioenfonds Zorgverzekeraars (SBZ)	3.44	3.5	2.5	3.5	4.0
16	▲	24 Heineken Pensioenfonds	3.43	4.5	3.0	2.9	4.3
16	▲	17 Pensioenfonds Werk en (re)Integratie (PWRI)	3.43	3.8	4.0	3.0	3.7
18	▼	15 Pensioenfonds Architectenbureaus	3.41	2.3	3.5	3.7	3.6
19	▼	11 Bedrijfstakpensioenfonds voor de Media (PNO Media)	3.16	3.0	2.0	3.1	4.7
20	▼	18 Philips Pensioenfonds	2.91	4.3	2.2	2.6	3.1
21	▼	19 Bedrijfstakpensioenfonds Koopvaardij	2.76	3.5	2.7	2.5	2.8
22	▲	26 Pensioenfonds Achmea	2.73	4.0	2.0	2.7	2.3
23	▼	20 St. Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf	2.69	3.3	1.7	2.7	3.1
24	▲	25 Delta Lloyd Pensioenfonds	2.68	3.8	2.0	2.5	2.8
24	▲	30 Pensioenfonds Detailhandel	2.68	2.8	4.0	2.0	3.3
26	▼	22 Pensioenfonds Vervoer	2.64	3.3	2.0	2.3	3.7
27	▲	35 Pensioenfonds DSM Nederland	2.57	3.3	2.0	2.0	4.2
28	▲	34 St. Pensioenfonds Huisartsen	2.54	2.8	2.0	2.6	2.7
28	▼	21 St. Pensioenfonds Medisch Specialisten (SPMS)	2.54	3.3	1.8	2.3	3.3
30	▲	32 St. Pensioenfonds APF (Akzo Nobel)	2.49	3.5	3.0	1.9	2.8
31	▼	29 St. Pensioenfonds Wonen	2.40	2.8	2.7	2.2	2.4
32	▼	28 St. Pensioenfonds UWV	2.30	2.3	3.2	2.1	2.0
33	▼	31 Pensioenfonds Horeca en Catering	2.26	2.8	2.0	2.3	1.9
34	▼	33 St. Pensioenfonds KPN	2.19	2.3	1.7	2.1	3.0
35	▲	41 Pensioenfonds PGB	2.18	2.5	1.7	2.0	2.9
36	▼	27 Bedrijfstakpensioenfonds v. h. Schoonmaak- en Glazenwassersbedrijf	2.14	2.8	2.0	2.0	2.2
36	▲	38 St. Pensioenfonds voor Fysiotherapeuten	2.14	2.0	1.7	2.3	2.2
38	▲	39 St. Pensioenfonds TNO	2.12	3.3	1.4	1.6	3.3
39	▼	37 St. Shell Pensioenfonds	2.08	2.3	2.7	1.9	1.8
40	=	40 St. Pensioenfonds PostNL	2.04	2.3	2.0	1.7	3.0
41	▼	36 Pensioenfonds ING	1.86	2.5	1.7	1.4	2.7
42	▲	44 St. Pensioenfonds Gasunie	1.85	1.8	1.3	1.6	3.3
43	▼	42 Pensioenfonds Medewerkers Apotheken (PMA)	1.75	2.8	2.3	1.1	2.2
44	▲	46 ABN AMRO Pensioenfonds	1.73	3.5	0.8	1.4	1.8
45	▼	43 St. Bpf. voor de Meubelind./Meubileringsbedrijven	1.67	1.8	1.8	1.4	2.3
46	▼	45 St. Pensioenfonds IBM Nederland	1.41	2.3	2.0	0.9	1.5
47	=	47 Pensioenfonds KLM Cabine	1.36	1.8	1.4	1.0	2.1
48	=	48 Pensioenfonds KLM Algemeen	1.29	1.8	1.2	0.9	2.1
49	=	49 St. Pensioenfonds Hoogovens	1.18	1.8	1.3	0.9	1.3
50	=	50 Pensioenfonds KLM Vliegend Personeel	0.21	0.5	0.0	0.3	0.0

Figure 1: Ranking of the 50 largest Dutch pension funds

★ 10 of meer plaatsen gestegen  
 ★ 10 of meer plaatsen gezakt



## Executive Summary

This is the 10<sup>th</sup> annual edition of the VBDO Benchmark Responsible Investment by Pension Funds in the Netherlands. This report, published by the Dutch Association of Investors for Sustainable Development (VBDO), provides a detailed overview of the current status and trends of the 50 largest Dutch pension funds regarding responsible investment. Pension funds are assessed and scored on governance, policy, implementation and accountability.

### *Responsible investment; ready for the next step?*

The results of VBDO's pension fund benchmarks show that since 2007 pension funds have developed a responsible investment policy; have established responsible investment instruments in different asset classes and have become more transparent about their investments. Responsible investment therefore has become mainstream and an integrated part of investment management. However there are still challenges ahead.

Important topics for pension funds to address are current societal topics such as climate change and the Sustainable Development Goals (SDGs). The question on how investment management can actively contribute to the SDGs or can stop climate change is a difficult one. As pension funds do not compete with each other, face the same challenges and since their responsible investment policies largely overlap, cooperation is an important next step. Not only between the larger funds, but especially between the larger and smaller funds. As smaller funds not always have the capacity to take on this challenge alone.

Overall, the sector has improved concerning responsible investment strategies and impact investments are steadily growing each year. The VBDO is also delighted to observe that the pension funds at the lower levels of the benchmark have made improvements this year. This means that responsible investment is becoming more and more mainstream. A development that should both be celebrated as well as further stimulated in the coming years.

### *This year's ranking, results and conclusions*

For the tenth consecutive year, the first place of the responsible investment benchmark is for PFZW, closely followed by ABP and BPF Landbouw. This year, VBDO observed the following developments:

#### **Increased oversight of board on responsible investment**

A stunning 98% of all pension funds boards actively discussed responsible investment at least twice per year. Last year this was only 46%. This is an important indicator of the perceived importance of responsible investment by pension fund boards.

#### **Steady increase of presence of responsible investment policy since 2009**

Since 2009, each year a larger percentage of assets under management is covered by the responsible investment policies of pension funds. Currently, 100% of the pension funds have a responsible investment policy and 94% of the largest 50 pension funds have a responsible investment policy that is applicable to the majority of their portfolio. Nevertheless, only 48% of the pension funds have clear key performance indicators to measure effectiveness of their policy.

#### **Systematic integration of ESG decreased**

A basic form of ESG-integration (e.g. requiring that an asset manager has complied with the UN Principles for Responsible Investment) has been applied more since 2013. However, the most extended form of systematic ESG-integration decreased compared to the past two years. This seems a disconcerting development.

#### **Engagement is measured and reported on more thoroughly**

VBDO observes the encouraging trend that pension funds are evaluating and measuring the outputs and effects of engagement more. They decide on next steps based on this evaluation and are reporting the results of engagement publicly.

#### **Transparency about investments could be enhanced further**

There are several good practices of pension funds that publish a detailed list of investments. However, in order to give more insight to stakeholders on pension fund investments, VBDO calls for more transparency on all investments in the pension sector.



## Recommendations

We recommend pension funds to take the following steps to enhance responsible investment practices.

### General

- Add references to current societal topics such as the SDGs or climate change to your responsible investment policy in order to maintain societal relevance;
- Improve the measurement of the impact of your investments on society against predefined KPIs;
- Increase cooperation between pension funds and stakeholders on the following topics:
  - o Impact measurement and addressing societal challenges through investment management;
  - o Define blueprints for responsible investment policies which can be used as a starting point for smaller pension funds that have limited capacity in the field of responsible investment;
  - o Start the conversation between pension funds, NGOs and governmental agencies on how to jointly address topics such as human rights, climate change and other themes related to the Sustainable Development Goals. For example through a covenant or a joint platform such as the DNB is offering;
  - o It is recommended to also increase cooperation in international active ownership activities and increase the positive impact of the Dutch pension fund sector.

### Governance

- Increase expertise of board members on responsible investment;
- Determine what responsible investment means for your organisation, by (regularly) consulting participants on this topic;
- Consult external stakeholders (e.g. NGOs, consultants, rating agencies) to stay informed of the latest developments regarding responsible investment.

### Implementation

- *ESG integration*: Ensure systemic ESG-integration for all asset classes and take into account long term sustainability risks in your asset valuation methods, e.g. by applying strategic asset allocation;
- *Active ownership*: Work together with other investors on engagement and voting to increase investor influence;
- *Exclusion*: Develop additional exclusion criteria (on top of the legally obliged and controversial weapons) based on your (responsible) investment beliefs and policy;
- *Impact investing*: Take the lead as an asset owner to increase the amount of impact investments by enhancing internal know-how on impact investing, developing an impact investment policy and selecting and encouraging appropriate asset managers.

### Accountability:

- Report in a clear, visual and attractive way about your responsible investment policy to ensure that information is easily understood by participants and other stakeholders;
- Report not only on your responsible investment processes, but also on your actions and final impact on societal themes such as climate change, human rights, health care and/or biodiversity;
- Actively reach out to participants on the topic of responsible investment, for example by organizing meetings or sending newsletters;
- Seek external assurance to verify your responsible investment reporting.

# Samenvatting

Voor u ligt de tiende jaarlijkse editie van de VBDO Benchmark Verantwoord Investeren door Pensioenfondsen in Nederland. Dit rapport, gepubliceerd door De Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO), geeft een gedetailleerd overzicht van de huidige status en trends op het gebied van verantwoord beleggen door de 50 grootste Nederlandse pensioenfondsen.

## ***Verantwoord beleggen; klaar voor de volgende stap?***

Sinds 2007 hebben pensioenfondsen verschillende stappen gezet. Van het ontwikkelen van een verantwoord beleggingsbeleid, het integreren in verschillende asset classes tot het vergroten van hun transparantie. Verantwoord beleggen is 'mainstream' geworden en een geïntegreerd onderdeel van het vermogensbeheer. Er liggen echter nog grote uitdagingen in de toekomst.

Het is van groot belang voor pensioenfondsen om huidige maatschappelijke vraagstukken op te pakken zoals klimaatverandering en de 'Sustainable Development Goals (SDG's)'. Aangezien pensioenfondsen niet met elkaar concurreren, ze dezelfde uitdagingen hebben en gezien de verschillende beleidsdocumenten voor verantwoord beleggen grotendeels overeenkomen is samenwerking een logische en belangrijke vervolgstap. Deze samenwerking zou niet alleen plaats moeten vinden tussen de grote fondsen, maar met name tussen de grote en kleinere fondsen, aangezien de kleinere fondsen vaak niet de capaciteit hebben om deze vraagstukken alleen op te pakken.

Over het algemeen kan er worden geconcludeerd dat het gebruik van verschillende verantwoord beleggingstrategieën toeneemt. Met genoeg kan de VBDO concluderen dat voor het eerst ook verbeteringen zijn doorgevoerd binnen de pensioenfondsen aan de onderkant van de ranglijst. Dit betekent dat verantwoord beleggen meer gemeengoed aan het worden is. Een ontwikkeling die de VBDO toejuicht.

## ***Huidige resultaten en conclusies***

Voor het tiende jaar op rij wordt de ranglijst aangevoerd door PFZW, op de voet gevolgd door ABP en BPF Landbouw. Dit jaar komen de volgende ontwikkelingen naar voren:

### **Het bestuur is meer betrokken bij duurzaam beleggen**

Het bestuur van pensioenfondsen lijkt duurzaam beleggen dit jaar een belangrijker onderwerp te vinden dan vorig jaar. Maar liefst 98% van de pensioenfondsen besturen bespreekt duurzaam beleggen ten minste twee keer per jaar. Vorig jaar was dit maar 46%.

### **De aanwezigheid van een duurzaam beleggingsbeleid is gestegen**

Vanaf 2009 hebben elk jaar meer pensioenfondsen een duurzaam beleggingsbeleid. Op dit moment heeft 100% van de 50 pensioenfondsen een duurzaam beleggingsbeleid en bij 94% dekt dit de meerderheid van de beleggingen. Het opnemen van belangrijke prestatie indicatoren die de effectiviteit van het beleid meten, kan nog verder verbeterd worden.

### **Systematische integratie van ESG-criteria is afgenomen**

Pensioenfondsen passen meer basis ESG-integratie toe (zoals het asset managers verplichten om de UN Principles for Responsible Investment te ondertekenen). Opvallend genoeg is het toepassen van systematische ESG-integratie afgenomen in de afgelopen twee jaar.

### **De effecten van engagement worden meer gerapporteerd**

Naast het uitvoeren van engagement, ziet VBDO nu ook dat pensioenfondsen stappen maken in het meten en evalueren van de effecten van engagement. Hierover maken ze ook meer en meer rapportages openbaar.

### **Meer transparantie van investeringen nodig**

VBDO roept pensioenfondsen op om transparanter te zijn over hun investeringen. Dit helpt belanghebbenden om meer inzicht te krijgen in hoe pensioenfondsen daadwerkelijk beleggen en hun uit te dagen om dit duurzamer te doen. De voorlopers passen deze transparantie al toe en publiceren hun lijst met investeringen.

## Aanbevelingen

Om verdere ontwikkeling op het gebied van duurzaam beleggen te stimuleren raden wij pensioenfondsen aan de volgende stappen te nemen.

### Algemeen

- Neem huidige maatschappelijke onderwerpen zoals de SDG's of klimaatverandering op in uw verantwoord beleggingsbeleid;
- Verbeter het meten van de impact van uw investeringen aan de hand van vooraf vastgelegde KPI's;
- Vergroot de samenwerking tussen pensioenfondsen onderling, en met stakeholders over de volgende onderwerpen:
  - o Het meten van impact en het aanpakken van maatschappelijke problemen door vermogensbeheer
  - o Ontwikkel een blauwdruk voor een verantwoord beleggingsbeleid dat kan worden opgepakt door kleinere pensioenfondsen met minder capaciteit voor verantwoord beleggen.
  - o Ga in dialoog met pensioenfondsen, NGO's en overheden over thema's zoals klimaatverandering, mensenrechten en de SDG's het beste samen opgepakt kunnen worden. Bijvoorbeeld door een convenant of door het creëren van een platform voor samenwerking.
  - o Zoek de samenwerking op het gebied van actief aandeelhouderschap om zo de positieve impact van de Nederlandse pensioensector internationaal te vergroten.

### Governance

- Vergroot de kennis van bestuursleden op het gebied van duurzaam beleggen;
- Bepaal wat duurzaam beleggen betekent voor uw organisatie, door het (regelmatig) raadplegen van deelnemers;
- Raadpleeg externe stakeholders (bijv. NGO's, consultants, ratingbureaus) om op de hoogte te blijven van actuele ontwikkelingen op het gebied van duurzaam beleggen.

### Beleid

- Zorgt dat het duurzaam beleggingsbeleid toepasbaar is op de gehele beleggingsportefeuille en alle vermogensbeheerders;
- Neem actuele maatschappelijke thema's op in het beleid, zoals klimaatverandering en de Sustainable Development Goals;
- Formuleer duidelijke doelen en prestatie indicatoren op het gebied van duurzaam beleggen, inclusief targets voor de fiduciair manager.

### Implementatie

- *ESG-integratie*: Integreer ESG-criteria op een systematische manier en neem lange termijn duurzaamheidsrisico's op in de waardering van investeringen, bijvoorbeeld door het toepassen van 'strategische asset allocatie';
- *Actief aandeelhouderschap*: Werk samen met andere institutionele investeerders op het gebied van engagement en het uitoefenen van stemrecht om de invloed op bedrijven te vergroten;
- *Uitsluiting*: Ontwikkel aanvullende uitsluitingscriteria (bovenop de wettelijk verplichte criteria) gebaseerd op (duurzame) beleggingsbeginselen;
- *Investeren met maatschappelijke impact*: Neem als pensioenfonds de leiding in het vergroten van het aantal impact investeringen door de interne kennis hierover te vergroten; het ontwikkelen van een impact investeringsbeleid en het selecteren van geschikte vermogensbeheerders.

### Verantwoording

- Breng op een duidelijke, visuele manier verslag uit van uw duurzaam beleggingsbeleid om zo te waarborgen dat informatie gemakkelijk te begrijpen is voor deelnemers en andere belanghebbenden;
- Rapporteer niet alleen over uw verantwoord beleggingsprocessen, maar ook over de uiteindelijke impact van uw beleggingen op maatschappelijke thema's zoals klimaatverandering, mensenrechten, gezondheidszorg en biodiversiteit;
- Leg actief contact met deelnemers over het thema van duurzaam beleggen, door bijvoorbeeld het verzenden van nieuwsbrieven of het organiseren van evenementen;



## About VBDO

The Dutch Association of Investors for Sustainable Development (VBDO) is a not-for-profit multi-stakeholder organisation. Our mission is to make capital markets more sustainable. Members include asset managers, NGOs, consultancies, trade unions, insurance companies, banks, pension funds and individual investors. VBDO is the Dutch member of the international network of social investment fora (SIFs).

VBDO believes that we have to embed sustainability in capital markets. VBDO's activities target both the financial sector (investors) and the real economy (investees) and can be summarized as follows:

### Engagement

Since we were founded more than 20 years ago, the core activity of VBDO has been engagement with 70+ Dutch companies listed on the stock market. VBDO visits the annual shareholders' meetings of these companies, asking specific questions and voting on environmental, social and governance (ESG) themes. The aim of this engagement is to promote sustainable practices and to track progress towards the companies becoming fully sustainable, thereby providing more opportunities for sustainable investments.

### Thought leadership

VBDO initiates knowledge building and sharing of ESG-related issues in a pre-competitive market phase. Recent examples of this include:

- a seminar on strategic asset allocation;
- the development of guidelines on taking Natural Capital into account when choosing investments and organizing round tables about implementing human rights in business and investor practices.
- VBDO has developed two courses on responsible investment: one for private investors and one tailored to pension funds.

### Benchmarks

Benchmarks are an effective instrument to drive sustainability improvements by harnessing the competitive forces of the market. They create a race to the top by providing comparative insight and identifying frontrunners, thus stimulating sector-wide learning and sharing of good practices.

We have extensive experience of developing and conducting benchmarking studies. VBDO has conducted an annual benchmarking exercise, Responsible Investment by Pension Funds, for the 50 largest pension funds in The Netherlands since 2007. This has proven to be an effective tool in raising awareness about responsible investment and stimulating competition amongst pension funds. Additionally, we have experience in conducting a responsible investment benchmark amongst Dutch insurance companies. Currently we are assessing the feasibility of an international responsible investment benchmark, which would focus on pension funds and insurance companies.

VBDO is one of the founding partners of the Corporate Human Rights Benchmark, which will rank the 500 largest companies worldwide on their human rights performance, and make the information publicly available, in order to drive improvements. Our Tax Transparency Benchmark ranks 64 listed multinationals on the transparency of their responsible tax policy and its implementation. For more information about VBDO, please visit our website: <http://www.vbdo.nl/en/>

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# 1. Introduction

## 1.1 Background

This is the 10th edition of the VBDO Benchmark 'Responsible Investment by Pension Funds'. In this 10th edition we will look back and give special attention to the trends over the last ten years. The benchmark itself has developed significantly over these years. It has evolved from containing questions solely focused on exclusion and policy, to a benchmark covering the whole process from governance to accountability with explicit focus on implementation.

## 1.2 Objectives

The objective of this report is to provide pension funds and their participants insight into the current status of responsible investment among the 50 largest Dutch pension funds. This comparative study offers pension funds an impartial instrument to assess how their policies and practices regarding responsible investment compare to those of their peers.

## 1.3 Approach and methodology

The research and the scoring methodologies are based on an iterative process, which has developed and improved over ten years' of VBDO Benchmarks on 'Responsible Investment by Pension Funds'. Every year a review on relevancy of the assessed criteria and necessary additions are discussed with participants of the benchmark.

### Themes and scores

The pension funds are assessed and scored on the following themes: governance, policy, implementation and accountability. The theme implementation constitutes of 50% of the total score, because it determines the final output and quality of responsible investment practices of a pension fund. Detailed information about the methodology can be found in the appendix.

### Methodology revision

This year some minor revisions have been made to the methodology based on the input of participating pension funds and experts. These changes are summarised in the appendix.

This year also an expert group was formed to discuss more major revisions in 2017. Topics under consideration are the ranking system, decreasing the administrative burden, giving more attention to trends and how to translate the results of the benchmark in more specific recommendations per pension fund.

## 1.4 Content

Following this introduction, we provide an overview of the developments in the field of responsible investment since the beginning of the VBDO benchmark as well as an outlook to future developments. Results of this year's assessment are provided in chapter 3, including good practices and special topics. In chapter 4 we present VBDO's conclusions and recommendations based on this year's findings.



## 2. Retrospect and future outlook

Timeline demonstrating important moments in responsible investment and demonstrating the progress of the benchmark.

1976	OECD Guidelines
1987	Brundtlandt definition of sustainability
1995	Foundation of the Dutch Association of Investors for Responsible Investment (VBDO)
Jul-00	UN Global Compact
Apr-03	1st stocktaking RI by pension funds "Between added value and morality"
Jan-04	Entry into force of Governance code "Code Tabaksblat"
Apr-06	UN Principles for Responsible Investment
Mar-07	Zembla documentary "the Cluster Bomb feeling"
Jun-07	2nd stocktaking RI by pension funds "The power of pension funds" "
Nov-07	FNV 10-step plan for RI for Pension Funds
Dec-07	Precedents of Pension Federation publish guide "The arrived future"
Dec-07	VBDO 1st Benchmark RI for pension funds
Jan-08	Pension Act mandates involvement of participants in pension policy formulation
May-08	Convention on Cluster Munitions
Jan-09	Entry into force Solvency II
Dec-09	Copenhagen Climate Conference
Oct-09	GRESB launched
Jan-11	VBDO Benchmark scope enlarged to multiple asset classes
Jun-11	Pension Agreement: retirement age to 66 in 2020
Sep-11	UNPRI First "report on progress"
Dec-11	Zembla documentary "Trade in Hunger"
Jan-13	Pension Act includes clause on RI transparency by pension
Nov-13	VBDO Benchmark reaches 100% response rate and includes governance of fund issues
Jul-13	1st Black Swan documentary on "Betting with Pension benefits"
Oct-14	VBDO publishes Benchmark in accessible online format
Jan-15	VBDO "Guide on consulting participants of pension funds on responsible investment"
Feb-15	20 <sup>th</sup> Anniversary VBDO "Impact investing from niche to mainstream"
Nov-16	10th edition of VBDO benchmark

### Developments in the field of responsible investment and the role of VBDO

Over the past 10 years responsible investment practices by Dutch pension funds have developed impressively. Fundamental shifts were realized in many areas such as the debate on fiduciary duty, public awareness of the impact of pension fund investments and the approach to responsible investing taken by legislators and supervisory authorities. Pension funds have also established and refined their responsible investment policies and have improved their implementation practices. Furthermore, the pension fund sector has consolidated sharply and realized a major shift in asset allocations and geographical scope of investments.

### 2007 : *The beginning of a long road ahead*

Back in 2007, the year the first benchmark was published, most Dutch pension funds had not adopted any formal responsible investment policies. Those that did, typically applied a narrow set of instruments to implement them. The level of transparency on responsible investment activities was low. In the wake of the airing of the impactful television documentary "the Cluster Bomb feel" by the investigative journalism program Zembla, VBDO published the first "Benchmark Responsible Investment by Pension Funds" in cooperation with Oxfam Novib and several government agencies.

The benchmark's aim has always been to provide clarity to participants and society on responsible investment and to assist pension funds by comparatively measuring their activities based on clear indicators.

The first benchmark covered the largest 30 pension funds of which initially 73% responded to the questionnaire. Six of these had developed a responsible investment policy. Exclusions on controversial weapons and engaging with portfolio companies was done by about half of the funds. Only five of the pension funds published any substantial list of their portfolio holdings.

### ***2008: Responsible investing not inhibited by financial crisis***

Significant events such as the airing of the cluster bomb documentary, the launch of the VBDO benchmark and the FNV 10-step plan on responsible investment seemed at risk of being undermined by the onset of the financial crisis that began to unfold in the beginning of 2008. Despite the crisis' destructive effects on portfolios, multiple stakeholders actually came to regard responsible investment as part of the solution.

This perspective gained traction in following editions of the VBDO benchmark. By 2009 73% of pension funds had some form of RI policy in place. Nearly all pension funds (92%) applied exclusion strategies regarding controversial weapons at the least and over half of them actively engaged the companies in their portfolio. The number of funds engaging in some impact investments at the least, more than doubled from 8 in 2007 to 19 in 2008.

### ***Fiduciary Duty shifting towards favoring responsible investing***

The way the sector looks at fiduciary duty in relation to RI has shifted fundamentally as well. Formerly regarded as conflicting with fiduciary duty, responsible investment is now seen by many as a prerequisite.

### ***Consolidation in sector drives improvement***

Simultaneously, the sector saw a sharp consolidation, with the number of Dutch pension funds declining from 728 in 2007 to 307 in 2016. The benchmarks consistently show a correlation between a pension fund's size and RI performance. Although this does not mean that smaller pension funds cannot achieve high scores as several positive examples demonstrate. However, the ongoing process of consolidation is likely to further improve responsible investment performance in the next decade.

### ***Legislators spur progress through Pension Act***

It has also become clear over the past 10 years that legislators and supervisory authorities exert considerable influence. The Dutch Central Bank (DNB) increasingly acknowledges the relevance of non-financial risks such as climate change, allowing pension funds to adapt more quickly.

Furthermore, as of 2008 the Pension Act demands participant involvement in the formulation of investment policies, resulting in the establishment of many participant's councils. These councils have increasingly become the forum where responsible investment issues are discussed. Since 2013 the Pension Act requires pension funds to report how ESG-considerations are taken into account in its investment practices. This has stimulated medium and smaller sized pension funds to improve transparency on responsible investment-practices. Another step that will drive further improvements in the Netherlands as well as Europe as a whole is the new IORP-2 directive of the European Union in which responsible investment has gained a prominent spot.

### ***Growing public awareness***

Public awareness of the impact of pension investments did not end with the controversy surrounding cluster munitions. Around 2011, another television documentary by Zembla sparked a debate in Dutch parliament about the role played by pension investments in the spectacular rise of food and commodity prices at the time. Beginning in 2013, a Dutch television series called "Black Swans" started to cover controversial aspects of institutional asset management. This inspired another public debate on the potential adverse effects asserted on society by the asset management industry.

Whereas in the past, the attention for investment practices used to be negative, resulting from incidents which received publicity. Over the last few years the attention has become more positive and has commenced to focus on the possible positive contributions of pension funds to themes such as climate change and human rights.

***Growing number of tools for responsible investing***

Institutional investors seeking to implement RI have seen the tools available to them diversify, not least with the launch of GRESB in 2009. GRESB proves to be a widely used tool by institutional investors for selecting sustainable real estate in a cost efficient manner. Sustainable indices and guides for screening claims made by green bonds are further examples.

The VBDO benchmark has also proved its value as one of these tools. Many pension funds have been using it to see where they stand, to find best practices and to set objectives for their asset managers regarding responsible investments.

***Continuous refinement of the VBDO benchmark***

The benchmark has been fundamentally adapted every three years. The first improvement concerned the integration of asset classes such as real estate and government bonds from 2009 onward.

Governance was included as a research topic to assess how frequently RI policies are reviewed by the pension fund's management board and to what degree boards inform themselves properly. VBDO amplified the benchmark impact by hosting seminars and publishing additional materials, including a study on impact investing and a guide to consulting participants on responsible investment. These refinements as well as the continued dialogue with the sector have contributed to reaching a response rate of 100% for the first time in 2013. In order to further increase its impact, VBDO has partnered with the Italian Sustainable Investment Forum (FFS) to launch their very own benchmark in 2015 and is currently executing a feasibility study on international responsible investment benchmarking.

***Ten years later: arriving at the destination?***

Over these past years the benchmark has recorded substantial advances in responsible investment by pension funds. Whereas in 2009 just 12% of assets under management were covered by a responsible investment policy, by 2014 this share reached 86%. The first benchmark revealed that 10% of pension funds were integrating ESG-criteria at the least in basic form into their investment decisions in public equity. In 2014 94% of pension funds were integrating ESG. Last year, the level of detail found in funds' responsible investment policies and implementation is, relative to a decade ago, commendable: 44% of the funds are informed by external consultants and NGOs on responsible investment, 32% uses clear KPIs to evaluate and improve their policy performance. Funds are also more transparent on their activities: A majority of funds (70%) provided detailed overviews of their voting activities in 2014 and 80% are reporting on some of their engagement activities. Does this mean we have arrived at our destination?

Several hurdles still need to be taken. Many medium and smaller sized pension funds still build their portfolios on past truths, wisdoms and track records. This leaves many portfolios unprepared for the environmental, societal and economic megatrends that are happening. Demographic changes, robotization, big data, fintech, resource depletion, climate change, insecurity surrounding the euro and the prospect of sustained low economic growth are in many cases not yet adequately addressed. Integrating these systemic and strategic level changes should remain the highest priority. Secondly, the tragedy of the commons holds for the advancement of RI as well. The Dutch pension sector does not operate in isolation and cannot bring about the necessary change alone. In order to foster a prosperous global economic context, in which sustainable returns can be generated, national and international cooperation will need to be continuously sought on the basis of a shared understanding of interdependence in the challenges ahead.



### *Future developments: impact measurement*

What is the effect when a pension fund excludes a company from its portfolio? How many companies actually change their strategy based on engagement meetings? What is the impact of voting at AGMs? While substantial time and money are spent on implementing a range of instruments, it often remains unclear what the actual impact of a specific responsible investment strategy is, both for the investor itself and for the stakeholders.

Broadly accepted and consistent measurement instruments have not yet been fully developed. In the near future we expect that pension funds and their stakeholders will continue to gain more precise insight into the effects of the various strategic options available to them.

Besides improving the measurement of impact, the actual impact of responsible investment strategies is likely to improve as well in the foreseeable future. Current responsible investment instruments reflect the larger (societal and environmental) megatrends only to a limited degree. The front running pension funds, such as ABP and PFZW, are already trying to incorporate these trends into their investment policies. They are making clear how they translate the Sustainable Development Goals (SDGs) into their investment behavior, as shown the results in the section impact investment. This is the starting point that marks the transition from output-driven to impact-driven responsible investing.







## 3. Results

This chapter presents the overall results of this study and the scores per theme. First, attention is given to the scores that were achieved this year. An overview of the scores per type of pension fund as well the relation of the scores to the size of the funds are provided. Subsequently, a more thorough overview and analysis is given to the results in the different themes as well as the different responsible investment tools. The appendix describes the methodology of the research.

### 3.1 Overall results

#### Top 10 pension funds

Ranking	Pension Funds	2016	2015
1	Pensioenfondsen Zorg en Welzijn (PFZW)	4.6	4.4
2	Algemeen Burgelijk Pensioenfondsen (ABP)	4.4	4.1
2	Bedrijfstakpensioenfondsen voor de Landbouw	4.4	4.2
4	Pensioenfondsen SNS REAAL	4.1	4.0
5	Bedrijfstakpensioenfondsen voor de Bouwnijverheid	4.1	3.8
6	St. Pensioenfondsen voor Woningcorporaties (SPW)	4.0	3.8
7	Spoorwegpensioenfondsen	3.9	3.6
7	St. Pensioenfondsen Openbaar Vervoer (SPOV)	3.9	3.6
9	Pensioenfondsen van de Metalektro (PME)	3.8	3.0
10	Ahold Pensioenfondsen	3.6	3.5
Average score		4.1	3.8

Table 1: Top 10 ranking pension funds

The table above demonstrates that in 2016 the overall results for the top 10 pension funds have increased compared to the results of 2015. This is an indication of progress on the field of responsible investment of the entire pension fund sector. The maximum score is 5.0

#### Largest pension funds score highest

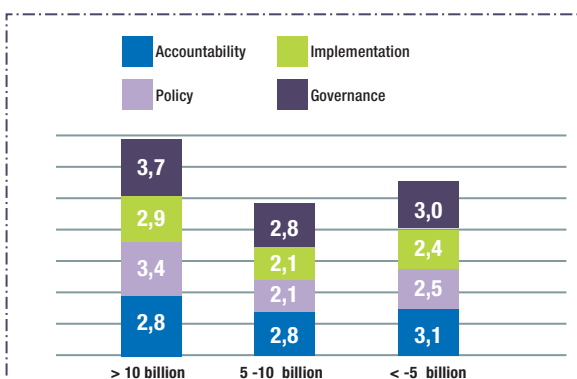


Figure 2: Size of the pension fund in relation to the average score per category

Figure 2 shows the average score per category per size of the pension fund. Pension funds with €10 billion or more score on average better on all themes than the funds with less than 10 billion. However the smaller pension funds score on average better on every theme than their medium-sized counterparts.

All pension funds score on average higher on policy, accountability and governance than they do on implementation. An explanation for this phenomenon could be that the theme implementation contains more questions. Therefore it is relatively more difficult to achieve a high score for implementation.

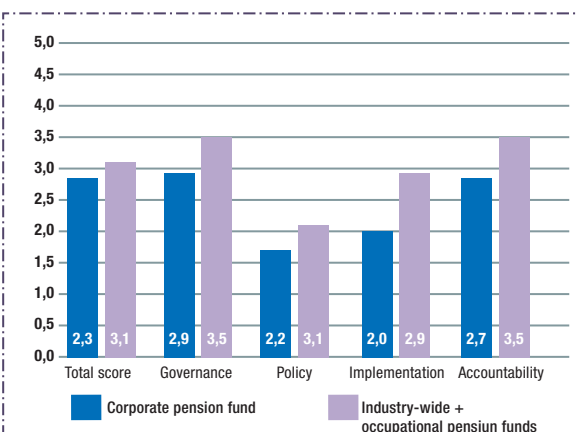


Figure 3: Comparison of average scores by type of pension fund. The maximum score is 5<sup>1</sup>

<sup>1</sup> The occupational pension funds are combined with the industry wide funds, since they are limited in number in this benchmark



On average, industry-wide and occupational pension funds (27) scored overall 0.8 point than the corporate pension funds (23). In all themes the industry-wide and occupational pension funds score on average better than the corporate pension funds. Especially regarding policy and implementation the difference is significant between industry wide pension and occupational pension funds

### 3.2 Governance

Governance refers to the role and responsibility of the board regarding the responsible investment policy. Important indicators of good governance are: the frequency of discussions regarding responsible investment at the board level, the presence of sufficient knowledge about responsible investment at the board level, insight into the preferences of participants, and clear guidance from the board towards the asset manager.

#### Oversight by the board

Two important indicators of board responsibility are frequency of discussions regarding responsible investment at board level and the sources of information used by the board. Results show an encouraging increase in pension funds that discuss responsible investment at least twice a year at board level.

56% of the boards of the pension funds used additional, external information by scientific experts or NGO's besides the information given by the asset manager. 42% of the boards only used the information provided by the asset managers.

#### Stakeholder consultation

24% of the pension funds consulted either their participants directly or consulted NGOs in 2015. 16% of the funds consulted both its participants and NGOs. However, it is important to note that stakeholder consultations do not necessarily have to be conducted yearly.

A less extensive and more institutionalised form is consulting participant representatives, such as the participants' council. Still, this practice could be more embedded, only 24% of the pension funds consulted participant representatives in 2015.

#### Setting targets on responsible investment for asset managers.

Targets can be directed towards single employees or departments within the fund. Another option is to set SMART<sup>2</sup> targets during manager selection, appointment and the monitoring process.

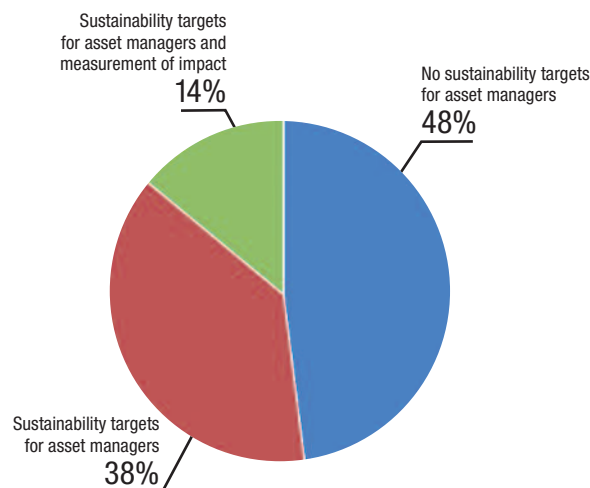


Figure 4: Sustainability targets for asset managers

Setting SMART targets on responsible investment for asset managers enables the board to successfully improve, evaluate and shape the responsible investment policy.

Figure 4 shows that a significant percentage (48%) of pension funds do not set sustainability targets for their asset managers. 14% of the pension funds set sustainability targets for their asset managers and also measure the impact; indicating there is still ample room for improvement.

### 3.3 Policy

This section refers to the responsible investment policy of pension funds which serves as the directory for investing. An effective responsible investment policy describes in detail how sustainability themes are addressed. Moreover, the policy should preferably be publicly available and should be applied to the entire portfolio.

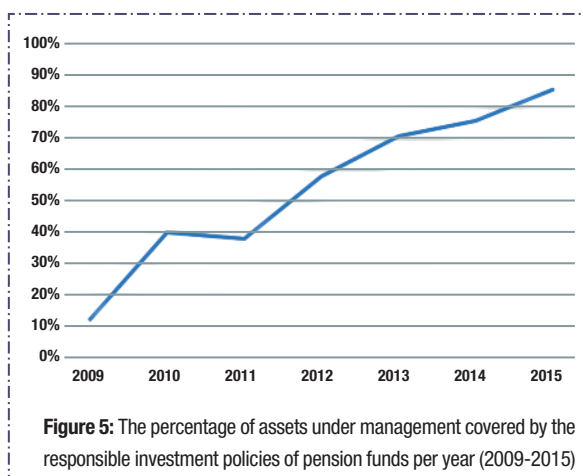
In order to ensure improvement of the policy it should contain key performance indicators (KPIs).

<sup>2</sup> Specific, measurable, acceptable, realistic and time bound

### Responsible investment policy and key performance indicators

In order to ensure the improvement of the policy document 44% of the pension funds have KPIs in place and 14% of the studied pension funds measure the progress against KPIs.

#### Policy coverage and themes

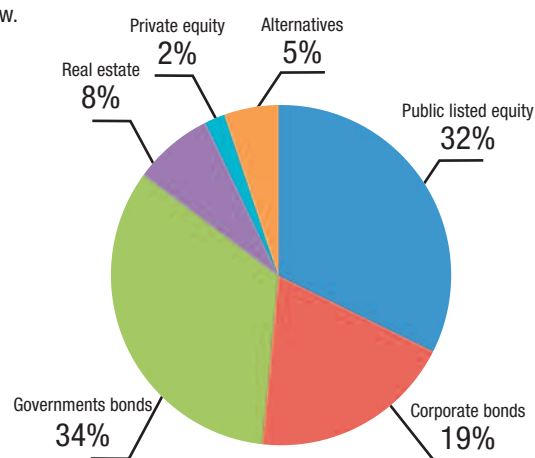


Of all the pension funds, currently 94% have a responsible investment policy which is applicable to the majority of their portfolio. Moreover, this year, 84% of the pension funds have a responsible investment policy that applies to at least 75% of the total investment portfolio. This is a significant increase from 76% in 2015 and, in addition, there has been a steady increase observed over the last years.

Figure 5 shows the aggregated percentage of assets under management which is covered by the responsible investment policies of the pension funds. In 2009 only 12% of the assets under management was covered by a responsible investment policy, this increased to 86% in 2015.

### 3.4 Implementation

Creating a comprehensive policy is a vital aspect responsible investment; the implementation of responsible investment in investment decisions is what matters most. Implementation is assessed for five different asset classes: public listed equity, corporate bonds, government bonds, real estate, private equity and alternative investments. These are discussed separately below.



**Figure 6:** The allocation of assets under management per asset class

Figure 6 demonstrates the allocation per asset class of the pension funds studied in the benchmark. The three largest asset classes which account for 85% of the assets under management are: Government bonds, public listed equity and corporate bonds respectively. We analysed how the different policy tools are implemented per asset class. Public listed equity and corporate bonds are analysed jointly. These two asset classes have similar characteristics and the responsible investment strategies for both asset classes are often identical.

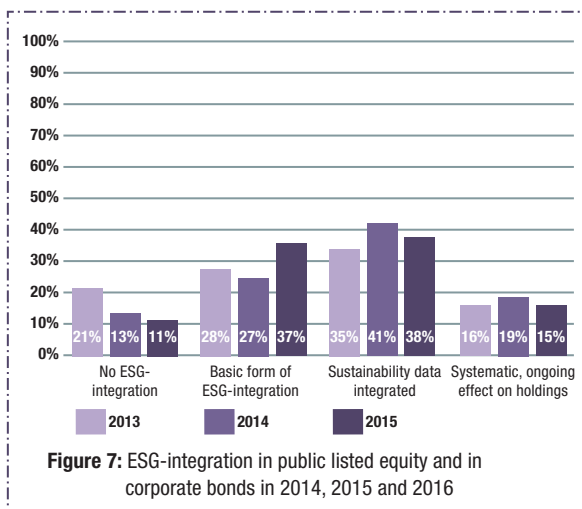
### 3.4.1 Public equity and corporate bonds

#### 3.5 ESG-integration

ESG-integration refers to the process by which Environmental, Social and Governance (ESG) risks become integral part of the investment decision process, complementary to the financial data. Asset managers integrate ESG-criteria due for several reasons. Firstly, it can improve their investment decision process by including qualitative risk factors. This can have a material impact on investment returns. Another reason for integration ESG-factors by asset manager is because pension funds ask for it.

This benchmark study distinguishes three levels of ESG-integration:

1. Pension funds integrate ESG-information in some basic form. (For example they require their asset managers to be a signatory to the UNPRI.)
2. Pension funds use ESG-information in a structured manner. (For example by using ESG-information in the composition of an ESG-index or through the use of one-pagers regarding company sustainability performance.)
3. Pension funds integrate ESG-criteria systematically with ongoing effects on individual holdings. (For example an automatic under- or overweighting in company stock based on ESG-criteria.)



A positive development which can be derived from figure 7 is that the percentage of pension funds that do not apply ESG-integration has decreased from 21% in 2014 to 11% in 2014. Also, more pension funds required some level of ESG-integration of their asset manager such as being a signatory to the UNPRI (Principles of Responsible Investment). This percentage increased from 28% in 2014 to 37% in 2016.

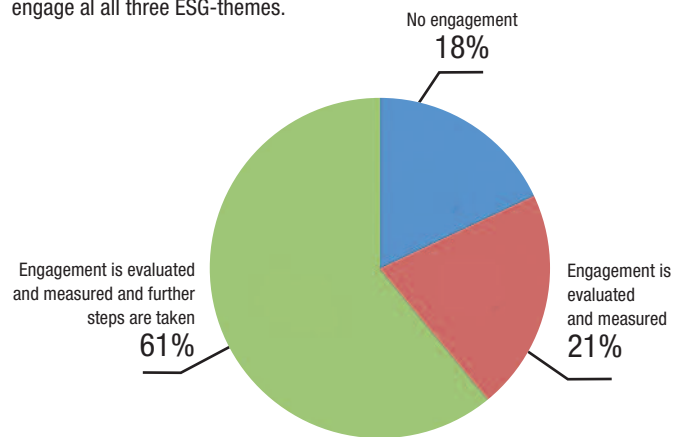
However, the more systematic integration of ESG-criteria into the investments decisions has not increased, but rather has decreased when compared to 2014.

#### Active ownership

Proxy voting and engagement are both active ownership activities. Active ownership is about exercising your rights as a share owner. Active ownership is probably the strongest instrument for investors to influence their investees.

#### Engagement

Engagement is exerting influence on investees by entering into a dialogue. Engagement in public listed equities and corporate bonds is a popular tool under pension funds; 82% of the pension funds use this instrument. 78% of all pension funds under study engage at all three ESG-themes.



**Figure 8:** Engagement in public listed equities and corporate bonds

In 2015, 61% pension funds measured and evaluated their engagement process and steps were taken based on this (see figure 8), this is an important tool in assessing and improving the effectiveness of engagement.

## Good practice – Engagement of ATP Denmark

**“ATP does not delegate targeted dialogues to external parties. We regard the responsibility for dialogue as a key ownership duty in our dealings with the companies in which we invest.”**

The Danish pension fund ATP has an individual engagement process. In three steps they decide whether a company is investable or not. Screening includes using formalized data from external parties, such as research providers, but also NGOs and media. Fact-finding is conducted in-house and includes a thorough and prolonged process, by which facts and evidence are gathered for companies that are accused of violating ATP's policies. This often involves asking for clarifying information to the company itself. In the event the company has not taken satisfactory steps to solve the problem a targeted dialog is started. The main objective of a dialogue is that the company could improve and therefore could stay included in ATP's portfolio. If a company is not transparent about solutions and cannot show improvements made, ATP excludes the company from the portfolio.

[www.atp.dk/en/atp-as-an-investor/responsible-investments/responsibility-in-practice](http://www.atp.dk/en/atp-as-an-investor/responsible-investments/responsibility-in-practice)

## VBDO's engagement leads to more tax transparency

Each year the VBDO attends the Annual General Meeting (AGM) of the largest Dutch stock-listed companies. Good tax governance and tax transparency have been one of the three focus themes in the period 2013 - 2016.

The impact of addressing this theme for the fourth year is high; 29 out of 37 analysed companies (78%) have a responsible tax policy in place to which they comply, going beyond national and international regulations. If exactly the same companies are compared to those of last years, this percentage increases to 90% in 2016, compared to a mere 13% in 2013.

In addition, several companies have committed to VBDO to increase their tax transparency in the coming year. VBDO is glad that these companies are willing to make commitments to improve further. VBDO will follow-up on the realization of these commitments next year to continue realizing impact by engagement.

## Voting

During annual shareholder meetings pension funds could vote on (ESG) topics that are on the agenda or bring in new topics by shareholder resolutions.

The majority of the pension funds recognise the importance of a voting policy. 98% of the pension funds votes at Annual General Meetings. 44% of the pension funds vote with explicit attention towards ESG-issues and another 38% of the pension funds publicly supports or initiates shareholder resolutions.



## Good practice – ‘Aiming for A’

An example of resolutions which are created with the explicit aim to support corporate responsibility are the ‘Aiming for A’ resolutions. These resolutions were created to better map the climate change risks and opportunities for mining companies. These resolutions were supported by many pension funds, amongst which the pension funds PME and PMT. The resolutions were accepted in the annual shareholder meeting in 2016 of the companies Rio Tinto, Anglo American and Glencore.

PMT publicly supports the proposal and explains on its website why the resolution is supported. It decreases the long-term risks of investments in the mining sector and reduces the negative impact of mining on climate change.

[http://www.bpmt.nl/actueel/pmt-steunt-duurzame-aiming-for-a-aandeelhoudersvoorstellen-in-mijnbouwsector#.WBm7l\\_nhCM8](http://www.bpmt.nl/actueel/pmt-steunt-duurzame-aiming-for-a-aandeelhoudersvoorstellen-in-mijnbouwsector#.WBm7l_nhCM8)

## Exclusion

Exclusion is a tool which is utilised to systematically exclude companies, sectors or countries with certain characteristics from the list of possible investments.

Since 2013 exclusion of investment in cluster munitions is legally binding in the Netherlands. The VBDO assesses only exclusion strategies that go beyond legally binding criteria. The most common criterion of exclusion which was encountered during the study was the exclusion of investments into controversial weapons. Besides controversial weapons also violations of UN Global Compact themes, such as human rights, labour rights, environment or anti-corruption are used as criteria for exclusion.

The vast majority of the pension funds have an exclusion policy that goes beyond the legal requirements. Only 10% have their exclusion list limited to what is legally binding. Of the 90% of the pension funds that go beyond the legal requirements 76% exclude companies based on multiple criteria. These figures have been stable over the last three years.

## Study on Dutch Institutional Investors and their relation with the tobacco industry

In December 2016 the VBDO will publish a report on Dutch Institutional investors and their relation with the tobacco industry. In this report we provide an overview of how institutional investors cope with tobacco investments and we offer recommendations on how to formulate a policy. Investments in the tobacco industry are still common among institutional investors, but most of the parties that do have a policy integrate the theme in their exclusion policies. The reasons investors mentioned for excluding tobacco are the negative health effects of smoking and the human rights violations in the supply chain.



### Securities lending

Securities lending is the act of loaning a share to another investor or firm. The lender of securities is unable to use the voting rights of the securities during the loan period and is therefore unable to practice active ownership.

From the 50 pension funds, 56% lend out their securities. Of these, 31 funds have measures in place that integrate responsible investment elements into securities lending. 6% of the funds were investigating how to incorporate sustainability issues in securities lending. No sustainability issues were taken into account by 16% of the pension funds.

### 3.4.2 Government bonds

3,5 Government bonds constitute the largest asset class, with 34% of the total investments of the pension studied. At the same time, it is the most intricate asset class to include ESG-criteria.

#### ESG-integration

This year, for the first time, the VBDO analysed the investments in developed market bonds and emerging markets bonds separately, because VBDO believes that the different bonds inherently contain different ESG-risks, therefore requiring a differentiation in ESG-integration strategies.

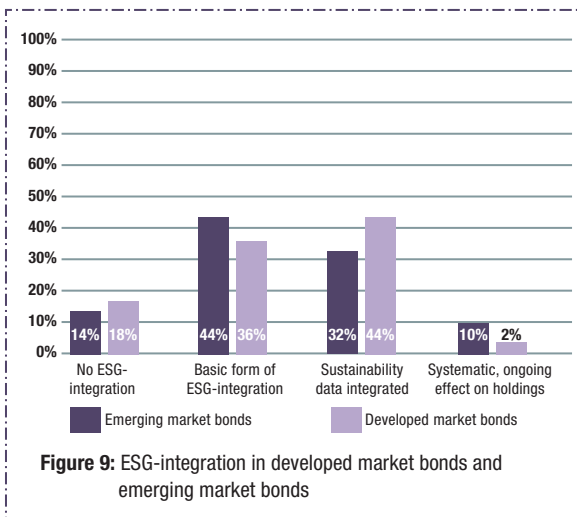


Figure 9 shows the extent of the ESG-integration in the developed market and emerging bonds for those pension funds that apply ESG-integration.

Integrating sustainability data into the investment decision-making process is more common practice when investing in developed market bonds (44%) than it is when investing in emerging market bonds (32%). However, regarding using ESG-information systematically to such an extent that it has an effect on every individual holding it is more often applied to emerging market bonds (10%) than it is to developed market bonds (2%).

### Exclusion

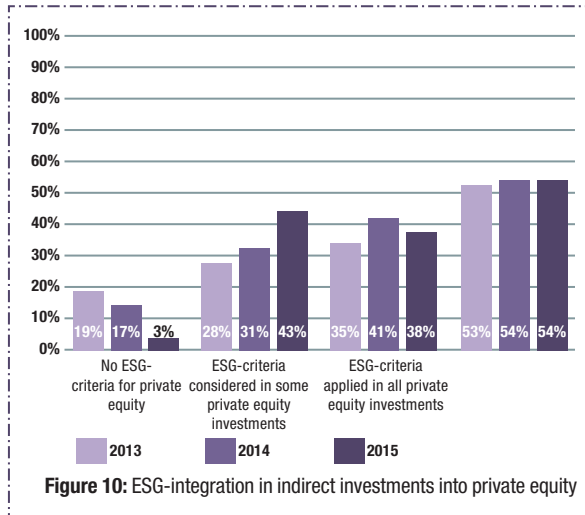
VBDO assesses the exclusion of countries on the basis of either using official sanction lists or pension fund specific criteria. Excluding countries is common practice for the pension funds; 88% of the pension funds exclude countries. Of this group, 73% of pension funds exclude countries on the basis of official sanction lists such as the EU or UN sanction list. 27% of the pension funds exclude additional countries on their own responsible investment related criteria.

### 3.4.3 Private Equity

3,5 VBDO believes that the private equity business model is perfectly suited to act as an enabler in the transition towards a more sustainable society, because of the high extent of influence the private equity investor has on the company's strategy. Therefore private equity is being analysed as a separate asset class.

Whereas only 16% pension funds directly invest in private equity, 70% invest in this asset class through a fund manager. In both cases ESG-criteria are part of the investment decision for most pension funds.

There has been an increase in investments in private equity since 2013. In 2013, 65% of the pension funds invested in private equity, 72% in 2014 and 70% in 2015. A positive trend in relation to the investments into private equity is the decrease in the amount of pension funds that have no ESG-integration for this asset class. Since 2013 this number has decreased from 19% to 3% (See figure 10).



Consequently, there has been a large increase in 2015 for pension funds which integrated ESG-criteria in some of their investments in private equity. From 2014 to 2015 this increased by 12%.

### 3.4.4 Real estate

#### ESG-integration

The most significant responsible investment aspect for real estate investments in respect to ESG-integration is the consideration of social and environmental factors during construction and maintenance of buildings. For direct investments into real estate the pension fund is able to set standards for e.g. energy efficiency, water use or accessibility for disabled. For indirect investments ESG-criteria can be agreed upon in the selection and appointing process of real estate fund managers.

84% of all pension funds had indirect investments in real estate in 2015. 62% of the pension funds in the benchmark considered ESG-criteria in the selection and evaluation of real estate fund managers or publicly listed real estate companies. 24% of the pension funds selected only the most sustainable real estate funds/publicly listed real estate companies. For these funds, ESG-information has a significant impact on the investment decision or in the selection of fund managers. Only 4% of the pension funds did not take ESG-issues into consideration in their investment decision for indirect real estate.

### Special topic: GRESB 'green star' new standard for real estate fund selection

'GRESB green star' appears to be the new standard for the selection of sustainable real estate funds. GRESB is an industry-driven organization, annually assessing the ESG-performance of real estate assets. 'GRESB green star' is the highest scoring category in the assessment.

From the 'GRESB report 2015' can be deduced that an increasing amount of real estate funds are awarded with green stars. This is an indication of a growth in sustainable investment options for real estate. However, funds which received green stars should be continuously motivated to develop their sustainable strategies as well.

Unfortunately, it is unclear on what basis green stars are awarded, as the scoring model of GRESB is not transparent.

#### Real Estate Engagement

The pension fund can engage with real estate fund managers about minimum criteria for the selection of real estates or the fund manager engages directly with the real estate company. In total, 79% of the 42 pension funds which invest in real estate, state that engagement has been conducted. This is a large increase compared to last year, when only 56% of the 43 pension funds which invested in real estate engaged with fund managers. Moreover, pension funds which engage with fund managers, 33% could show concrete results of the engagement process.

### 3.4.5 Alternative investments

#### ESG-integration

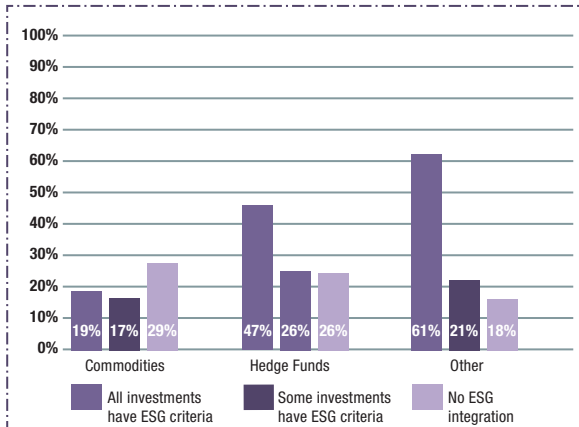


Figure 11: ESG-integration in alternative investments

From figure 11 can be deduced that ESG-criteria are overall relatively well integrated into the asset class 'alternative investments' compared to the other asset classes.

### 3.4.6 Impact investing

Impact investing is an investment strategy that aims to generate both financial and social or environmental returns. There are four key characteristics of impact investing, as shown in figure 12. However, in order for an investment to be categorised as an impact investment, not all four need be fulfilled.

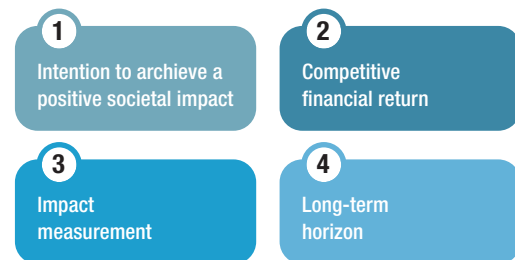


Figure 12: Impact investment criteria

In 2016 the VBDO conducted research into impact investing by institutional investors. Among the respondents were 49 of the 50 largest pension funds which are also included in this study.

#### Impact investment in public listed equity

Pension funds account for 92% of the volume of impact investments in assets under management in public markets. In total, €18 billion is invested by the pension funds together in impact investing over all asset classes, which is 1.8% of their combined assets under management.

The amount of pension funds which have impact investments has increased since 2013. This growth was most significant in the asset class corporate green and social bonds, which has increased by 54% since 2013. Only a small amount of pension funds measure the actual impact of their investments.

## Good practice – Institutional investment into the sustainable Development Goals

Asset managers APG and PGGM strive to facilitate a steep increase in what they call 'sustainable Development Investments (SDI's).

*"We invest in solutions that contribute to the UN Sustainable Development Goals. These investments meet our financial risk and return requirements and support the generation of positive social and/or environmental impact through their products and services."*

The two biggest pension funds of the Netherlands, ABP and PFZW, of which APG and PGGM are the asset managers, have set ambitious targets for 2020 to invest 58 billion euro in Sustainable Development Investments, respectively measure the impact of 20 billion euro in a select set of themes. ABP and PFZW will actively collaborate with other like-minded investors to accelerate investments into a more sustainable world that the beneficiaries want to invest for and live in.

## Good practice – publishing a list of investments

A good example of a pension fund which provided a list of its investments is pensioenfond PNO media. A list can be found of its investments in shares, fixed income obligations and alternative investments on a dedicated website on responsible investments. For more information look at: <http://pnomediaverantwoordbeleggen.nl/>

Another good example is pensioenfond TNO. Its website provides an overview of countries of which it has governments bonds; its fixed income investments funds; its public listed equity funds and its corporate bonds.

<http://www.pensioenfondstno.nl/>

## 3.5 Accountability

According to the VBDO, pension funds should be transparent on their responsible investment strategies and regularly report on changes, results and impacts. Therefore, not only the responsible investment policy should be publicly available, but also reports about the implementation. Although almost all pension funds (86%) report on responsible investment annually, detail and extent vary significantly. In addition, participants could be informed about responsible investment through magazines, newsletters or social media.

The overall score of accountability increased from 2.7 in 2015 to 3.2 in 2016. However, this improvement results mainly from methodological change (see appendix) PFZW had the highest score of 5 followed by ABP with 4.8 and PNO Media with 4.7. In total 30% of the pension funds had a score of 4.0 or higher.

### Public lists of investments

Publishing a detailed list of all company and fund names is considered as providing too much information by a significant number of pension funds. Nevertheless, 26% of all pension funds provide a list all their investments. In addition, 52% of the pension funds publish a partial list with a part of their investments.



## Good practice – Independent ethical council Norway Government Pension Fund Global

The Council on Ethics is an independent council that gives recommendations to the Norges Bank to exclude companies from the fund or to put them under observation. The Fund is being managed by the Norges Bank (NBIM), which takes the advice from the Council into account when deciding to exclude companies from the list of total potential investments.

The Council assesses companies' activities on the basis of guidelines determined by the Ministry of Finance. These guidelines are both product-based (tobacco, or some types of weapons) and conduct-based (gross corruption, human rights violations and environmental damage).

The Council on Ethics has its own website and provides its reports in a clear manner to the public. The recommendations for companies that should be excluded are combined with the Norges Bank list of companies that are actually excluded. In its annual report the Norges Bank reports its decisions on the recommendations and the reason why the decisions were made. In this way, the public can clearly see to what extent the Norges Bank complies with the list of the Ethical Council.

For more information, visit:  
<http://etikkradet.no/en/>

### Accountability on exclusion

The amount of pension funds which published its exclusion policy and a list of excluded countries and companies increased from 56% pension funds in 2013 to 72% in 2015.

### Accountability of active ownership

The engagement policy, the undertaken engagement activities and concrete results are reported

48%

No reporting on engagement

20%

Engagement policy published

10%

Engagement policy explained and engagement activities available

22%

Figure 13: Engagement on accountability in 2015

In 2015, 80% of the pension funds explained their engagement policy publicly. Moreover, 48% of the funds had detailed engagement reports in which the engagement policy, undertaken engagement activities and concrete results were reported.

In 2015 no improvements were made concerning the transparency of the voting activities. The results were the same as last year, with almost all pension funds (92%) providing at least a general overview of their voting activities. Furthermore, 70% of the pension funds provide a detailed overview of their voting activities.



## 4 Conclusions and Recommendations

### 4.1 Conclusions

Based on the presented results, VBDO concludes the following:

#### **Increased oversight of board on responsible investment**

A stunning 98% of all pension funds boards actively discussed responsible investment at least twice per year. Last year this was only 46%. This is an important indicator of the perceived importance of responsible investment by pension fund boards.

#### **Steady increase of presence of responsible investment policy since 2009**

Since 2009, each year a larger percentage of assets under management is covered by the responsible investment policies of pension funds. Currently, 94% of the largest 50 pension funds have a responsible investment policy applicable to the majority of their portfolio. Nevertheless, only 48% of the pension funds have clear key performance indicators to measure effectiveness of their policy.

#### **Systematic integration of ESG decreased**

A basic form of ESG-integration (e.g. requiring that an asset manager has complied with the UN Principles for Responsible Investment) has been applied more to public equity and corporate bonds since 2013. However, the most extended form of systematic ESG-integration decreased compared to the past two years. This seems a disconcerting development.

#### **Engagement is measured and reported on more thoroughly**

Engagement continues to gain popularity as investment strategy by pension funds. 82% of the studied pension funds engage companies in their public listed equity and corporate bond asset class. VBDO observes the encouraging trend that pension funds are evaluating and measuring the outputs and effects of engagement more. They decide on next steps based on this evaluation and are reporting the results of engagement publicly.

#### **Transparency about investments could be enhanced further**

Only 30% of pension funds scores more than a 4 on accountability. There are several good practices of pension funds that publish a detailed list of investments. However, in order to give more insight to stakeholders on pension fund investments, VBDO calls for more transparency on all investments in the pension sector.

#### **Responsible investment; ready for the next step?**

The results of VBDO's pension fund benchmarks show that since 2007 pension funds have developed a responsible investment policy; have established responsible investment instruments in different asset classes and have become more transparent about their investments.

Responsible investment therefore has become mainstream and an integrated part of investment management. Does that mean we have arrived at our destination? The answer is no, but it means the pension fund sector is ready for the challenges that have come on the agenda.

Topics such as climate change, impact investing and the Sustainable Development Goals all relate to the question how pension funds in the end can have a positive impact on society as well as have sound financial returns. The question on how investment management can actively contribute to the SDGs or to combatting climate change is a difficult one. Fortunately pension funds such as PFZW and ABP have taken up the challenge to formulate goals on these topics and are working to make this happen. Still this is a question that cannot taken up separately by the 307 pension funds in the Netherlands. As pension funds do not compete with each other, face the same challenges and responsible investment policies largely overlap, cooperation is an important next step. Not only between the larger funds, but especially between the larger and smaller funds. As smaller funds not always have the capacity to take on this challenge alone.

Overall, the sector has improved concerning responsible investment strategies and impact investments are steadily growing each year. The VBDO is also delighted to observe that the pension funds at the lower levels of the benchmark have made improvements this year. This means that responsible investment is becoming more and more mainstream. A development that should both celebrated as well as further stimulated in the coming years.

## 4.2 Recommendations

Based on the above conclusions and benchmark results, we recommend pension funds to take the following steps to enhance responsible investment practices.

### General

- Add references to current societal topics such as the SDGs or climate change to your responsible investment policy in order to maintain the societal relevance;
- Improve the measurement of the impact of your investments on society against predefined KPIs;
- Increase cooperation between pension funds and stakeholders on the following topics:
  - o Impact measurement and addressing societal challenges through investment management;
  - o Define blueprints for responsible investment policies that can be used as a starting point for smaller pension funds that have limited capacity in the field of responsible investment;
  - o Start the conversation between pension funds, NGOs and governmental agencies on how to jointly address topics such as human rights, climate change and other themes related to the Sustainable Development Goals. For example through a covenant or a joint platform such as the DNB is offering;
  - o Increase cooperation in international active ownership activities and increase the positive impact the Dutch pension fund sector can have.

### Governance

- Increase expertise of board members on responsible investment;
- Determine what responsible investment means for your organisation, by (regularly) consulting participants on this topic;
- Consult external stakeholders (e.g. NGOs, consultants, rating agencies) to stay informed of the latest developments regarding responsible investment.

### Policy

- Expand the applicability of the responsible investment policy to all asset classes and asset managers;
- Keep the responsible investment policy up to date by including topical socially relevant themes, such as climate change and the Sustainable Development Goals (SDGs);
- Formulate clear goals and key performance indicators (KPIs) on responsible investment, including targets for the fiduciary manager.

### Implementation

- *ESG integration:* Ensure systemic ESG-integration for all asset classes and take into account long term sustainability risks in your asset valuation methods, e.g. by applying strategic asset allocation;
- *Active ownership:* Work together with other investors on engagement and voting to increase investor influence;
- *Exclusion:* Develop additional exclusion criteria (on top of the legally obliged and controversial weapons) based on your (responsible) investment beliefs and policy;
- *Impact investing:* Take the lead as an asset owner to increase the amount of impact investments by enhancing internal know-how on impact investing, developing an impact investment policy and selecting and encouraging appropriate asset managers.

### Accountability:

- Report in a clear, visual and attractive way about your responsible investment policy to ensure that information is easily understood by participants and other stakeholders;
- Report not only on your responsible investment processes, but also on your actions and final impact on societal themes such as climate change, human rights, health care and biodiversity;
- Actively reach out to participants on the topic of responsible investment, for example by organizing meetings or sending newsletters;
- Seek external assurance to verify your responsible investment reporting.

# Appendix

## Methodology

Over 10 years, the benchmark has developed significantly and it has become an important tool to measure the responsible investment in the pension fund sector in the Netherlands. Following its success in the Netherlands, this benchmark has been conducted in Italy for the second consecutive year.

Moreover, the VBDO is currently assessing the feasibility of international responsible investment benchmarks for pension funds and insurance companies. A pilot is being developed an international responsible investment benchmark with a climate change module. For additional information about the feasibility study, please contact the VBDO.

In numbers:	
<b>50</b>	<b>Dutch pension funds</b>
<b>4</b>	<b>Themes</b>
<b>53</b>	<b>Questions</b>
<b>Max. total score of 5</b>	
<b>100% response rate</b>	

## The benchmark

The VBDO Benchmark 'Responsible Investment by Pension Funds 2016' compares responsible investment performance of the 50 largest pension funds in the Netherlands based on data of 2015 (a full list can be found in the ranking). With active participation of all pension funds VBDO assesses responsible investment through detailed profiles of each pension fund. This year a response rate of 100% was achieved.

## Approach

The benchmark is set up in a way, which is supposed to stimulate pension funds to inform themselves about their current status of responsible investment.

The research process consists of two phases. In each phase pension funds deliver information, which is analysed and added with public available information by the VBDO. In the second phase VBDO also determines the final scores for each pension fund.

## Setup

The setup of the questionnaire is composed of four themes:

### Governance

The first theme regards the governance of pension funds on responsible investment, including the role of the board, its steering capacities, the sources of the information used and the consulting of participants.

### Policy

Policy focuses on the responsible investment policy in-place. Its applicability to the entire portfolio, its depth, and its quality are surveyed.

Asset classes						
Covered in questionnaire	Public listed equity	Corporate bonds	Government bonds	Real estate	Private Equity	Alternatives
Exclusion						
ESG-integration						
Engagement						
Voting						
Impact investing						

**Figure 14:** Responsible investment strategies and the different asset classes included in the benchmark

## Implementation

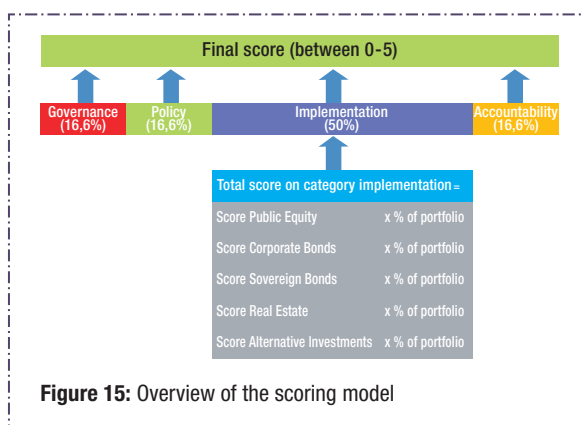
The implementation of the responsible investment policy applies to six different asset classes. Figure 14 shows the asset classes with the corresponding responsible investment strategies that are covered in the study. The VBDO is of the opinion that the asset owners should take responsibility for the investments made on their behalf. Therefore all implementation questions include the whole investment chain from pension fund to asset manager or fund of a fund manager. They are directed toward the state of implemented strategies in 2015.

## Accountability

This section discusses transparency about responsible investment policies, strategies, results and reports.

### Scoring model

The categories are weighted differently, governance is 16,6%, policy is 16.5, implementation is 50% and accountability is also 16,6%, which makes a 100% in total. The weighting percentage for implementation is 50% because, this theme especially, 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. Figure 15 gives a general overview of the scoring model.



### Changes in methodology

In this 10th edition of the questionnaire of the benchmark the methodology remained largely comparable to previous years'. The VBDO has maintained this methodology for 3 years to be able to compare the results over a fixed period. For the next year, a larger revision is planned. However, in order to take into account some current developments, some changes have been made to the questionnaire of 2016.

- Private Equity has been added as a separate asset class in the questionnaire. Despite private equity's controversial reputation, the VBDO believes that the private equity business model is perfectly suited to act as an enabler in the transition towards a more sustainable society. With indirect private equity investments, the investors' primary moment of influence is at the manager and fund selection stage.
- ESG-integration and positive selection (best-in-class) are merged into one question. ESG-integration is the process by which ESG-criteria are incorporated into the investment analyses and the decision-making process. ESG-integration overlaps with strategies such as positive selection and hence these two strategies are merged into one question.
- In the category government bonds a separation has been made between emerging and developed markets. For most pension funds government bonds incorporate a significant part of their investment portfolio. Since the strategies for investing in develop markets and emerging markets can be different, a separation in this strategy has been made.
- For the theme accountability, the question related to the communication about positive selection has been removed, it now falls under ESG-integration.









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