

Netherlands

Pension funds are the most important institutional investors in the Netherlands. Approximately 1% of pension fund investments (€3.1 billion) are SRI. Almost all Dutch pension funds use negative screening in their SRI investment policy, mostly for risk prevention purposes. Therefore this has not been counted here, otherwise it would dramatically alter the figures.

Trade unions are important stimulators and motivators for SRI when dealing with pension funds.

Trade associations and non-government bodies provide SRI initiatives, codes and guidelines while there is little government legislation.

SRI by other institutional parties (insurance companies, charities, etc.) is still in its early stages in the Netherlands and so figures are not yet available. Nevertheless, most institutional investors have an SRI policy under development.

I. SRI in the Netherlands

SRI Priorities

In the Netherlands, important SRI issues vary from human rights concerns to environmental interests to animal welfare and to the weapons industry. Every investment fund or institutional investor makes his or her own choices about what issues are most important, depending on the definition of SRI being used. However these all have a common thread, which is to include the “three P’s”: People, Planet and Profits. This illustrates the idea of combining social, ethical and environmental concerns with a financial objective.

Among institutional investors, negative screening is common practice. Best-in-class is only practised by some ‘front-runners’. Engagement activities are at a beginning stage, as only one pension fund uses this strategy.

Driving forces in the Dutch institutional SRI market are the large pension funds ABP (Algemeen Bedrijfs Pensioenfonds / General Pension Fund for Public Employees) and PGGM (Pensioenfonds sector zorg en welzijn / Pension Funds for the Health Care and Social Work Sector), as well as the trade unions FNV (Federatie Nederlandse Vakbeweging / Dutch Trade Union Confederation) and CNV (Christelijk Nationaal Vakverbond / Christian National Trade Union Confederation). Besides these parties, other leading advocates in the Dutch SRI world are rating agencies (i.e. DSR, SNS Asset Management), government agencies (i.e. Departments of Environmental Affairs, Department of Economic Affairs), research institutes (i.e. Nyenrode University, Groningen University), consultancy firms (i.e. DHV, CREM), accountants (i.e. KPMG, VBA) and NGOs.

History

In the Netherlands, the retail market, rather than the institutional market, has been the driver of the SRI market. In the early stages, savings plans were much more popular than investment schemes. In 1960, the ASN Bank was founded, followed by the Triodos Bank in 1980. Both brought savings products to the Dutch market. They are still market leaders in the ethical savings sector.

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The first SRI fund in the Netherlands was developed in 1991 (ABF - Het Andere Beleggingsfonds / The Other Investment Fund). SRI has been growing rapidly ever since. Today there are seventeen SRI funds in the Netherlands. In 1995 the Dutch Tax Office introduced the “Green Savings and Investment Plan”. This created very strictly “green” investment categories, such as wind energy, solar energy, and organic farming attractive to private investors. According to the so-called Green Project Directive, since 1996 these savings and investments have grown to account for 50% of all SRI. (a total of eleven of these funds as of the end of 2002).

As the interest in SRI began to grow, the importance of shareholder engagement also increased. SRI funds and private investors did not only want to invest well, they also wanted to ask questions and raise their voices as shareholders. In 1995, institutional and private socially responsible investors organized themselves as VBDO (Vereniging van Beleggers voor Duurzame Ontwikkeling / Dutch Association of Investors for Sustainable Development).

On behalf of its members, VBDO started by raising questions about corporate responsibility at the annual shareholder meeting for Royal Dutch/Shell. In the years following, VBDO visited numerous companies to enquire about their SRI policies. This led to an increase in the number and quality of corporate sustainable reports. In 1998, VBDO also started the National SRI Forum. In addition to sustainable reporting, it deals with issues such as market development, engagement strategies, and codes of conduct for SRI funds.

Today, SRI funds continue to be successful, social awareness is on the rise, and socially

responsible companies are projecting ever-better long-term performance. As a result, pension funds have started showing a growing interest in SRI and are starting experimental portfolios and shareholder engagement plans.

This can clearly be seen when examining the activities of ABP and PGGM:

ABP and PGGM are the largest Dutch pension funds and among the top five in continental Europe.¹ They drafted SRI policies in 2000 and 2001, as a result of the urgent request of Dutch trade unions, FNV and CNV, in 1999 and 2000.

The association of Dutch insurance companies drew up a code of conduct addressing SRI issues in 2002.

Market Rules And Legislation

With the growing interest in socially responsible savings and investment in the Netherlands, there has been a demand for ethical banks as well as standard financial institutions to offer socially responsible savings and investment products. Some of these have set up dedicated subsidiaries for this purpose. A variety of financial products for this branch have sprung up.

In order to ensure transparency and legitimacy, various sets of rules and regulations have been created to legislate the retail market financial products. For example, for certain “green” funds they must invest or lend at least 70% of their money to projects approved by the Dutch government.

The deposit of these monies is “fiscally facilitated”, which means that it is tax deductible. At the end of 2002, half of all socially responsible savings investments were operating based on such directives.

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(1) The ABP and PGGM Investment Codes

The ABP drew up its Code for Prudent Investment Policy in 1997 and revised it in 2000. The ABP is one of the world’s largest pension funds. At the end of 2002 it was managing assets of about €136 billion.

The ABP code makes a distinction between three aspects of prudent investment:

1. Mapping out the investment process in terms of statutes, regulations, and investment plans;
2. Corporate social responsibility, in which the aim is to gain the greatest possible yield for participants in the pension funds (within limits of risk which the ABP board finds acceptable);
3. The role of shareholders and demands concerning corporate governance — demands for transparency, independent supervision, accountability, and shareholder rights within the companies where investments are made. As a shareholder, the ABP places emphasis on the business’s long-term goals as they relate to sustainable economic growth.

Recently, the ABP added an article to its investment code, which states that the ABP will promote the integration of criteria of a social, ethical, and environmental nature in its investment process. This is because there are signals that better yields can be gained when greater importance is attached to these factors. To test this out, two investment portfolios (American and European) were created, both of which invest according to the best-in-class method — enterprises performing best within their sector according to social, ethical, and environmental aspects.

PGGM provides pensions for employees at 15,000 organisations in the Netherlands and manages assets of about €45 billion. PGGM’s social responsibility is laid out in its Corporate Governance Policy. The aim for maximum yield at an acceptable risk is essential, taking into account a number of general criteria where necessary. PGGM avoids investments in countries where fundamental human rights are being violated. This is also the case for companies whose main

¹ Source: IPE “Responsible Investing” supplement, February 2003



activities involve the production of weapons. Beyond that, its preference goes to countries and companies offering social added value and who follow United Nations guidelines.

See the Case Study about PGGM at the end of this report for more information.

(2) SCGOP

SCGOP (Stichting Corporate Governance Onderzoek Pensioenfondsen / The Foundation for Corporate Governance Research for Pension Funds) wishes to support participant pension funds in formulating and carrying out corporate governance policy. The foundation was set up in 1998 by a number of large-scale pension funds. In its own words, “The Foundation understands corporate governance to mean a set of approaches for companies and their immediate stakeholders — specifically boards of directors, commissioners, and providers of capital. The Foundation wishes to make a contribution in such a way that these approaches are developed in the Netherlands. This should then give rise to a number of rules for good management and supervision and rules dictating the division of tasks, responsibilities, and authorisation that brings about a well-balanced influence by those involved in the company and greater enterprise. To this end, the premise applies that boards of directors and commissioners must be prepared to express their accountability to the shareholders.”

(3) FNV & CNV's Investment Policies

Both Dutch trade unions CNV and FNV are directly involved in the coordination of their 83 industrial sector pension funds, of which the ABP and PGGM are the largest. Furthermore, trade union officers from the CNV and FNV are represented in many business pension funds on behalf of the employees. In 1999, the CNV drew up an investment code for pension funds, consisting of three sections.

In *Section A*, criteria are formulated based on the principle that investments can be excluded in the event of negative criteria, such as human rights violations or failure to meet International Labour Organisation standards.

Section B includes minimal criteria that companies must live up to, such as safe and healthy working conditions or an active environmental policy.

Section C contains guidelines through which pension funds can play an active role in working to create a sustainable society. These include accountability of pension funds concerning their investment policy, the ability to challenge an organisation concerning its social responsibility and the investment of a limited portion (1%) of the portfolio in activities that take an innovative approach to contribute to a just and sustainable society.

Following PGGM and ABP's lead, in mid-July 2000 the FNV called upon the pension funds to draw up an investment code. The FNV memorandum *Goed Belegd* ('Well Invested') states that, in 2004, all pension funds must have an investment code and, in 2007-2008, more than 50% of the capital in the pension world should be invested in a sustainable manner.

The FNV's policy concerning the socially responsible investment of pension funds distinguishes between three approaches of sustainable investment, which are in line with the CNV system:

1. *Minimum (negative) approach* — The exclusion of specific countries or companies, regardless of their yield, such as countries where human or union rights are violated and enterprises with a particularly poor social or environmental policy.
2. *Positive (best-in-class) approach* — Investments in enterprises that score well in terms of social or environmental policy, and where a link is created to designated yield requirements (working towards a win-win situation).
3. *Dialogue approach* — A dialogue between the pension funds, the companies they are investing in, and social interest groups at home and abroad concerning human and union rights, and current and future environmental policy.

II. Financial Market Context

The Dutch investment market can be divided into three main sectors: pension funds, insurance companies and investment companies.

Table 1: Dutch Investment Market (in €Billion per End of Year)

	2002	2001	2000	1999
Pension funds *	428	435	445	436
Insurance companies	297	266	264	244
Investment companies **	93	114	123	104

Source: VBDO analysis

* the two largest pension funds: ABP & PGGM; together make up 42% of total pension funds assets

** including retail funds, private asset management, charities, etc.

Pension Funds

Pension funds are the most important, large-scale institutional investors. At the end of 2002, the sector controlled about €428 billion, 40% of which is invested in stocks and shares.

There are eighty-three industrial sector pension funds, including the ABP and the PGGM, which represent more than three quarters of all employees and retired people. There are about 850 other business pension funds that represent the interests of about 12% of employees and pension beneficiaries. Finally, about 10% of all employees and retired people have arranged individual contracts with insurance companies.

Charities

These organisations collect money so that they may give it to a specific worthy cause related to the organisation's purpose. In many cases, charities control quite large assets, which they invest in stocks and bonds.

The Central Bureau for Fund Raising (CBF) is an independent foundation that has been monitoring the collection of money for worthy causes since 1925. According to the CBF's annual publication, the assets of 155 charitable causes bearing the CBF seal of approval amounted to €1.44 billion at the end of 2001. Assets for the ten richest charitable causes, which make up 62% of the total charity assets, can be seen in the table below. It is not known how these charities invest their assets in a sustainable manner. In the future, VBDO will do further research into the subject and report its findings.

Table 2: Total Assets of the Ten Richest Charities in the Netherlands at the End of 2001 (in €Million)

Charity	Volume total assets
Vereniging tot Behoud van Natuurmonumenten in Nederland	198.4
Stichting Leger des Heils Fondsenwerving	145.8
Koninklijke Nederlandse Redding Maatschappij (KNRM)	119.4
Vereniging het Nederlandse Rode Kruis	107.1
Stichting Prins Bernhard Cultuur Fonds	106.6
Nederlandse Vereniging tot Bescherming van Dieren	61.1
Stichting Nederlandse Kankerbestrijding-KWF	58.2
Vereniging Bartiméus	54.4
Stichting Vrienden van het Sophia	25.4
Nederlandse Stichting voor het Gehandicapte Kind (NSGK)	24.9
TOTAL	901.3

Source: VBDO

III. Methodology

This report was compiled using VBDO's own research, as well as a number of other studies that have been done around SRI in the Netherlands. Our scope covered mainly pension funds, insurance companies and charities. We were able to gather a large amount of qualitative and quantitative information on the pension fund sector with a 79.1% response rate. For the insurance and charity sectors we have expressed our first impressions about SRI in these areas since the current information is not extensive.

Information about the institutional SRI market was gathered by contacting the fund managers of pension funds. Some large fund managers (i.e. F&C Netherlands, AZL) manage the assets of several pension funds at the same time (this can vary from 20 to 40 funds). Therefore, they could provide information about the investment policy of all these small pension funds and it was not necessary to contact each one of them individually.

For obtaining background information, recent research studies have been used and several websites on insurance companies, charities, pension funds, etc. have been consulted.

During the research process it became clear that almost all pension funds use negative criteria in their selection process. For example, the doctors pension fund excludes tobacco firms from their portfolio. Since this method of SRI has become more or less common practice among institutional investors, mostly for risk prevention purposes, it has not been counted as being SRI. Otherwise, Dutch pension funds would score an unrealistically high percentage of almost 100% for SRI funds.

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One of our main sources of information was Nyenrode University and the Association of Investment Analysts (VBA). In April 2003, they published the results of a study about sustainable investment by pension funds in the Netherlands entitled "Tussen meerwaarde en moraal" (Between Added Value and Morality). The study included a questionnaire that was sent out to 300 pension funds to learn how they deal with the issue of sustainable investment. Is sustainable investment a pension fund's task and responsibility and, if so, how should this be given substance?

Pension funds are the most important large-scale institutional investors

Forty-four pension funds responded (representing 68% of the total invested pension assets in the Netherlands). The large-scale and industrial sector pension funds are relatively over-represented among the respondents.

Information about the retail SRI market was gathered by reading investment funds' annual reports and by contacting the fund managers directly for additional information. For information about the size of the traditional investment market, publications from the Dutch Bank and the Dutch Central Bureau for Statistics were consulted.

VI. Findings & Interpretations

Current Trends in the Netherlands

- Institutional SRI market is approximately 1% in the Netherlands with a total of €3.1 billion (pension funds only).
- Negative screening has become more mainstream (among pension funds) and therefore less important for SRI practices.
- Pension funds have a growing interest in SRI, and this interest is increasingly being translated into policy.

- In their policies, pension funds are paying attention chiefly to moral and judicial issues (such as human rights, corruption, and living up to legislation) while environment, transparency, and corporate governance have little or no importance.
- Engagement activities are still in their infancy in the Netherlands.
- Insurance companies and charities are in the process of developing SRI policies; but these have not yet been put into practice.
- It is important to have sufficient access to sustainability information from businesses in order to assess risk.
- According to pension fund responses to the Nyenrode University and VBA study, legislation is neither necessary nor desirable to stimulate sustainable investment.

In the Netherlands, sustainable investment by pension funds accounts for about half (€3.1 billion) of the amount saved and invested in sustainability on the retail market.

The Amount of Sustainable Investment by Pension Funds

Pension funds form the single largest group of institutional investors in the Netherlands (€428 billion). The results of this study reflect 81.8% (€350 billion) of all pension funds.

At this time, interest in sustainable investment is growing slowly among pension funds. A large number have started accounting for their investment policy. Furthermore, a large number of funds (including the two largest, ABP and PGGM) have announced that they will invest in an increasingly sustainable manner over time.

Sustainable investment by pension funds takes place at a variety of levels. The first step consists in 'negative screening'. Most pension funds choose to exclude a limited number of companies that are either conducting harmful activities or are present in countries carrying out such activities. VBDO research has shown that almost all pension funds apply negative criteria, whether implicitly or explicitly. This is now considered a 'normal' form of risk management. After all, the pension fund cannot afford to invest in a company our country that might bring them into discredit, nor can they explain such an investment to their customers. VBDO has chosen not to accept the use of solely negative criteria by the pension funds to define sustainable investments.

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The next step for pension funds usually involves the best-in-class approach. Thereafter the pension funds can choose to enter into dialogue with companies (referred to as engagement) and, in doing so, stimulate them to invest in a sustainable manner. Both of these last methods qualify as sustainable investment.



See Table 3 below.

The degree of engagement has dropped slightly from 2001 to 2002 as a result of the decreasing value of portfolios. The best-in-class method has remained about the same (€611 million compared to €607 million). About 1% of the pension funds' assets included in the study are invested in a sustainable manner by using one of these two methods.

Table 3: Methods and Volume of Socially Responsible Investments by Dutch Pension Funds (In € Billion)

Method	2002	2001
Engagement	2.5	2.7
Best-in-class	0.6	0.6
TOTAL	3.1	3.3

Source: VBDO analysis

Insurance Companies

At the end of 2002, assets invested by insurance companies came to €297 billion. Little is known at this time about SRI investments for this group.

There are a number of sustainable insurance products available on the Dutch market. These are associated with capital and life insurance, both of which serve to supplement pensions or to be combined with mortgages. The premium can be invested in one or more sustainable investment funds, depending on the provider.

A Code of Conduct was presented at the general members' meeting of the Dutch Association of Insurers in June 2002. The next implementation phase will involve the formal acceptance by all association members. Over time, the endorsement of the code will, in fact, become a condition for membership in the association. The code's purpose is to create a framework in which insurers give substance to their aim to have their company function according to corporate sustainability.

The Code of Conduct is based on four chapters:

- Chapter 1 explains the reasons for corporate social responsibility. It explains that there is more to business than just profit.
- Chapter 2 discusses the involvement of the stakeholders in the development, recommendation, sales, and management of insurance products. These include current and potential insurance consumers, victims, NGOs, governmental authorities, capital providers, employees, and fellow insurance companies.
- Chapter 3 is the core of the Code of Conduct, where the basic values and rules of behaviour are summed up. The five basic values are reliability, professionalism, solidarity, social responsibility, and transparency. Every value is furnished with substance in the form of rules of behaviour. Where sustainable investment is concerned, two rules of behaviour apply to the insurers:
 - *Rule of Behaviour M.g (Social Responsibility)* "In our role as institutional investor, we will invest the money we receive soundly and with an eye on yield, always including our sense of social responsibility."
 - *Rule of Behaviour T.d (Transparency)* "We are striving to create investment criteria that are transparent for insurance consumers, shareholders, members, and the general public."
- Chapter 4 focuses on living up to the code, monitoring, and a complaints procedure.

By endorsing the code, insurers take it upon themselves to give real substance to the business policy. At the start of 2004, insurers will provide a public report twice a year (at the very minimum) on the activities they have developed within the framework of the code of conduct.

VBDO applauds the creation of this code of conduct. It can serve as a starting point to make insurance companies more sustainable and transparent. Of course, we have yet to see how the code will work in actual practice. Furthermore, a number of rules of behaviour — for instance, those concerning socially responsible investment — must be made more concrete before any conclusions can be drawn concerning the insurers' investment policies.

Charitable Organisations

As far as the ethical aspects of their investment policies are concerned, charities rarely render an account of their actions while, in fact, their investment strategy could well be in direct conflict with the organisation's aims. Theoretically, an organisation raising funds to protect the environment could invest in a company that causes negative environmental impact. In other words, insight into the investment policy of charitable organisations is very desirable.

The Association of Fund Raising Organisations (VFI) supports the collective interests of its members. It represents more than 80% of the charity sector measured based on income from their own fund raising activities. In their code of conduct, the VFI indicates the standards and values its members must live up to in their activities. In the code of conduct, responsibility to the donors, volunteers, fellow

organisations, and the society as a whole are of chief importance.

Charitable causes associated with the VFI are required to render as complete an account as possible concerning their asset and investment policy and, according to the VFI, this does in fact take place. Nevertheless, in the spring of 2002, the VFI set up an independent Advisory Commission for Asset Standardization in Charitable Causes under the leadership of Mr. Cor Herkströter. The committee has provided recommendations about criteria and standards that can serve to set asset policies for charitable causes.

The Herkströter Commission made its recommendations known in June 2003. Concerning the investment of reserves, the commission concludes that, "Accumulated reserves may be invested, though depreciation must be avoided. In other words, risk-bearing investments should be avoided." Specific recommendations concerning sustainable or socially responsible investment of reserves were not addressed.

In response to the Herkströter Commission's recommendation, the VFI will draw up guidelines concerning its members' capital policy in the autumn of 2003.

V. Future Trends

We believe SRI will become mainstream in the Netherlands, similarly to how negative screening has become inherent to pension funds. All investors will have to incorporate non-financial criteria in their selection process, if only for risk management purposes. Sustainable companies will 'live' longer and will also perform well financially in the long term. Therefore, these companies are more profitable and safer investments.

In the next five to ten years, gradually more investors will start to implement SRI policies. Engagement will be of growing importance in their SRI investment process, which will also be fed by public attention to corporate governance issues (shareholder engagement). Based on our research, we believe that negative screening in general will gradually lose its importance for SRI as it will become common practice among most institutional investors. The next question would be whether a certain level of negative screening could be regarded as SRI.

Upcoming Research

This year, the Dutch research concentrated on SRI by pension funds. In the coming years, more attention will be given to other institutional investors, such as insurance companies and charities. VBDO will try to collect quantitative data on the SRI policies and practices by both institutional and retail investors, to determine the actual size of the Dutch SRI market. Research will also be carried out on a variety of subjects such as: insight into which SRI methods are used and why, new developments in SRI methods (i.e. practices of engagement), ways to stimulate groups of institutional investors to incorporate SRI in their investment process, etc.

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