Benchmark Responsible Investment by Pension Funds in the Netherlands 2017

Investing for the future

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 sustainability has to be embedded in the capital markets. VBDO's activities target both the financial sector (investors) and the real economy (investees) and can be summarised as follows:

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. VBDO has extensive experience in developing and conducting benchmarking studies. VBDO has conducted annual benchmarking exercises; for example, since 2007 the benchmark on responsible investment by Dutch pensions funds, and since 2012 responsible investment by Dutch insurance companies. This has proven to be an effective tool in raising awareness about responsible investment and stimulating the sustainability performance of pension funds and insurance companies. Currently VBDO is 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 ranks the 500 largest companies worldwide on their human rights performance. The information is made publicly available in order to drive improvements. VBDO's Tax Transparency Benchmark ranks 64 listed multinationals on the transparency of their responsible tax policy and its implementation.

Thought leadership

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

Engagement

Since the foundation more than 20 years ago, the core activity of VBDO has been engagement with 40+ publicly listed Dutch companies. 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.

For more information about VBDO, please visit our website: http://www.vbdo.nl

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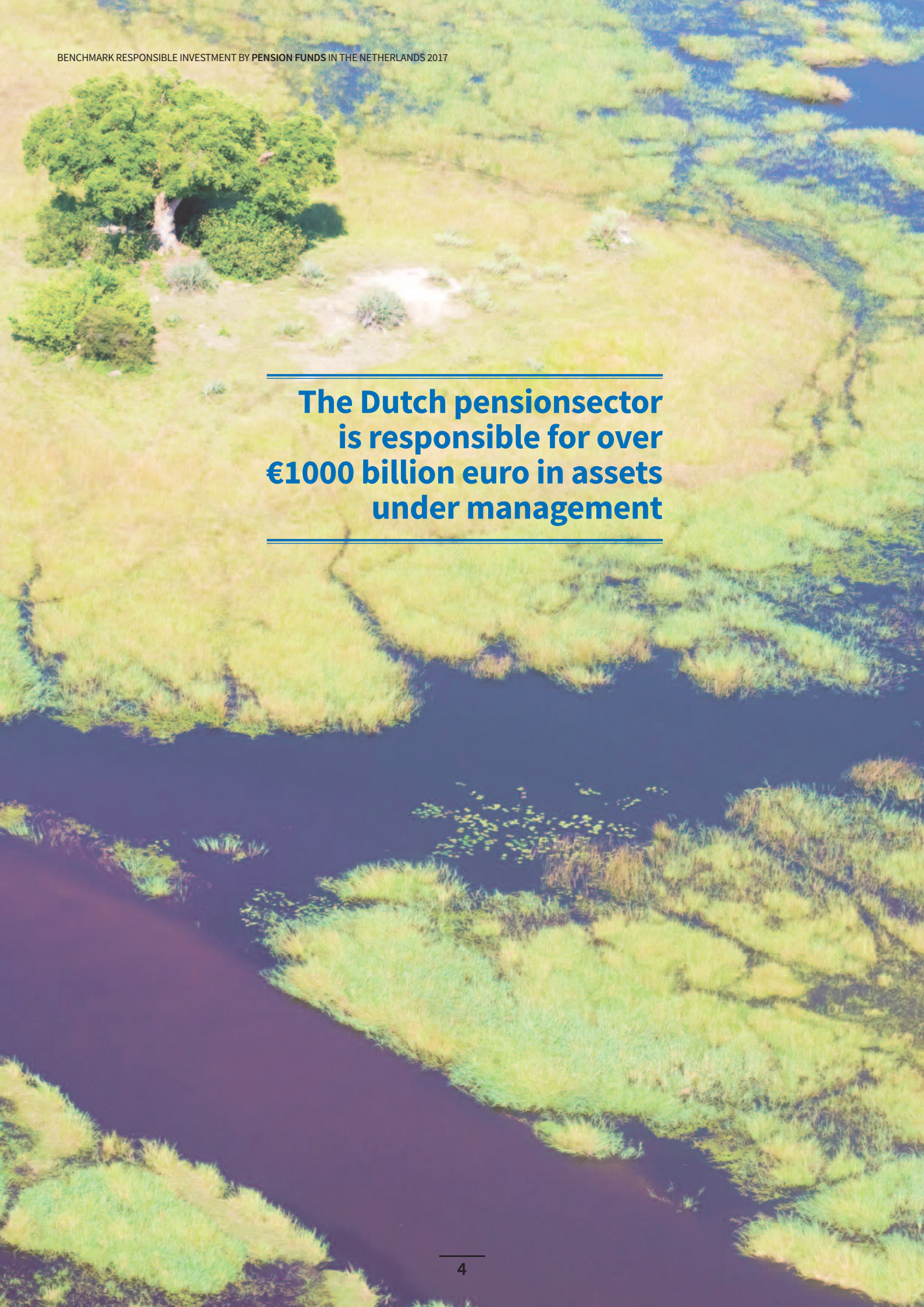


The Dutch pensionsector is responsible for over €1000 billion euro in assets under management

Preface VBDO

Angélique Laskewitz

For the eleventh time VBDO reviewed the sustainability performance of the 50 largest Dutch pension funds. The aim of this report is to provide pension funds and their stakeholders with insights into the current status of responsible investment in the Dutch pension sector.

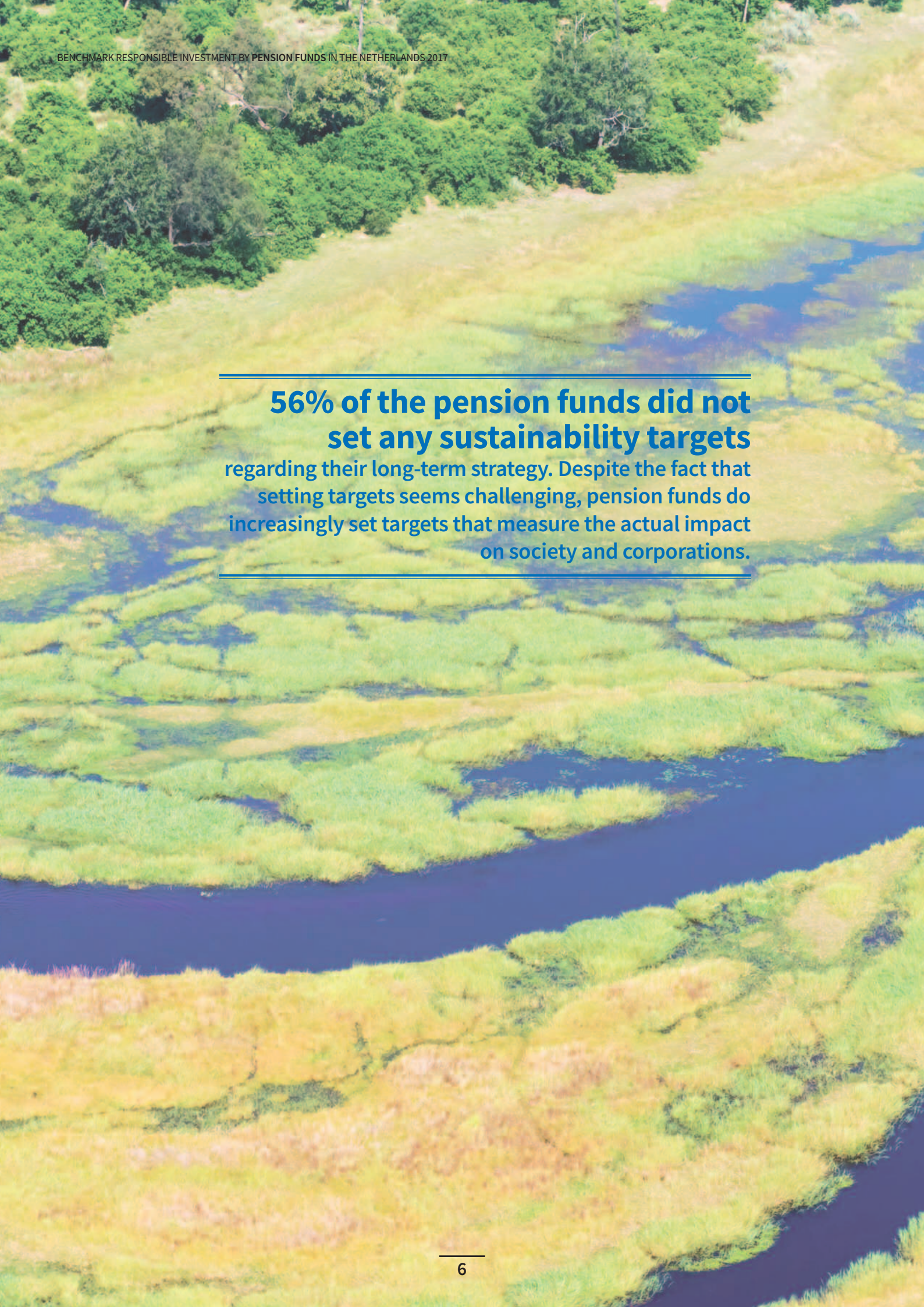
Responsible investment policies and practices of pension funds is of great importance for several reasons. First of all, the Dutch pension sector is responsible for over €1000 billion euro in assets under management. These assets create vast sustainability opportunities. Furthermore, it enables better-informed investment decisions, since ESG information supplements traditional analysis. Finally, the responsible investor contributes to a more stable financial system and contributes to the future challenges of society.

I find it encouraging that Dutch pension funds have continuously increased their sustainability performance after VBDO's first publication of the Benchmark Responsible Investment by Pension Funds back in 2007. For the first time, VBDO has developed a star ranking instead of a quantitative ranking. This year pension funds in the 2-star category improved their total performance the most. I specifically encourage those pension funds to further implement their responsible investment policy. If they manage to do so, this will substantially improve sector-wide sustainability performance. This is also enhanced by sector-wide initiatives such as the IMVO-covenant and the Dutch Central Bank Platform for Sustainable Finance.

In the previous 10th edition of this study, the main question was if pension funds were ready for the next step. The results this year show a slight increase in overall performance; therefore, there is still work to be done. While most pension funds in the benchmark have responsible investment policies, not all of these policies address current societal challenges. This is illustrated by the fact that only a quarter of the pension funds currently incorporate the Sustainable Development Goals (SDGs), in some form, into the responsible investment policy. I therefore recommend pension funds to clearly link and integrate the SDGs into their responsible investment policies.

I would like to thank our sponsor FNV and hereby also take the opportunity to thank the participating pension funds and their asset managers for their valuable contributions.

Angélique Laskewitz
Executive Director, VBDO
October 2017



56% of the pension funds did not set any sustainability targets

regarding their long-term strategy. Despite the fact that setting targets seems challenging, pension funds do increasingly set targets that measure the actual impact on society and corporations.

Ranking

★★★★

Algemeen Burgelijk Pensioenfonds (ABP)

Bedrijfstakpensioenfonds voor de Bouwnijverheid (bpf BOUW)

BPL Pensioen

Pensioensfonds voor Woningcorporaties (SPW)

Pensioenfonds Zorg en Welzijn (PFZW)

★★★

Ahold Pensioenfonds

Bedrijfstakpensioenfonds Schilders

Bedrijfstakpensioenfonds voor de Media (PNO Media)

Bedrijfstak pensioenfonds Zorgverzekeraars (SBZ)

Heineken Pensioenfonds

Pensioenfonds Architectenbureaus

Pensioenfonds Metaal en Techniek (PMT)

Pensioenfonds Openbaar Vervoer (SPOV)

Pensioenfonds Progress (Unilever)

Pensioenfonds SNS Reaal

Pensioenfonds van de Metalektro (PME)

Pensioenfonds Werk en (re)Integratie (PWRI)

Spoorwegpensioenfonds

★★

Bedrijfstakpensioenfonds Koopvaardij

Bedrijfstakpensioenfonds Schoonmaak

Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf

Pensioenfonds Achmea

Pensioenfonds APF (AkzoNobel)
Pensioenfonds DSM Nederland (PDN)

Pensioenfonds Horeca en Catering

Pensioenfonds Huisartsen (SPH)

Pensioenfonds KPN

Pensioenfonds Medisch Specialisten (SPMS)

Pensioenfonds PostNL

Pensioenfonds Vervoer

Pensioenfonds voor Fysiotherapeuten (SPF)

Pensioenfonds Wonen

Philips Pensioenfonds

Rabobank Pensioenfonds

★

ABN AMRO Pensioenfonds

Bakkers Pensioenfonds

Delta Lloyd Pensioenfonds

Pensioenfonds Detailhandel

Pensioenfonds IBM Nederland

Pensioenfonds ING

Pensioenfonds Meubel

Pensioenfonds PGB

Pensioenfonds TNO

Pensioenfonds UWV

Shell Pensioenfonds

☆

Pensioenfonds Hoogovens

Pensioenfonds KLM Cabinepersoneel

Pensioenfonds Medewerkers Apotheken (PMA)

Algemeen pensioenfonds KLM

Pensioenfonds Vliegend Personeel KLM

Figure 1 Ranking 50 largest Dutch pension funds (per star, alphabetically sorted).

Management summary

This report, published by the Dutch Association of Investors for Sustainable Development (VBDO), provides a detailed overview of the current status quo and trends within the responsible investment practices of the 50 largest Dutch pension funds. The pension funds are assessed based on how they govern, formulate, implement and report on their responsible investment policy. The report covers the results over a one-year period, the calendar year 2016. This management summary covers the most significant conclusions and recommendations.

Overall responsible investment performance of Dutch pension funds slightly improved

In general, the responsible investment performance of the 50 largest Dutch pension funds has slightly improved in 2016 compared to 2015. This overall improvement can mainly be attributed to an increased performance within the 2-star and 3-star categories. Compared to the previous benchmark issued in 2016, the overall scores within the 4-star category remained stable. Most pension funds improved their performance on governance and policy, where governance and accountability remain the highest scoring categories. Despite the high score on accountability, differences remain in the reporting quality and the depth to which sustainability is integrated into the business activities. Responsible investment practices have become more widespread; however, there are still five pension funds that do not qualify for the 1-star category.

Recommendations:

- **Responsible investment should be seen as non competitive and knowledge should be shared**
  - Communicate and share knowledge with Dutch colleagues, but also internationally. Sharing best practices and joint learning sessions are useful tools.
  - Initiate the conversation between pension funds, NGOs, regulators and governmental agencies on how to jointly address topics such as human rights, climate change and other themes related to the Sustainable Development Goals.
- **Pension funds with one or no stars should attempt to catch up with the rest of the sector**
  - The larger top scoring pension funds, mostly in the 3 and 4-star category, should engage their colleagues with lower scores. Work together to strengthen the capacity of especially the smaller pension funds.
  - 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.
  - A start for pension funds in the category without stars is to define an ambition and goals, to look into the responsible investment policies of better performing peers, and to reach out to collaboratively harness the ESG opportunities of the responsible investment policy.
- **Continuously monitor and update the responsible investment policy in relation to societal developments**
  - Add references to current societal topics, such as the SDGs and climate change, to your responsible investment policy in order to maintain societal relevance.
  - Keep a close eye on the developments of the IMVO-covenant, and take a proactive stance in the implementation of the sector covenant.

Responsible investment to be further integrated into the overall strategy

The responsibility for the responsible investment policy found its way further up to the senior management board. At most of the pension funds, the (executive) board bears responsibility for the responsible investment policy. All senior boards discussed the responsible investment policy in 2016, of which most boards discussed it at least twice. The number of pension funds that consulted either participants or society in general (e.g., NGOs) improved. Hence, pension funds became more engaged with their participants and other stakeholders. However, less than half of the pension funds demonstrably sets sustainability targets for their asset managers. Therefore, and in order to anchor responsible investment within the organization, it should have a more prominent role in the overall strategy.

Recommendations:

- **Responsible investment should be an integral element of the overall strategy and vision**
  - Make responsible investment an integral element of the strategy. Linking them provides focus and makes the responsible investment policy fit in with the profile and

vision of the pension fund.
  - The executive board should play an active role in developing the responsible investment strategy.

- **As an asset owner, the pension fund should take responsibility**
  - Pension funds should act as principal to the fiduciary manager.
  - Ensure that asset managers implement the responsible investment policy of the pension fund, for example by formulating clear and measurable targets, and key performance indicators (KPIs) for the asset managers. Set targets during the manager selection, appointment and the monitoring process.

- **Build trust within society regarding the pension fund's intentions in responsible investment**
  - Increase transparency on investments, policies, and practices.
  - Consult external stakeholders (e.g. clients, NGOs, consultants, rating agencies) to stay informed on the latest developments and preferences regarding responsible investment.

Policy frameworks to be further substantiated

It is essential to embed a clear and detailed policy on responsible investment into the organisation. An important first step is to integrate responsible investment into the overall investment beliefs; nearly all pension funds do so. Next up: it is vital to set targets on sustainability in order to set goals and track progress. 56% of the pension funds did not set any sustainability targets regarding their long-term strategy. Despite the fact that setting targets seems challenging, pension funds have done so increasingly in order to measure the actual impact on society and corporations. Almost all pension funds integrate Environmental, Social and Governance (ESG) factors into their policy; only a few pioneers incorporate the Sustainable Development Goals (SDGs) into their policy.

Recommendations:

- **Connect your responsible investment policy to your long-term strategy and societal themes**
  - Define what responsible investment means for the pension fund.
  - Include a separate overview of investment beliefs, which include the pension funds' vision and the basic principles for investment. Responsible investment should be part of these investment beliefs.
  - Formulate a long-term sustainability strategy and vision, which indicates the pension fund is thinking ahead of tomorrow's challenges.
  - Keep the responsible investment policy up-to-date by including socially relevant themes, such as climate change and the Sustainable Development Goals (SDGs).
  - Expand the applicability of the responsible investment policy to all asset classes and asset managers.

- **Aim at setting clear and measurable targets for the pension fund**
  - As it seems difficult to define responsible investment targets, VBDO advises to use the SMART method (specific, measurable, achievable, relevant and time bound) to set clear targets.
  - Targets enable the improvement and evaluation of the responsible investment policy. Investment instruments could be used to achieve the targets and impact.

Responsible investment instruments to be exerted to their full extent

The most crucial element of responsible investment is the implementation of the responsible investment policy. Compared to the previous results over the year 2015, the performance on implementation has remained stable. However, pension funds increasingly exclude companies from their portfolios based on multiple criteria and the use of ESG information in the investment decision-making process is widespread; only 5% do not integrate ESG factors. The integration of ESG factors into the investment decision-making process, with an on-going effect on individual holdings, increased 6% compared to the previous study (2015: 17%; 2016: 23%). Pension funds also perform well on active ownership. 76% of the pension funds that have engagement policies in place evaluate the process and measure progress. 52% of the pension funds take further steps based on the engagement results. Although the above-mentioned figures are positive steps forward, in perspective: the average total score on implementation is currently still precisely half of the maximum score (5).

Recommendations:

- **Especially pension funds in the 2-star category should further implement their responsible investment policy**
  - Most pension funds in the 2-star category improved their scores on governance and policy, paving the way for further implementation of these improvements.
  - Start by broadly integrating ESG into investment instruments.
- **Develop additional exclusion criteria that go beyond controversial weapons**
  - Pension funds should focus more on the principles of the UN Global Compact, such as human rights, child labour, environment and corruption.
  - The criteria should be based upon the pension fund's responsible investment strategy and policy.
- **Ensure systematic ESG integration for all asset classes**
  - The improvement in the use of ESG integration should be further strengthened by focussing on the systematic use of ESG themes in the selection process.
  - ESG integration can be implemented both from a risk-adjusted return perspective as well as in stimulating sustainable business practices.
  - Take long-term sustainability risks into account in the asset valuation methods and strategic asset allocation.
- **Work together with other investors on engagement and voting to increase investor influence**
  - Together with other investors the mandate for engagement is stronger.
  - As the initiative of 'follow this' (movement of share-holders to make Shell a renewable energy company) demonstrates, there is a tendency in society that encourages investors to speak out on societal topics.
  - Increase cooperation in (inter)national active ownership activities and increase the positive impact the Dutch pension sector can have.
- **Take the lead as an asset owner to increase the amount of impact investments**
  - Increase measurement of footprints, enhance internal know-how on impact investing, select and encourage appropriate asset managers.

Increase public accountability

Pension funds should be transparent about their responsible investment practices. An important reason is that participants and society are then better informed about the sustainability performance of the pension fund and can enter into dialogue. Societal stakeholders can also use this information to properly assess the pension fund. The total average accountability performance decreased slightly in 2016. However, pension funds are more transparent on most responsible investment instruments. The results show an increase in the scores on transparency on exclusion, ESG-integration and impact investing. Not only did the number of pension funds that do not publish sustainability related information decrease, the transparency on the various instruments became more extensive. Finally, the reporting quality varies distinctly. Some pension funds use a single paragraph to cover sustainability in their annual report, whereas others publish comprehensive responsible investment reports through their external asset manager or themselves.

Recommendations:

- **Further develop and increase the extent of reporting on the responsible investment activities**
  Report in a clear, visual and attractive way about the responsible investment policy to ensure that information is easily understood by clients and other stakeholders. Make sure all the information is easy to find on the website or by other channels.
  - Reach out to policyholders on responsible investment topics pro-actively, for example by sending out news-letters or posting information on responsible investment and sustainability on social media such as Facebook, LinkedIn and Twitter.
  - Seek external assurance to verify your responsible investment reporting.
- **Specifically focus on the results of the responsible investment policy and demonstrate the actual impact that has been made**
  - Report on the results and impact of responsible investment activities in detail, by explaining what steps have been taken, which topics have been focused on and which impact this has had. For example, by showing how engagement activities have changed the controversial behaviour of firms.

Management samenvatting

Dit rapport, gepubliceerd door de Vereniging van leggers voor Duurzame Ontwikkeling (VBDO), geeft een gedetailleerd overzicht van hoe de 50 grootste Nederlandse pensioenfondsen presteren op het gebied van verantwoord beleggen. De pensioenfondsen worden beoordeeld op de volgende vier categorieën: bestuur, beleid, implementatie en transparantie. Het rapport bevat de resultaten over een periode van één jaar, het kalenderjaar 2016.

Nederlandse pensioenfondsen zetten stappen op het gebied van verantwoord beleggen

De algehele verantwoord beleggen prestaties van de 50 grootste Nederlandse pensioenfondsen is lichtelijk verbeterd in vergelijking met 2016. In vergelijking met de benchmark studie uit 2016 zijn de algehele scores van de best presterende pensioenfondsen stabiel gebleven, maar zijn het met name lager scorende fondsen die zichzelf verbeterd hebben. De meeste pensioenfondsen hebben beter gepresteerd op bestuur en beleid. Op het de categorieën Bestuur en Transparantie wordt het best gescoord. Ondanks de hoge score op transparantie blijven er verschillen bestaan in de kwaliteit en het niveau van diepgang in de rapportage over hoe duurzaamheid is geïntegreerd in de bedrijfsactiviteiten. In de pensioensector wordt verantwoord beleggen door steeds meer partijen omarmt. Er zijn echter nog steeds vijf pensioenfondsen die zich niet kwalificeren voor de 1-ster categorie.

Aanbevelingen:

- **Zie verantwoord beleggen meer als non-competitief en deel meer kennis onderling**
  - Communiceer en deel kennis met Nederlandse en internationale collega's. Het delen van best practices en het organiseren van gezamenlijke leersessies zijn hierbij nuttige tools.
  - Ga het gesprek aan met andere pensioenfondsen, NGO's, toezichthouders en overheidsinstanties over hoe gezamenlijk onderwerpen zoals mensenrechten, klimaatverandering en andere thema's in verband met de Sustainable Development Goals (SDGs) kunnen worden aangepakt.
- **Meer samenwerking is nodig tussen pensioenfondsen die hoog en laag scoren**
  - De grotere, beter presterende, pensioenfondsen, voornamelijk in de 3 en 4 sterren-categorieën, zouden hun collega's met lagere scores moeten betrekken om de capaciteit van vooral de kleinere pensioenfondsen te versterken. Organisaties zoals de pensioenfederatie zouden hier een proactieve rol in moeten spelen.
  - Stel een standaard verantwoord beleggingsbeleid op kleinere pensioenfondsen die beperkte capaciteit hebben om dit zelf te ontwikkelen.
  - Een start voor pensioenfondsen in de 0-sterren-categorie is het bepalen van ambitie en doelstellingen. Met name door te kijken naar het verantwoordelijke beleggingsbeleid van beter presterende fondsen en de samenwerking te zoeken om andere fondsen.
- **Het verantwoord beleggingsbeleid zou in moeten haken op maatschappelijke ontwikkelingen**
  - Zorg dat u uw maatschappelijke relevantie behoudt door in het verantwoord beleggingsbeleid te verwijzen naar huidige maatschappelijke onderwerpen, zoals de SDG's of klimaatverandering
  - Blijf op de hoogte van de ontwikkelingen rondom het IMVO-convenant en neem een proactieve houding aan bij de uitvoering van het sectorconvenant.
  - Koppel de wensen van de deelnemers aan je verantwoord beleggen strategie.

Grotere rol voor besturen en deelnemers

Alle besturen hebben het verantwoord beleggingsbeleid minstens één keer besproken tijdens een bestuursvergadering in 2016, waarvan de meeste zelf twee keer.

Het aantal pensioenfondsen dat deelnemers of de maatschappij in zijn algemeenheid (waaronder NGO's) heeft geconsulteerd is verbeterd. Pensioenfondsen zijn daardoor meer geëngageerd geworden met deelnemers en andere stakeholders. Echter, minder dan de helft van de pensioenfondsen zet duurzaamheid targets voor de asset manager. Hierdoor, en om verantwoord beleggen verder te verankeren in de organisatie, zou verantwoord beleggen een prominente rol moeten hebben in de algehele strategie.

Aanbevelingen:

- **Verantwoord beleggen zou een integraal onderdeel moeten zijn van de algemene bedrijfsstrategie en visie**
  - Zorg dat verantwoord beleggen een integraal onderdeel vormt van de algehele beleggingsstrategie. Het koppelen van strategie en verantwoord beleggen zorgt voor focus en maakt het verantwoord beleggingsbeleid in overeenstemming met het profiel en de visie van het pensioenfonds.
  - Het bestuur dient een proactieve rol te spelen in de ontwikkeling van de verantwoorde beleggingsstrategie.
- **Zorg als bestuur voor een goede aansturing van de vermogensbeheerder en investeer in het contact met de deelnemer en maatschappij**
  - Zorg ervoor dat de vermogensbeheerder het verantwoord beleggingsbeleid van het pensioenfonds implementeert. Bijvoorbeeld door duidelijke en meetbare doelen te formuleren, en belangrijke prestatie-indicatoren (KPI's) af te spreken met de vermogensbeheerders. Stel doelstellingen op tijdens de selectie en aanstelling van de manager, en tijdens het monitoringproces.
- **Het is belangrijk om vertrouwen op te bouwen in de samenleving met betrekking tot de voornemens over verantwoord beleggen**
  - Vergroot transparantie van investeringen, beleid en processen.
  - Raadpleeg externe stakeholders (bijvoorbeeld klanten, NGO's, consultants, ratingbureaus) om op de hoogte te blijven van de laatste ontwikkelingen en voorkeuren met betrekking tot verantwoorde beleggingen.

Maak het verantwoord beleggingsbeleid concreet en stel heldere doelen

Een duidelijk en gedetailleerd beleid is essentieel om verantwoord beleggen goed te integreren in de organisatie. Een belangrijke eerste stap is het integreren van verantwoord beleggen in de algemene beleggingsopvattingen, dit wordt momenteel door bijna alle pensioenfondsen gedaan. De volgende stap is het formuleren van duidelijke duurzaamheidsdoelstellingen, momenteel stelt 56% van de pensioenfondsen geen duurzaamheid targets met betrekking tot de langetermijnstrategie. Het zetten van duurzaamheid targets lijkt daarom uitdagend, echter: pensioenfondsen zetten wél in toenemende mate targets die de daadwerkelijke impact op de maatschappij en bedrijven meten. Bijna alle pensioenfondsen integreren de drie ESG factoren (milieu, sociaal en bestuur) in hun beleid, maar slechts een paar pioniers integreren de Sustainable Development Goals van de Verenigde Naties (SDGs) in hun beleid.

Aanbevelingen:

- **Het verantwoord beleggingsbeleid zou met de langetermijnstrategie en maatschappelijke thema's verbonden moeten worden**
  - Definieer wat verantwoord beleggen voor het pensioenfonds betekent.
  - Neem een apart overzicht van *investment beliefs* op, waaronder de visie van het pensioenfonds en de basisprincipes voor beleggingen. Verantwoord beleggen moet deel uitmaken van deze beleggingsovertuigingen.
  - Formuleer een duurzame strategie en lange termijn visie, die aangeeft dat het pensioenfonds rekening houdt met toekomstige uitdagingen.
  - Zorg dat het verantwoord beleggingsbeleid up-to-date blijft, door middel van het opnemen van maatschappelijk relevante thema's, zoals klimaatverandering en de Sustainable Development Goals (SDG's).
  - Breidt de toepasbaarheid van het verantwoord beleggingsbeleid uit naar alle activaklassen en vermogensbeheerders.
- **Formuleer duidelijke, gedetailleerde en meetbare doelstellingen voor het pensioenfonds**
  - Gebruik de SMART-methode (specifiek, meetbaar, haalbaar, relevant en tijdsbonden) voor doelen in het verantwoord beleggingsbeleid.
  - Doelstellingen kunnen voor verbetering en evaluatie van het verantwoord beleggingsbeleid zorgen. Investeringsinstrumenten kunnen worden gebruikt om de doelen en impact te bereiken.

Benut de totale potentie van de instrumenten voor verantwoord beleggen

Het meest cruciale onderdeel van verantwoord beleggen is de implementatie van het verantwoord beleggingsbeleid.

In vergelijking met 2016 is de gemiddelde score voor de implementatie van het verantwoord beleggingsbeleid stabiel gebleven. Pensioenfondsen sluiten bedrijven vaker uit op basis van meerdere criteria. Daarnaast is het integreren van ESG-factoren in het beleggingsproces ver gevorderd. Slechts 5% van de pensioenfondsen integreert geen ESG-factoren in het beleggingsproces. Pensioenfondsen doen het ook goed als actieve aandeelhouders. 76% van de pensioenfondsen dat een engagement beleid heeft evalueert het proces en meet de vooruitgang, 52% neemt verdere stappen gebaseerd op de resultaten. Echter, ondanks het feit dat dit positieve stappen zijn, is de gemiddelde totale score op implementatie slechts de helft van de maximaal haalbare score (5).

Aanbevelingen:

- **Met name de pensioenfondsen in de 2-sterrencategorie zouden hun verantwoord beleggingsbeleid verder moeten implementeren**
  - Begin door ESG breed te integreren door middel van de beleggingsinstrumenten.
- **Ontwikkelen en implementeer uitsluitingscriteria die verder gaan dan controversiële wapens**
  - Pensioenfondsen zouden zich meer moeten richten op de principes van de UN Global Compact en de Sustainable Development Goals, zoals mensenrechten, kinderarbeid, milieu en corruptie.
  - De criteria moeten gebaseerd worden op de verantwoorde beleggingsstrategie en het beleid van het pensioenfonds.
- **ESG-integratie zou systematisch moeten worden toegepast op alle asset classes**
  - De verbetering van het gebruik van ESG-integratie moet verder worden versterkt door te concentreren op het systematisch gebruik van ESG-thema's in het investeringsproces.
  - ESG-integratie kan zowel vanuit een naar risico gewogen rendementsperspectief worden geïmplementeerd als door het stimuleren van duurzame bedrijfsvoering.
  - Houd rekening met de duurzaamheidsrisico's op lange termijn in de waardering van de beleggingen en strategische asset allocatie.
- **Werk samen met andere investeerders op het gebied van engagement en stemmen op aandeelhoudersvergaderingen om de invloed op bedrijven te vergroten en ben transparant over de gemaakte keuzes**
  - Samenwerking met andere investeerders maakt een mandaat voor engagement sterker.
  - Zoals blijkt uit het initiatief van 'Follow This' (beweging van aandeelhouders om Shell te verduurzamen), is er een trend gaande in de samenleving die beleggers aanmoedigt zicht uit te spreken over maatschappelijke onderwerpen.
- **Neem de leiding als asset owner om het aantal impact investeringen te vergroten**
  - Zet in op impact-metingen en verbeter de interne know-how op impactbelegging. Selecteer de juiste vermogensbeheerder en moedig deze aan om hiermee aan de slag te gaan.

Ben transparant over de activiteiten en resultaten van het verantwoord beleggingsbeleid Pensioenfondsen zouden

Pensioenfondsen zouden transparant moeten zijn over hun beleggingsactiviteiten. Een belangrijke reden hiervoor is dat deelnemers en de maatschappij zo beter geïnformeerd zijn over de duurzaamheidsprestatie van het pensioenfonds. De totale gemiddelde score voor transparantie is licht verslechterd in 2016. Echter, pensioenfondsen zijn wel transparanter over de instrumenten die worden ingezet voor verantwoord beleggen; uitsluiting, ESG-integratie en impact investing. Niet alleen verminderde het aantal pensioenfondsen dat geen duurzaamheidsinformatie publiceert, de transparantie over de verschillende instrumenten werd uitgebreider.

Tot slot verschilt de kwaliteit van de rapportage sterk. Sommige pensioenfondsen besteden enkel één alinea aan duurzaamheid in het jaarverslag waar anderen een uitgebreid duurzaamheidsverslag publiceren (via de asset manager of zelf).

Aanbevelingen:

- **Verbeter de kwaliteit en kwantiteit van rapportages over de verantwoord beleggingsactiviteiten**

  - o Rapporteer op een duidelijke, visuele en aantrekkelijke manier over het verantwoord beleggingsbeleid om ervoor te zorgen dat informatie gemakkelijk door deelnemers en andere belanghebbenden wordt begrepen. Zorg ervoor dat alle informatie gemakkelijk te vinden is op de website of via andere kanalen.
  - o Benader de deelnemers op verantwoordelijke beleggingsonderwerpen proactief, bijvoorbeeld door nieuwsbrieven uit te sturen of informatie te plaatsen over verantwoorde investeringen en duurzaamheid op sociale media.
  - o Laat uw verantwoordelijke beleggingsrapportage extern verifiëren.

- **Rapportages zouden duidelijk inzicht moeten geven in de resultaten en impact van het verantwoord beleggingsbeleid**
  - o Geef aan welke stappen zijn ondernomen, waarom welke duurzame thema's centraal hebben gestaan en welke impact dit heeft gehad. Zo kan bijvoorbeeld worden beschreven hoe engagementactiviteiten een bijdrage hebben geleverd aan de duurzaamheids-prestaties van bedrijven.

Star ranking

For the first time VBDO implemented a ranking based on a 0 - 5 star range instead of a 1 - 50 ranking in numbers. During February 2017, VBDO consulted with the sector to discuss a range of propositions with regards to changes in the setup and methodology of the benchmark.
Some examples are:

I. Integrating good practices related to themes or developments in the scores.
II. Making the process with regard to sending and receiving the questionnaire more efficient.
III. Integrating a star ranking instead of the quantitative ranking.

In consultation with the sector, it was decided that the use of a star ranking shows a more realistic depiction of the sustainability performance of pension funds. In other words: the stars are meant to inform pension funds about their realistic contribution to a sustainable world. This year (2017) is the transition year during which the traditional quantitative ranking will be gradually phased out and the star ranking will become primary.

This year the number of stars awarded is based on the total score and on the scores of the individual categories of the pension fund; governance, policy, implementation and accountability. However, next to this, VBDO aspires to also base the star ranking on additional minimum standards. To this end, VBDO has drafted a first set of minimum standards elated to the individual star categories (please find below). The standards outlined under the star categories are characteristic for the majority of the pension funds in the respective category. In this benchmark study these standards were not decisive in awarding the stars. Next year these standards will be applied more strictly and will form the basis of the assessment.

The following scores and minimum standards determine the number of stars awarded:

5 stars

Minimum standards:

- A score of at least 4.5 (out of 5) on all categories (governance, policy, implementation, accountability)
- Demonstrably takes a leadership position in the sector by being a pioneer in one or more areas (such as impact investing)
- Responsible investment instruments are widely implemented. All responsible investment instruments are in effect for every single asset class
- Considers sustainability targets as an important way to measure impact and take responsibility. Sustainability targets are set for both asset managers and the organisation itself
- All below mentioned standards are in place

4 stars

Minimum standards:

- A total score of at least 4.0
- A score of at least 3.5 on all categories (governance, policy, implementation, accountability)
- There is a long-term vision in place and related sustainability targets are set
- ESG themes are translated into at least five responsible investment instruments (exclusion, ESG-integration, voting, engagement, impact investing)
- Impact is being measured results and further steps taken are reported
- There is transparency regarding the responsible investment policy, investments, and the responsible investment instruments

3 stars ★★★

Minimum standards:

- A total score of 3.5 up to and including 3.9
- A score of at least 2.5 on all categories (governance, policy, implementation, accountability)
- ESG themes are translated into at least five responsible investment instruments (exclusion, ESG-integration, voting, engagement, impact investing)
- The responsible investment policy is implemented into all asset classes
- There is transparency regarding all responsible investment instruments

2 stars ★★

Minimum standards:

- A total score of 2.5 up to and including 3.4
- A score of at least 2.0 on all categories (governance, policy, implementation, accountability)
- A responsible investment policy is in effect and is discussed more than once a year at a senior management board meeting
- If applicable, the responsible investment policy is implemented into all asset classes

1 star ★

Minimum standards:

- A total score of 1.5 up to and including 2.4
- A score of at least 1.0 on all categories (governance, policy, implementation, accountability)
- A responsible investment policy is in effect

0 stars ☆

- A total score below 1.5
- No responsible investment policy is in place, or:
- If there is a responsible investment policy in place, this policy does not cover all asset classes and this policy is not thoroughly implemented
- The score on implementation is the lowest compared to the other categories (< 1.0)

Table of Contents

Chapter 1. **Introduction**

Background

In front of you lies the eleventh annual edition of VBDO's Benchmark Responsible Investment by Pension Funds in the Netherlands. This study presents developments on the way the 50 largest Dutch pension funds govern, formulate, implement and report on their responsible investment policy. The report covers the results over a one-year period, the calendar year 2016.

Objective

The objective of this report is to provide pension funds and their participants with insights 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.

Methodology

The research and the scoring methodologies are based on an iterative process, which has developed and improved over eleven 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. More detailed information about the methodology can be found in the appendices.

Categories and scores

The pension funds are assessed and scored on the following categories: governance, policy, implementation and accountability. The theme 'implementation' constitutes 50% of the total score. This is because it determines the final output and quality of responsible investment practices of a pension funds.

Outline of the report

The report is structured as follows. Chapter two discusses the general results of the pension funds on responsible investment and details how they score in the different categories; chapter three states the most important conclusions of this research; and finally, chapter four contains VBDO's recommendations to move the sector forward with responsible investment.

Chapter 2. **Results**

This chapter presents the overall results of this study and the scores per category. First of all, attention will be given to the scores that were achieved this year. The results have been analysed on the categories Governance, Policy, Implementation and Accountability. Secondly, the results are complemented with good practices and practical examples that pension funds can use to improve their responsible investment practices. More information on the methodology can be found in the appendices.

★★★★

Algemeen Burgelijk Pensioenfonds (ABP)
Bedrijfstakpensioenfonds voor de Bouwnijverheid (bpf BOUW)
BPL Pensioen
Pensioensfonds voor Woningcorporaties (SPW)
Pensioenfonds Zorg en Welzijn (PFZW)

★★★

Ahold Pensioenfonds
Bedrijfstakpensioenfonds Schilders
Bedrijfstakpensioenfonds voor de Media (PNO Media)
Bedrijfstak pensioenfonds Zorgverzekeraars (SBZ)
Heineken Pensioenfonds
Pensioenfonds Architectenbureaus
Pensioenfonds Metaal en Techniek (PMT)
Pensioenfonds Openbaar Vervoer (SPOV)
Pensioenfonds Progress (Unilever)
Pensioenfonds SNS Reaal
Pensioenfonds van de Metalektro (PME)
Pensioenfonds Werk en (re)Integratie (PWRI)
Spoorwegpensioenfonds

★★

Bedrijfstakpensioenfonds Koopvaardij
Bedrijfstakpensioenfonds Schoonmaak
Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf
Pensioenfonds Achmea
Pensioenfonds APF (AkzoNobel)
Pensioenfonds DSM Nederland (PDN)
Pensioenfonds Horeca en Catering
Pensioenfonds Huisartsen (SPH)
Pensioenfonds KPN
Pensioenfonds Medisch Specialisten (SPMS)
Pensioenfonds PostNL
Pensioenfonds Vervoer
Pensioenfonds voor Fysiotherapeuten (SPF)
Pensioenfonds Wonen
Philips Pensioenfonds
Rabobank Pensioenfonds

★

ABN AMRO Pensioenfonds
Bakkers Pensioenfonds
Delta Lloyd Pensioenfonds
Pensioenfonds Detailhandel
Pensioenfonds IBM Nederland
Pensioenfonds ING
Pensioenfonds Meubel
Pensioenfonds PGB
Pensioenfonds TNO
Pensioenfonds UWV
Shell Pensioenfonds

☆

Pensioenfonds Hoogovens
Pensioenfonds KLM Cabinepersoneel
Pensioenfonds Medewerkers Apotheken (PMA)
Algemeen pensioenfonds KLM
Pensioenfonds Vliegend Personeel KLM

Figure 2.1 Overall results for responsible investment by Dutch pension funds in 2017 (per star, alphabetically sorted).

2.1) Overall performance

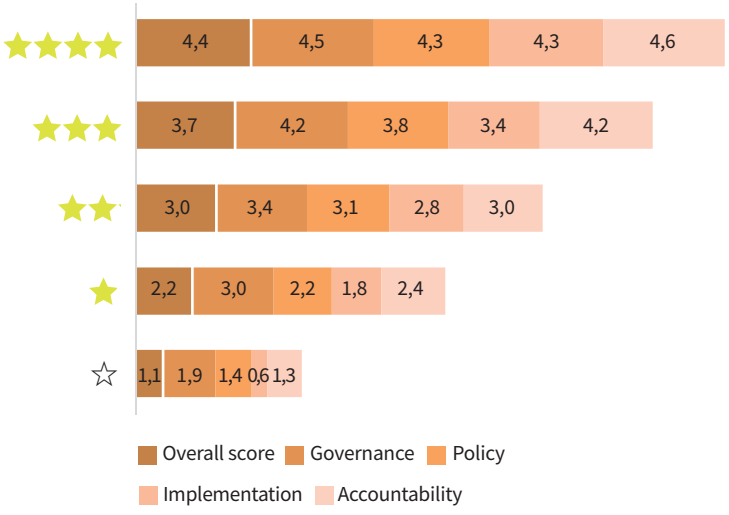


Figure 2.2 Average overall score and average score on governance, policy, implementation, and accountability per star category.

★★★★

Within the 4-star category (i.e., position 1 through 5), the scores remained relatively unchanged. These pension funds all have a total score of at least 4.0, with an average of 4.4. This category scores high on governance (average: 4.5) and accountability (average: 4.6). Pensioenfonds Zorg en Welzijn (PFZW) maintained its leading position in the benchmark, however its overall score decreased slightly since 2016 from 4.6 to 4.5. Algemeen Burgerlijk Pensioenfonds (ABP) and BPL Pensioen (former Bedrijfspensioenfonds voor de landbouw) increased their score to 4.5, which is the same total score as PFZW. Bedrijfstakpensioenfonds voor de Bouwnijverheid (bpf BOUW) rose from position 5 in 2016 to position 4 in 2017 and Pensioensfonds voor Woningcorporaties (SPW) rose from 6 in 2016 to position 5 in 2017.

★★★

The pension funds in the 3-star category (i.e., position 6 through 17) all have a total score from 3.5 to 4.0. The average total score of these pension funds is 3.7 and they score high on governance and accountability (respectively 4.2 and 4.2). The highest performance in the 3-star category belongs to Spoorwegpensioenfonds with an overall score of 3.9. The highest

growth in this category comes from Heineken Pensioenfonds and Pensioenfonds Werk en (re)integratie (PWRI); both grew 5 positions. Another remarkable increase is seen from Bedrijfstakpensioenfonds Zorgverzekeraars (SBZ), who grew 4 positions.

★★

The pension funds in the 2-star category (i.e., position 17 through 33) all have a total score from 2.5 up to 3.5. In this category, the total average score was 3.0 and the average score on governance (3.4) was the highest compared to the other categories. The highest performance in the 2-star category belongs to Bedrijfstakpensioenfonds voor de Media (PNO Media) and bedrijfstakpensioenfonds Schilders, with a total score of 3.5. The highest growth in this category comes from Pensioenfonds PostNL who grew 20 positions from position 40 in 2016 to position 20 in 2017. Other remarkable increases are seen at Bedrijfstakpensioenfonds Schoonmaak, which grew from 36th to 25th, and Pensioenfonds Huisartsen (SPH) which grew from the 28th to the 19th position.

★

The pension funds in the 1-star category (i.e., position 33 through 46) all have a total score from 1.5 up to 2.5, with an average total score of 2.2. The highest performance in this category belongs to Pensioenfonds DSM Nederland (PDN), with a total score of 2.5. The strongest increase in the 1-star category belongs to Pensioenfonds IBM Nederland, with an increase of 10 positions. Two pension funds, which tied for the 24th position in the year 2015, dropped remarkably in their overall performance, i.e.,: Delta Lloyd Pensioenfonds (from 24 th to 33th) and Pensioenfonds Detailhandel (from 24 th to 38 th).

☆

The pension funds who did not obtain a star (i.e., position 46 through 50), all have a total score of less than 1.5. Pensioenfonds Hoogovens leads the category with a total score of 1.4, an increase of 3 positions. All other pension funds either remained stable or dropped in their overall performance. This category performed relatively well on governance (average 1.9), but low on implementation (average 0.6).

Overall performance

Most pension funds increased their overall score. This can also be seen in the average total score which increased from 2.7 in calendar year 2015 to 2.9 in calendar year 2016. The aggregated increase can mainly be attributed to an increased performance within the 2-star and 3-star categories. Compared to the previous benchmark issued in 2016, the overall scores of the 4-star category remained stable. It should be noted that a one-on-one comparison between the years is difficult due to minor changes in the methodology and an increased strictness in VBDO's evaluation of the results. See for an extensive overview of the methodology, appendix 2.

Some individual pension funds rose or declined sharply in their ranking, putting more pressure on the ones remaining in the lower categories or paving a way to the top. Competition between the pension funds is increasing. Hence, combined with a stricter assessment of the results: to obtain a high rank in this benchmark a higher performance was needed. Despite this, it can be concluded that Dutch pension funds improved and further substantiated their responsible investment practices. This improvement can be seen in Figure 2.3, which shows the development of the total score and the scores on the various categories since 2012. After a decline in 2013, Dutch pension funds have continuously improved their overall responsible investment performance and now head towards an overall score of 3 out of a maximum of 5 points.

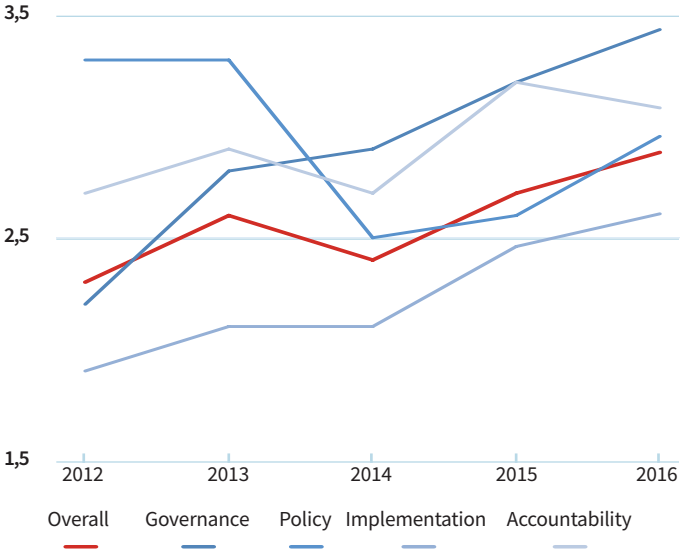


Figure 2.3 Average scores of the benchmarks on responsible investment by pension funds since 2012.

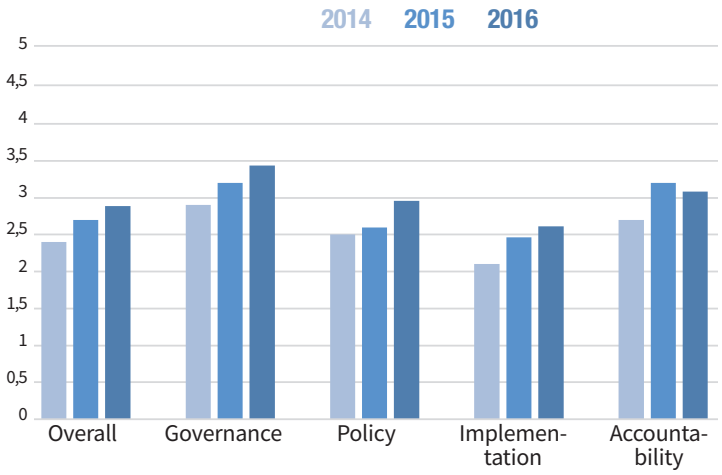


Figure 2.4 Average results of the overall score for governance, policy, implementation and accountability of reporting years 2014, 2015, and 2016.

As can be seen in Figure 2.4, the overall score including the scores on governance and policy have continued to grow since 2014. Performance on implementation grew since 2014 but remained relatively stable since 2015 and performance on accountability first rose but then declined slightly.

The implementation category is valued highly by VBDO because the implementation activities show the actual steps that have been taken, and therefore has the most impact. Most likely due to VBDO's stricter assessment, the scores on implementation remained stable this year. In addition, a methodological change in the weight of the individual questions has had its effect on the total score of implementation. More detailed developments in the categories governance, policy, implementation and accountability will be further elaborated on in the subsequent sections.

Large (> 60 billion AuM)		AuM	Overall score
1	Pensioenfonds Zorg en Welzijn (PFZW)	€ 185.400,00	**4,5**
1	Algemeen Burgelijk Pensioenfonds (ABP)	€ 381.816,00	**4,5**
3	Pensioenfonds Metaal en Techniek (PMT)	€ 68.633,00	**3,6**
Medium (60< AuM > 10 billion)		AuM	Overall score
1	BPL Pensioen	€ 15.420,00	**4,5**
1	Bedrijfstakpensioenfonds Bouwnijverheid (bpf BOUW)	€ 55.204,00	**4,3**
3	Pensioensfonds voor Woningcorporaties (SPW)	€ 12.049,09	**4,1**
Small (< 10 billion AuM)		AuM	Overall score
1	Pensioenfonds Openbaar Vervoer (SPOV)	€ 3.750,00	**3,8**
2	Ahold Pensioenfonds	€ 4.383,00	**3,8**
3	Pensioenfonds SNS Reaal	€ 3.306,00	**3,8**

Figure 2.5 Top 3 of large, medium and small pension funds, in terms of assets under management (AuM).

An overview of the top 3 large, medium and small pension funds is presented in table 2.5. The table shows that there is a relationship between the size of a pension fund, in terms of assets under management, and the level of responsible investment. However, this relation is not causal. For example, when taking a closer look: large pension fund PMT scores significantly lower than medium sized pension fund BPL Pensioen, which has almost €53 billion less in assets under management. All of the medium sized pension funds score higher than the small pension funds. Hence, there are pension funds with a smaller amount of assets under management, yet still perform as high as pension funds with a substantially greater amount of assets.

2.2) Results per category

To provide better insight into the underlying factors that determine the overall results, each researched category is analysed separately in the following sections.

2.2.1) Governance

Governance refers to the role and responsibility of the board and senior management regarding the responsible investment policy. It is an important factor in the successful implementation of the policy. Good governance of the responsible investment policies relies on different factors, such as: the involvement of senior management and the board, 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 policyholders, and clear guidance from the board towards the asset manager in terms of targets or impact measurement.

Performance on governance improved slightly

The overall score for governance increased slightly from 3.2 in 2015 to 3.4 in 2016. Pensioenfonds Zorg en Welzijn (PFZW), Algemeen Burgerlijk Pensioenfonds (ABP), BPL Pensioen, Pensioenfonds van de Metalelektro (PME) and Heineken Pensioenfonds obtained the highest possible score, making them the highest performers on governance in the sector. A total of 7 pension funds increased their score on governance by at least 1 point. Pensioenfonds Huisartsen (SPH) (+1.6), Pensioenfonds KPN (+1.3), and pensioenfonds Hooghovens (+1.2), show the highest increase in governance performance. The most important results on governance performance can be seen in the following figures (Figure 2.6, 2.7, 2.8 and 2.9) Each figure represents cumulated results from all pension funds studied.

Responsibility for the responsible investment policy occurs mostly at the executive board level

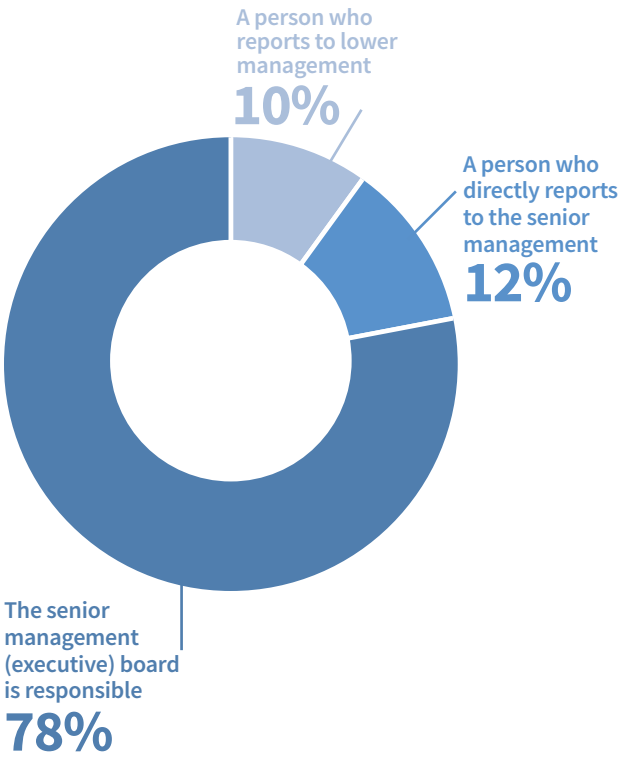


Figure 2.6 Responsibility for the development and approval of the responsible investment policy.

Compared to 2016, the responsibility for the responsible investment policy progressed upwards toward the senior management board. The (executive) board bears responsibility for the responsible investment policy at 78% of the pension funds. Currently, at 12% of the pension funds a person who directly reports to the senior management (executive) board is responsible. In 10% of the cases the responsibility lies solely with an individual that reports to lower management. There are no pension funds which do not take any responsibility for responsible investment. These results show that, when responsibility for the responsible investment policy is formally applied, responsibility occurs mostly at executive board level as opposed to lower management levels. Related to the responsibility of the responsible investment policy is the frequency of discussion of responsible investment matters, as shown in Figure 2.7.

All boards discussed the responsible investment policy

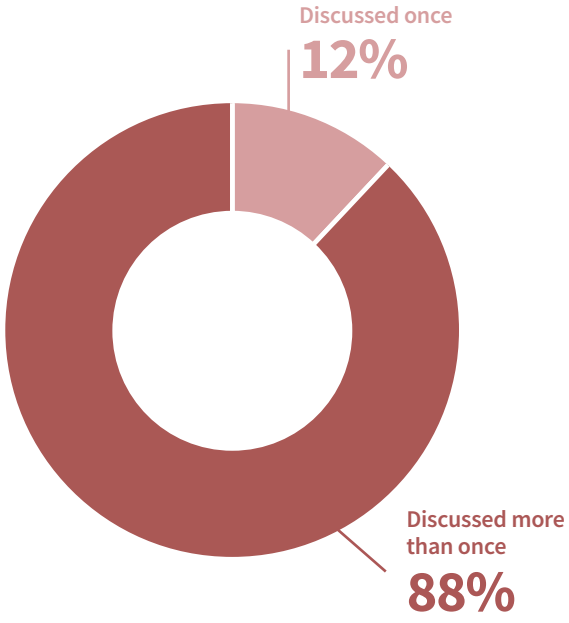


Figure 2.7 Frequency of discussions on responsible investment policy at senior level.

All senior boards discussed the responsible investment policy in 2016, 88% of those senior boards discussed it at least twice (Figure 2.7). According to VBDO, quantity of discussion about responsible investment at the board level is a good indicator for responsible investment performance. However, rather than the quantity of discussions, when analysing the results, VBDO's focus lies primarily on the content and quality of these discussions. Sometimes the responsible investment policy is briefly touched upon and the discussion lacks depth or a concrete roadmap.

Most pension funds do not set sustainability targets for their asset managers

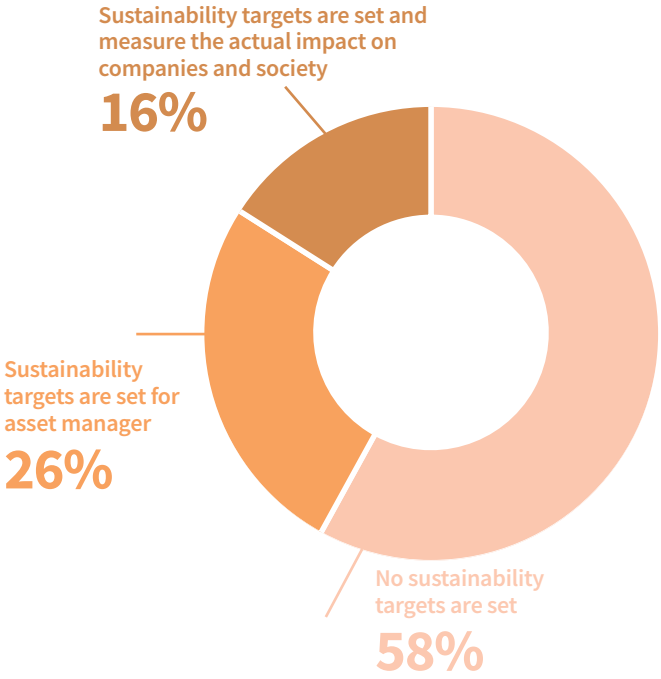


Figure 2.8 Sustainability targets for asset managers.

Most pension funds have an external asset manager which acts as a trustee based on the investment mandate given by the pension fund. Targets can be set for the external manager in the selection and monitoring process. Setting targets on responsible investment for external asset managers enables the board to successfully improve, evaluate and shape the responsible investment policy.

In total 42% of the pension funds demonstrably set sustainability targets for their asset managers (Figure 2.8). Out of the pension funds that set sustainability targets, 38% set targets that measure the actual impact of the investments. VBDO encourages pension funds to go beyond only setting targets for the asset manager. By measuring the impact of these targets on companies and society, the pension funds will obtain more insight in the effect of their policies. It helps them to accurately track progress and steer on possible improvements; and, to present their clients with actual responsible investment performance.

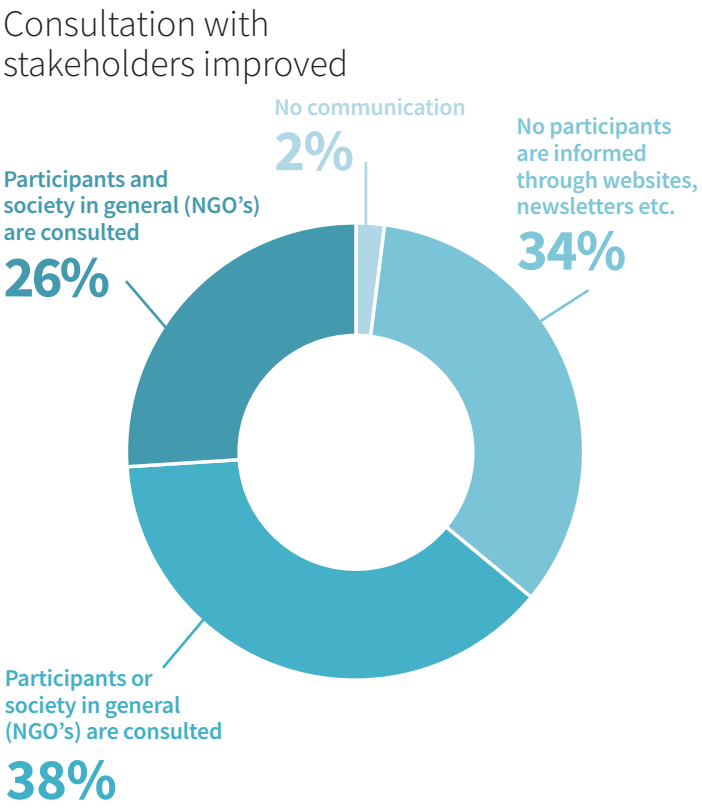


Figure 2.9 Communication and consultation with participants and other stakeholders regarding the responsible investment policy.

Responsible investment is based on: acknowledging the responsibility an institutional investor has to decrease negative and improve positive effects on society. Therefore, an institutional investor not only needs to be aware of economic developments, but also needs to be aware of the preferences of its stakeholders, e.g., participants, and the developments regarding sustainability. Seeking constructive dialogue with, for example, participants or NGOs on how the pension fund can assume its responsibilities is therefore viewed positively.

The number of pension funds that consulted either policyholders or society in general (e.g., NGOs) improved compared to the previous year. In 2015, 24% of the pension funds consulted either their participants directly or consulted society in general. During 2016, 38% of the pension funds did this. Moreover, in 2015, 16% of the funds consulted both its participants and NGOs. This number has now risen to 26%, indicating that pension funds have become more engaged with their participants and other stakeholders. Only 2% do not communicate about the responsible investment policy and 34% choose a more passive strategy, such as to inform through websites or newsletters.

Stakeholder dialogues

Some pension funds organise special stakeholder dialogues. In these dialogues different kinds of stakeholder groups are questioned about what the most material sustainability issues are. These stakeholder groups can consist of participants, employees, suppliers, and also civil society such as academia or NGOs. Pension funds use this information to evaluate the responsible investment policy and adapt the policy where necessary.

A pension fund can seek constructive dialogue with, for example, participants or NGOs on how the pension fund can: assume its responsibilities, and decrease negative and improve positive effects on society. Thus, the pension fund becomes aware of any discontent between themselves and stakeholders, at an early stage.

2.2.2) Policy

This section refers to the responsible investment policy of pension funds, which serves as the directive for investing. A comprehensive responsible investment policy describes, in detail, how sustainability themes are addressed. Therefore, the content and extensiveness of the policy is essential to improve and increase the level of sustainable investments.

Firstly, prior to formulating a responsible investment policy, it is essential for pension funds to formulate their basic principles for investment, the so-called investment beliefs. The investment beliefs stand above the responsible investment policy and guide its content. Secondly, the pension fund should formulate a long-term vision including targets to which sustainability is an integral part. Thirdly, the responsible investment policy needs to be defined as clearly as possible and to be available in publicly accessible documentation. Clear and measurable targets should therefore be included in this policy. Clear and measurable targets track progress and

enable the evaluation and improvement of the policy. Fourthly, the policy should cover the three ESG themes (Environment, Social and Governance) and be applicable to all asset classes. The next step of the improvement of the policy is the integration of sustainability information in strategic asset allocation decisions and the ALM-modelling.

Figure 2.10 gives an indication of the percentage of the portfolio that is covered by the responsible investment policy. As can be seen, the majority of the pension funds (37 out of the 50 reviewed), have a responsible investment policy that covers almost the entire portfolio of the pension fund (95%-100%). Only four pension funds have a portfolio where a responsible investment policy covers either less than 75%, or none of the portfolio. These figures indicate that the responsible investment policies of pension funds are far-reaching and cover most asset classes. Note: these results are self-reported.

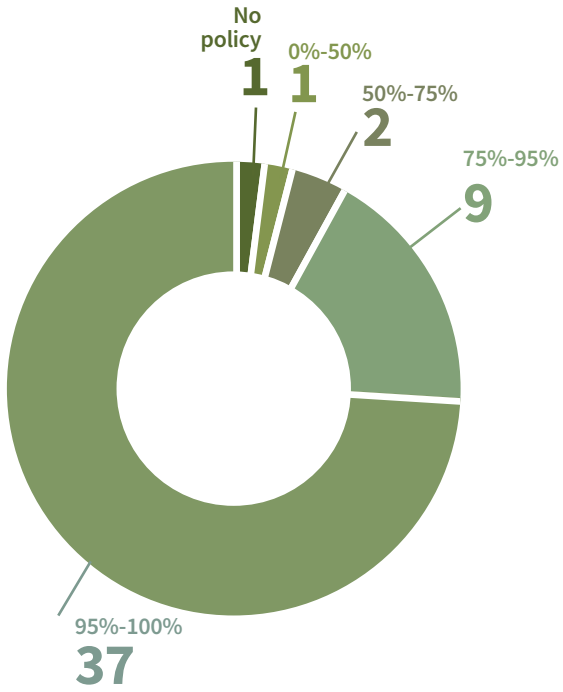


Figure 2.10 Percentage of total investment portfolio covered by responsible investment policy. The numbers in the graph represent the number of pension funds (Numbers of pension funds = 50 in total).

Performance on policy improved

Of a maximum of five points, the overall average score for policy has improved from 2.6 (2015) to 3.0. This year no pension fund obtained the highest possible score. However, Algemeen Burgerlijk Pensioenfonds (ABP), BPL Pensioen, Pensioenfonds Progress (Unilever), Pensioenfonds van de Metalelektro (PME) and Pensioenfonds Zorg en Welzijn (PFZW) scored 4.5 out of 5 stars, making them the highest performers on policy in the sector. The pension funds with the highest increase in policy score are Pensioenfonds PostNL (+2.0) and Bedrijfstakpensioenfonds Schoonmaak (+1.8). A total of 14 pension funds increased their policy score with at least one point. The most important results are outlined in the following figures.

Nearly all pension funds cover responsible investment in their investment beliefs

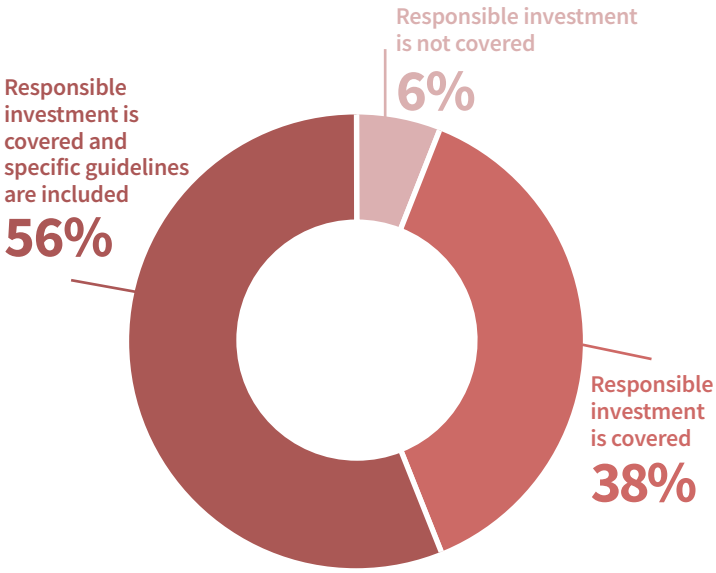


Figure 2.11 Responsible investment covered in the investment beliefs.

VBDO asked pension funds whether or not responsible investment is integrated into the investment beliefs. The investment beliefs are unique to each pension fund and contain the pension fund's beliefs on the highest abstraction level. Investment beliefs covering responsible investment can have different forms, such as, “we want our participants to retire in a world that is sustainable”, or, “to prevent negative societal effects and, where possible, contribute to positive societal effects”, and, “both financial as well as environmental and/or social value are equally as important”.

More than half, i.e., 56%, of all pension funds provide guidelines which more deeply specify how the impact of investment beliefs is to be realised. A guideline can be, for example, that a pension fund specifies different sustainability focus themes and what steps are being taken to incorporate the investment beliefs. A specific guideline is, for example, "Environmental, social and governance (ESG) factors are systematically taken into account in the investment processes and decision-making". Specific guidelines are then followed by a further explanation on how the factors are taken into account. Or, a specification on how the responsible investment beliefs and policy are embedded in the overall internal policy framework.

As is shown in Figure 2.11, 94% of the pension funds incorporate responsible investment in their investment beliefs. This illustrates the importance of responsible investment at the highest policy abstraction level. Only 6% of the pension funds do not incorporate responsible investment in the investment beliefs.

Setting targets remains challenging, even so, pension funds increasingly set targets that measure the actual impact on society and corporations

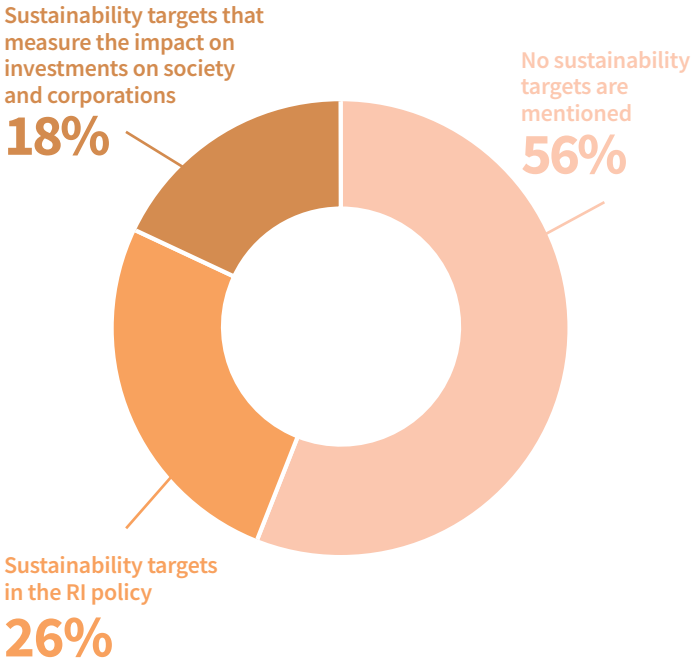


Figure 2.12 **Sustainability targets mentioned in the long-term strategy and vision of pension funds.**
(RI = Responsible Investment)

Sustainability should be part of the long-term strategy and vision of the pension fund. One year ago, VBDO asked questions specifically about key performance indicators (KPI’s) and their time frame. This year VBDO asked questions about if, and to what extent, sustainability is embedded into target setting. Sustainability targets can be outlined in different forms. For example, “to reduce CO2 emissions by x-% through investments as compared to x-year”, or, “to exclude all companies in the portfolio that derive x-% of their turnover through coal mining activities”. Specific targets will help to take concrete steps and can be used to evaluate progress and improve performance.

26% of the pension funds have set sustainability targets in relation to the responsible investment policy. Another 18% have set targets that actually measure the impact of investments on society and corporations. This is a significant

increase compared to the year 2015, when only 4% of the pension funds had targets in place that measure the actual impact of investments. Although this increase is a positive step forward, most pension funds (56%) have not mentioned sustainability factors in their current target setting at all. Therefore, it can be concluded that it remains challenging for pension funds to set clear and measurable sustainability targets.

ESG themes are widely covered

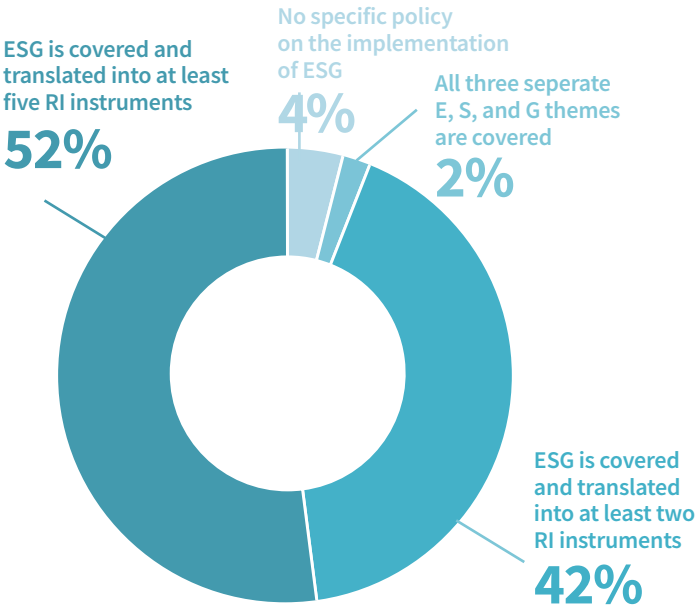


Figure 2.13 ESG themes covered in the responsible investment policy.

VBDO selected the widely accepted ESG themes (Environmental, Society, Governance) as a basis for assessing the content of the policies. This means that the policy should explain which themes are important to the investor and how the themes are used in the investment decision process.

Figure 2.13 shows that, in most cases (96%), the responsible investment policy of the pension funds covers all three themes. According to VBDO, the translation of the ESG themes into responsible investment instruments such as engagement, voting, ESG integration, exclusion and impact investing is vital to reaching the goals (as outlined in the policy). 94% of the pension funds translate ESG factors into instruments.
Out of all 50 pension funds, 42% translate them into at least two instruments. And 52% translate them into all five instruments. These results demonstrate that ESG themes are widely accepted as a basis for the responsible investment instruments.

In 2016 and 2017 VBDO organised, in cooperation with a wide range of experts and SPIL (Sustainable Pension Investments Lab), a set of master classes with a primary focus on climate change and strategic asset allocation.

During the master classes, it became clear that climate change will impact investment portfolios in a wide range of ways, i.e., transition and physical risks. Also, institutional investors themselves can have a positive impact on mitigating and adapting to climate change through their investing.

There are a growing number of instruments and data available to assess carbon risks in specific companies. However, many steps are needed to make institutional investors fully capable of assessing climate change risks in the portfolio and translating this to sound investment decisions.

The following questions were discussed during the master classes:

1. What influence will climate change and the energy transition have on society, the economy and investment portfolios?
2. What is the exposure of investors to these risks and opportunities?
3. How can investors mitigate these risks and take on their societal role?

For a summary of the discussions and conclusions and recommendations please take a closer look at the whitepaper Institutional investors and climate change.

Use of ESG information on a strategic level remains uncommon for most pension funds

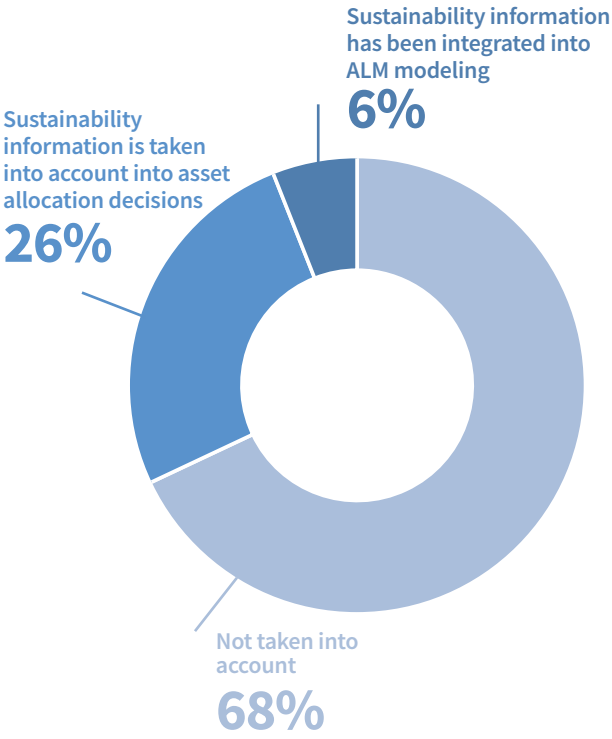


Figure 2.14 Sustainability in strategic asset allocation.

ESG information should also be taken into account in strategic asset allocation, especially since this has an impact on multiple sectors and asset classes. For example, information related to renewable or fossil fuels (e.g., the discussion on the "Carbon Bubble") can be integrated into the investment process. Because this information leads to a larger or smaller exposure to the fossil fuel sector in all asset classes.

In Figure 2.14 it is shown that 32%of the pension funds used ESG information and trends in the strategic asset allocation. Compared to the previous study in 2015, the use of ESG information and sustainability trends in strategic asset allocation remained stable. However, an increasing number of pension funds stated that they have the intention to implement this in the future. The highest attainable score (2/2) is awarded to pension funds that integrate sustainability information into their ALM-modeling. The use of ESG information and trends in ALM-modeling was measured for the first time this year. Despite the fact that, for most pension funds, ALM-modeling is a common practice, only 6% of the pension funds integrated sustainability information.

Sustainable Development Goals

On September 25th 2015, all the member states of the United Nations adopted the Sustainable Development Goals. The Goals define the global sustainable development priorities and aspirations for 2030. The new sustainable development agenda contains 17 goals with specific targets. It commits countries to address the root causes of poverty and increase economic growth and prosperity for all (within the boundaries of the planet. [1]

The SDGs have replaced the Millennium Development Goals (MDGs). In 2000 the MDGs started a global effort to, among others, tackle extreme poverty and hunger, prevent deadly diseases, and expand primary education to all children. New areas include topics such as climate change, economic inequality, innovation, sustainable consumption, and peace and justice.

While the Sustainable Development Goals have been agreed upon by all governments, their success relies heavily upon action and collaboration by all actors; governments, businesses and civil society. Unlike their predecessor, the SDGs explicitly call on all businesses to apply their creativity and innovation to solve sustainable development challenges.

The financial sector has also started an initiative for a joint SDG investment agenda, with 18 signatories, including a variety of institutional investors. This Dutch SDG Investing (SDGI) agenda serves to reinforce commitment; to offer concrete recommendations for collective action to create a greater SDG investment environment; and to increase the net positive contribution to each of the seventeen SDGs, with a specific focus on Goal 17 (Partnerships for the goals). In the report 'Building Highways to SDG Investing', the signatories state that: "we believe it is in our best interest, as well as that of our clients and investees, to consider the largest societal challenges of our time in our work and investments." [2]

1 https://www.un.org/sustainabledevelopment/sustainable-development-goals/

2 https://static1.squarespace.com/static/582981ddebbd1ad7f34681b6/t/5899acd5c534a5036aeada0c/1486466378381/Building+Highways+to+SDG+Investing+PDF.pdf

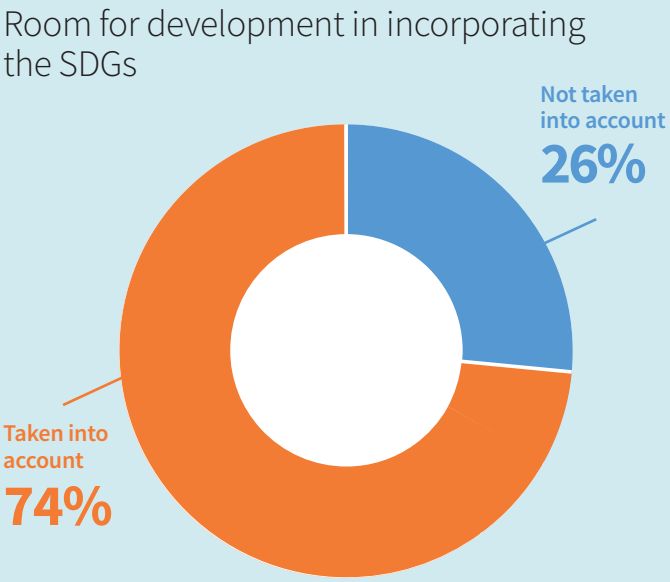


Figure 2.15 Incorporation of the Sustainable Development Goals into the responsible investment policy (note: results are self-reported).

VBDO has asked 30 insurance companies which Sustainable Development Goals have been included in their responsible investment policy. Figure 2.13 shows what percentage of the insurance companies has included them. As can be seen this is a small portion, just 27% of the insurance companies. However, it must be noted that only 11 of the 30 insurance companies responded to the inquiry.

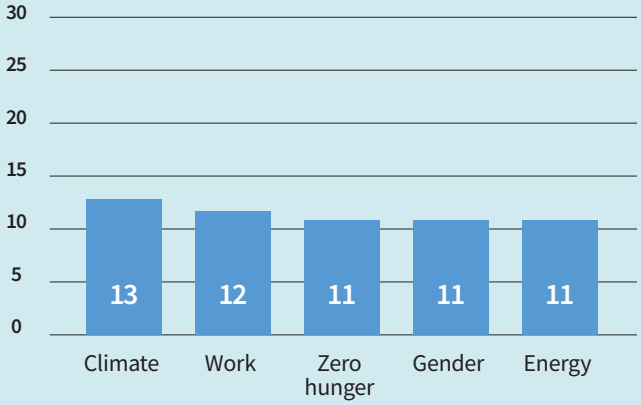


Figure 2.16 Most frequently incorporated Sustainable Development Goals (Note: results are self-reported).

The most popular Goals for the respondents were; goal 13: climate action, goal 8: decent work and economic growth, goal 2: zero hunger, goal 5: gender equality and goal 7: affordable and clean energy.

The VBDO encourages pension funds to:

- Conduct a materiality analysis to identify which SDGs are relevant for the pension fund. Relevant SDGs are those which are closely linked to the pension fund's core activities, mission, vision, investment beliefs, and areas where the pension fund can make a large positive impact or reduce negative impact;
- Use the SDGs to create new investment opportunities that have a positive impact on the identified SDGs. By identifying relevant SDGs, companies can create new business opportunities and lower their risk profiles. The SDGs define growing markets. On the website of UN PRI, pension funds can find investment opportunities.[3] ;
- Set measurable, time-bound targets which are in-line with UN targets. Report on progress to concretize the ambition towards contributing to the goals;
- Form partnerships with other pension funds, governments, NGOs and academia to increase impact in the SDGs. This can be realized by shared research, signing the SDG Charter NL, and open resources or shared projects.

3 https://www.unpri.org/download_report/22974

2.2.3) Implementation

The creation of a comprehensive policy is a vital aspect of responsible investment. Subsequently, the main component of this policy is the implementation, as the score on implementation demonstrates how well the responsible investment strategy is actually implemented. Implementation is analysed by reviewing the various asset classes and the applicable responsible investment instruments. For each asset class, several specific instruments have been identified. The actual implementation of the responsible investment practices makes up 50% of the total score of the benchmark.

This section analyses:

I. **The overall implementation results.**
II. **The results per instrument, based on the various asset classes: public equity, corporate bonds, government bonds, real estate, private equity and alternative investments (e.g. hedge funds and commodities).**

The results, per instrument, will cover the three major asset classes: public listed equity, corporate bonds and government bonds. The most important results of the real estate, private equity and alternative investment asset classes will be mentioned shortly.

The past years have shown major developments in the implementation of a responsible investment policy. Several types of instruments have been developed and they are applied to a broader range of asset classes, despite limitations of some of these asset classes. Because some of the instruments are complementary to each other, and investors tend to find different solutions for each asset class, the implementation practices between asset classes may vary significantly. Therefore, it is difficult to single-out one best solution.

Overall implementation results

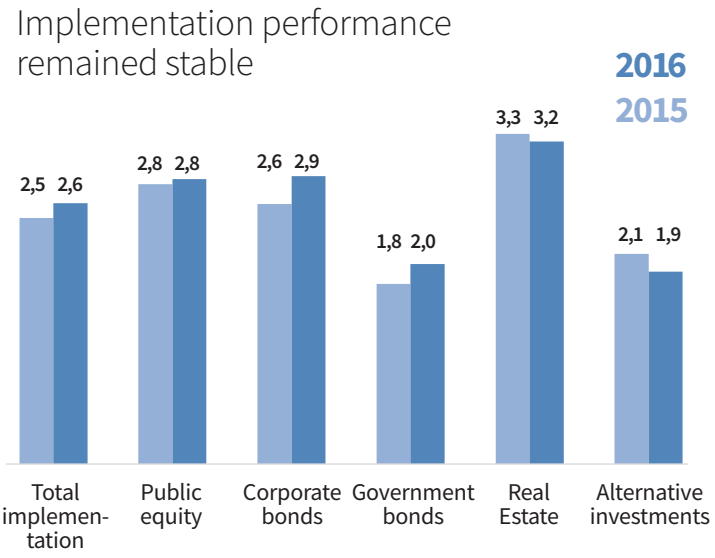


Figure 2.17 Total scores per asset class based on total score of applicable instruments.

Figure 2.17 shows the average scores of implementation in total and per asset class. The total implementation score increased slightly (+0.1) compared to the results of 2015. Overall, the implementation of the responsible investment policy increased in the asset classes government and corporate bonds (+0.2 and +0.3 respectively). And the score for public equity remained stable at 2.8. VBDO encourages Dutch pension funds to increase their implementation efforts. The maximum score that can be achieved for implementation is 5.0, making the current total implementation score still perform at approximately half of the maximum score.

	Asset mix	2016	2015
Total implementation		**2.6**	**2.5**
Public equity	**33%**	2.8	2.8
Corporate bonds	**19%**	2.9	2.6
Government bonds	**34%**	2.0	1.8
Real estate	**8%**	3.2	3.3
Alternative investments	**6%**	1.9	2.1

Figure 2.18 Total score of implementation per asset class.

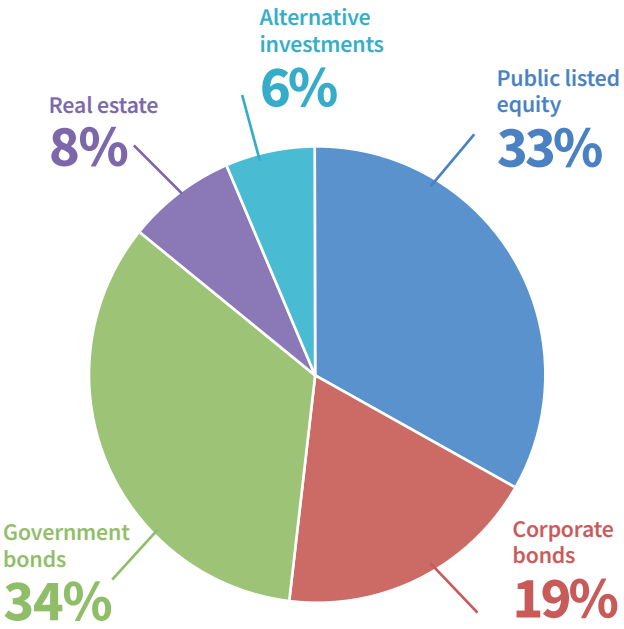


Figure 2.19 Allocation per asset class.

Figure 2.19 shows the weight of the asset classes in the total portfolio of the pension funds. The allocation of assets determines the final score on implementation. The weight of assets distributed among the asset classes is nearly identical to 2016. The allocations per asset class show that the weight of public listed equity (33%) is almost equal to government bonds (34%). Making them both the most popular investment by pension funds. Although it is an individual case by case situation, it can be concluded that, in general, the scores on public equity and government bonds will strongly determine the final score on implementation. While the scores of the asset classes real estate and alternative investments will have a minor effect on the final score.

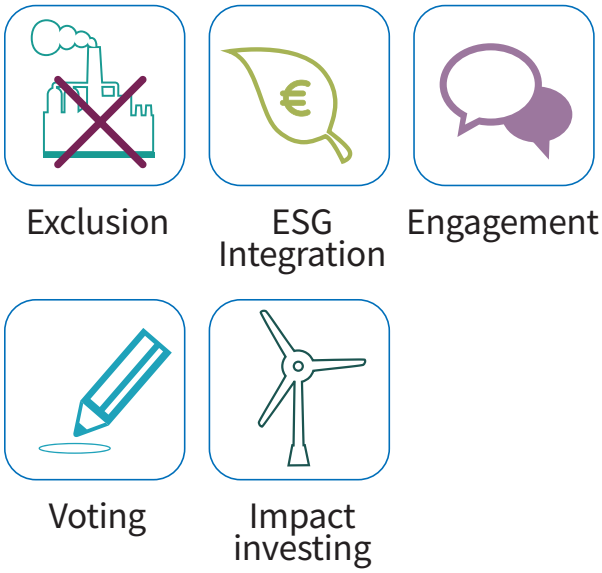
When analysing the pension funds in the 4-star category, the average implementation score is 4.3, while the 3-star category has an average score of 3.4. The pension funds in the 2-star category remain close to the 3-star category with an average of 2.8. The 1-star category has an average implementation score of 1.8, creating a 1 point gap with the 2-star category. The category without a star lags behind with an average score of 0.6. The gap in the average scores between the 4-star and 3-star category indicates that a clear distinction exists regarding the implementation of the responsible investment policy.

When analysing the 4-star category, Algemeen Burgerlijk Pensioenfonds (ABP), Pensioenfonds Zorg en Welzijn (PFZW) and BPL Pensioen share the first place with a score of 4.2. The second place is occupied by Bedrijfstakpensioenfonds voor de Bouwnijverheid (bpf BOUW) and Pensioensfonds voor Woningcorporaties (SPW) with 4.0. The close scoring indicates that, among the pension funds in the 4-star category, competition on implementation is strong, yet the score remains under 4.3.

Interestingly, the scores among the pension funds in the 4-star category decreased slightly compared to the benchmark issued in 2016. This is most likely due to VBDO's more extensive calculation method and slight changes in the methodology. Notable is the increase in implementation score for PostNL from 1.7 to 2.9.

Results based on responsible investment instruments

VBDO distinguishes five different responsible investment instruments. Performance on these instruments is measured separately and the results are described in the following pages. The following instruments are covered:



I. Exclusion

Exclusion is a relatively basic responsible investment instrument. It shows what kind of investments the pension fund chooses not to make. This can either be done based on legal grounds, from a reputational standpoint, from an ethical belief, or sustainable perspective. The tool is utilised to systematically exclude companies, sectors or countries with certain characteristics, from the list of possible investments.

Although exclusion is a relatively basic instrument, it does require a vision on controversial issues, e.g., corruption scandals, human rights violations, arms. Since 2013, exclusion of investment in cluster munitions is legally binding in the Netherlands. VBDO only assesses exclusion strategies that go beyond legally binding criteria. The most common criterion of exclusion encountered during the study was the exclusion of investments into controversial weapons (other than cluster munition). For public listed equity, exclusion based on one criterion could deliver one point and exclusion based on multiple criteria two points. Pension funds can only receive the maximum score (i.e., 2/2) if they are demonstrably excluding companies based on multiple criteria. Other criteria used for exclusion were: tobacco companies and violations of UN Global Compact themes, e.g., human rights, labour rights, environment or anti-corruption. [4]

The exclusion policy for government bonds is analysed in a slightly different way than in the asset classes of public equity and corporate bonds. For government bonds, exclusion based on official sanction lists (e.g., EU, UN) equals one criterion; exclusion that is more extensive, by excluding based on the pension fund's own sustainability-related country considerations, equals multiple criteria. Pension funds can only receive the maximum score (i.e., 2/2) if they are demonstrably excluding companies based on multiple criteria.

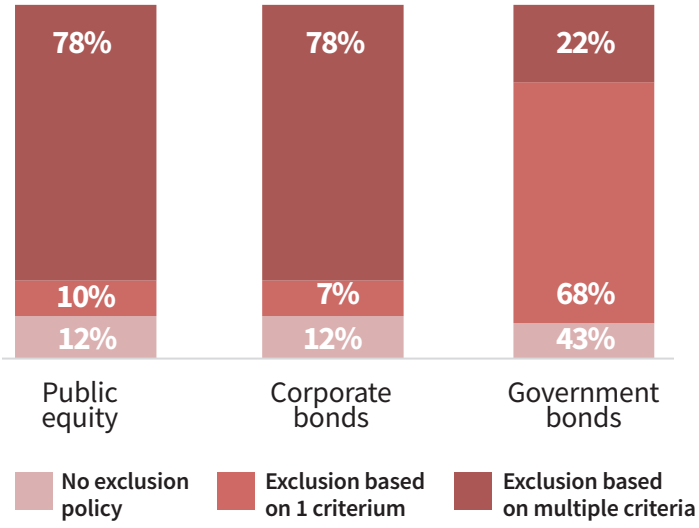


Figure 2.20 Extent of the exclusion policy per asset class.

As can be seen in Figure 2.20, the exclusion policy was addressed in the three major asset classes. Both public equity and corporate bonds have a far-reaching exclusion policy, while implementation in government bonds lags. If an exclusion policy is implemented in public equity and corporate bonds, the majority excludes companies based on multiple criteria. This differs for government bonds, where the majority only use the UN and EU sanction lists. Exclusion based on a pension fund's own sustainability criteria - related to country considerations - is in its infancy.

[6] Since the legal ban on investments in cluster munitions came into force in 2013, all institutional investors, such as pension funds, exclude investments in this sector. However, minor exposure to cluster munitions remain via passive investment products or other indirect investments. These investments are still allowed under the current legislation.

Investments in the tobacco sector are common in the investment portfolios of institutional investors. In 2017 VBDO published an overview of how Dutch institutional investors cope with tobacco investments. Institutional investors are provided with recommendations on how to formulate their own responsible investment policy concerning tobacco.

Key findings include that, of the responding institutional investors, 41% do not have a policy on tobacco. However, there are large differences between the types of institutional investors. For example, in the insurance sector, only 9% of the respondents have not created a policy. This is in sharp contrast to the responding pension funds, of which 73% do not have a policy on tobacco.

Especially for insurance companies, the exclusion of tobacco producers is a common practice due to the connection between many insurance companies and the health sector. However, for pension funds tobacco exclusions can be equally as important for different reasons, such as: reputational risk, misalignment with the Sustainable Development Goals. For health care pension funds: misalignment with the participants. 20% of the responding pension funds state that the best way to act on tobacco is the exclusion of tobacco producers. While 64% of the participating insurance companies indicate that exclusion is the best approach.

II. ESG Integration

ESG integration refers to the process by which Environmental, Social and Governance (ESG) factors are being integrated into the investment decision making process, complementary to financial data. Asset managers integrate ESG criteria for several reasons. Firstly, it can improve their decision-making process by including risk factors. This can have a material impact on investment returns. Another reason is because the client requests it. Some asset managers state that ESG integration alone is insufficient to realise enough social return; therefore, they implement other instruments, such as impact investing.

- **Pension funds integrate ESG in some initial form. For example, they require their asset managers to be a signatory to the PRI.**
- **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 onepagers regarding company sustainability performance.**
- **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.**

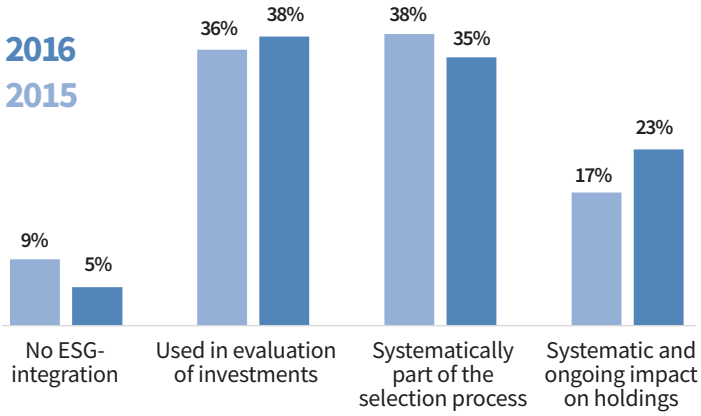


Figure 2.21 **Extent of ESG integration in 2016 compared to 2015 for public equity, corporate bonds, developed and emerging market bonds** (All equity and bonds are cumulatively presented.)

Figure 2.21 records changes in ESG integration among pension funds for public equity, corporate and government bonds (cumulatively presented). A further breakdown of these results is available at VBDO upon request. Since only 5% of the pension funds do not have any form of ESG integration in place, it can be concluded that ESG integration is almost mainstream. ESG factors in the evaluation of investments (e.g., being a signatory to PRI), improved slightly (2%) and are common practice among pension funds. The next stage, where this information is systematically used in the investment decision making process, showed a minor decrease of 3%. However, in the final stage, where a pension fund's ESG integration has a systematic, ongoing and verifiable impact on individual holdings, increased by 6%. This indicates that pension funds are improving their ESG integration practices.

Regarding the investments in government bonds, there are two main subclasses: developed market and emerging market bonds. According to some pension funds, ESG integration in emerging markets is more difficult than for developed market bonds(the latter is considered more "ESG proof"). Nevertheless, there are front-runners that do research and incorporate ESG criteria into the selection of developed market bonds. Therefore, the VBDO distinguishes between developed and emerging market bonds.
In Figure 2.22 the results of ESG integration per asset class are highlighted. [5]

[5] Note, for emerging market bonds 96% is presented; the remaining 4% of the pension funds did not invest in emerging market bonds.

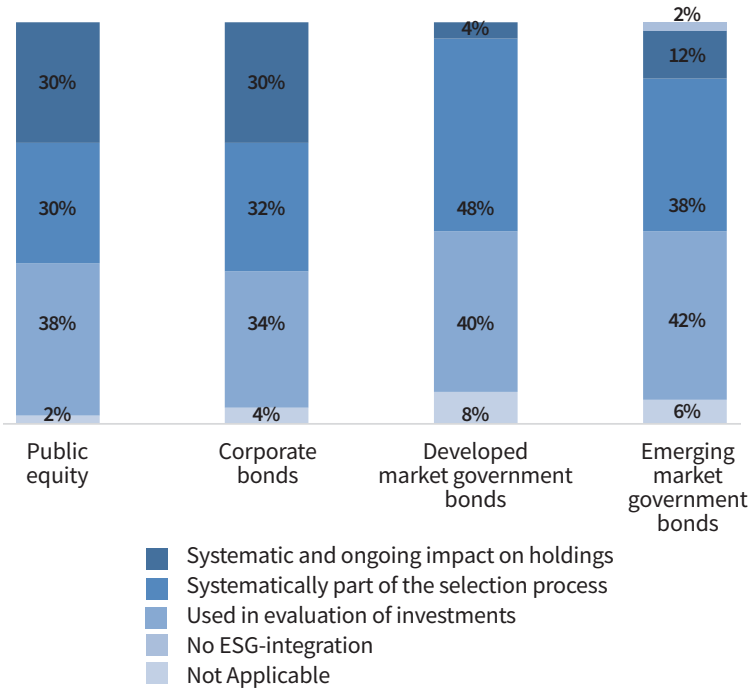


Figure 2.22 Extent of ESG integration for public equity, corporate bonds, developed market bonds and emerging market bonds.

Figure 2.22 shows that the level of ESG integration among the different asset classes differs. This indicates that the pension funds have implemented different ESG integration policies, varying from one asset class to another. However, the asset classes of public equity and corporate bonds show similar figures. As stated previously, the use of ESG information in the evaluation of investments is mostly implemented by the requirement to be PRI signatory. Within this basic form of ESG integration, there are no distinct differences between the pension fund (among the four asset classes). When analysing the use of ESG in a systematic way during the selection process and ongoing impact on holdings, the figure remarkably shows: public equity and corporate bonds implemented ESG more often (respectively 60% and 62%); developed and emerging government bonds implemented ESG less often (52% and 50%, respectively). Especially the systematic use of ESG information in the selection process is a useful tool to realise a significant impact on the portfolio. Hence, the increase in the systematic use of ESG information compared to the previous study is a meaningful development. Finally, for public equity and corporate bonds it is more common that the integration of ESG factors in the investment decision making process has an actual and verifiable impact on individual holdings (30%). This is significantly higher compared to developed and emerging market bonds (4% and 12%, respectively).

The average portfolio coverage of ESG integration appears to remain stable compared to the previous study for the combined equity, corporate and government bonds portfolios. However, a significant increase in the percentage of the portfolio covered is visible. Figure 2.23 shows that a majority of pension funds (74%) implemented some form of ESG integration for most of the portfolio (76-100%). In the previous study this was only 27%. No implementation, or implementation for only a small percentage of the portfolio (1-25%), took place at 5% of the pension funds. Especially in the asset class government bonds, a clear increase in the volume of ESG-integration is visible. Compared to the year 2015, the percentage of the government bond portfolio that is covered by the ESG-integration increased.

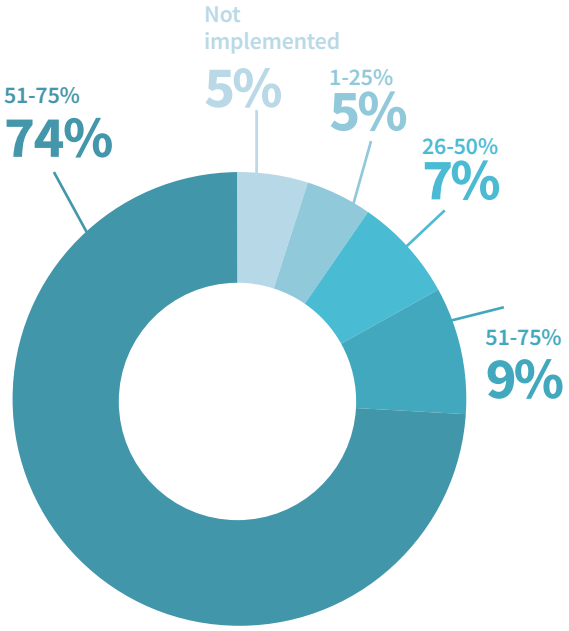


Figure 2.23 Volume of ESG integration.

ESG integration in alternative asset classes

In this year's study, special attention was paid to the implementation of responsible investment policies in private equity. Despite private equity's controversial reputation, VBDO believes that the private equity business model is perfectly suited to act as an enabler in the transition towards a more sustainable society. This is primarily because of the high extent of influence the private equity investor has on the company's strategy. Accordingly, private equity is being analysed as a separate asset class. A distinction was made between indirect and direct private equity. With indirect private equity investments, the investors' primary moment of influence is at the manager and fund selection stage. Sometimes pension funds invest directly in private equity, for instance through co- investing. For this type of investment, ESG criteria can be considered when the pension fund decides on the proposed (co-)investment.

Looking at the pension funds that provided an explanation regarding their private equity investments, 36 pension funds have investments in this category (72%). This indicates that private equity is a widespread investment category. Of the 36 pension funds that have investments in private equity, 16 (44%) considered ESG issues in their indirect private equity investments. 18 pension funds (50%) demonstrably: consider ESG issues in the selection of private equity managers and fund selection, and formalize the ESG-requirements in deal documentation such as a side letter.

From the 11 pension funds that had direct private equity investments, 8 reported to consider ESG issues in their investment analyses. Overall it can be concluded that if a pension fund has investments in private equity, some form of responsible investment policy is in place.

Responsible investments in real estate were measured by the degree of integration of ESG issues in (1) the maintenance or purchase of direct real estate, and (2) in the selection and evaluation of real estate managers. Real estate is a common asset class in which pension funds invest; 45 pension funds allocate assets to real estate. However, the amount of assets allocated to this asset class are generally low; 15 pension funds allocated between 10-15% of their assets. Real estate constitutes only 8% of the total asset mix. Responsible nvesting in real estate is done in multiple ways. Directly, for example, by considering energy efficiency and requiring the use of sustainable building materials. Or indirectly, for example, by investing in sustainable real estate funds. 22 pension funds that invest in direct real estate consider ESG issues in the selection/development of new real estate objects, and in the maintenance of real estate objects. 33 pension funds that invest in indirect real estate demonstrably consider ESG issues in the selection and evaluation of real estate fund managers/publicly listed real estate companies. Another 11 funds (investing in indirect real estat) only select the most sustainable real estate fund managers/real estate companies.

In 2017 only 17 pension funds invested in commodities, of which 13 demonstrably consider ESG issues in selection/ evaluation of all of the investments. Several pension funds stated that, because of ESG criteria, investments in commodities were excluded. Investments in commodities can be seen as controversial because of the financial speculation, especially with agricultural commodities on futures. Another alternative investment is hedge funds. Only 10 pension funds invest in hedge funds and 8 consider ESG issues in some of their hedge fund investments. Five pension funds consider ESG issues in the selection/evaluation of all of the investments in hedge funds.

III. Engagement

As share and bond owners of the companies they invest in, pension funds can actively influence the policies of these companies by entering into a dialogue. A total of 41 pension funds (82%) actively engage with companies regarding their assets in public equity and 39 (78%) with regard to corporate bonds. 41 of them engage on all ESG themes (Environmental, Social, Governance) for their public equity portfolio. 39 engage on all ESG themes for their corporate bonds investments, which is more than in the previous study (2015: 35).

From those that are engaged in public equity, 13 of the 41 pension funds evaluate the engagement process and measure progress. These 13 do not, however, take further steps based on the results of the engagement. Ten additional pension fund do take further steps to follow-up on the engagement. Pension funds also engage companies in their corporate bond portfolio, similar policies are implemented here. For those that are engaged in corporate bonds, 11 of the 39 pension funds have some form of evaluation (28%), while an additional 29 pension funds (71%) take further steps based on the results of engagement.

Figure 2.24 provides an overview of the percentage, as an average of both asset classes, of pension funds that evaluate their engagement process. This figure shows that, of all pension funds in this study, 76% have implemented a policy regarding the evaluation of the process of engagement and the measurement of progress.

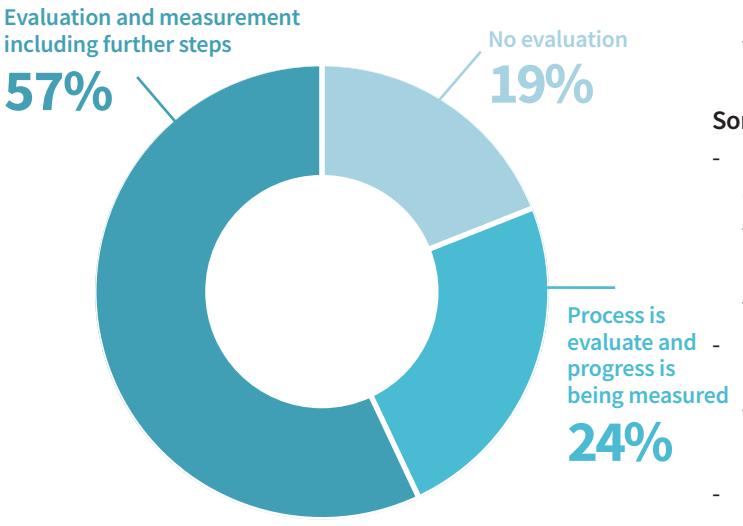


Figure 2.24 Engagement process in public equity and corporate bonds.

As was mentioned in the previous section, the share of real estate in the total asset allocation is small. Nevertheless, engagement policies in real estate are an important part of the measurement of responsible investment practices in real estate. Of the 45 pension funds that have investments in indirect real estate, 20 demonstrably engage with real estate fund managers on ESG-criteria. Besides engagement, 15 pension funds showed demonstrable results over the year 2016.

Engagement practices

Engagement can be done: to optimise long-term value, manage reputational risk and as activist engagement. Effective engagement requires thorough preparation. It is important to monitor and increase the effectiveness of engagement and to prevent it from becoming an exercise in box-ticking. Particularly because most pension funds outsourced the engagement activities to specialised parties.

The pension funds' engagement occurs in various forms. In a few cases the asset owner performs focused engagement on some core companies. More commonly, engagement is outsourced to parties such as BMO, Hermes EOS, and GES. Sometimes the engagement activities happen collectively.

- The engagement process should be based on the three ESG themes.
- To optimize the engagement results, it is essential that the engagement process is being evaluated, progress is being measured, and that the investor take further steps based on the engagement results.

Some examples of engagement:

- Pension funds can enter into constructive dialogue with companies, about controversial themes or practices, with the goal of influencing their behaviour. For example, to encourage firms to incorporate social or environmental themes, or prevent companies from breaking rules.
- Pension funds can also enter into dialogue with companies in order to receive information on ESG themes and trends. This information can be used in the decision-making process.
- Pension funds can enter into dialogue with policy makers or regulatory bodies in order to put ESG themes on the public agenda.

IV. Voting

Institutional investors hold a strong position in the companies they invest in. By voting at annual shareholder meetings they can influence and steer corporate policies. Therefore, incorporating sustainability into their voting policies can foster sustainable business practices. Publicly initiating and supporting shareholder resolutions that promote CSR or sustainability can increase the positive influence of pension funds even more.

Often engagement and voting practices are intertwined, as they are both active ownership activities. Active ownership is about exercising your voting rights. As is the case with engagement, most pension funds outsource the voting practice to external parties. This practice is called proxy voting, whereby the pension fund delegates its voting power to a representative, often an external party, to cast a vote ('proxy voting') in absence of the pension fund.

To be effective, a clearly defined voting policy is required, explicitly emphasizing social, environmental, and governance issues. The responsible voting policy can be implemented by the pension fund directly, or through the voting policy of the external party. As can be seen in Figure 2.25, 96% of the pension funds demonstrably vote on (a part of) their public equity holdings. Out of the total, 25 pension funds (50%) vote while paying explicit attention to ESG issues, and another 17 (34%) publicly initiate and/or support shareholder resolutions promoting CSR or sustainability.

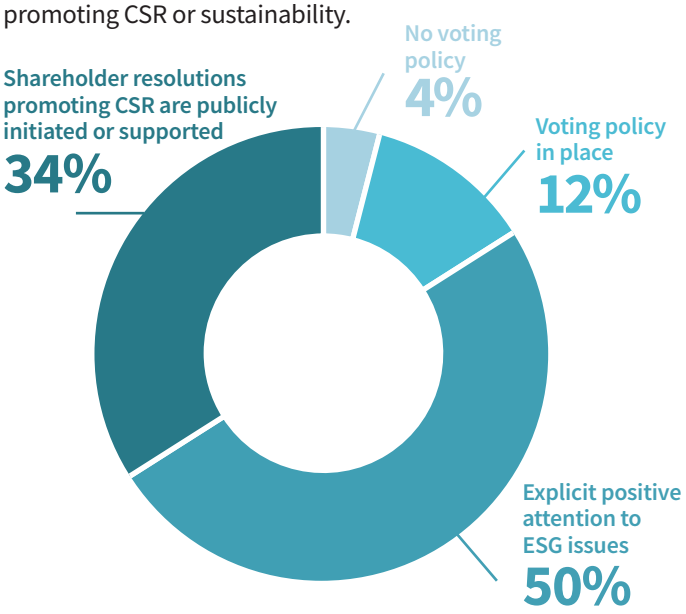


Figure 2.25 Extent of the voting policy.

Securities lending

Securities lending is the act of loaning a security to another investor or firm. In turn, collateral is given such as other securities. It can generate additional return, especially around the AGM's. According to some, it assists market liquidity, whereas others state that it can be used for tax evasion.

The lender of the securities is unable to use the voting rights of the securities over the loan period, thereby diminishing the possibility to practice active ownership or to sell the securities, e.g., in case of a controversy within the company. Having a clear recall policy, including ESG related provisions, can be used by pension funds to improve their responsible lending practices.

Considering all responding pension funds, 26 stated that they did not lend their securities in the year 2016. Several funds stated this was based on their risk or ethical considerations. A total of 18 pension funds currently have measures in-place that integrate sustainability issues into securities lending, i.e., responsible securities recall policies.

Examples of provisions in recall policies of Dutch pension funds include:

- Ensuring that received collateral does not conflict with a pension funds' exclusion policy.
- Retaining a percentage of shares per company in order to cast a vote, although with diminished strength.
- Retaining all securities of a specific company or list of companies; a focus list.
- Recalling shares in the case of an annual shareholder meeting with a controversial or high profile agenda.
- Recalling shares when in engagement with the company.
- Recalling shares in the case of suspected misuse of lent securities.
- Retaining the right to recall under any circumstance.
- Not lending out securities at all, either based on risk or ethical considerations.

V. Impact investing

Impact investing is an investment strategy that aims to generate financial and social or financial and environmental returns. As shown in Figure 2.26, there are four key characteristics of impact investing: intention to achieve a positive societal impact, competitive financial return, impact measurement, and long-term horizon. Not all four need to be fulfilled for an investment to be categorised as an impact investment. [6]

Figure 2.26 Impact investment criteria.

Impact investors choose specific social and environmental issues. They search for investments in companies and projects that contribute to improvements of the issue(s), thus creating value for society. Directing capital towards business or governmental activity that also generates positive environmental and/or societal results is growing. VBDO believes a well-balanced investment mix should use between 2% and 5% of its investments portfolio for impact investing.
In this study, impact investments were measured for all asset classes, except private equity. The impact investments in private equity were measured under alternative investments.

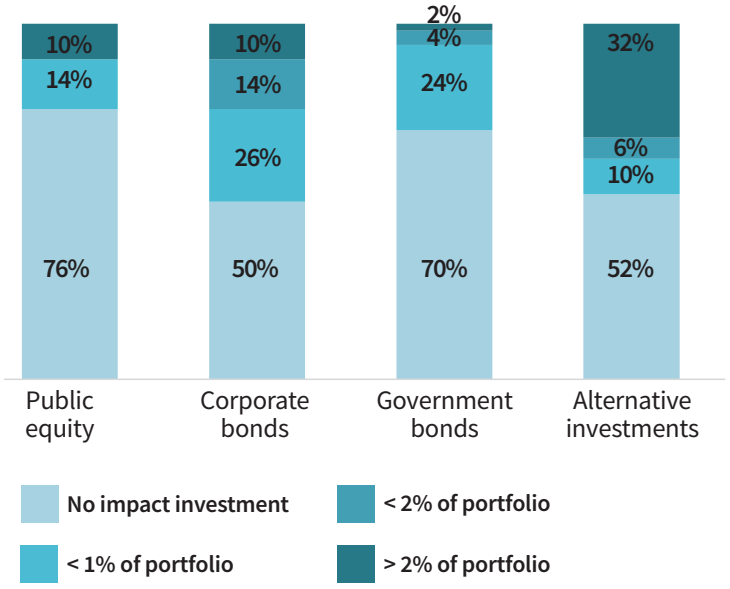


Figure 2.27 Volume of impact investments per asset class.

Figure 2.27 provides an overview of the volume of impact investment in the various asset classes. Compared to 2015, the number of companies that have impact investments in their portfolio increased for public equity and government bonds and slightly decreased for corporate bonds and alternatives. In line with previous years the results indicate that impact investing in public equity is not common. Most of the pension funds (76%) do not have any form of impact investments in public equity.

Impact investments in green and social bonds, measured under the asset classes corporate and government bonds, are more common. As can be seen in Figure 2.27, an average of 40% of the pension funds make investments in green and social bonds (Corporate bonds: 50%, Government bonds: 30%). Most common for pension funds is impact investments in corporate bonds, 50% of the pension funds has some form of impact investment in this asset class. Compared to the previous study, there is an increase in the number of pension funds with green and social bonds:in 2015 40% had impact investments in corporate bonds (2016: 50%) and 26% in government bonds (2016: 30%).

Looking at the alternative investments portfolio, it can be concluded that the impact investments remained stable. Remarkably, the volume in alternative investments seems to

[8] More information on impact investing: 'Impact Investing from niche to mainstream' (VBDO, 2016) via: http://www.vbdo.nl/files/news/ImpactInvestment_Final.pdf

be higher than in other asset classes. 32% of the pension funds stated that impact investments comprise more than 2% of the alternatives portfolio. This could partially be explained by the relatively small amount of investments in this asset class. The weight of alternative investments consists of only 6% of the total asset allocation. Examples of impact investments in alternatives are microfinance, renewable energy infrastructure, and venture capital investments in innovative private equity.

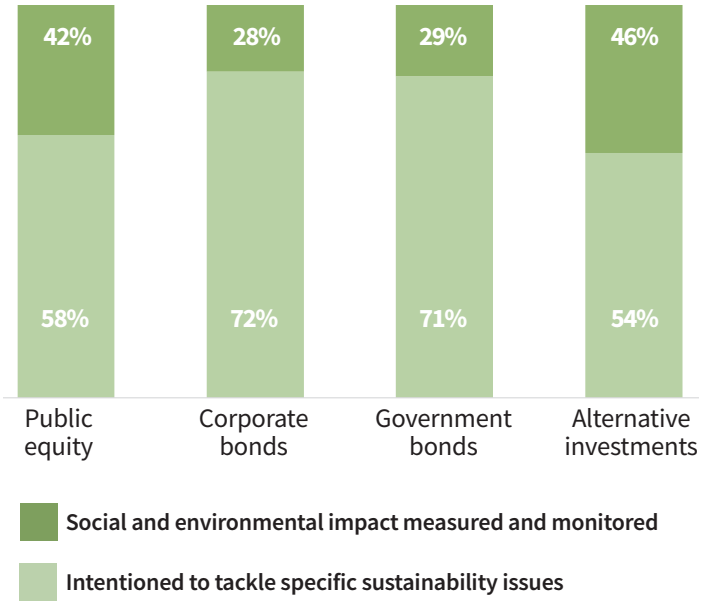


Figure 2.28 Process of impact investment per asset class.

Figure 2.28 provides an overview of the intention and measurement and monitoring of those pension funds that have impact investments in place. This figure does not include pension funds without impact investments. As was stated before, most pension funds have investments in green and social bonds. This is 50% for corporate bonds and 30% for government bonds. When only focusing on the companies that engage in impact investing, the results show other percentages. Of the pension funds that have investments in green and social bonds, around 28% measured and monitored the social and environmental impact of the investments, an increase compared to 2015 (13%). In the alternative asset class, 46% of the pension funds that have investments in green and social bonds also measured and monitored the impact.

In this study, impact investment in real estate was measured for the first time, no points could be received and the score does not count toward the total score. The results show that a total of 11 out of 50 pension funds (22%) engage in impact investing in real estate to tackle specific societal and/ or sustainability issues. Best-in-class strategies, such as only selecting GRESB Green Stars, were not included as impact investments in real estate. The results indicate that impact investment in real estate is still in its infancy.

Impact investment

Impact investments are investments made with the aim to tackle specific sustainability issues alongside financial profit. To be more effective, it is essential that the actual impact on society and environment of the investments is measured and monitored.

Impact investments can be made in, for example:

- Microfinance funds, which create business and development opportunities for society.
- Renewable energy infrastructure, e.g., windmill parks, to contribute to the creation of more sustainable energy.
- (Social) innovation, technology and entrepreneurial funds to stimulate and sustain long-term development.

2.2.4) Accountability

Transparency on responsible investment strategies and frequent reporting on changes, results, and the impact, is essential for pension funds. Therefore, not only the responsible investment policy should be publicly available, but also reports about the implementation of the policy. Hence, responsible investment reports, or a separate chapter in the annual report, should be published on an annual basis. Ideally, these reports are verified by an external auditor.

The corporate website is the starting point for a pension fund to publish its responsible investment policy. By doing this, (potential) participants are informed about the responsible investment practices of the pension fund.

If the pension fund follows the responsible investment policy of an external asset manager, VBDO expects an easy-to-find and accessible link to this policy on the corporate website.

Front running pension funds also publish a list of their investments (other than exclusions). They also actively inform participants and other stakeholders about their responsible investment policy and results through different communication tools, e.g., magazines, short movies, newsletters and social media.

Accountability performance slightly decreased

Out of a maximum of five points, the average score on accountability slightly decreased from 3.2 in 2015 to 3.1 in 2016. No pension fund obtained the highest possible score. The highest performers on accountability in the sector are: Pensioenfonds Zorg en Welzijn (PFZW) scored 4.9, Algemeen Burgerlijk Pensioenfonds (ABP) and BPL Pensioen 4.8, Pensioenfonds van de Metalelektro (PME), Spoorwegpensioenfonds, Pensioenfonds Openbaar Vervoer (SPOV) and Pensioenfonds Werk en (re)Integratie (PWRI) all scored 4.6.

Pensioenfonds IBM Nederland (+1.2), Pensioenfonds Werk en (re)Integratie (PWRI) (+0.9) and Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf (+0.7), shared the highest increase in accountability performance. The most important results on accountability performance are presented in the following figures.

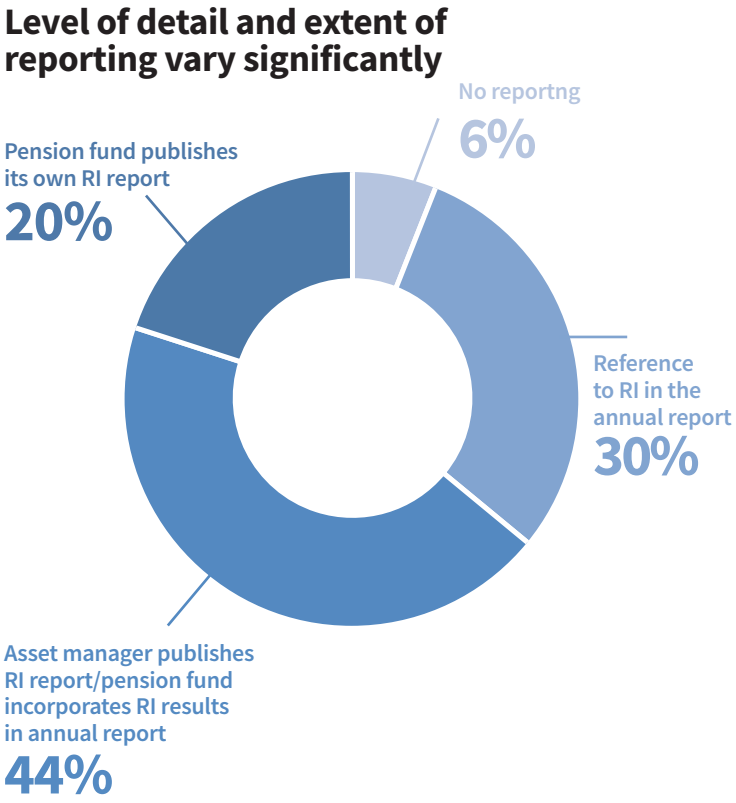


Figure 2.29 Reporting of the responsible investment policy and results. RI is Responsible Investment.

Of the pension funds in scope, 94% reported annually on responsible investment. However, the level of detail and the extent vary significantly. The criterion, 'reference to responsible investment in the annual report', is interpreted several ways: some pension funds covered this by dedicating only a single paragraph to sustainability, whereas other pension funds (or their external asset manager) publish a comprehensive responsible investment report. A fifth of all pension funds published a standalone responsible investment report themselves.

Transparency on implementation generally improved

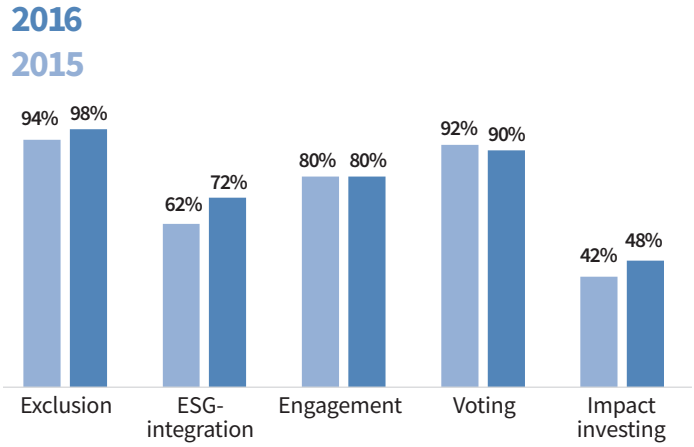


Figure 2.30 Transparency on implementation.

Dutch pension funds have, in general, either remained stable or improved their transparency on implementation. The different instruments through which implementation takes place (as shown in the graph above), were reported upon more transparently. However, there is room for improvement: in the level of depth in the application of implementation, and reporting on the use of the instruments (including the results).

In the case of exclusion, 98% of the pension funds publicly explained the exclusion policy. The majority published the exclusion policy, including a list of countries and companies and their reason(s) for their exclusion (80%). This is an increase compared to the previous study, where 72% published an exclusion list. With regard to ESG integration, an encouraging increase is observable. 72% of the pension funds explain their methodology for ESG integration, compared to 62% in 2015.

An equal amount of pension funds explain and publish the engagement policy. Half of the pension funds explain and publish an engagement policy. This includes the undertaken engagement activities and reporting of concrete results. Taking further steps, as a result of engagement activities, improves the effectiveness of the engagement policy. A smaller amount solely reported the engagement policy, some times accompanied with a general overview of the engagement activities i.e., how many engagements were executed, based-on which ESG themes, or sectors focused upon.

With a slight decrease of -2% compared to 2015, the pension funds are almost equally transparent on their voting policy. In most cases, a voting activity overview report was published. The reports included basic voting results such as, the number of votes that were cast, or which service provider has the mandate to cast the votes. A large amount of pension funds (38%) publish a more detailed voting activity report, which contains additional comprehensive information (i.e., the number of meetings, agenda items, votes by region and/or votes by topic).

Half of all pension funds disclose list of investments

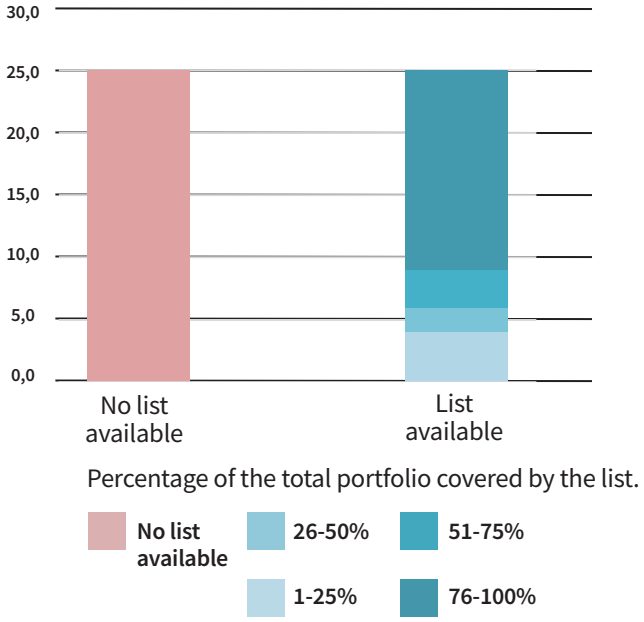


Figure 2.31 Number of pension funds with a publicly available list of investments.

Using a publicly available list of investments, the pension funds provide an overview of all the investments made. In these lists the names of the companies and the funds invested in are disclosed. It is an excellent way of improving the transparency of the pension fund. Providing such an overview publicly is highly valued by VBDO and recommended for other parties. As can be seen in Figure 2.31 a total of 25 pension funds have a publicly available overview of some parts of the investments in the portfolio. 16 pension funds had a list available which covered 76-100% of the total portfolio.

BENCHMARK RESPONSIBLE INVESTMENT BY **PENSION FUNDS** IN THE NETHERLANDS 2017

Distinctiveness through stakeholder transparency

Not only in the evaluation and adaptation of the responsible investment policy, but also on the accountability, a pension fund can actively reach out to participants and other stakeholders. Actively informing stakeholders about the responsible investment policy and outcome is regarded as the next step toward full accountability. This should exceed publishing the sustainability information and report on the website, and should include the disclosing of information about responsible investment (at e.g., face-to-face meetings, newsletters or information packages).

In the year 2016 a total of 17 pension funds actively informed the participants by means of one of the aforementioned communication tools; 16 funds used more than one tool. In this manner, pension funds can become distinctive from their peers by being open, and interconnected, with clients and society

Chapter 3. **Conclusions**

This chapter consists of the final conclusions based on the earlier presented results. This chapter is split up in 1. overall conclusions and 2. conclusions based on the performance categories 'governance', 'policy', 'implementation' and 'accountability'.

I. Overall conclusions

Overall responsible investment performance slightly improved

In general, the responsible investment performance of the 50 largest Dutch pension funds has slightly improved in 2016 compared to 2015 (see Figure 2.3). Most pension funds report on sustainability, however, differences remain in the reporting quality and the level of depth on how sustainability is integrated into the business activities. The overall improvement is mainly due to an increase in performance on the categories 'governance' and 'policy'. Responsible investment practices have become more widespread, however, there are still five pension funds that do not qualify for the 1-star category.

Pension funds in the 2-star category experience most growth

Based on the average scores of the 2-star category it can be concluded that, compared to the other categories, most pension funds improved their total performance. This category, as a whole, had an average total score of 3.0, compared to 2.6 in 2015. With twelve out of 16 pension funds growing in overall performance, the 2-star category has shown substantial progress on responsible investment. The scores of the individual pension funds have also become more proximate, which illustrates that this category has taken action and improved its responsible investment performance. This growth path is expected to continue in the next years which, in time, will put more pressure on the pension funds in the 3-star category. The 3-star category experienced an encouraging increase in performance score as well, with 7 out of 11 pension funds growing in overall score. This indicates that the pension funds at the top also continue to improve their responsible investment practices.

Size, in terms of assets under management, partially determines level of responsible investment

There is a relationship between the level of responsible investment per individual pension fund and the total assets under management (see Figure 2.5). However, the largest firms, in terms of assets under management, do not always outperform the firms that have a smaller amount of assets under management. It turns out that a large pension fund (> 60 billion AuM) can score lower than a medium sized pension fund (60< AuM >10 billion) and in turn a medium sized pension fund can score lower than a small pension fund (< 10 billion AuM). Hence, there are pension funds with a smaller amount of assets under management, that perform on par with large pension funds.

The 4 category has the largest market size of the population covered in this study.

II. Conclusions on categories

Governance

Integrating responsible investment requires that it is discussed regularly on the executive level and that it is treated as part of the pension funds overarching strategy. Reliable information and food for discussion for the decision-making processes can be derived from academic work, NGOs and other stakeholders, i.e., participants. Moreover, setting targets for asset managers assures that the strategy is put into practice.

Performance on governance improved slightly

Out of a maximum of five points, the overall score for governance has improved slightly from 3.2 in 2015 to 3.4 in 2016. The results show that pension funds increased their sustainability efforts through their governance activities. This can take place in terms of

Most pension funds do not set sustainability targets for their asset managers

It is not a common practice for pension funds to impose sustainability targets on their asset managers. A majority of the pension funds (58%) did not set any sustainability targets for their asset managers. This number is even

higher than in the previous study over the year 2015, where 48% of the pension funds did not set targets for the asset manager. Therefore, it appears that setting clear and concrete sustainability targets for asset managers still leaves room for further development.

Stakeholder consultation improved

Consulting clients or NGOs regarding the adoption or formulation of the responsible investment policy is broadly executed. 19 pension funds (38%) consulted participants or society (previously 24%) and 13 additional pension funds (26%) consulted both participants and society in the development of the responsible investment policy (previously 16%).

Policy

Formulating a clear and detailed policy on responsible investment facilitates the implementation through the various parts of the organisation and in guiding third party execution. Long term oriented policy frameworks with clear targets can prepare the pension fund for a changing investment and operating context. Lastly, it helps the pension fund to communicate its corporate identity.

Overall performance on policy improved

The performance on policy has increased from an overall score of 2.6 in 2015 to 3.0 in 2016. The content and extensiveness of the policy is essential to improve and increase the level of sustainable investments. With a score of 3.0, pension funds are heading into the right direction but should pay more attention to the further development and substantiation of their responsible investment policy.

Nearly all pension funds cover responsible investment in their investment beliefs

Only 6% of the pension funds in scope do not incorporate responsible investment into their investment beliefs. The investment beliefs are unique to each pension fund and contain the pension fund's beliefs on the highest abstraction level. VBDO encourages all pension funds to incorporate responsible investment in the investment beliefs, and more specifically, to provide guidelines on how responsible investment is implemented by means of the investment beliefs.

Setting targets remains challenging, but pension funds increasingly set targets that measure the actual impact on society and corporations

56% of the pension funds did not set any sustainability targets regarding their long-term strategy. However, more pension funds have set targets that measure the impact on society and corporations. A significant increase compared to the year 2015, when only 4% of the pension funds had targets in place that measured the actual impact of investments. VBDO encourages pension funds to formulate targets in a clear and measurable way and to integrate them in the long-term strategy and vision.

ESG themes are broadly covered

In most cases (96%) the responsible investment policy of the pension funds covers all three ESG themes. The results reveal that most pension funds translate the ESG themes into various responsible investment instruments. Out of all pension funds, 42% translate them into at least two instruments. And 52% translate them into all five instruments. These results demonstrate that ESG themes are widely and well-embedded into the responsible investment policy and instruments of pension funds. Notwithstanding, the use of ESG information on a strategic level remains uncommon for most pension funds.

Room for development in incorporating the SDGs

Only a few pioneers incorporated the SDGs into their responsible investment policies. Incorporating SDGs in the investment strategy and policies can be complementary to the already broadly covered ESG themes, as the SDGs cover some themes more specifically. The initiative by the financial sector for a joint SDG investment agenda is a good start.

Implementation

In the implementation of responsible investment instruments, strategic decisions and policy targets have impact. Risks can be excluded from the portfolio, the pension fund can approach companies to discuss sustainability performance, ownership is effectuated through voting and specific directed investments are made that allow innovative sustainable business to emerge.

Total implementation performance remained stable

Compared to the previous results over the year 2015 the performance on implementation has remained relatively stable (an average increase from 2.5 to 2.6). However, implementation of the responsible investment policy increased in three asset classes: corporate bonds and government bonds. The highest increase was in the asset class corporate bonds, from 2.6 to 2.9. The implementation score for public equity remained stable at 2.8. This is mainly due to the improvements in exclusion and engagement policies. Nevertheless, the total on implementation is approximately half of the maximum score. The fact that the total score remained the same, despite that some large asset classes improved, is caused by the VBDO's changes to the weight of the questions, as can be read in the methodology section.

Pension funds increasingly exclude on multiple criteria

Pension funds increasingly exclude companies from their portfolios based on multiple criteria. In public equity and corporate bonds, the increase was the highest, with 78% of the pension funds excluding based on multiple criteria. For government bonds the results remained stable. The results show that an equal amount of pension funds excludes based on EU and UN sanction lists and their own sustainability related considerations.

Use of ESG integration more systematic with an ongoing effect on individual holdings

The use of ESG information in the investment decision making process is widespread. The number of pension funds that do not have any form of ESG integration in place decreased from 9% to 5% in 2016. The integration of ESG factors into the investment decision making process, with an ongoing effect on individual holdings, increased compared to the previous study (2015: 17%; 2016: 23%). The depth in ESG integration increased, but should be increased further in the coming years. Additionally, a vast amount of pension funds only use ESG in the evaluation of the investments, and therefore not in a systematic way.

Pension funds perform well on active ownership

The performance on active ownership remained stable for the pension funds, the scores on engagement and voting are comparable to last year. Institutional investors hold a strong position in the companies they invest in. They can influence the policies by voting at annual shareholder meetings and engage in dialogue with them. Regarding the asset class corporate bonds, an increasing number of pension funds actively engages with companies on multiple ESG themes. In addition, the voting practices for this asset class increased as well. VBDO values the measurement and evaluation of these practices, as this contributes to sustainability performance and transparency. Pension funds that have engagement policies in place (76%) evaluate the process and measure progress. 56% of the pension funds take further steps based on the engagement results. The voting practices of companies remained stable; 35% of the pension funds with voting policies in place publicly initiated or supported shareholder resolutions promoting CSR or sustainability.

Majority of the pension funds do not engage in impact investments

Although the general trend indicates that impact investments are increasing in the financial sector, the number of pension funds engaged in impact investments stagnated. Compared to 2015, the number of companies that have impact investments in their portfolio increased for public equity and government bonds, and slightly decreased for corporate bonds and alternatives. Most impact investments are made in green and social bonds. Of the pension funds investing in green and social bonds, around 28% actually measure and monitor the impact of the investments. Therefore, impact measurement and the tracking of progress of impact investments should be enhanced.

Accountability

Transparency on responsible investment is key in making clear to a greater audience what the reasoning behind, and impact of, the responsible investment practices are. Consumers and citizens have a right to information on companies' and organisations' involvement in society, so it can be taken into account when making decisions. Institutional investors such as pension funds must offer insight into the basis and criteria of their responsible investment policy as well as the applied instruments and results.

Accountability performance stagnated

Accountability is the only category that showed a slight decrease in overall score from 3.2 in 2015 to 3.1 in 2016. No pension fund obtained the highest possible score. However, the 3- and 4-star category had remarkable average scores of 4.2 and 4.6, respectively.

Pension funds more transparent on most responsible investment instruments

The reporting on the responsible investment results varies significantly between the pension funds. Especially the level of detail and the extent of reporting differs. Some pension funds use a single paragraph to cover sustainability in their annual report, whereas others publish comprehensive responsible investment reports through their external asset manager. 20% of the pension funds publish their own report regarding sustainability results. Reporting on engagement and voting is often done separately from the annual report, while an integrated report has more depth.

Majority of pension funds actively reached out to their participants

Although the score on active transparency remained stable, the majority of the pension funds still actively reached out to their participants regarding responsible investment. Because most participants do not visit the website regularly or read the annual report, it is important to actively reach out to participants to inform them about responsible investment policies, practices, and results. In 2015, 60% actively informed their participants, while in 2016 this number rose to 66%. Nevertheless, 17 pension funds still do not inform their participants with even one communication tool. Practical tools could be newsletters, social media, or presentations

Chapter 4. **Recommendations**

In this chapter the final recommendations are presented. Please find below the general recommendations followed by more specific recommendations per category (governance, policy, implementation and accountability)

I. Overall recommendations

- **Responsible investment should be seen as non-competitive and knowledge should be shared**
  - o Communicate and share knowledge with Dutch colleagues, but also internationally. Sharing best practices and joint learning sessions are useful tools.
  - o Initiate the conversation between pension funds, NGOs, regulators and governmental agencies on how to jointly address topics such as human rights, climate change and other themes related to the Sustainable Development Goals.
- **Pension funds with one or no star should attempt to catch up with the rest of the sector**
  - o The larger top scoring pension funds, mostly in the 3 and 4-star category, should engage their colleagues with lower scores. Work together to strengthen the capacity of especially the smaller pension funds.
  - 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 A start for pension funds in the category without stars is to define an ambition and goals, to review the responsible investment policies of better performing peers, and to reach out to collaboratively harness the ESG opportunities of the responsible investment policy.
- **Continuously monitor and update the responsible investment policy in relation to societal developments**
  - o Add references to current societal topics, such as the SDGs or climate change, to your responsible investment policy to maintain societal relevance.
  - o Keep a close eye on the developments of the IMVO-covenant, and take a proactive stance in the implementation of the sector covenant.

II. Recommendations on categories

Governance

- **Responsible investment should be an integral element of the overall strategy and vision**
  - o Make responsible investment an integral element of the strategy. Linking them provides focus and makes the responsible investment policy fit in with the profile and vision of the pension fund.
  - o The executive board should play an active role in developing the responsible investment strategy.
- **As an asset owner, the pension fund should take responsibility**
  - o Pension funds should act as principal to the fiduciary manager.
  - o Ensure that asset managers implement the responsible investment policy of the pension fund. For example, by formulating clear and measurable targets, and key performance indicators (KPIs) for the asset managers. Set targets during the manager selection, appointment and the monitoring process.
- **Build trust with society regarding the pension fund's intentions on responsible investment**
  - o Increase transparency on investments, policies, and practices.
  - o Consult external stakeholders (e.g., clients, NGOs, consultants, rating agencies) to stay informed on the latest developments and preferences regarding responsible investment.
  - o Link your responsible investment practices to the concerns of your participants.

Policy

- **Connect your responsible investment policy to your long-term strategy and societal themes**
  - o Define what responsible investment means for the pension fund.
  - o Include a separate overview of investment beliefs, which include the pension funds vision and the basic principles for investment. Responsible investment should be part of these investment beliefs.

  - o Formulate a long-term sustainability strategy and vision, which indicates that the pension fund is thinking ahead of tomorrow's challenges.
  - o Keep the responsible investment policy up-to-date by including socially relevant themes, such as climate change and the Sustainable Development Goals (SDGs).
  - o Expand the applicability of the responsible investment policy to all asset classes and asset managers.

- **Aim at setting clear and measurable targets for the pension fund**
  - o As it seems difficult to define responsible investment targets, VBDO advises to use the SMART method (specific, measurable, achievable, relevant and time bound) to set clear targets.
  - o Targets enable the improvement and evaluation of the responsible investment policy. Investment instruments could be used to achieve the targets and impact.

Implementation

- **Especially pension funds in the 2-star category should further implement their responsible investment policy**
  - o Most pension funds in the 2-star category improved their scores on governance and policy, paving the way to further implement these improvements.
  - o Start by broadly integrating ESG into investment instruments

- **Develop additional exclusion criteria that go beyond controversial weapons**
  - o Pension funds should focus more on the principles of the UN Global Compact, such as human rights, child labour, environment and corruption.
  - o The criteria should be based upon the pension fund's responsible investment strategy and policy.

- **Ensure systematic ESG integration for all asset classes**
  - o The improvement in the use of ESG integration should be further strengthened by focussing on the systematic use of ESG themes in the selection process.
  - o ESG integration can be implemented both from a risk-adjusted return perspective as well as in stimulating sustainable business practices.
  - o Take long-term sustainability risks into account in the asset valuation methods and strategic asset allocation.

- **Work together with other investors on engagement and voting to increase investor influence**
  - o Together with other investors the mandate for engagement is stronger.
  - o As the initiative of 'follow this' (movement of share-holders to make Shell a renewable energy company) demonstrates, there is a tendency in society that encourages investors to speak out on societal topics.
  - o Increase cooperation in (inter)national active ownership activities and increase the positive impact the Dutch pension sector can have.

- **Take the lead as an asset owner to increase the amount of impact investments**
  - o Increase measurement of footprints, enhance internal know-how on impact investing, select and encourage appropriate asset managers.

Accountability

- **Further develop and increase the extent of reporting on the responsible investment activities**
  - o Report in a clear, visual and attractive way about the responsible investment policy to ensure that information is easily understood by clients and other stakeholders. Make sure all the information is easy to find on the website or by other channels.
  - o Reach out to policyholders on responsible investment topics pro-actively, for example: sending out newsletters or posting information on responsible investment and sustainability on social media, e.g., Facebook, LinkedIn and Twitter.
  - o Seek external assurance to verify your responsible investment reporting.

- **Specifically focus on the results of the responsible investment policy and demonstrate the actual impact that has been made**
  - o Report on the results and impact of responsible investment activities in detail, by explaining what steps have been taken, which topics have been focused on and what impact this has had. For example, by showing how engagement activities have changed the controversial behaviour of firms.

Appendix 1.
Quantitative ranking

Ranking 2017	change	Ranking 2016	Pension fund	2016	Overall score 2017	Governance	Policy	Implementation	Accountability
1	= 0	1	Pensioenfonds Zorg en Welzijn (PFZW)	4,6	4,5	5,0	4,5	4,2	4,9
1	▲ 1	2	Algemeen Burgelijk Pensioenfonds (ABP)	4,4	4,5	5,0	4,5	4,2	4,8
1	▲ 2	3	BPL Pensioen	4,4	4,5	5,0	4,5	4,2	4,8
4	▲ 1	5	Bedrijfstakpensioenfonds voor de Bouwnijverheid (bpf BOUW)	4,1	4,3	4,4	4,0	4,4	4,3
5	▲ 1	6	Pensioensfonds voor Woningcorporaties (SPW)	4,0	4,1	3,3	4,0	4,4	4,1
6	▲ 1	7	Spoorwegpensioenfonds	3,9	3,9	4,4	4,0	3,5	4,6
7	▲ 1	8	Pensioenfonds Openbaar Vervoer (SPOV)	3,9	3,8	4,4	4,0	3,3	4,6
7	▲ 2	9	Pensioenfonds van de Metalektro (PME)	3,8	3,8	5,0	4,5	3,0	4,6
7	▲ 3	10	Ahold Pensioenfonds	3,6	3,8	4,6	4,2	3,5	3,7
7	▼ -3	4	Pensioenfonds SNS Reaal	4,1	3,8	3,3	4,0	3,9	3,6
11	▲ 5	16	Heineken Pensioenfonds	3,4	3,7	5,0	3,5	3,2	4,2
11	▲ 3	14	Pensioenfonds Progress (Unilever)	3,5	3,7	4,0	4,5	3,3	4,1
11	▲ 4	15	Bedrijfstakpensioenfonds Zorgverzekeraars (SBZ)	3,4	3,7	4,6	2,5	3,6	4,2
11	▲ 5	16	Pensioenfonds Werk en (re)Integratie (PWRI)	3,4	3,7	3,8	4,0	3,2	4,6
15	▼ -3	12	Pensioenfonds Metaal en Techniek (PMT)	3,6	3,6	4,4	3,0	3,4	4,2
15	▲ 3	18	Pensioenfonds Architectenbureaus	3,4	3,6	2,7	3,3	4,0	3,9
17	▲ 2	19	Bedrijfstakpensioenfonds voor de Media (PNO Media)	3,2	3,5	3,3	3,5	3,4	4,1
17	▼ -6	11	Bedrijfstakpensioenfonds Schilders	3,6	3,5	3,3	3,5	3,2	4,4
19	▲ 9	28	Pensioenfonds Huisartsen (SPH)	2,5	3,3	4,4	3,5	3,2	2,7
20	▲20	40	Pensioenfonds PostNL	2,0	3,1	2,9	4,0	2,8	3,2
20	▼ -7	13	Rabobank Pensioenfonds	3,5	3,1	2,9	3,5	2,9	3,3
22	▼ -2	20	Philips Pensioenfonds	2,9	3,0	3,5	3,2	2,8	2,8
22	▲ 6	28	Pensioenfonds Medisch Specialisten (SPMS)	2,5	3,0	3,8	2,8	2,6	3,6
22	▲ 1	23	Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf	2,7	3,0	2,9	2,9	2,7	3,9
25	▼ -3	22	Pensioenfonds Achmea	2,7	2,9	4,6	2,7	2,7	2,2
25	▲11	36	Bedrijfstakpensioenfonds Schoonmaak	2,1	2,9	3,5	3,8	2,7	2,1
25	▼ -4	21	Bedrijfstakpensioenfonds Koopvaardij	2,8	2,9	3,1	3,0	2,9	2,5
28	▼ -2	26	Pensioenfonds Vervoer	2,6	2,8	3,5	3,0	2,2	3,7
29	▲ 5	34	Pensioenfonds KPN	2,2	2,7	3,5	2,7	2,5	2,8
30	▲ 3	33	Pensioenfonds Horeca en Catering	2,3	2,6	3,8	3,0	2,3	2,0
30	▲ 1	31	Pensioenfonds Wonen	2,4	2,6	2,9	2,4	2,6	2,5
30	▲ 6	36	Pensioenfonds voor Fysiotherapeuten (SPF)	2,1	2,6	2,9	2,2	2,8	1,9
33	▼ -6	27	Pensioenfonds DSM Nederland (PDN)	2,6	2,5	2,9	3,0	2,0	3,3
33	▼ -9	24	Delta Lloyd Pensioenfonds	2,7	2,5	3,1	1,7	2,5	2,5
33	▼ -3	30	Pensioenfonds APF (AkzoNobel)	2,5	2,5	3,3	2,4	2,0	3,1
36	▲10	46	Pensioenfonds IBM Nederland	1,4	2,4	3,3	2,2	2,0	2,7
36	▲ 5	41	Pensioenfonds ING	1,9	2,4	2,9	3,2	1,8	2,8
38	▼-14	24	Pensioenfonds Detailhandel	2,7	2,3	2,9	2,2	1,9	3,0
38	▼ -6	32	Pensioenfonds UWV	2,3	2,3	2,9	2,7	2,1	1,6
38	▼ -3	35	Pensioenfonds PGB	2,2	2,3	2,9	1,9	2,0	2,7
41	▼ -3	38	Pensioenfonds TNO	2,1	2,1	3,3	1,3	1,9	2,6
41	▼ -2	39	Shell Pensioenfonds	2,1	2,1	3,3	2,2	1,8	1,6
43	▲ 1	44	ABN AMRO Pensioenfonds	1,7	1,7	2,9	2,2	1,1	1,9
43	*	*	Bakkers Pensioenfonds	*	1,7	2,3	2,7	1,2	1,8
45	= 0	45	Pensioenfonds Meubel	1,7	1,6	2,3	1,2	1,5	1,8
46	▲ 3	49	Pensioenfonds Hoogovens	1,2	1,4	2,9	1,6	0,7	1,5
47	= 0	47	Pensioenfonds KLM Cabinepersoneel	1,4	1,2	2,1	1,7	0,6	1,8
47	▼ -4	43	Pensioenfonds Medewerkers Apotheken (PMA)	1,7	1,2	1,5	2,2	0,8	1,3
49	▼ -1	48	Algemeen pensioenfonds KLM	1,3	1,1	2,1	1,4	0,5	1,8
50	= 0	50	Pensioenfonds Vliegend Personeel KLM	0,2	0,3	1,0	0,0	0,3	0,1

*New

Appendix 2. **Methodology**

Over eleven years, the benchmark has developed significantly and it has become an important tool to measure responsible investment by pension funds in the Netherlands. The study is impartial and its most important aim is to, together with the Dutch pension funds, enhance the sustainability performance of individual pension funds, but also sector-wide.

Underlying presumptions

The most important underlying presumptions in this benchmark are:

I. The scope of the benchmark is determined by selecting the 50 largest Dutch pension funds derived from the figures of the Dutch Central Bank. [7]
II. The assets that are included in this benchmark are the assets of Dutch pension funds, independent of where these are being managed.
III. The implementation of the responsible investment policy is considered to be the most important element, because here the actual impact is being made. Therefore, this receives 50% of the total score. Governance, Policy and Accountability amount for the remaining 50%.
IV. The topic 'Governance' is to be considered from the viewpoint of the management of the pension fund, not from the asset manager's perspective.
V. The total score for 'Implementation' is dependent on the different scores of the asset classes (public listed equity; corporate bonds; government bonds; real estate; private equity and alternative investments). The weight of the asset classes in the determination of the implementation score is dependent on the asset allocation. Other assets, such as cash, mortgages, interest swaps and currency overlays, are not included in this benchmark study.
VI. Within each asset class it is determined which ESG instruments are (reasonably) implementable. Each question receives an equal weighting.
VII. VBDO is indifferent if an investor takes an active or passive and direct or indirect investment approach and assesses what responsible investment strategies are being applied.

The abovementioned underlying presumptions are based on VBDO's consultation with the pension funds participating in this study. This consultation is based upon:

I. An annual physical meeting with a selection of participating pension funds. Key in this meeting are the quantified survey results.

In numbers:	
50	**Dutch pension funds**
4	**Categories**
51	**Questions**
	Max. total score of 5
94%	**response rate**

Figure 4.2 Benchmark responsible investment by pension funds in numbers.

7 https://www.dnb.nl/statistiek/statistieken-dnb/financiele-instellingen/pensioenfondsen/index.jsp

The benchmark

The VBDO Benchmark 'Responsible Investment by Pension Funds in the Netherlands 2017' compares the responsible investment performance of the 50 largest pension funds in the Netherlands based on data of 2016. VBDO assesses responsible investment through detailed profiles of each pension fund. This year a response rate of 94% was achieved.

The following changes were made to the methodology:

I. **More robust calculation method**
The amount of assets allocated to a particular asset class (e.g. public listed equity or sovereign bonds) has always been taken into account in the final weighing of the scores. Where in previous years the score weighting for the individual questions was pegged to the total weight of the category (e.g. 16% total weight of governance and 50% total weight of implementation), this year VBDO weighed all individual questions the same and finally multiplied them by the total weight of the category. Hence, if this year pension funds had a substantially different asset allocation, their scores on 'implementation' could have been negatively affected.

II. **Stricter assessment of the results**
In some individual cases the final score on a category's performance decreased substantially. This can be due to the fact that VBDO was stricter in her assessment and final verdict.

Approach

The benchmark is set up to stimulate pension funds to inform themselves about their current status of responsible investment. The research process consists of two phases:

I. VBDO executes a preliminary analysis, which is shared with the pension fund after completion.
II. In the second phase, the pension fund comments on the preliminary analysis and substantiates it with evidence which VBDO interprets, integrates, further elaborates upon and finalises.

Setup

The questionnaire is composed of four themes:

I. 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.[9]

II. Policy

This theme 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 4.3 Responsible investment instruments and the different asset classes included in the benchmark.

III. Implementation

The implementation of the responsible investment policy applies to six different asset classes. Figure 4.3 shows the asset classes with the corresponding responsible investment strategies that are covered in the study. VBDO believes 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 towards the state of implemented strategies in 2016.

IV. 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 16.6%, implementation is 50% and accountability is also 16.6%, which makes a 100% in total. The weighted percentage for implementation is 50% because this theme 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 4.4 gives a general overview of the scoring model.

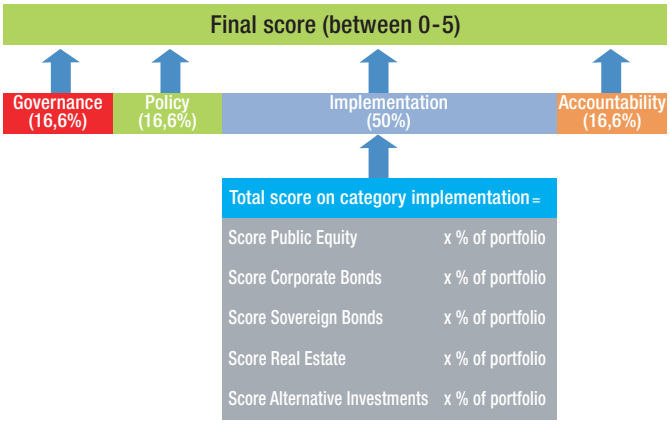


Figure 4.4 Overview of the scoring model.

Appendix 3. **Responsible investment strategies and asset classes**

Responsible investment strategies

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

• Exclusion

Certain products, processes or behaviour of some companies and governments, are at such odds with international agreements and treaties that they should be excluded from the investment portfolio. Merely taking general issues such as human rights violations into consideration offers insufficient means of judgment for the exclusion of specific companies. It is important to specify these issues and use well defined Environment, Social and Governance (ESG) criteria or international guidelines, in order to exclude companies and governments.

While some investors do take more than one criterion into account for the exclusion of companies from their investment portfolio, their list of excluded companies only shows (controversial) weapon producers, which raises questions about the use of ESG criteria. Especially because in January 2013 the legal ban of investments in cluster munitions came into force in the Netherlands. Concerning the exclusion of government bonds, pension funds can exclude countries based on official sanction lists of, for example, the EU and UN or based on other criteria. In the opinion of VBDO responsible investment should be a practice that goes beyond merely following legal obligation.

Therefore, the standard on exclusion is raised accordingly in the 2017 benchmark. From this year on, pension funds can only obtain the maximum score if their exclusions go above legal obligations such as the ban on cluster munition.
An exclusion policy can at least be applied to publicly listed equity, corporate bonds and government bonds.

• ESG integration

Even when the excluded companies are left out, large differences in terms of corporate responsibility sometimes remain between companies in which institutional investors invest. Where one company may only abide by the current environmental and social laws of the country in which it operates, the other may pursue high social and environmental standards in every country in which it is active. Institutional investors should consider this in developing their investment policy and should give preference to companies that perform well in relation to corporate responsibility.

VBDO defines ESG integration as the process by which ESG criteria are incorporated into the investment process. This involves more than screening the portfolios against exclusion criteria, but does not mean that an investor merely selects the best-in-class companies. ESG integration can go one step further by identifying and weighing ESG criteria, which may have a significant impact on the risk return profile of a portfolio. Therefore, VBDO distinguishes between investors making ESG information available to the portfolio manager on the one hand and investors systematically incorporating ESG criteria into each investment decision on the other hand. The latter is rated higher because this truly meets the idea behind ESG integration. An example of ESG integration is positive selection, this is defined as choosing the best performing organisation out of a group of corresponding organisations (sector, industry, class) with the use of ESG criteria. In this case, ESG criteria do not guide the investment decision process, but form the basis for selecting companies that perform above average on ESG issues. Integration of ESG criteria in the investment selection can be applied to all the selected asset classes in this research. Regarding publicly listed equity and bonds, the assessment in this benchmark takes into account both the extent and the volume of ESG integration.

• Engagement

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

• Voting

Institutional investors can actively exert influence on companies in which they invest by voting during shareholder meetings. Many institutional investors vote at shareholder meetings, but their voting policy is limited to subjects regarding corporate governance. This might push companies towards a better sustainability policy, but that is in itself not enough. A clearly defined voting policy is required, one that explicitly emphasizes social and environmental issues. By pro-actively introducing or supporting resolutions about sustainable development and corporate social responsibility, companies can be pushed towards improvement and corrective action. Voting is examined only at the asset class publicly listed equity.

• Impact investing

Impact investing implies active investments that are made in companies or projects, which lead in terms of sustainability or clearly offer added value for sustainable development. Examples are investments in sustainable energy sources, innovative clean technology, affordable medicine against tropical diseases, microcredit and sustainable forestry. Impact investing might look like positive selection, because it may be using the same positive ESG criteria and can be done by investing in specially constructed funds, but it is not a best in class approach. Rather, investors choose a specific theme or development and search for companies or projects that contribute to this development and thus create added value for society in a way that can hardly be compared with mainstream industry or solutions. VBDO values the measurement and evaluation of the actual environmental and social impact of the investments. The instrument is applicable to publicly listed equity, corporate bonds and private equity. The latter is assessed in this research' asset class category 'alternative investments'.

Asset Classes

• Publicly listed equity

The public equities market consists of the publicly traded stocks of large corporations. The risks and opportunities connected to ESG issues are important for the analysis and adjustments of an equity portfolio. Both exclusion and selection of companies within the portfolio, as well as voting and engagement gives the investor many ways to integrate ESG issues into its investment decisions. Emerging markets deserve special attention from investors, since these are increasingly reported as interesting opportunities because of their economic growth. Due to the growing demographic and resource challenges, and the potential dangers for the environment, a more sustainable approach to economic development is crucial for emerging markets. In many sectors, economic development shows that these countries are already responding to the abovementioned challenges (think of, for example, the leading role in solar power of China). Nevertheless, extracting the relevant ESG data on emerging market companies can require a large amount of research. It is also possible to take ESG criteria into account with passive investments, by following a sustainable index or by using an engagement overlay.[8]

• Corporate (including covered) bonds

For corporate bonds, responsible investment activities can be similar as for equities, however corporate bonds do not have voting rights and bring a fixed return. This reduces the financial risk, but also offers fewer opportunities to take advantage of high returns and to influence the policies of a company. Because bondholders lack the voting power share-holders have, most ESG integration activity has been in equities. But with growing client demand, bond managers are working to integrate ESG factors in fixed-income portfolios. Still, according to some institutional investors "it will be months, even years, before responsible investment in bonds reaches the level it has in equities", but it does not mean it is not possible at all. This also counts for engagement, which can be done at the time of issuance.[9]

• Government / sovereign bonds

Like corporate bonds, government bonds (together often referred to as fixed-income) are generally regarded as one of the safer, more conservative investment opportunities. They are issued to fund public services, goods or infrastructure. The first association about responsible investment and this asset class may often be exclusion of countries with dictatorial regimes, because of their human rights violations. This is a clear example of the results of an ESG risk analysis. ESG rating agencies increasingly offer products to screen bonds portfolios on corporate governance regulatory practices, environmental policies, respect for human rights and international agreements and there are sustainable government bond funds. Investors can also seek those government bonds that support the creation of public goods, such as needed infrastructural improvements, support for schools, or the development of sustainable energy sources and purchase government debt targeted to a specific activity.

• Real estate

Real estate investments encompass a wide range of products, including home ownership for individuals, direct investments in rental properties and office and commercial space for institutional investors, publicly traded equities of real estate investment trusts, and fixed-income securities based on home-loans or other mortgages. This assessment is limited to direct investments in buildings and indirect investments via real estate funds. Investors could screen their portfolio by developing ESG criteria for the construction of new buildings, their locations and the maintenance of existing buildings, machines and other facilities within buildings, such as environmental efficiency, sustainable construction and materials and fair labour practices. For real estate (investment) that is managed externally, the selection of fund managers based on experience with and the implementation of ESG is an important tool. Additionally, the managers of real estate funds can be engaged to improve their social and environmental performance.

• Private equity

Private equity is regarded as a separate asset class and the following opportunities were derived from the literature. [10] With regard to private equity an institutional investor can stimulate innovative and sustainable companies because it can directly influence management, encourage entrepreneurs to focus on developing business with high-impact social and/or environmental missions, especially in regions and communities that are underserved, and promote creation of local business and jobs. Also integrating the responsible investment policies in the selection process can be an important tool for institutional investors.

• Alternative investments

Depending on the asset allocation and definitions of an investor, alternative investments can include many kinds of assets, while at the same time experiences with and strategies for responsible investments are in their infancy. Also, because the investments are a small part of total investments, this research limits this asset class to hedge funds and commodities. Information provided on other asset classes will not be taken into account. The following opportunities were derived from literature: [11]

I. Although hedge funds are often handled as a separate asset class, the underlying assets are generally publicly listed securities (stocks and bonds) and their derivative products. Thus, investors could consider an ESG analysis of underlying assets and theoretically use the same tool for ESG manage-ment as for public equity and fixed income. Also integrating

8 Ness, A., "ESG progress in emerging markets", Investments & Pensions Europe, February 2010.
9 Carter, D., "ESG factors make inroads in fixed-income portfolios. As bond assets grow so does the demand for ESG-related product", Responsible Investor, 10 September 2010.
10 Wood, D.,"Handbook on Responsible Investment across Asset Classes", Boston College Center for Corporate Citizenship, November 2007.
11 Wood, D.,"Handbook on Responsible Investment across Asset Classes", Boston College Center for Corporate Citizenship, November 2007.

the responsible investment policies in the selection process can be an important tool.

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

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