Benchmark **Responsible Investment**

by **Pension Funds** in the Netherlands 2010

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A research paper prepared by Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO)

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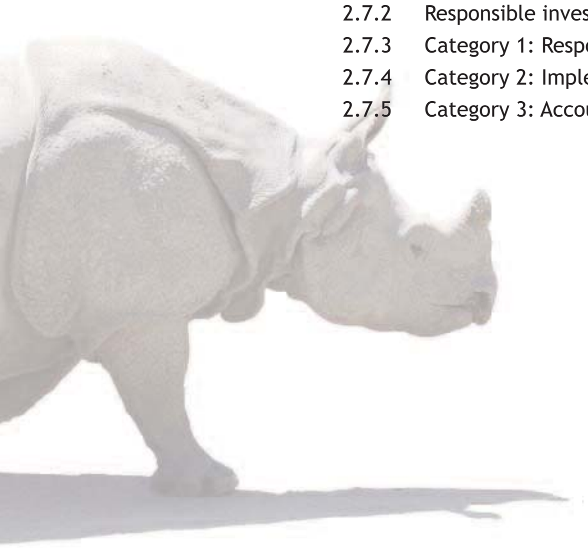

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Executive Summary

In 2010, the financial world continues to struggle with the financial crisis of the past few years, which has its impacts on returns and interest rates. Attention for sustainability among pension funds has not waned, yet societal focus has shifted somewhat from controversial weapons to the global climate crisis as well as the growing awareness that finite resources such as oil and metals will become more and more scarce.

It is in this context that the Dutch Association of Investors for Sustainable Development (Vereniging van Beleggers voor Duurzame Ontwikkeling, the VBDO), in association with research consultancy Profundo, publishes the fourth edition of its Benchmark Responsible Investment by Pension Funds in the Netherlands, now covering 60 pension funds. It explores the steps which Dutch pension funds are taking to make sure that they are not financing unsustainable companies and countries, and more importantly, that they are investing in companies and countries that are working towards a sustainable future.

This fourth edition of the benchmark is based upon a revised methodology, focusing on multiple asset classes. The VBDO hopes that pension funds will work to, where they have not done so already, implement responsible investment policies across all asset classes. At the same time, the VBDO hopes that this report will allow participants of pension funds to encourage their pension funds to further develop their responsible investment policies.

Research methodology

The new benchmark methodology makes an inventory of the possible steps that can be taken to implement a responsible investment policy across the different asset classes, and evaluates the extent to which these steps are taken. Similar to the previous benchmark methodology, the overall score is composed of three elements, with a number of assessment issues for each element:

- **Policy**
    - *Content*
    - *Volume*
    - *Communication with participants*
- **Implementation**
    - Public equity
        - *Exclusion*
        - *ESG-integration*
        - *Positive selection*
        - *Engagement*
        - *Voting*
        - *Impact investing*
    - Corporate bonds
        - *Exclusion*
        - *ESG-integration*
        - *Positive selection*
        - *Engagement*
    - Government bonds
        - *Exclusion*
        - *ESG-integration*
        - *Positive selection*
    - Real estate
        - *Direct real estate selection*
        - *Direct real estate maintenance*
        - *Indirect real estate*
    - Alternatives
        - *ESG-criteria*
        - *Impact investing*
- **Accountability**
    - Investment policy
    - Implementation
        - *List of investments*
        - *Exclusion*
        - *ESG-integration*
        - *Positive selection*
        - *Engagement*
        - *Voting*
        - *Impact investing*

Pension funds were assigned scores from 0 to 5 for each assessment issue, based on pre-defined scoring criteria. The scores of the different assessment issues are combined by pre-defined weightings and by the funds asset class allocation to obtain separate scores for each element - policy, implementation and accountability. The scores for all three elements were were weighted and used to assign all pension funds with a final score from 0-5. The weighting of the three elements was as follows:

- **Policy: 25%**
- **Implementation: 50%**
- **Accountability: 25%**

Conclusions

For the 2010 edition of the Benchmark Responsible Investment by Pension Funds in the Netherlands a total of 35 pension funds completed a questionnaire, while 38 pension funds responded to the profile that was sent to them. The overall response rate for the fourth edition therefore comes to 73%. This rate is down from 84% in 2009, and can partly be explained by the relative lack of response among pension funds included for the first time.

The top 12 pension funds, all with a score of 2.5 or higher, are listed below:

- **Pensioenfonds Zorg en Welzijn (PFZW)**
- **Pensioenfonds SNS REAAL**
- **ABP**
- **PNO Media**
- **Spoorwegpensioenfonds**
- **Pensioenfonds Openbaar Vervoer (SPOV)**
- **BPF Landbouw**
- **BPF Schoonmaak- en Glazenwassersbedrijf**
- **BPF Bouw**
- **Pensioenfonds Architectenbureaus**
- **BPF voor het Levensmiddelenbedrijf**
- **Pensioenfonds Metaal en Techniek (PMT)**

Overall, industry-wide and occupational pension funds scored better than corporate pension funds, and the larger the pension fund, the better the score. The individual profiles for all pension funds can be found on the VBDO website (www.vbdo.nl).

In terms of their responsible investment policies, 50 of the 60 pension funds included in this benchmark were able to show that they had a responsible investment policy. This equals 83%, up from 73% last year. For 39 of these pension funds, however, this policy applied to less than half of their assets. This means that a large portion of pension funds’ assets are not covered by any sort of responsible investment policy.

The implementation of responsible investment policies for the public equity asset class is much further developed than for the other asset classes. The implementation levels of responsible investment policies for the corporate bond, real estate and alternative investment asset classes are lower, but relatively similar. Responsible investment policies are most poorly implemented for the asset class government bonds.

The most commonly used instruments by pension funds to apply their responsible investment policies are exclusions (65% of pension funds), engagement (57%), and voting (80%). The integration of ESG criteria into the investment process is less widespread, with 33% of pension funds active in this area.

Although 87% of pension funds provide insight into their responsible investment policies, these same pension funds provide much less publicly available information on the implementation of their policies. Furthermore, only 16 pension funds published a detailed list of their investments in one or more asset classes.

Recommendations

Based on these results, the VBDO makes the following recommendations:

- Pension funds should formulate a responsible investment policy that is at least based on the UN Global Compact themes and principles. This policy should apply to multiple asset classes.
- Pension funds should consider their asset allocation when prioritizing what steps to take in implementing their responsible investment policy, and focus on the asset classes where they are the most heavily invested in.
- A mix of instruments can be used to implement the responsible investment policy in different asset classes. This VBDO benchmark study can provide guidance on the steps which can be taken. Pension funds are advised to consider all instruments and make clear choices.
- Pension funds should consult with their existing asset managers on the services they can offer to the pension funds to implement their responsible investment policies. Where applicable, new asset management contracts should include agreements on how the fund's responsible investment policy will be implemented.
- For all asset classes, it is important that sufficient information on ESG (Environmental, Scoial and Governance) - issues is available to (internal and/or external) portfolio managers to incorporate this information into the investment decision-making process.
- For the real estate, alternative investments and government bond asset classes, experience with implementing responsible investment policies is still limited. Therefore, pension funds should actively engage in dialogue with the asset managers managing these asset classes to achieve progress.
- In terms of accountability, pension funds should provide publicly available information not just on their responsible investment policies, but also on how these policies are implemented and what their actual investments in different asset classes are.

Introduction

The report you are reading is the fourth edition of the VBDO Benchmark Responsible Investment for Pension Funds in the Netherlands. This report, published by the VBDO (Dutch Association of Investors for Sustainable Development), in association with research consultancy Profundo (www.profundo.nl), tracks the development of Dutch pension funds in formulating, implementing, and reporting on their responsible investment policies.

The previous three editions of the benchmark showed that pension funds have taken significant steps in terms of responsible investment. In terms of the formulation of a responsible investment policy, three years of steady progress led to 73% of the researched pension funds having a responsible investment policy.

The implementation of this policy has also steadily expanded, with growing numbers of pension funds excluding investments in controversial companies, working to integrate ESG into their investments, becoming active shareholders and engagement partners, and even investing a portion of their assets in overtly sustainable investments. The three years also witnessed a growth in pension funds reporting on their responsible investment policies and the implementation thereof.

Much room for improvement remains, however. This is no surprise, as responsible investment is a long-term process that must be implemented in a consistent and deliberate fashion. Yet more can and must be done to secure a sustainable future for participants, both now and in the future.

In 2010, the financial world continues to be in the Great Recession. In terms of sustainability, a lot of attention is being paid to the global climate crisis as well as the growing awareness that finite resources such as oil and metals will become more and more scarce, if they are not so already. It is in this context that the VBDO publishes the fourth edition of this report. It explores the steps which Dutch pension funds are taking to make sure that they are not financing unsustainable companies and countries, and more importantly, that they are investing in companies and countries that are working towards a sustainable future.

The benchmark methodology has been updated this year to encompass multiple asset classes. Similar to the previous benchmark methodology, the overall score is composed of three categories: policy, implementation and accountability. The responsible investment policies of 60 Dutch pension funds have been scored and ranked using 29 assessment issues divided into these three categories with the following weightings:

Policy (3 assessment issues)	**25%**
Implementation (18 assessment issues)	**50%**
Accountability (8 assessment issues)	**25%**

For all 29 assessment criteria, a score was assigned to the pension funds. Based on their final scores, the pension funds have been ranked. In this way, pension funds are stimulated to develop a clear responsible investment policy, and take up their social responsibility as institutional investors.

The contents of this report are as follows: chapter 1 provides an introduction to the pension sector in the Netherlands and tracks recent developments. Following this, a number of reasons for responsible investment are outlined. The chapter concludes with an introduction to responsible investment and relevant initiatives.

The research objective and methodology are introduced in chapter 2. This provides insight into how information was gathered and how the pension funds were scored and ranked. Chapter 3 is details the results of the survey starting with the participation rate and moving on to the overall score. Subsequent sections deal with the three categories: responsible investment policy, implementation, and accountability. The final section of chapter 3 provides concrete recommendations that can be drawn from the results.

The fourth chapter provides a number of inspirational examples of pension funds taking steps to implement responsible investment across different asset classes. This chapter was put together by Sustainalytics, a global sustainable research provider and institutional member of the VBDO.

The fifth and final chapter displays the individual scores for each pension fund, in the form of a graph showing the scores for each of the categories as well as the overall score. The scores and profiles of all 60 pension funds are available for download on the VBDO website.

Chapter 1 Responsibly invested pensions?

1.1 The Dutch pension system

1.1.1 Three pillars

Pension is the income received by people at an older age, when they are no longer actively working. The Dutch pension system aims to provide everyone with a pension at, or often before, the age of 65. Similar to other countries, the Dutch pension system is essentially supported by three pillars.[1]

- **The first pillar**
  Old Age Pensions Act (AOW), guaranteeing everyone a basic pension. The purpose of this pillar is to at least provide a basic income for elders, preventing poverty amongst them. The AOW provisions are financed by an apportionment levy to which all Dutch citizens contribute.

- **The second pillar**
  Collective pension regulations which are agreed on by employers and employees, also referred to as supplementary pension. The purpose of the second pillar along with the first is to provide a reasonable income that is related to the income which people enjoyed during their working lives. Pension is built up with a pension-fund or pension insurance company to which the employer, employee or both pay premiums. Approximately 95% of all Dutch companies provide pension schemes. The paid premiums are subsequently invested and due pensions are paid out from the return on these investments. The second pillar is usually obligatory in the Netherlands for reasons of solidarity. In addition, this system prevents pensions from becoming subject to competition on the labour market and it results in relatively simple and transparent wage negotiations.

- **The third pillar**
  Voluntary pension schemes that are entered into individually with a pension insurance company. The third pillar is meant for individuals running a company, people who cannot lay claim to the second pillar and employees for whom the first two pillars yield insufficient income, for example because of frequent job changes. Individual pension schemes are also referred to as annuity insurance. Here too, the paid premiums accumulate into capital from which pensions are paid. Whereas the first pillar is financed by the State, the second pillar is mainly the domain of the pension funds. Private pension insurance companies dominate the third pillar, but also play a role in the second. Pension funds typically are corporative foundations: employers and employees together make up their management. Pension insurance companies on the other hand are private enterprises, often part of large insurance companies.

This report relates mainly to the second pillar of the Dutch pension system. In terms of financial scope, this is the largest pillar in which most Dutch employees are involved. Four types of pension fund deal with the pension schemes in this pillar:

- **Industry-wide pension funds** regulate pensions for the employees of one or more industries (education, healthcare, metal industry, etc.). Participation in industry-wide pension funds is usually compulsory. In principle, the pensions of all employees and sometimes of self-employed persons in those industries are placed with these pension funds. In 2009, the Netherlands counted 87 industry-wide pension funds.[2]
  The Dutch Association of Industry-wide Pension Funds (Vereniging van Bedrijfstakpensioenfondsen, VB) has 75 members, which combined represent 75% of all participants in collective pension schemes in the Netherlands: 4.9 million participants, 8.1 million former participants and more than 2.1 million pensioners. 9, the joint invested capital of the industry-wide pension funds amounted to more than € 500 billion.[3]

- **Corporate pension funds** regulate pensions for one specific company or group of companies. In 2010, the Netherlands counted 385 corporate pension funds.[4] The Association of Corporate Pension Funds (Stichting voor

1 De Nederlandsche Bank, "Levensverzekeraars stille kracht in tweede pijler pensioenstelsel", Statistisch Bulletin, December 2006.
2 De Nederlandsche Bank , Statistisch Bulletin, De Nederlandsche Bank, November 2010.
3 Vereniging van Bedrijfstakpensioenfondsen, "Over VB", Website Vereniging van Bedrijfstakpensioenfondsen (www.vvb.nl), Viewed in November 2010.
4 De Nederlandsche Bank , "Statistical Bulletin. Table 8.2 Organisation & Pension Fund Governance", De Nederlandsche Bank, November 2010.

Ondernemingspensioenfondsen, OPF) has more than 300 members with a joint capital of € 150 billion. Approximately 900,000 participants, more than 500,000 former participants and 600,000 pensioners are members of corporate pension funds.[5]

- **Occupational pension funds** regulate pensions for self-employed persons (doctors, accountants, lawyers, etc.). The Netherlands, in 2009, count 12 occupational pension funds.[6] The umbrella organization for these generally small pension funds is the Union for Occupational Pension Funds (Unie van Beroepspensioenfondsen, UvB). The joint invested capital of the occupational pension funds amounts to approximately € 20 billion. Approximately 48,000 participants, more than 20,200 former participants and 19,400 pensioners belong to its members.[7]
- **Private insurance companies** regulate 26,789 direct arrangements for small and medium-sized companies, with a total of approximately 936.000 participants and liabilities of €29.3 billion. Compared with the year 2005 the number of contracts is increased again, partly because insurance corporations take over the pension schemes of discontinued small company pension funds.[8] Insurance companies are members of the Dutch Association of Insurers (Verbond van Verzekeraars, VvV). Halfway during the year 2008, some 67 domestic insurance companies were active in the Netherlands, of which a large number also provide pension insurances.[9] It is unknown which part of their capital is allocated to pension schemes.

In November 2010 the branch organisations VB, OPF and UvB announced an extensive cooperation. By combining the offices of the organisations and developing one policy, the Pension Federation (Pensioenfederatie) will be established. Together the organisations can strengthen relationships with stakeholders, improve their advocacy role –especially within the European Union- and expand services to pension funds. Important policy themes for the next four years are amongst others: the (future of the) Dutch pension system, governance, risk and asset management, responsible investment, and the consequences of European Regulation.[10]

1.1.2 Pension sector regulation

The most influential legislation for the Dutch pension sector is the Pension Act (Pensioenwet or PW), which came into effect as from January 1st, 2008 and replaces the Pension and Savings Fund Act. The underlying principles, however, have not changed. The basic assumption is that pension is a term of employment. Employers and employees, both represented by social partners, remain primarily responsible for the establishment of pensions. The new Pension Act equally does not compel employers to offer employees a pension scheme. However, if a pension contract is entered into, the Pension Act then sets certain conditions for its formulation. One of these conditions is that the contract must be placed with a pension fund or insurance company (article 23 of the Pension Act). Furthermore, the Pension Act provides regulations for the way in which the pension fund or insurance company operates.

The Dutch Central Bank (De Nederlandsche Bank, DNB) monitors pension funds pursuant to the Pensions Act and life insurers pursuant to the Financial Supervision Act (Wet financieel toezicht or Wft). Besides DNB, there's another financial supervisor: the Netherlands Authority for the Financial Markets (AFM). This authority supervises the way financial institutions deal with their customers.[11]

The Pension Act serves to increase development towards stronger control over these supervisors in relation to pension fund investment profits. These profits determine financial coverage and whether or not participants may rely on their pensions being indexed, thus increasing with inflation. An additional obligation was given to the pension sector when it was decided by Parliament that a national pension register is to be created on internet by January 2011, providing pension entitled persons with immediate and comprehensive information on pension

5 Stichting voor Ondernemingspensioenfondsen, "Over OPF", Website Stichting voor Ondernemingspensioenfondsen (www.opf.nl), Viewed in November 2010.
6 De Nederlandsche Bank , Statistisch Bulletin, De Nederlandsche Bank, November 2010.
7 Unie van Beroepspensioenfondsen, "Wat is en wat doet de UvB", Website Unie van Beroepspensioenfondsen (www.uvb.nl), Viewed in November 2010.
8 De Nederlandsche Bank, "Statistical Bulletin. Group pension arrangements with insurance corporations: over 900,000 participants", De Nederlandsche Bank, September 2010.
9 Verbond van Verzekeraars, "Verzekerd van Cijfers 2010 - Dutch Insurance Industry in Figures", Verbond van Verzekeraars, July 2010.
10 Pensioenfederatie, "Home", Pensioenfederatie, Viewed in November 2010; Pensioenfederatie, "Beleidsagenda 2010-2014", Pensioenfederatie, 15 November 2010.
11 De Nederlandsche Bank, "Supervision", Website De Nederlandsche Bank (www.dnb.nl), Viewed in November 2010.

claims that have been accumulated throughout the years.[12] For this purpose the Dutch pension funds, pension insurance corporations and the Social Insurance Bank (Sociale Verzekeringsbank, SVB) have established a foundation (Stichting Pensioenregister), which has set the target to launch the website Mijnpensioenoverzicht.nl at 6 January 2011.[13]

Another element introduced by the Pensions Act is that a certain level of involvement by participants has to be assured by pension funds. Many pension funds now have a participant's council, sometimes combined with board participation. These councils mostly assess the cooperation with pension funds' boards positively. Although many pension funds meet the requirements with regard to pension fund governance (and participation), especially smaller funds still struggle to meet these requirements.[14]

1.1.3 Organization of pension funds

In 2009, the Netherlands counted 484 pension funds. These are all independent foundations and are being managed by a group of people who represent either employers or employees. Managing a pension fund is, however, not a full time occupation. Usually the persons representing the employees are employed by trade unions and the persons representing employers belong to a company or industrial organization. Pension funds do not employ many people as almost everything is outsourced - 83.1% of the pension funds outsources its administration and 90.1% its asset management.[15] The larger pension funds do have some staff who see to it that policy decisions and the execution thereof by third parties are implemented. This outsourcing is compulsory under the Pensions Act.

In order to prevent unfair competition, pension funds may no longer execute their own pension schemes. Instead, contracts must be drawn up with executive organizations. Up until 2007, the two largest Dutch pension funds, ABP and PGGM, executed the major part of their activities (pension administration, asset management) themselves. From 2008 on those activities have been outsourced to independent organizations that are, however, fully owned by pension funds. The executive organization of ABP has been named APG (Algemene Pensioen Groep), whereas the PGGM has chosen to give its old name to its executive organization and rename itself Pensioenfonds Zorg en Welzijn (PFZW).

Many other pension funds had already outsourced their pension administrations, including participant contacts. As it is very labour intensive and demands specific competency, outsourcing these activities is financially attractive. The market of pension execution services is dominated by insurance companies and a number of private administration companies. The executive organizations APG and PGGM also offer their services to other pension funds.[16]

In addition to pension administrations, Dutch pension funds must now also outsource their asset management. Many pension funds already had and used different models for this outsourcing. The entire management of assets can be outsourced to one specific asset manager who controls the entire investment portfolio. Today, 88.6% of the corporate pension funds, 95.4% of the industry wide pension funds and all occupational pension funds outsource more than 30% of their asset management.[17]

Asset management can also be outsourced in stages: so-called fiduciary management is outsourced to one party that carries responsibility for the return on investments. The fiduciary managers in turn uses other asset managers who are given mandatory powers over a specific investment portfolio (shares, bonds, real estate, etc.), sometimes limited to a geographic region. This way, an experienced asset manager is allocated to each of the investment categories. Many of these capital executives are from the United States and Great Britain. Fiduciary asset managers are often the same companies to which pension administrations have been outsourced, or their subsidiaries. Fiduciary management, however, is also outsourced to the large, foreign asset managers.

Finally, a number of variations of outsourcing are also possible. The executive organizations of ABP (as in APG) and PFZW (as in PGGM) use such an intermediary form: They act as investors for the largest part of the pension

12 Rechtennieuws, "Nationaal pensioenregister biedt mensen compleet overzicht hoogte pensioen", Rechtennieuws, 5 February 2010.
13 Stichting Pensioenregister, "Home", Website Stichting Pensioenregister, Viewed in November 2010.
14 SER Pensioencommissie, "Eindevaluatie medezeggenschap gepensioneerden", SER, 19 March 2009.
15 De Nederlandsche Bank , "Statistical Bulletin. Table 8.2 Organisation & Pension Fund Governance", De Nederlandsche Bank, November 2010.
16 Het Financieele Dagblad, "ING koopt beheerder van pensioenfonds", Het Financieele Dagblad, 10 January 2007.
17 Statistics and Information Division, "Statistical Bulletin September 2010", De Nederlandsche Bank, November 2010

fund capital and at the same time act as fiduciary asset managers for mandates given to capital executives in specific investment categories. The fact that all Dutch pension funds have outsourced the management of investment share capital to one or more capital executives makes it difficult to ascertain the companies in which they have invested. Equally difficult to ascertain is the influence they exert on the investment policies of these asset managers.

According to a survey of the magazine Investments & Pensions Netherlands, fiduciary management is still a popular choice in the Netherlands, although the rise of this one-stop shop solution is slowing down a little. Partially mandates and modular offerings have become more important. The pension funds believe themselves to be in control when employing a fiduciary manager. The surveyed funds vary in size from €37.5 billion to €12 billion, with total assets of € 38.2 billion.[18]

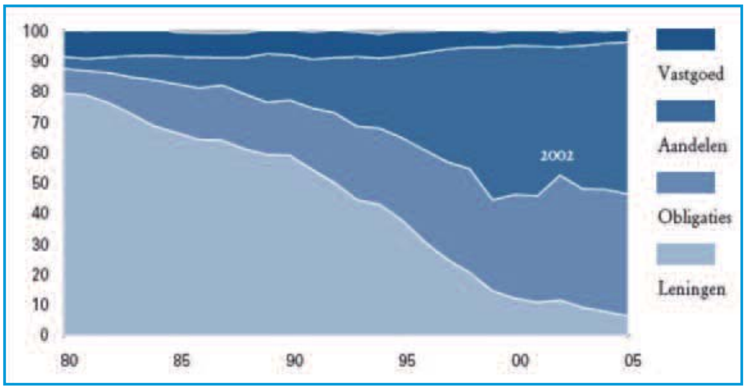
1.1.4 Income and investments

The Dutch pension funds represented a joint invested capital of € 783.6 billion in the first half of 2010.[19] In order to cover future pension obligations, pension funds invest their participant's premiums. They invest in various categories in order to spread risks and achieve maximum long-term return on investment, which creates an investment mix that varies per pension fund. Although not always to the same extent, the average investment mix for Dutch pension funds has changed considerably over the last 25 years.

These changes are best summarized as follows:[20]

- The proportion of equity investments has increased dramatically, going from 7% in 1985 to 52% in 2005, mainly because long term equity investments yield higher profits than other investment categories;
- The proportion of (private) loans has decreased to the favour of shares and bonds, which is the result of the Dutch government since 1993 exclusively using bonds instead of private loans for long term financing. This is attractive for many pension funds, as bonds (and shares) are more liquid than loans. The proportion of mortgage loans has also shrunk as a result of pension funds converting their mortgage portfolio to (more) liquid bonds by means of securitization;
- The proportion of real estate investments has also decreased, mainly because pension funds choose not to invest in real estate directly, but rather in more liquid shares of major Stock Exchange listed property companies.
- A considerable geographical shift has taken place in relation to this investment mix. Whereas in 1985 only 8% was invested abroad, in 2005 this percentage had risen to 76% of the portfolio.

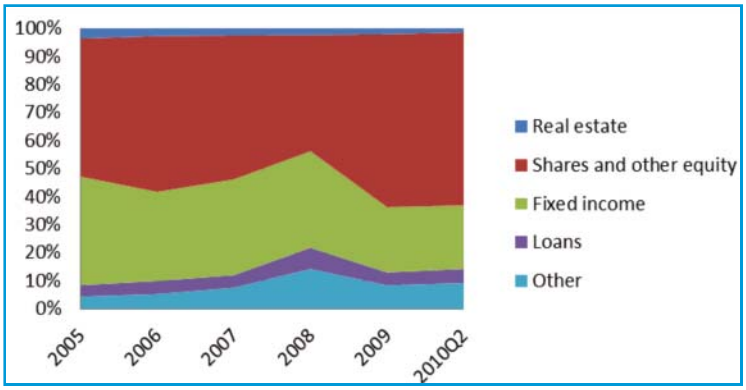
Figure 1. *Investment mix development Dutch pension funds 1980-2005*



Kakes, J and D. Broeders, "De houdbaarheid van het Nederlandse pensioenstelsel" Occasional Studies Vol. 4 / Nr. 6, De Nederlandsche Bank, November 2006.

The above trends continue, as is demonstrated by recent figures published by de Nederlandsche Bank, but as a response to the recent financial crises, which affected share prices strongly, investments in shares decreased dramatically, in favour of loans and financial derivatives (included in the category 'other' in Figure 2).

18 IPN, "Fiduciair beheer enquête", Investments & Pensions Nederland, August / September 2010.
19 Statistics and Information Division, "Statistical Bulletin. Table 8.1 Balance sheet of pension funds", De Nederlandsche Bank, 9 September 2010.
20 Kakes, J. en Dirk Broeders (red.), "De houdbaarheid van het Nederlandse pensioenstelsel", Occasional Studies, Vol. 4 / Nr. 6, De Nederlandsche Bank, November 2006.



Based on: DNB, "Supervisory data on pension funds. Table 8.1 Balance sheet of pension funds", De Nederlandsche Bank, 10 September 2010.

Since 2009, mutual investment funds gained popularity. This is a specific type of in/house funds for carrying out investments, set up to bundle the assets of pension funds and that of other institutional investors. The funds realise economies of scale and are geared to specific submarkets for financial instruments and economic regions. According to DNB, around 70% of the direct investments in equities, bonds and long-term loans were transferred to these funds in exchange for units in investment funds. The increase is concentrated in a relatively small number of pension funds and vice versa the concentration also appears in a small number of Dutch investment funds.[21]

In the first quarter of 2010, pension funds had 54% (€ 330 billion) of pension funds' investments in fund units. As direct investment in a mutual investment fund unit is underlain by an indirect investment in equities, bonds and other securities, it is possible to look beyond the investment units and see the underlying securities – but only for Dutch investment funds, not for foreign investment funds. Because the investments may be attributed to instruments and countries in proportion to the mutual investment funds' investment mix, it appears that with regard to the breakdown in origin, the investments via mutual investment funds have not changed much relative to 2008. Regarding the mix of instruments, the significance of bonds has declined in favour of equities and units, but not as much as direct investments in bonds and equities.[22]

1.1.5 Solvency II

In December 2009 an updated set of regulatory requirements for financial institutions that operate in the European Union, Solvency II, was introduced. It intends to make (insurance) companies comparable, transparent, and more safe for investors and customers. Financial institutions criticise the rules after they explored how these would affect their investment strategy. According to the London Evening Standard "Solvency II could sound the death knell for investing in equities, it will be bad news for long-dated corporate bonds and it would force insurance companies to commit themselves even more to buying government debt. This is a direct consequence of the capital weighting - or the perceived risk the different asset classes have in the new system". The Chief Investment Officer of APG expects that investors like pension funds will be limited in their possibilities to buy shares.[23]

According to the European Federation for Retirement Provision (EFRP), Solvency II is unsuitable as a regulatory regime for pension funds, as pension funds are different from insurers, for which the framework was originally designed. The liabilities of pension funds differ from insurance or banking liabilities. Pension funds are very long-term investors that are able to sit out short-term volatility. The sponsors of occupational pension funds are required to guarantee pension benefits.[24] Likewise, other industry bodies have warned that "plans by the European Union to introduce Solvency II rules to the pensions industry run the risk of undermining pension provision rather than strengthening it".[25]

21 Statistics and Information Division, "Statistal Bulletin June 2010. Management of pension asset through mutual investment funds on the increase", De Nederlandsche Bank.

22 Statistics and Information Division, "Statistal Bulletin June 2010. Management of pension asset through mutual investment funds on the increase", De Nederlandsche Bank,

23 Hilton, A., Solvency II is so safe it's stifling", London Evening Standard, 8 October 2010; RUhe, C., "Solvency II maakt beleggers leven zuur", Het Financieele Dagblad, 11 October 2010.

24 EFRP, "Solvency II", Website European Federation for Retirement Provision, Viewed in December 2010.

25 Panteli, C., "EU Solvency II proposals could undermine provision – NAPF", Global Pensions, 15 November 2010.

1.1.6 Recovery plans

After the credit crunch struck in 2008 and the recession that followed thereafter, the assets of Dutch pension funds decreased from € 778.6 billion in 2007 to €709.7 billion in 2008. Supported by the Dutch Central Bank (De Nederlandsche Bank, DNB), pension funds did everything possible to recover an acceptable level of financial coverage and, where possible, establish the indexation of pension payments. The funds in October 2008 stated that coverage in the third quarter of 2008 had dropped steeply. The quarterly figures proved the importance of reserves that were built up over the past years, said the Dutch Association of Industry-wide Pension Funds (VB).[26]

In November 2009, the DNB stated that after a turbulent period global financial markets stabilized, but the situation was still fragile. This also applied to pension funds, which were far back from the levels of before the crisis and early recovery remains uncertain.[27] More than 340 funds had to send plans for recovery to DNB in the beginning of 2009. Many pension funds cancelled indexation for 2009 and increased premiums. Some corporate funds had asked the companies they execute the pension scheme for, to grant an extra contribution.[28]

In response to the crisis, the euro system has lowered its money market policy rate since October 2008, from 4.25% to 1.00% at the moment. The yield on 10-year Dutch government bonds is 2.5%, two percentage points lower than at the start of the crisis in July 2007. The inflow of capital from countries with savings surplus is another explanation for the low interest rates of the moment. Besides that, households, businesses and governments are moderating their spending and repaying their debts. Low interest rates reduce outgoing interest payments and are often seen as an advantage. But returns on savings and fixed-income investments go down. Especially institutional investors suffer from low interest rates. Besides low earnings on fixed-income, low interest rates push up the market value of their liabilities and hence create lower funding levels. This depends on the level to which the interest rate risk has been hedged on the balance sheet, for example by investing in long-dated bonds or using rate derivatives.[29]

During 2009, most of the funds recovered by the upturn in equity markets and the increased interest rates. However, coverage of pension funds again dropped under the minimum funding requirements of 105%, due to the subsequent decline in interest rates. Several pension funds have covered their interest rate risk to a stronger degree, while other funds have become more sensitive to a fall in interest rate. Besides lower interest rates, also higher life expectancy predictions of the Dutch Actuarial Association (Actuarieel Genootschap) influenced the funding ratio of pension funds negatively, although this impact can vary between individual funds strongly.[30]

At the end of June 2010 Dutch pension funds represented a joint invested capital of € 783.6 billion [31], but a number of the funds with initial cut-backs in their recovery plans announced it seems unlikely to recover without implementation of those measures. After consultation with DNB, social partners and pension umbrella organisations, the Minister of Social Affairs and Employment decided it was not sensible for those funds to postpone the necessary measures and asked the funds to implement them in January 2011.[32]

1.1.7 Future of the pension system

The financial crisis and higher life expectancy predictions gave rise to many discussions about the future of the pension system in the Netherlands and abroad. One of the most important issues of Dutch national elections in 2010 was whether or not to increase the retirement age. In June 2010, Dutch employers and employee organisations concluded a pension and retirement agreement. They agreed to raise retirement age to 66 years in 2020 and link retirement age to life expectancy, which will create a modern, shock-resistant and sustainable pension

26 Kloor, R. van der, "Pensioenfondsen verliezen miljarden door kredietcrisis", Elsevier, 23 oktober 2008; Vereniging van Bedrijfstakpensioenfondsen, "Kwartaalcijfers pensioenfondsen: de reserves doen hun werk" (Press release), Vereniging van Bedrijfstakpensioenfondsen, 23 October 2008.

27 De Nederlandsche Bank, "Overzicht Financiële Stabiliteit in Nederland", De Nederlandsche Bank, November 2009.

28 De Nederlandsche Bank, "Het effect van de herstelplannen van de pensioenfondsen op de groei van Nederlandse economie" (Press release), De Nederlandsche Bank, 3 August 2009.

29 DNB, "The downside of low interest rates", De Nederlandsche Bank, 10 November 2010.

30 DNB, "Kwartaalbericht september 2010", De Nederlandsche Bank, 19 October 2010.

31 Statistics and Information Division, "Statistical Bulletin. Table 8.1 Balance sheet of pension funds", De Nederlandsche Bank, 9 September 2010; De Nederlandse Bank, "Koers- en valutawinsten op pensioenbeleggingen", Statistisch Nieuwsbericht, 16 June 2010.

32 DNB, "Kwartaalbericht september 2010", De Nederlandsche Bank, 19 October 2010.

system. Flexibility is an important principle of the agreement. Employees who still wish to stop working at the age of 65 may do so but will get a discount of 6.5% on the state pension. And working longer will lead to an increase of benefits. Furthermore, state pension will be linked to actual earnings, instead of agreed wages. The partners also agreed that further increase of premiums has to be avoided.[33]

In July 2010, the European Commission launched a public debate in how to ensure adequate, sustainable and safe pensions and how the EU can best support the national efforts. The consultation report, a Green Paper, first identifies three key challenges: demographic aging, changes in pension systems and the impact of the financial and economic crisis. It then reviews the European pension framework on a wide range of issues, such as: balance between work and retirement and facilitating a longer active life, the mobility of pensions across EU, and the future solvency regime for pension funds. The paper ends with the question whether the policy coordination framework at EU level should be strengthened and other questions for consultation of the public. After the consultation that ended in November 2010, the EC will analyse responses and consider the best course for future actions to address the issues at EU level.[34]

The Dutch Cabinet has welcomed the Green Paper as an important contribution to the public debate on the future of pension systems. Developments like an ageing population, a shorter working life and longer life expectancy affect pensions and public financing, and the financing of state pensions. For the Dutch government essential points of a sustainable and affordable pension system are a good mix between the three pillars, the benefits of a solidary and collective pension and the possibility of mandatory participation. At the same time the government thinks that reforms of the pension system cannot assure that a pension is fully guaranteed because much higher capital requirements would be needed. Pensions have to be flexible and move along with developments on financial markets and changes in life expectancy, leading to less guarantees and more flexibility in risk sharing. The European regulatory framework should support these principles.[35]

1.2 Motivations for investing responsibly

1.2.1 Public attention for responsible investment

Public attention for responsible investment by institutional investors (pension funds, insurance companies and fund managers) is increasing globally since the turn of the century. Most attention was initially focussed on corporate governance issues. In the Netherlands the *Code Tabaksblat* was adopted in 2004, which in a revised form is now known as the Dutch Corporate Governance Code. Public attention on how institutional investors deal with corporate governance issues increased strongly in 2006 following the behaviour of a few American hedge funds and their plead to break up the company Stork, which would cause a large loss of employment. To everybody's dismay these hedge funds were being substantially financed by Dutch pension funds.[36]

For a long time institutional investors gave much less attention to social and environmental issues, as revealed by a 2006 VBDO report into pension fund annual reporting.[37] Happily, in April 2006 the "Toekomstagenda Milieu" (Environmental Future Plan) declared that the Dutch government means to "stimulate the development and implementation of sustainability criteria for banks and investors (including pension funds)".[38]

In April 2007, the report "De Kracht van Pensioenfondsen" (The Strength of Pension Funds) by Dr. Harry Hummels, showed that "pension funds are including Corporate Responsibility as an important issue in their investment policy". However, the report also concludes: "Implementation is largely only just getting started. Whoever takes a participant's point of view must conclude in general that good intentions have not yet been put into practice".[39]

33 MKB, "Sociale partners sluiten solide AOW- en pensioenakkoord", Website MKB Nederland, 4 June 2010; Stichting van de Arbeid, "Pensioenakkoord voorjaar 2010", Stichting van de Arbeid, 4 June 2010.

34 EC, "EU launches public debate on the future of pensions", Press release European Commission, 7 July 2010; EC, "Green Paper. Toward adequate, sustainable and safe pension systems", European Commission, 7 July 2010.

35 Rijksoverheid, "Reactie Nederland op het Groenboek Pensioenen", Website Rijksoverheid, 18 November 2010.

36 Tamminga, M. "Miljarden belegd in zwerfkapitaal", NRC Handelsblad, Rotterdam, 30 September 2006.

37 VBDO, "Pensioenfondsen laten het alweer afweten", Press release Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO), Culemborg, 29 maart 2006.

38 Ministerie van VROM, "Toekomstagenda milieu: schoon, slim, sterk", Ministerie van VROM, Den Haag, April 2006.

39 Hummels, H. Prof. Dr., "De kracht van pensioenfondsen", Universiteit Maastricht, Maastricht, April 2007.

This trend was given a major impulse in March 2007, when the documentary "Het Clusterbomgevoel" (The Cluster Bomb Sensation) was broadcasted on television by the programme Zembla. The documentary demonstrated clearly that a number of large pension funds invest part of their capital in companies that pollute the environment and are involved in child labour and controversial arms, such as the production of land mines and cluster bomb ammunition. The reaction of many pension fund participants was one of dismay and various media consequently focused their attention on pension fund investment policy.

The pension fund umbrella organisations took this opportunity of social unrest to broaden discussions with their members about responsible investment. Already in April 2007 the Dutch Association of Industry-wide Pension Funds (Vereniging Bedrijfstakpensioenfondsen, VB) had published a manifesto, the *Maatschappelijke belangenafweging en transparantie in het beleggingsproces* and in November 2007 a commission - appointed by the umbrella organisation- published its final report *De gearriveerde Toekomst - Nederlandse pensioenfondsen en de praktijk van verantwoord beleggen*. The report offers pension fund boards a number of directives for the implementation of responsible investment.[40] The recent established Pensioenfederatie has decided to review the report in 2012.[41]

In March 2008, the VB published a small edition of interviews with prominent Dutch citizens on the social role of pension funds and Corporate Responsibility. The organisation wishes to remain engaged with pension funds and their social environment in discussions about the subject.[42]

The trade unions, which are represented in most pension fund boards, focused their attention on the subject in November 2007, with the launched of a 10-step plan for pension fund responsible investment. At the same time they called on pension funds to withdraw investments from Total, Chevron and SBM Offshore if these companies would not cease activities in Burma and cut off connections with its military regime.[43]

In 2008, studies indicated by sociologist Derk Erbé that participants are willing to accept a higher premium if fewer investment risks are taken and if socially responsible invested. Moreover, participants would like more influence on the investment policy exercise to ensure that pension funds take account of their moral interests, in particular reflected in responsible investment.[44]

In January 2009 the launch of the Eerlijke Bankwijzer (Fair Bank Guide), a project of Oxfam Novib, Amnesty International, Milieudefensie (Friends of the Earth Netherlands), FNV Mondiaal (Trade Union) and Dierenbescherming (Dutch Animal Protection Organisation), gained a lot of attention from the media. One year later the website had been viewed by 110,000 unique visitors and almost 9,000 people wrote their bank with a request to explain the bank's low score. The project scores the responsible investment policy of banks, which have improved their scores during the year.[45]

Politicians also show their interest in responsible investment. At 21 December 2009, Members of Parliament Kalma and Linhard have asked questions about the results of VBDO's *Benchmark Responsible Investment by Dutch Pension Funds 2009*, amongst others about the disappointing performance of pension funds' corporate social responsibility.[46] On the same day, the pension umbrella organisations jointly sent the results of an inventory amongst 90 pension funds about responsible investment to the Dutch Minister of Social Affairs and Employment. This research concluded that pension funds have worked hard to develop policies and instruments. About 73% of the pension funds said to have developed policies for responsible investment, instead of

40 VB, "Handleiding Maatschappelijke belangenafweging en transparantie in het beleggingsproces", Vereniging van Bedrijfstakpensioenfondsen, Den Haag, 16 April 2007; VB, "De gearriveerde toekomst - Nederlandse pensioenfondsen en de praktijk van verantwoord beleggen", Vereniging van Bedrijfstakpensioenfondsen / Stichting voor Ondernemingspensioenfondsen /Unie van Beroepspensioenfondsen, Den Haag, 14 November 2007.

41 Pensioenfederatie, "Beleidsagenda 2010-2014", Pensioenfederatie, 15 November 2010.

42 VB, "Voor relaties en media –Persmateriaal", Website Vereniging van Bedrijfstakpensioenfondsen (www.vvb.nl), Viewed in October 2010.

43 FNV, "FNV roept pensioenfondsbestuurders op tot actie tegen Birma", Press release FNV, Amsterdam, 13 November 2007.

44 Erbé, D., "Stille kapitalisten: een sociologisch onderzoek over de invloed en controle van deelnemers op het beleggingsbeleid van hun pensioenfonds", Deventer, Juli 2008; Lambrechtsen, F., "Fondsen, kijk toch vooruit", Het Financieele Dagblad, 20 januari 2009; Schoutsen, M., "Verantwoord pensioen mag wat kosten', De Volkskrant, 21 januari 2009.

45 Oxfam Novib, "Eén jaar na lancering Eerlijke Bankwijzer", Press release Eerlijke Bankwijzer (www.eerlijkebankwijzer.nl), 22 January 2010.

46 Heemskerk, staatsecretaris van Economische Zaken, "Beantwoording van de vragen van de leden Kalma en Linhard over de prestaties van pensioenfondsen inzake maatschappelijk verantwoord ondernemen (ingezonden 21 December)", Tweede Kamer, 26 January 2010.

33% compared to 2006.[47] As a result, Mr. Heemskerk, on behalf of the government, responded by using the research of the pension fund umbrella organisations as well as the VBDO Benchmark to conclude that pension funds have shown progress in the past years.[48]

1.2.2 Universal ownership

The examples in the previous paragraph make clear that (public) attention for the role of institutional investors in society is increasing and that society expects social and environmental issues to be part of their responsible investment practices. Institutional investors should use their position as capital providers to deny notorious polluters and human rights offenders access to capital, stimulate the large majority of companies to invest in sustainable development and production methods and grant smaller, truly innovative companies easier access to capital. This expectation can be traced back to the role of pension funds as 'universal owners'.

Such investors invest in a broad cross-section of the economy, often holding a portfolio that is a representative sample of the total universe of available investment options and, as a consequence, 'own' a stake in the entire economy. As shareholders, universal owners are able to influence thousands of companies through participation at annual meetings and by engaging. And they have two other particular characteristics: very long time horizons and a large number of beneficiaries.[49]

Because universal owners have a clear financial interest in the enduring health of capital markets and the economy, these markets and companies listed thereof will increasingly be shaped by their long term interests, that are increasingly aligned by the interests of their beneficiaries and of the general public. This makes institutional investors an important driver of corporate social responsibility.[50]

1.2.3 Fiduciary duty

Many in the pension and insurance sector for too long took the viewpoint that a socially responsible investment policy would be incompatible with the sector's primary task, meaning the guarantee of a stable and inflation-proof pension or life insurance for its participants or premium-payers. This so-called fiduciary responsibility was supposed to be at odds with any socially responsible investment policy, which was believed to yield a lower return on investment. This argumentation can be disputed for a number of reasons.

In October 2005, one of the largest law firms in the world, *Freshfields Bruckhaus Deringer*, compiled a report for the UNEP Finance Initiative (UNEP FI). It demonstrated that different jurisdictions have different interpretations of the fiduciary responsibility of pension funds. This responsibility, however, does not force pension funds to merely consider financial criteria: '*…integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.*'[51]

The same applies to the Dutch Pensioenwet (Pension Act), although it does not specifically mention the subject of responsible investment. Article 135 of the Pension Act does demand from pension funds that they follow an investment policy that is in accordance with the 'prudent person' principle. The 'prudent person' principle implies that pension funds are to invest their capital with due regard to the interests of entitled and pensionable persons. No pension fund may pursue interests that are not related to the pension rights and claims of participants. This restriction does not mean, however, that pension funds may not consider non-financial issues. Just as long as non-financial interests do not dominate to the extent that investment policy no longer leads

47 VB, OPF, UvB, "Inventarisatie verantwoord beleggen. Letter to Minister of Social Affairs and Employment", Vereniging van Bedrijfstakpensioenfondsen, Unie van Beroepsfondsen, Stichting voor Ondernemingspensioenfondsen, 21 December 2009.

48 Heemskerk, staatsecretaris van Economische Zaken, "Beantwoording van de vragen van de leden Kalma en Linhard over de prestaties van pensioenfondsen inzake maatschappelijk verantwoord ondernemen (ingezonden 21 December)", Tweede Kamer, 26 January 2010.

49 UNCTAD, "Investment and Enterprise Responsibility Review. Analysis of investor and enterprise policies on corporate social responsibility", United Nations, Geneva/New York, August 2010; Mattison, R. et al, "Universal Ownership. Why environmental externalities matter to institutional investors", UNEP Finance Initiative / PRI Association, October 2010.

50 UNCTAD, "Investment and Enterprise Responsibility Review. Analysis of investor and enterprise policies on corporate social responsibility", United Nations, Geneva/New York, August 2010; Mattison, R. et al, "Universal Ownership. Why environmental externalities matter to institutional investors", UNEP Finance Initiative / PRI Association, October 2010.

51 Freshfields Bruckhaus Deringer, "A legal framework for the integration of environmental, social and governance issues into institutional investment - Report for UNEP-FI", Freshfields Bruckhaus Deringer, November 2005.

to an acceptable risk-profit profile.[52]

In July 2009 the UNEP FI Asset Management Working Group (AMWG) published a follow-up report to the 2005 Freshfields report. This report, often called Fiduciary II, articulates the evolving nature of fiduciary duties and ESG issues. According to the legal advice of, amongst others, Paul Watchman, it is now broadly recognised that pension funds have the duty to have regard for ESG considerations. Merely, they have an obligation to state what the fund's guidelines are on responsible investment and to what extent social, environment or ethical considerations are taken into account.[53]

Likewise, investment management agreements should include language in order to clarify the expectations of the parties (i.e. institutional investors and asset managers) and to make clear that ESG is regarded as a mainstream consideration. Fiduciary II also highlights that institutional investment consultants and asset managers have a professional duty of care to proactively raise ESG considerations with their clients. Failure to do so may have serious consequences because there is a very real risk that they will be sued for negligence. To this extent Fiduciary II shows how a pension fund can operationalize ESG integration in investment mandates.[54]

The IPE survey of 2009 found that many pension funds (around 70% of the 42 respondents) agree with the statement that "it is trustees' fiduciary duty to include ESG in their decision-making process and during manager selection processes".[55]

1.2.4 Risk management and financial performance

While investors have long acquaintance with the financial materiality of environmental and social disasters, many still need to be convinced of the materiality of ESG issues and link to financial value. In 2006, the UNEP FI concluded that there is robust evidence that ESG issues affect shareholder value in the short and long term, and the impact on share price can be valued and quantified, and key material ESG issues become apparent but their importance varies between sectors.[56]

Besides a professional duty to invest responsible, the financial sector also considers responsible investment activities as a matter of risk management which may eventually even yield higher returns. In January 2010, the Dutch Committee on Investment Policy and Risk Management (also referred to as *Committee Frijns*) recommended that pension funds should include objectives in the field of sustainable development and corporate social responsibility in their risk and investment policies. Such recommendations are increasingly being put into practice, with more and more investors that want companies to include information about their impact on the environment in their annual reports, to help judge potential risks.[57]

The annual Penrose Financial Survey 2010, about the future of the investment industry, asked 100 organizations (60% asset managers, 14.2% pension funds, 16.0% consultants/advisory and 9,4% other) about their reasons for including environmental factors in their investment strategy. The results showed that a significant part of the respondents sees environmental factors both as a risk and an opportunity. The major part (43.64%) of the respondents answered that "Environmental factors pose a significant risk to investment portfolios, so these non-financial factors must be taken into consideration" and 23.64% thought that it is a "growth sector with potential for outperformance".[58]

The financial performance resulting from the implementation of any responsible investment policy is determined

52 Leeuwen, Mr. A.W. van, en Rinnooy Kan, Mr. R.E.M., "Pensioenfonds als belegger en aandeelhouder", Tijdschrift voor de Ondernemingsrechtpraktijk, Den Haag, July 2007.

53 Asset Management Working Group, "Fiduciary responsibility. Legal and practical aspects of integrating environmental, social and governance issues into institutional investment", UNEP Finance Initiative, July 2009.

54 Asset Management Working Group, "Fiduciary responsibility. Legal and practical aspects of integrating environmental, social and governance issues into institutional investment", UNEP Finance Initiative, July 2009.

55 Röhrbein, N., "ESG equals fiduciary duty, says IPE survey", IPE.com, 18 September 2009.

56 AMWG, "Show me the money", UNEP Finance Initiative, July 2006.

57 Bird, J., "Corporate reports: Investors push to know more about non-financial risks", Financial Times, 1 October 2010; Frijns, J.M.G., J.A. Nijssen and L.J.R. Scholtens, "Pensioen: Onzekere zekerheid. Commissie Beleggingsbeleid en Risicobeheer", Eindhoven - Den Haag - Winsum, 19 januari 2010.

58 Fleming, A. and Morgan, J., " The Future of the Investment Industry Survey", Penrose Financial, London, August 2010.

by a number of different factors. It is fully clear that a number of the instruments used to implement a responsible investment policy, such as voting and engagement policies, do not have any negative effect on returns whatsoever. Other instruments, such as the inclusion of the ESG criteria in the selection of shares might have that effect. In theory, any restriction of the investment universe could lead to a lower return. But at the other hand, there are also sufficient theoretical reasons to believe that companies paying more attention to social and environmental issues will reach better financial results, because better investment choices are made. The question therefore remains: which effect on returns will outweigh the other?

Research by financial specialists has not yet lead to a simple conclusion on the question whether non-financial criteria have an effect on returns, particularly where long-term effects are concerned. In 2007 a joint report of the UNEP FI Asset Management Working Group and Mercer highlighted that the belief that responsible investment will automatically limit the investment universe and thereby limit returns, is narrow in its focus and conclusion. A number of tools are available for integrating ESG into the investment process and a full assessment of their merits needs to consider the relative merit of each approach and the preferences of the beneficiaries that asset owners represent, and then balance those considerations against available evidence on the performance indication of each approach.[59]

Since then, the breadth and depth of academic research measuring the relationship between responsible investment and financial performance have expanded. In November 2009, a review by the consultancy firm Mercer of 36 academic studies (from which 16 were released since 2007) concluded that:[60]

- 20 studies showed evidence of a positive relationship between ESG factors and financial performance;
- two studies showed evidence of a neutral-positive relationship
- eight studies reported a neutral relationship;
- three found a negative-neutral relationship; and
- three studies showed evidence of a negative relationship.

Because a variety of factors determines how ESG factors influence investment performance it is not certain that taking ESG criteria into account will have a uniform impact on portfolio performance. The results of the Mercer review also show significant variations in ESG materiality across industrial sectors and may be misleading at aggregate level. Many of the academic studies relied on specialist ESG research firms and focus on the link between ESG and listed equity investments. Academic studies are beginning to broaden their scope, so that forthcoming papers will focus on other asset classes as well.[61]

A study of Risklab focused on the connection of ESG to strategic asset allocation and the portfolio context. This had been missing in earlier research on ESG risk, while strategic asset allocation could be the main factor driving long-term portfolio returns, says Risklab. Its study, published in March 2010, pointed out that the integration of ESG factors into portfolio construction could significantly reduce long-term investment risk and potentially boost returns because of the high probability that companies that do not manage ESG issues will be more volatile. The study involved building a quantitative model of ESG risk factors in a portfolio to determine their influence on equity risk over a 20-year horizon. According to Risklab, investors should strive to optimize their global equity investments and minimize exposure to ESG risks.[62]

So far, most research on corporate sustainability was grounded in the context of equity, despite the fact that the market for corporate bonds is considerably larger. This gap is filled by a paper published by the Dutch researchers Bauer and Hann in November 2010. The paper investigates the credit risk implications of corporate environmental management for bond investors. The research is based on the view that "environmental practices influence the solvency of borrowing firms by determining their exposure to legal, reputational, and regulatory risks", and aims

59 Asset Management Working Group and Mercer, "Demystifying Responsible Investment Performance - A review of key academic and broker research on ESG factors", UNEP Finance Initiative / Mercer, October 2007.

60 Mercer, "Shedding light on responsible investment: Approaches, returns and impacts", Mercer, November 2009.

61 Mercer, "Shedding light on responsible investment: Approaches, returns and impacts", Mercer, November 2009.

62 Röhrbein, N., "ESG risk in a portfolio context", Investments & Pensions Europe, April 2010; Wheelan, H., "Quant study shows significant, long term ESG risk reduction and return boost", Responsible Investor, 24 March 2010.

to provide a better understanding of how the different corporate environmental activities relate to credit risk. Such understanding is required for investors who want to protect themselves against environmental performance related losses. The study finds that corporations with limited sustainability policies and bad environmental management already pay higher interest rates. Apparently, investors already take the quality of a company's environmental management into account when investing in bonds.[63]

As can be drawn from the reports above, calculating the sustainability 'value' of ESG related investments has become increasingly important to institutional investors. They look to justify both the financial and social benefits of responsible investing strategies. Therefore, in November 2010, Dutch asset manager PGGM kicked off a major research programme with Rotterdam University that aims to measure the 'social impact' of its growing portfolio of targeted ESG (environmental, social and governance) investments. This way, PGGM hopes to determine for which investments sustainability is a clear potential driving factor of returns.[64]

1.3 Responsible investment developments

1.3.1 Implementation

SRI funds in Europe have grown considerably in number and size over the past years, in spite of the fall-out from the financial crisis. The following reports show that socially responsible investing is more than a trend and its implementation expands.

The *2010 European SRI Study by Eurosif*, the European Sustainable Investment Forum, estimates total SRI assets under management have increased from € 2.7 trillion to € 5 trillion as of December 31, 2009, a growth of 87% since December 31, 2007. Eurosif distinguishes Core SRI activities, which consists of norms- and values based exclusions and different types of positive screens (estimated at €1.2 trillion), and Broad SRI, which encompasses simple exclusion, engagement and integration approaches (estimated at €3.8 trillion). Eurosif's report is based on self-reporting of asset managers and asset owners operating in European countries.[65]

Bonds are now the favoured asset class of SRI investors in Europe at 53% of assets, while equities have dropped to 33%. Microfinance is starting to interest investors and Eurosif said it expected alternative asset classes to rise in the future. The European SRI market's growth is still driven by external pressure from NGOs and media and an increasing demand from institutional investors but also by a growing interest from retail investors. Many respondents also said the financial crisis had made them more aware of the need to integrate ESG risks into their investment decisions.[66]

The PRI Progress Report 2010 is based on a mandatory assessment survey of PRI signatories, which asks organisations how they are putting the six UN Principles for Responsible Investment (PRI) into practice. In 2010, 433 signatories completed the assessment. The report found that although 95% of asset owners have an overall investment policy that addresses ESG issues, only halve of the respondents have an internal management process in place within their listed equities and fixed income investments. The average percentage of signatories integrating ESG issues across asset classes has grown. With the increase in signatories, the level of integration of ESG issues for internally and actively managed assets under management across asset classes within the global market has risen from 4% (US$ 3,578 billion) in 2008 to 7% (US$ 6,766 billion) in 2009.[67]

With regard to active ownership, all respondents have a voting policy that covers corporate governance issues, although fewer policies include environmental and social issues. Almost 90% vote at least a portion of their listed

63 Bauer, R. and D. Hann, "Corporate Environmental Management and Credit Risk", Maastricht University and European Centre for Corporate Engagement (ECCE), 30 June 2010; Kleinnijenhuis, J., "Belegger verlangt minder rente van duurzaam bedrijf", Trouw, 20 November 2010; University Maastricht, "Poor environmental management penalised by investors", University Maastricht Research Magazine, 20 November 2010.

64 Wheelan, H., "PGGM teams up with Rotterdam University to measure social impact of ESG investments", Responsible Investor, 17 November 2010.

65 Eurosif, "European SRI study 2010", Eurosif, October 2010.

66 Eurosif, "European SRI study 2010", Eurosif, October 2010.

67 UNPRI, "Report on Progress 2010. An analysis of signatory progress and guidance on implementation", UN PRI Initiative, September 2010.

equity portfolios, but 61% monitors to a large or moderate extent whether their external managers vote in accordance with their RI policy.[68]

Besides voting, 80% of the asset owners have a shareholder engagement policy in place for listed equities. For corporate fixed income only 30% of the asset owners have such a policy in place. Investors reported a significant amount of engagement on ESG issues. Over 50% of the total number of engagements reported is run by internal staff (4,000), while service providers run almost 30%. The remaining is run by external investment managers. Engagements entail a range of actions and vary in intensity. The more extensive engagements tend to be run by specialist engagement service providers.[69]

UNCTAD's review, published in August 2010, about social responsibility and responsible investment amongst the 100 largest transnational corporations and the 100 largest institutional investors worldwide, shows that commitment to RI practices is now commonplace. The UNCTAD survey had set up 6 indicators, based on the UN PRI, for measuring RI practices and analysed the social responsibility reports of the largest institutional investors. It appears that almost half of the world's largest pension funds are disclosing information on one or more of the 6 indicators and the other half report no RI activity. As the research shows two distinct groups, UNCTAD gives a recommendation for regulators to strengthen the mechanisms through which institutional shareholders are able to influence the ESG practices of the companies in which they invest and to encourage investors to formally articulate their stance on ESG issues in public reports.[70]

The UNCTAD report shows two other interesting outcomes. While only 27 funds disclosed four or more of the RI indicators, these 27 funds accounted for 42%, or US$ 3.7 trillion, of the total assets of the top 100 funds. This makes clear that the larger funds tend to be the early and more active adopters of RI practices. Furthermore, the relative proportion of PRI signatories disclosing on each of the RI indicators is much higher than the proportion of non-signatories. The majority of the 25 UN PRI signatories in this research are disclosing each of the indicators.[71]

The UK FairPensions' 2009 survey among UK's leading pension schemes showed an encouraging level of ESG awareness, although, according to FairPensions, further work is needed in several areas. In particular, stated interest in ESG is not always fully implemented into investment policy and monitoring, and some pension funds' interest in corporate social responsibility in their investee companies is not adequately matched by a responsible investment commitment within their own organisation.[72]

As most of the institutional investors outsource management of their capital to external fund or asset managers, the sustainability of institutional investment is linked to the performance of asset managers. The result of FairPensions' 2008 survey of UK asset managers' performance revealed an overall increase since prior surveys, but many have yet to achieve comprehensive integration of ESG issues. There is still an emphasis on governance issues, rather than on social and environmental issues and there is often little evidence that engagement has led to changes in corporate behaviour, says FairPensions.[73]

Furthermore, the *Fiduciary II* report highlights the crucial role of investment management consulting firms in the investment chain. Because they help pension funds with selecting asset managers they shape and transmit client demand to asset managers, so have significant influence over what asset managers do. Whether asset manager use their influence on companies they own on behalf of their clients, the pension funds, depends on whether investment consultant assess an asset managers performance in this area.[74]

But in the consultancy industry there seems to be a lack of ESG integration and confusion between ESG integration

68 UNPRI, "Report on Progress 2010. An analysis of signatory progress and guidance on implementation", UN PRI Initiative, September 2010.

69 UNPRI, "Report on Progress 2010. An analysis of signatory progress and guidance on implementation", UN PRI Initiative, September 2010.

70 UNCTAD, "Investment and Enterprise Responsibility Review. Analysis of investor and enterprise policies on corporate social responsibility", United Nations, Geneva/New York, August 2010.

71 UNCTAD, "Investment and Enterprise Responsibility Review. Analysis of investor and enterprise policies on corporate social responsibility", United Nations, Geneva/New York, August 2010.

72 FairPensions, "FairPensions, Responsible Pensions? UK Occupational Pension Schemes' Responsible Investment Performance", FairPensions, London, 2009.

73 FairPensions, "Fair Pensions, Investor Responsibility? UK Fund Managers' Performance and Accountability on 'Extra-Financial' Risks", FairPensions, London, 2008.

74 Asset Management Working Group, "Fiduciary responsibility. Legal and practical aspects of integrating environmental, social and governance issues into institutional investment", UNEP Finance Initiative, July 2009.

and traditional ethical investment approaches. Consultants have not sufficiently developed measures to assess asset managers' competence on ESG integration and engagement. Consultants also don't see their responsibility to raise ESG consideration with trustees and have not embedded this in their investment management contracts.[75] However, ESG issues begin to form a piece of the investment consultants' agenda due to growing investor demand. A Eurosif study on the integration of ESG issues by investment consultancies found that 89% of investment consultants anticipate an increase of client interest when it comes to environmental, social and governance issues.[76]

Pension executives also made clear that pension funds highly depend on the information of specialised research providers, and are not always satisfied with their services. Some have called on SRI/ESG service and product providers to come up with innovative and customized products to help pension funds adapt their investments responsibly. Others think that ESG research providers have to be more transparent about their methodology, which sometimes looks like a 'black box' to pension funds and is hard to trust.[77]

The *Fiduciary II* report concludes that very few asset owner signatories to the UN Principles on Responsible Investment (UNPRI) are in fact adopting all Principles and that more can and must be done by all institutional investors and their agents.[78]

1.3.2 Reporting

Although about half of institutional investors disclose some information regarding responsible investment, only 13 of the 100 largest pension funds worldwide had an explicit annual report on RI practices, said UNCTAD in August 2010. It is also worth mentioning that 10 of those funds are signatories of the UN Principles for Responsible Investment (see paragraph 1.4.2).[79]

According to UNCTAD both communications on social responsibility by corporations and ESG analyses by investors must be improved to better indicate the contributions and impacts of business. Better reporting practices should start with generating more consistent, coherent and comparable information. Voluntary initiatives for encouraging reporting on CSR and RI, such as ISO, GRI, and AccountAbility, deliver different levels of disclosure and will need to continue to transition from merely mentioning ESG issues, to measuring actual impacts, which is necessary for investors and regulators to shift from commentary on, to comparability of corporate performance.[80]

The International Integrated Reporting Committee (IIRC), established in August 2010 by the Prince of Whales, might be a first step in that direction. The organization explores new ways for integrating social responsibility reports and financial annual reports. This is good news for investors and analysts who have to assess both reports to get a complete picture of an enterprise. Further integration of sustainability information in financial reporting guidelines would strongly promote sustainability in business and create a level playing field that allows a full sustainability assessment of any company. Moreover, the reporting process will be more efficient, as producing two separate reports always lead to inefficiencies.[81]

75 Asset Management Working Group, "Fiduciary responsibility. Legal and practical aspects of integrating environmental, social and governance issues into institutional investment", UNEP Finance Initiative, July 2009.

76 Marcillac, M. de and Clawson, S., Investment Consultants & Responsible Investment", Eurosif, December 2009.

77 Ottawa, B., "Innovative SRI products needed, say pension execs", IPE.com, 18 November 20009.

78 Asset Management Working Group, "Fiduciary responsibility. Legal and practical aspects of integrating environmental, social and governance issues into institutional investment", UNEP Finance Initiative, July 2009.

79 UNCTAD, "Investment and Enterprise Responsibility Review. Analysis of investor and enterprise policies on corporate social responsibility", United Nations, Geneva/New York, August 2010.

80 Bird, J., "Corporate reports: Investors push to know more about non-financial risks", Financial Times, 1 October 2010; UNCTAD, "Investment and Enterprise Responsibility Review. Analysis of investor and enterprise policies on corporate social responsibility", United Nations, Geneva/New York, August 2010.

81 Tilburg, R. van, "Mijlpaal naar integreren van verslaglegging", Het Financieele Dagblad, 9 September 2010.

1.4 Relevant international standards and initiatives

1.4.1 International standards

International directives, guidelines and principles that institutional investors can refer to in their responsible investment policy, include:

- Universal Declaration of Human Rights
- Convention on the Rights of the Child
- ILO Declaration on the Fundamental Principles and Rights to Work
- Rio Declaration on Environment and Development
- OECD Guidelines for Multinational Enterprises
- OECD Principles of Corporate Governance
- UN Convention on Biological Diversity

1.4.2 Initiatives

In order to encourage institutional investors to develop (better) responsible investment policies, this paragraph will discuss international initiatives concerning responsible investment. We will discuss initiatives developed by the government, the sector itself and social institutions. The overview is non-limitative, but does include the best-known global examples.

- **United Nations Global Compact**

  The United Nations Global Compact was founded in July 2000 as a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. The main purpose is the worldwide integration of the principles in industry and the promotion of all activities that aim to support broader UN goals, such as UN resolutions and the Millennium Development Goals. Global Compact principles are observed voluntarily and considered as complement rather than substitute for regulatory regimes.[82]

- **UN Principles for Responsible Investment**

  In May 1992, the UNEP (United Nations Environmental Programme) launched the *UNEP Finance Initiative*, that organizes all kinds of supportive meetings and work groups for the signatories to effect the objective to "consider environmental, social and governance issues in their investment policy". One of these work groups in July 2004 focused explicitly on players in the investment sector: asset managers, investment funds and pension funds. The result was the *UN Principles for Responsible Investment* (UNPRI), launched by UN Secretary Kofi Annan in April 2006.[83]
  The Principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The PRI Initiative was created after the launch of the Principles to help investors to implement the Principles. From 2011, an annual subscription fee is to be introduced for all signatories.[84]

  The PRI is a voluntary framework, but participation in the annual survey (after an optional one year grace period) is the one mandatory requirement for all signatories and those that do not fulfil this requirement will be publicly delisted from the Initiative.[85] The results of the 2010 Progress Report can be found in paragraph 1.3.

  PRI signatories can join collaborative engagements that seek to improve company behaviour, policies or systemic conditions. The PRI Clearinghouse is specifically designed to facilitate joint initiatives of

82 UN Global Compact, "About us", Website UN Global Compact (www.unglobalcompact.org), Viewed in November 2010.
83 UNEP FI, "Workstream: Investments: Principles for Responsible Investment", Website UNEP Finance Initiative (www.unepfi.org), Viewed in October 2010.
84 UNPRI, "About", Website UN Principles for Responsible Investment (www.unpri.org), Viewed in October 2010.
85 UNPRI, "Reporting and Assessment", Website UN Principles for Responsible Investment (www.unpri.org), Viewed in October 2010.

signatories, and supports over 50 collaborative engagements each year.[86]

As of October 2010, the UNPRI has been signed to by a total of 821 organizations, an increase of more than 30% in the last year, and the value of assets under management stands at € 22 trillion. The signatories include 209 asset owners, 447 investment managers and 165 professional service partners. Of these signatories 21 asset owners, 20 investment managers and 3 professional service partners come from the Netherlands.[87]

- **Carbon Disclosure Project**

  The Carbon Disclosure Project was launched in 2000 with the aim of accelerating "solutions to climate change by putting relevant information at the heart of business, policy and investment decisions".[88] About 3,000 organisations in 60 countries now measure and disclose their and climate change strategies through CDP. This data is made available for use by a wide audience including institutional investors, corporations, policymakers and their advisors, public sector organizations, government bodies, academics and the public. CDP acts on behalf of 534 institutional investors, holding US$ 64 trillion in assets under management and some 60 purchasing organizations.[89]

  Institutional investors can become a CDP signatory and enjoy access to over 5,000 corporate responses to CDP, by signing the CDP questionnaire. Signatories also can become a member which offers a number of other benefits such as exclusive access to the DP database and member reports.[90]

- **Institutional Investor Group on Climate Change (IIGCC)**

  The Institutional Investor Group on Climate Change (IIGCC) is a network of European institutional investors that stimulates research which contributes towards climate change awareness, and also stimulates investment markets and companies to reduce CO2 emissions. There are currently over 50 members, including some of the largest pension funds and asset managers in Europe, representing around € 5 trillion of assets under management.[91]

- **International Corporate Governance Network**

  The ICGN is a global membership organisation of over 500 leaders in corporate governance based in 50 countries, representing funds under management of over US$ 9.5 trillion. Its mission is to raise standards of corporate governance worldwide. It organises conferences and offers a range of publications such as best practice guidance and discussion papers.[92] ICGN has developed a set of principles, the Global Corporate Governance Principles, that are intended to be of general application around the world, irrespective of legislative background or listing rules.[93]

- **Global Reporting Initiative (GRI)**

  Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework for the preparation of annual sustainability. The framework contains general principles to define report content, but also Protocols and Sector Supplements, including a Financial Sector Supplement, which concentrate on the transparency requirements for specific types of companies and sectors.[94]

86 UNPRI, "Collaborations", Website UN Principles for Responsible Investment (www.unpri.org), Viewed in October 2010.
87 UNPRI, "Signatories", Website UN Principles for Responsible Investment (www.unpri.org), Viewed in October 2010.
88 CDP, "What We Do", Website Carbon Disclosure Project (www.cdproject.net), Viewed in October 2010.
89 CDP, "What We Do", Website Carbon Disclosure Project (www.cdproject.net), Viewed in October 2010.
90 CDP, "Programs", Website Carbon Disclosure Project (www.cdproject.net), Viewed in October 2010.
91 IIGCC, "Home", Website IIGCC (www.iigcc.org), Viewed in November 2010.
92 ICGN, "About ICGN", Website International Corporate Governance Network (www.icgn.org), Viewed in October 2010.
93 ICGN, "About ICGN", Website International Corporate Governance Network (www.icgn.org), Viewed in October 2010.
94 GRI, "About us", Website Global Reporting Initiative (www.globalreporting.org), Viewed in October 2010.

GRI's vision is that disclosure on economic, environmental, and social performance become as commonplace and comparable as financial reporting. Therefore, GRI is involved in the establishment of the International Integrated Reporting Committee (IIRC), that explores new ways for integrating social responsibility reports and financial annual reports.[95]

- **EFFAS Commission on ESG (CESG)**

  As part of the search for measuring a companies' performance on social responsibility, the EFFAS (the umbrella organisation of all European analyst associations with a total of more than 16,000 members in Europe) founded a Commission on Environmental, Social & Governance (CESG) in October 2007 in Vienna. Its objective is to facilitate the integration of ESG aspects of corporate performance into investment processes. The Commission consists of investment professionals from leading European fund managers, financial analysts, and equity sector specialists.[96]

  In order to gain meaningful data for investment analysis and decision-making, corporates need to report all aspects relevant to understanding risk – be it environmental, social, governance issues or data which help to understand market impacts, drivers and product development. To support companies in providing such data the Commission defined Key Performance Indicators (KPIs) on extra-financials. In September 2010 it released the draft KPIs for ESG, a standard reporting framework for ecological, social and corporate governance aspects built on the requirements of investment professionals, which is available to the public.[97]

95 Tilburg, R. van, "Mijlpaal naar integreren van verslaglegging", Het Financieele Dagblad, 9 September 2010.
96 EFFAS CESG, "Commission on ESG", Website EFFAS Commission on ESG (www.effas-esg.org), Viewed in October 2010.
97 EFFAS CESG, "KPIs for ESG", Website EFFAS Commission on ESG (www.effas-esg.org), Viewed in October 2010.

Chapter 2 Research objective and method

2.1 Research objective

The objective of the 'Benchmark Responsible Investment by Pension Funds in the Netherlands 2010', carried out by the VBDO in cooperation with research consultancy Profundo, is to provide pension funds and their participants insight into the current status of responsible investment among the largest Dutch pension funds. This comparative research offers pension funds an impartial instrument with which they are able to assess the extent to which their responsible investment policy adequately reflects their social responsibilities and how it compares to their peers' policies. The report is of equal value to the participants of pension funds that, in general, are not able to choose between the various pension funds.

In 2007, the VBDO published the first 'Benchmark Responsible Investment by Dutch Pension Funds and Pension Insurance Companies'. This report is the fourth edition, focusing only on pension funds after the VBDO started publishing a separate benchmark report on insurance companies in September 2009. In the end, the VBDO aims to ensure that as many Dutch pension funds as possible develop a sound responsible investment policy, that they implement this policy in a consequent way using various instruments and account for it in a clear and transparent manner. With the new methodology implemented in this fourth edition, the scope of responsible investment is expanded considerably, taking multiple asset classes and asset allocation into account. The VBDO plans to maintain the updated methodology for the next few years, thus providing an accurate assessment of the changes in responsible investment policy, implementation and accountability in the Dutch pension fund sector.

2.2 Researched pension funds

For the 2010 edition of the benchmark, a total of 60 pension funds were surveyed. This is an increase of 9 in comparison to 2009. The list of researched pension funds was composed using the 2009 selection as basis and adding the 9 largest pension funds in terms of invested capital not yet included in the survey. The 60 pension funds can be broken down into three types:

- **28 industry-wide pension funds**
- **29 corporate pension funds**
- **3 occupational pension funds**

2.3 Research period

The benchmark for pension funds 2010 and the asset allocation covers the period up to the end of 2009. In a number of cases, information about the implementation of responsible investment related to the first half of 2010.

2.4 Gathering information

Information regarding to the responsible investment policy of Dutch pension funds was primarily taken from publicly available sources (annual reports, websites and other media) as provided by these pension funds themselves. In addition, a questionnaire was sent to each of the funds in which details were requested in relation to the assessment.

2.5 Division of tasks and responsibilities

The information gathered from the sources mentioned in paragraph 2.4 was used by the VBDO to compose a profile for each of the pension funds in which all assessment criteria are covered. These profiles were returned to the pension funds for verification and, where necessary, for corrective purposes. On the basis of these profiles, the VBDO assigned scores to the pension funds for all assessment issues and criteria.

Different from earlier benchmark studies, Profundo was not involved in gathering information from the pension funds, nor in the composing or scoring of the pension fund profiles. Profundo did help the VBDO in developing the new methodology and provided the VBDO with an independent review of the scores of a sample of pension funds, to enhance the integrity of the results. Profundo also commented on the analysis of the results and the recommendations written by VBDO. Profundo also was responsible for writing the background chapter (Chapter 1).

2.6 Advisory panel

Prior to publication, the VBDO as standard practice organizes a session in which a number of representatives from the pension fund sector are given the possibility to evaluate the preliminary results of the benchmark and comment on the research process. By organizing an advisory panel, the VBDO works to ensure that the benchmark remains an accurate as possible reflection of the pension fund sector and responsible investment.

The advisory panel for the 2010 edition of the VBDO benchmark responsible investment for pension funds included representatives from a pension fund umbrella organization, a pension fund, and an asset manager that manages the investments for multiple pension funds.

The advisory panel dealt with the research process and methodology as well as the (preliminary) results and the presentation thereof. This section provides a brief summary of the most important issues raised and discussions had.

In terms of the research methodology, concerns were made regarding the final scoring of the pension funds being linked to asset allocation. Responsible investment is relatively well-developed for the public equity asset class, but in other asset classes responsible investment is not very well defined and the supply of responsible investment activities for these asset classes is not great. By linking the score to asset allocation, a pension fund heavily invested in asset classes other than public equity can be disadvantaged. The suggestion was made to analyze the data using the asset mix.

On the topic of asset allocation, a suggestion was made to link the scores to the strategic asset allocation as defined by the pension fund and not to the actual asset allocation as is now the case. The VBDO found this a valuable suggestion, and promised to look into this possibility.

Looking at the research process, the comment was made that the questions in the questionnaire did not match well with the asset classes, with the exception of public equity. This was especially true for the alternative asset class, where the questions were rather vague. The VBDO responded that this had to with the fact that responsible investment in these asset classes is much less defined, and therefore the questions could not be specific. This matter will be looked into for future editions of the report.

Some pension funds have decided that a number of impact investing activities such as microfinance do not necessarily contribute to sustainable development and therefore have not made these investments. By having a criterion for impact investing, the concern was raised that the VBDO could be seen as being unnecessarily normative. The VBDO responded that the scoring model is constructed in such a way that the points awarded for impact investing are akin to bonus points. In other words, having impact investing activities leads to a higher score, but not having them does not lead to a lower score (see chapter 2 for more information).

Another suggestion focused on the fact that the research is for a large part based on 2009 data and will ultimately be published in 2011. In the meantime, pension funds have taken numerous steps in terms of responsible investment that are not reflected in the benchmark. The VBDO responded that the survey does cover responsible investment initiatives and steps up to July 1, 2010. The suggestion was made to publish the benchmark before November, when the annual pension fund meetings take place where the investment policy is determined for the coming year(s). This is also a valuable suggestion, and the VBDO will seriously consider changing the publication date of its benchmark.

Moving on to the presentation of the results, concern was raised that the report should not be perceived as 'naming and shaming'. This also means that best practices can be highlighted and used to inspire other pension funds to take further steps. The VBDO made it clear that it has never wanted to name and shame, it works to provide insight into the current state of affairs regarding responsible investment. Further, this edition of the benchmark will, for the first time, include a final chapter that highlights best practices of pension funds and responsible investment across various asset classes.

Finally, the suggestion was made that specific names of pension funds not be named in the press releases. This did occur for past editions of the benchmark, and was perceived to have had a negative effect on the reputation of the VBDO among pension funds. The VBDO responded that it will, as with all its press releases, take care if and when it names specific pension funds.

The VBDO thanks the members of the advisory panel, past and present, for their continued and insightful comments and critiques.

2.7 Scoring model

To compare the policy and the implementation practices of institutional investors, a number of assessment issues were defined based on literature, the former benchmark studies on responsible investments by Dutch pension funds and insurers and on conversations with institutional investors. The scores of the assessment issues were added up using weighting percentages, to reach an overall score for all pension funds included in this research. Not all assessment issues have been weighted equally, but the individual weighting percentages of all assessment issues add up to a total of 100%. The overall score of each pension fund lies between 0 and 5 points.

The assessment issues have been divided into three categories:

- **Policy**
- **Implementation**
- **Accountability**

Two important elements form the basis of the categories Implementation and Accountability: asset classes and responsible investment strategies. Before turning over to a description of the assessment issues and their weighting percentages, these elements will be explained briefly.

2.7.1 Asset classes

Although bonds are now the favoured asset class among SRI investors, representing 53% of total European SRI assets [98], there are many other possibilities for investment described by amongst others the Boston College Center for Corporate Citizenship.[99] This research takes into account the most common asset classes, for which responsible investment strategies and instruments are already well developed. The list below also represents more than half of the average total investments of pension funds (see Figure 2).

- **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 crucially for emerging markets. In many sectors economic development show that these countries are already

98 Eurosif, "European SRI study 2010", Eurosif, October 2010.
99 Wood, D., "Handbook on Responsible Investment across Asset Classes", Boston College Center for Corporate Citizenship, November 2007.
100 Ness, A., "ESG progress in emerging markets", Investments & Pensions Europe, February 2010.

responding to the above mentioned 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.[100]

It is also possible to take ESG criteria into account with passive investments, by following a sustainable index.

- **Corporate (including covered) bonds**

  For corporate bonds responsible investment activities can be much the same as for equities, with the difference that 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 shareholders 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 pension funds "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.[101]

- **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 accords 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, selection of fund managers based on experience with and implementation of ESG is an important tool.

  The Dutch Green Building Council develops labels for an independent evaluation of new and existing buildings in the area of sustainability, which can be used as a condition for investment. Additionally, developers, architects, brokers, etc. will soon be offering sustainable real estate through a dedicated website, where an expert panel determines that the property offered meets the sustainability requirements. Finally, investors can track indices like the Global Environmental Real Estate Index.[102]

101 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.

102 UNEP FI, "Building responsible property portfolios", United Nations Environment Programme, Juni 2008.

- **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 private equity, hedge funds, commodities and infrastructure. Information provided on other asset classes will not be taken into account. The following opportunities were derived from literature:[103]
- With regard to private equity an institutional investor can stimulate innovative and sustainable companies be cause 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.
- Although hedge funds are often handled as a separate asset class, the underlying assets are generally publicly listed securities (stocks and bonds) and their derivative products. Thus, investors could consider an ESG analysis of underlying assets and theoretically use the same tool for ESG management as for public equity and fixed income.
- 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.

2.7.2 Responsible investment strategies

Based on reviews of implementation practices by investors worldwide (see paragraph 1.3) and its own vision on responsible investment, the VBDO has identified a range of instruments or strategies, applicable to one or more asset classes:

- **Exclusion**

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

  While some investors do take more than one criterion into account, their list of excluded companies only shows (controversial) weapon producers and raises questions about the use of ESG-criteria. Thus, using more than one criterion for exclusion is rated positively, only if the investor can demonstrate how the ESG-criteria are applied and have resulted in the list of exclusions.

  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 pension funds or insurance companies (may) 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. Pension funds should consider this in developing their investment policy and should give preference to companies that perform well in relation to corporate responsibility.

  The VBDO defines ESG-integration as the process by which ESG-criteria are incorporated into the investment

103 Wood, D., "Handbook on Responsible Investment across Asset Classes", Boston College Center for Corporate Citizenship, November 2007.

process. This involves more than screening the portfolios against exclusion criteria but does not necessarily mean that an investor selects the best-in-class companies. ESG-integration can go one step further by identi fying and weighing ESG-criteria, which may have a significant impact on the risk-return profile of a portfolio. Therefore, the 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.

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 takes into account both the extent and the volume of ESG-integration.

- **Positive selection**

  A number of investors also explain responsible investment as best-in-class or –sector selection, stock picking, or investments in SRI funds. In this case, ESG-criteria do not guide the investment decision process, like ESG-integration, but form the basis for selecting companies that perform above average on ESG issues. Positive selection can be a result of ESG-integration but can also be an instrument on its own. Therefore, VBDO identified this as a separate instrument within the range of responsible investment possibilities. Thus, VBDO defines positive selection as choosing the best performing organisation out of a group of corresponding organisations (sector, industry, class) with the use of ESG-criteria.

  Positive selection is examined at the asset classes publicly listed equity, corporate and government bonds.

- **Voting**

  Pension funds and insurance companies can actively exert influence on companies in which they invest by voting during shareholder meetings. Many pension funds have taken to actively voting 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 introducing or supporting resolutions about sustainable development and corporate social responsibility, companies can be pushed towards improvement and corrective action.

  Obviously, voting is examined only at the asset class publicly listed equity.

- **Engagement**

  Pension funds can actively exert influence on companies in which investments are made by entering into dialogue with them. If a companies' policies and behaviour 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, all depending on the size of investment. Institutional investors that have formulated an engagement policy and actively seek dialogue with companies outside shareholder meetings receive higher scores.

  Engagement can be used to publicly listed equity as well as corporate bonds.

- **Impact investing**

  Impact investing implies active investments that are made in companies or projects which are leaders in the field in terms of sustainability or clearly offer added value for sustainable development. Examples are investments in sustainable energy sources, innovative clean technology, cheap medicine against tropical diseases, microcredit and sustainable forestry. Although such initiatives can yield considerable profits, they are not considered for regular financing because investment return time horizon is considered by banks to be too long.

Institutional investors, with their longer time horizons, are very well equipped to make such investments, enabling them at the same time to fulfil their social responsibility as well.

Impact investing may 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 searches 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.

A well-balanced investment mix should allow between 2 and 5% of their equity and/or alternative investments portfolio to be used for financing sustainable projects and companies. The instrument is applicable to publicly listed equity and private equity. The latter is assessed in this research' asset class category 'alternative investments'.

2.7.3 Category 1: Responsible investment policy

The implementation of a socially responsible investment policy requires in the first place that it is defined as clearly as possible in a publicly available document. In doing so, it is important to provide a clear description of the policy objectives and basic principles by referring to recognized legislation and international treaty standards, such as the UN Declaration on Human Rights and ILO conventions.

- **Responsible investment policy: content (33%)**
  VBDO selected the widely accepted themes from the UN Global Compact (human rights, labour standards, the environment and anti-corruption, see 0) 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 form the basis for its investment decision, but does not necessarily have to refer to the Global Compact itself.

  - No policy (0/4)
  - Policy is mentioned on website and/or annual report AND/OR covers at least two of the themes included in the UN Global Compact (1/4)
  - Policy covers all four themes included in the UN Global Compact (2/4)
  - Policy covers at least all four themes in the UN Global Compact and details how it deals with (some of the) ten principles in the investment practice (3/4)
  - Policy covers at least all four themes/ten principles in the UN Global Compact and sets measurable targets for better adherence to the ten principles in the investment practice. (4/4)

- **Responsible investment policy: volume (33%)**
  As pension funds spread out their investment capital over various asset classes, a responsible investment policy should relate to all these asset classes, and specific criteria and instruments per category should be defined. Practical experience shows that pension funds more often have a policy for equity investment than for other categories, and does not cover the whole investment portfolio. VBDO appreciates a policy that can and will be applied to the whole portfolio.

  - No policy (0/4)
  - Policy covers 0-25% of total investment portfolio (1/4)
  - Policy covers 25-50% of total investment portfolio (2/4)
  - Policy covers 50-75% of total investment portfolio (3/4)
  - Policy covers 75-100% of total investment portfolio (4/4)

- **Communication with participants**
  Responsible investment is not just an academic activity. It is based on acknowledging the social responsibility that pension funds bear in their role of institutional investors. This implies interaction with participants and

pensioners as well as society in general. The fund needs to gain insight into what it is that society requires from it, how best to cooperate and how best it can assume its responsibilities. Seeking constructive dialogue with pension fund participants and beneficiaries on the various corporate responsibility issues is therefore viewed positively.

- No communication (0/3)
- Pension fund informs participants about responsible investment policy using the website (1/3)
- Pension fund communicates directly with participants about responsible investment policy also using f.e. newsletters, information packages, and a participants' council (2/3)
- Pension fund communicates with participants about responsible investment issues by informing and consulting participants in formulation and adaptation of responsible investment policy (3/3)

The final score of this category contributes for 25% to the overall score.

2.7.4 Category 2: Implementation

As described in paragraph 1.2 the past years have shown major developments in implementing a responsible investment policy. More different types of instruments have been developed and they have been applied to a broader range of asset classes, despite the limitations of some of these asset classes. Because the instruments are complementary to each and investors tend to find different solutions for each asset class, the implementation practices between asset classes may vary a lot. It is also difficult to single out one best solution.

Therefore, this methodology tries to take into account the possibilities and limitations of both the asset classes (paragraph 2.7.1) and the instruments (paragraph 2.7.2) and provides room for each investor to implement its responsible investment policy in the way it fits best to its organisation, investment mix and decision process. For each asset class a number of assessment issues, based on the instruments, is identified. The individual assessment issues within the asset classes may add up to a score of more than 100%, while the score is capped at 100%. If an investor does not invest in a particular asset class, it is not necessary to have detailed policies and implementation procedures, and as a result, these scores will not be taken into account in the final score.

The final score for the category implementation is determined by multiplying the score of each asset class by asset allocation, and contributes for 50% to the overall score.

Asset class: Publicly listed equities

The score of this asset class is multiplied by asset allocation to create a final score for the category implementation.

- **Exclusion policy (25%)**

  Exclusion is identifying specific, preferably multiple, ESG-criteria for exclusion of companies from the investment universe. Investors can demonstrate their use of exclusion by providing a list of excluded companies, preferably based on multiple criteria.

  - No (0/2)
  - Yes, companies are demonstrably excluded based on 1 criterion (1/2)
  - Yes, companies are demonstrably excluded based on multiple criteria (2/2)

- **ESG-integration (25%)**

  ESG-integration is the process by which ESG- criteria are incorporated into the investment process. In practice this ranges from making ESG-information available for fund managers to systematically incorporating ESG-criteria into each investment decision, which is rated highest in this methodology. As this strategy may be applied to part of the portfolio, the volume of implementation is also taken into account.

  The following two scores for ESG-integration are multiplied and end up as one score:

Extent
- No (0/2)
- ESG-information is used in evaluation of investments in equity (1/2)
- ESG-criteria are systematically embedded in the equity investment selection process (2/2)

Volume
- No (0/4)
- Yes, ESG-integration is implemented for 0-25% of the equity portfolio (1/4)
- Yes, ESG-integration is implemented for 25-50% of the equity portfolio (2/4)
- Yes, ESG-integration is implemented for 50-75% of the equity portfolio (3/4)
- Yes, ESG-integration is implemented for 75-100% of the equity portfolio (4/4)

- **Positive selection (25%)**
  Positive selection is choosing the best performing organisation out of a group of corresponding organisations (sector, industry, or class) with the use of ESG-criteria.

  The extent to which positive selection is implemented in a portfolio differs amongst investors and is generally low (not more than 15%). This assessment issue is therefore corrected after data collection to ensure it distinguishes innovators from laggards.

  - No (0/4)
  - Yes, positive selection is implemented for 0-10% of the equity portfolio (1/4)
  - Yes, positive selection is implemented for 10-25% of the equity portfolio (2/4)
  - Yes, positive selection is implemented for 25-50% of the equity portfolio (3/4)
  - Yes, positive selection is implemented for more than 50% of the equity portfolio (4/4)

- **Engagement (25%)**
  Engagement is exerting influence on companies by entering into dialogue, preferably besides shareholder meetings. Reporting the results will stimulate companies to respond to this dialogue and the requested actions, which is therefore rated higher.

  - No (0/3)
  - Yes, engages or participates in engagement activities on ESG-criteria issues (1/3)
  - Yes, demonstrably engages or participates in engagement activities on ESG-criteria and reports on activities (vague reporting, no names named) (2/3)
  - Yes, demonstrably engages or participates in engagement activities on ESG-criteria and shows demonstrable results (evidence of progress towards resolution/company excluded) (3/3)

- **Voting (25%)**
  Voting is exerting influence on companies by voting during shareholder meetings and by introducing or supporting resolutions about sustainability and corporate social responsibility (CSR). Both volume of the voting policy and inclusion of ESG issues are taken in to account. Highest points are accredited to investors that also publicly initiates and/or supports shareholder resolutions on CSR.

  The two scores for voting are multiplied together and end up as one score:

  Volume
  - No (0/4)
  - Yes, voting policy is implemented for 0-25% of the equity portfolio (1/4)
  - Yes, voting policy is implemented for 25-50% of the equity portfolio (2/4)
  - Yes, voting policy is implemented for 50-75% of the equity portfolio (3/4)

- Yes, voting policy is implemented for 75-100% of the equity portfolio (4/4)

Issues

- Yes, demonstrably votes on companies in portfolio (1/3)
- Yes, demonstrably votes at companies in portfolio, paying explicit positive attention to ESG issues (2/3)
- Yes, demonstrably votes at companies in portfolio, paying explicit attention to ESG issues and publicly initiates and/or supports shareholder resolutions promoting CSR (3/3)

- Impact investing for equity (10%)
  Impact investing can be defined as active investments in companies or projects that contribute to innovative technological development and create added value for society that can hardly be compared with mainstream solutions. Within public equity the selection of publicly traded sustainable companies is assessed based on the volume of investments.

  - No (0/3)
  - Yes, investments are demonstrably made in publicly traded companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <1% of total equity portfolio (1/3)
  - Yes, investments are demonstrably made in publicly traded companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <2% or in excess of €1 billion of total equity portfolio (2/3)
  - Yes, investments are demonstrably made in publicly traded companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <5% or in excess of €2.5 billion of total equity port folio (3/3)

Asset class: Corporate (including covered) bonds

The score of this asset class is multiplied by asset allocation to create a final score for the category implementation.

- **Exclusion (35%)**
  Exclusion is identifying specific, preferably multiple, ESG-criteria for exclusion of companies from the investment universe. Investors can demonstrate their use of exclusion by providing a list of excluded companies, preferably based on multiple criteria.

  - No (0/2)
  - Yes, companies are demonstrably excluded based on 1 criterion (list of excluded companies is based on only 1 criterion) (1/2)
  - Yes, companies are demonstrably excluded based on multiple criteria (2/2)

- **ESG-integration (30%)**
  ESG-integration is the process by which ESG- criteria are incorporated into the investment process. In practice this ranges from making ESG-information available for fund managers to systematically incorporating ESG-criteria into each investment decision, which is rated highest in this methodology.

  The following two scores for ESG-integration are multiplied and end up as one score:

  Extent

  - No (0/2)
  - ESG-information is used in evaluation of investments in corporate bonds (1/2)
  - ESG-criteria are systematically embedded in the corporate bond investment selection process (2/2)

  Volume

  - No (0/4)
  - Yes, ESG-integration is implemented for 0-25% of the corporate bond portfolio (1/4)
  - Yes, ESG-integration is implemented for 25-50% of the corporate bond portfolio (2/4)

- Yes, ESG-integration is implemented for 50-75% of the corporate bond portfolio (3/4)
- Yes, ESG-integration is implemented for 75-100% of the corporate bond portfolio (4/4)

- **Positive selection (30%)**
  Positive selection is choosing the best performing organisation out of a group of corresponding organisations (sector, industry, class) with the use of ESG-criteria.

  The extent to which positive selection is implemented in a portfolio differs amongst investors and is generally low (not more than 15%). This assessment issue is therefore corrected after data collection to ensure it distinguishes innovators from laggards.

  - No (0/4)
  - Yes, positive selection is implemented for 0-10% of the corporate bond portfolio (1/4)
  - Yes, positive selection is implemented for 10-25% of the corporate bond portfolio (2/4)
  - Yes, positive selection is implemented for 25-50% of the corporate bond portfolio (3/4)
  - Yes, positive selection is implemented for more than 50% of the corporate bond portfolio (4/4)

- **Engagement (35%)**
  Engagement is exerting influence on companies by entering into dialogue. Reporting the activities and results will stimulate companies to respond to this dialogue and the requested actions, which is therefore rated higher.

  - No (0/3)
  - Yes, engages or participates in engagement activities on ESG-criteria issues (1/3)
  - Yes, demonstrably engages or participates in engagement activities on ESG-criteria and reports on activities (vague reporting, no names named, cannot determine ambition level) (2/3)
  - Yes, demonstrably engages or participates in engagement activities on ESG-criteria and shows demonstrable results (evidence of progress towards resolution/company excluded) (3/3)

Asset class: Government bonds / Sovereign bonds
The score of this asset class is multiplied by asset allocation to create a final score for the category implementation.

- **Exclusion policy (50%)**
  Exclusion is identifying specific, preferably multiple, ESG-criteria for exclusion of countries from the investment universe. Investors can demonstrate their use of exclusion by providing a list of excluded countries, preferably based on multiple criteria.

  - No (0/2)
  - Yes, countries are demonstrably excluded based on 1 criterion (list of excluded countries is based on only 1 criterion) (1/2)
  - Yes, countries are demonstrably excluded based on multiple criteria (2/2)

- **ESG-integration (50%)**
  ESG-integration is the process by which ESG- criteria are incorporated into the investment process. In practice this ranges from making ESG-information available for fund managers to systematically incorporating ESG-criteria into each investment decision, which is rated highest in this methodology.

  Two scores for ESG-integration are multiplied and end up as one score:

  Extent
  - No (0/2)

- ESG-information is used in evaluation of investments in sovereign bonds (1/2)
- ESG-criteria are systematically embedded in the sovereign bond investment selection process (2/2)

Volume

- No (0/4)
- Yes, ESG-integration is implemented for 0-25% of the sovereign bond portfolio (1/4)
- Yes, ESG-integration is implemented for 25-50% of the sovereign bond portfolio (2/4)
- Yes, ESG-integration is implemented for 50-75% of the sovereign bond portfolio (3/4)
- Yes, ESG-integration is implemented for 75-100% of the sovereign bond portfolio (4/4)

- **Positive selection (50%)**

  Positive selection is choosing the best performing country out of a group of corresponding countries (class) with the use of ESG-criteria.

  The extent to which positive selection is implemented in a portfolio differs amongst investors and is generally low (not more than 15%). This assessment issue is therefore corrected after data collection to ensure it distinguishes innovators from laggards.

  - No (0/4)
  - Yes, positive selection is implemented for 0-10% of the sovereign bond portfolio (1/4)
  - Yes, positive selection is implemented for 10-25% of the sovereign bond portfolio (2/4)
  - Yes, positive selection is implemented for 25-50% of the sovereign bond portfolio (3/4)
  - Yes, positive selection is implemented for more than 50% of the sovereign bond portfolio (4/4)

Asset class: Real estate

The score of this asset class is multiplied by asset allocation to create a final score for the category implementation.

- **Direct real estate ES(G)-criteria for the selection of real estate objects (30%)**

  The use of ESG-criteria ranges from making ESG-information available for fund managers to systematically incorporating ESG-criteria into each investment decision for the selection of real estate objects:

  - No (0/1)
  - Yes, investor demonstrably considers ES(G) issues in selection/development of new real estate objects (1/1)

- **Direct real estate ES(G)-criteria for the maintenance of real estate objects (30%)**

  Additionally, ESG-criteria could be used for the maintenance of real estate objects:

  - No (0/1)
  - Yes, investor demonstrably considers ES(G) issues in maintenance of real estate objects and takes active steps to reduce CO_2 emissions, energy usage and waste production (1/1)

- **Indirect real estate - Selection of managers (60%)**

  For indirect investments an investor could consider ES(G) issues during its selection of fund managers and by entering into dialogue with real estate fund managers:

  - No (0/2)
  - Yes, the pension fund demonstrably considers ES(G) issues in selection of real estate fund managers/ publicly listed real estate companies (1/2)
  - Yes, the pension fund demonstrably considers ES(G) issues in selection of real estate fund managers/ publicly listed real estate companies and actively seeks the dialogue with real estate fund managers/ publicly listed real estate companies on the topic of ES(G) (2/2)

Asset class: Alternative investments

The score of this asset class is multiplied by asset allocation to create a final score for the category implementation.

- **Use of ESG-criteria (60%)**

Both the extent to which ESG-criteria are incorporated into the investment process and the level of transparency are taken into account for the assessment of alternative investments:

  - No (0/2)
  - Yes, alternative investments are demonstrably selected based on ESG-criteria (1/2)
  - Yes, alternative investments are demonstrably selected based on ESG-criteria and the names of these investments are published (2/2)

- **Impact investing for non-public investments (60%)**

  Impact investing can be defined as active investments in companies or projects that contribute to innovative technological or social development and create added value for society that can hardly be compared with mainstream solutions.

  Investors can provide reports about the projects or funds they invest in and present the numbers of their investment. Pension funds that invest on a structural base and with significant amounts of money in projects and companies are rated higher. If they leave the invested amount unspecified only one point will be accredited:

  - No (0/3)
  - Yes, investments are demonstrably made in companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <1% of total alternative portfolio (1/3)
  - Yes, investments are demonstrably made in companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <2% of total alternative portfolio (2/3)
  - Yes, investments are demonstrably made in companies to promote sustainable development (eg. microfinance institutions, renewable energy, etc.), <5% of total alternative portfolio (3/3)

The final score of the category implementation contributes for 50% to the overall score.

2.7.5 Category 3: Accountability

Consumers and citizens have a right to information on companies' and organizations' involvement in society so that 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.

- **Publicly available information on responsible investment policy (25%)**

  The responsible investment policy, or at least a summary of it, should be publicly available, for example on the website:

    - No (0/1)
    - Yes, website provides information on responsible investment policy (1/1)

- **Publicly available information on implementation (75%)**

  All strategies should be explained in either the responsible investment policy or in a separate document and be available on the website. For some strategies a report of the results is required as well. There should be a publicly available overview of the investments made.

  - (Up-to-date) list of investments (40%)
  - No list (0/4)

- List covers 0-25% of total investment portfolio (1/4)
- List covers 25-50% of total investment portfolio (2/4)
- List covers 50-75% of total investment portfolio (3/4)
- List covers 75-100% of total investment portfolio (4/4)

Furthermore, the investor should publish information on the following six strategies:

- **Exclusion (15%)**
  Exclusion is identifying specific, preferably multiple, ESG-criteria for exclusion of companies from the investment universe.
  - No information concerning exclusion policy (0/2)
  - Exclusion policy is explained (1/2)
  - Exclusion policy is explained and list with excluded countries and companies and reason for exclusion is available (2/2)

- **ESG-integration (15%)**
  ESG-integration is the process by which ESG- criteria are incorporated into the investment process.
  - Methodology for ESG-integration is not explained (0/1)
  - Methodology for ESG-integration is explained (1/1)

- **Positive selection (15%)**
  Positive selection is choosing the best performing company or country out of a group of corresponding companies or countries (sector, industry, class) with the use of ESG-criteria.
  - Methodology for positive selection is explained (0/1)
  - Methodology for positive selection is explained (1/1)

- **Engagement (15%)**
  Engagement is exerting influence on companies by entering into dialogue, preferably besides shareholder meetings.
  - No engagement policy found (0/2)
  - Engagement strategy is explained (1/2)
  - Engagement policy is explained, results are also available (2/2)

- **Voting (15%)**
  Voting is exerting influence on companies by voting during shareholder meetings and by introducing or supporting resolutions about sustainability and corporate social responsibility (CSR).
  - No policy can be found (0/2)
  - Voting activity overview report can be found (1/2)
  - Detailed voting activity report is available (2/2)

- **Impact investing (15%)**
  Impact investing can be defined as active investments in companies or projects that contribute to innovative technological development and create added value for society that can hardly be compared with mainstream solutions.
  - Strategy for impact investing cannot be found (0/1)
  - Strategy for impact investing can be found (1/1)

The final score of the category accountability contributes for 25% to the overall score.

Chapter 3

Results

3.1 Response rate

For the 2010 edition of the VBDO benchmark, a total of 60 pension funds were included. Table 3.1 below provides an insight into which pension funds responded by completing the questionnaire and/or responded to the concept profile.

Table 3.1: Response rate

Questionnaire response	Profile response	Overall response	Name
✔	✔	✔	ABN Amro Pensioenfonds
	✔	✔	ABP
			Ahold Pensioenfonds
✔	✔	✔	Algemeen Pensioenfonds KLM
			ARCADIS Pensioenfonds
			BPF Bakkers
	✔	✔	BPF Bouw
	✔	✔	BPF Koopvaardij
✔	✔	✔	BPF Landbouw
			BPF Meubelindustrie en meubileringsbedrijven
			BPF SBZ
✔	✔	✔	BPF Schilders
✔	✔	✔	BPF Schoonmaak- en Glazenwassersbedrijf
✔	✔	✔	BPF voor de Detailhandel
✔	✔	✔	BPF voor de Groente- en Fruitverwerkende industrie
✔	✔	✔	BPF voor het Levensmiddelenbedrijf
✔	✔	✔	Pensioenfonds Delta Lloyd
			Molenaarspensioenfonds
✔	✔	✔	Pensioenfonds Akzo Nobel
✔	✔	✔	Pensioenfonds Architectenbureaus
✔		✔	Pensioenfonds DSM
			Pensioenfonds Ernst & Young
			Pensioenfonds Fortis Bank Nederland
✔	✔	✔	Pensioenfonds Gasunie
✔	✔	✔	Pensioenfonds Heineken
			Pensioenfonds Hoogovens
✔	✔	✔	Pensioenfonds Horeca en Catering
	✔	✔	Pensioenfonds ING
✔	✔	✔	Pensioenfonds KLM Vliegend Personeel
	✔	✔	Pensioenfonds Medewerkers Apotheken
✔	✔	✔	Pensioenfonds Medisch Specialisten
	✔	✔	Pensioenfonds Metaal en Techniek (PMT)
✔	✔	✔	Pensioenfonds PNO Media
			Pensioenfonds Productschappen
✔	✔	✔	Pensioenfonds Shell
✔	✔	✔	Pensioenfonds SNS REAAL
			Pensioenfonds Stork

Table 3.1: Response rate			
Questionnaire response	Profile response	Overall response	Name
✔	✔	✔	Pensioenfonds TNO
✔	✔	✔	Pensioenfonds TNT
			Pensioenfonds UWV
✔		✔	Pensioenfonds Vervoer
✔	✔	✔	Pensioenfonds VolkerWessels
			Pensioenfonds voor de Grafische Bedrijven
✔		✔	Pensioenfonds voor de Metalelektro (PME)
	✔	✔	Pensioenfonds voor de Woningcorporaties
✔	✔	✔	Pensioenfonds Werk en (re)Integratie
	✔	✔	Pensioenfonds Wolters Kluwer
✔	✔	✔	Pensioenfonds Wonen
✔	✔	✔	Pensioenfonds Zorg en Welzijn
✔		✔	Philips Pensioenfonds
			Protector (ExxonMobil NL)
✔	✔	✔	Rabobank Pensioenfonds
✔		✔	Spoorwegpensioenfonds
			Stichting Pensioenfonds Achmea (SPA)
			Stichting Pensioenfonds Fysiotherapeuten
✔	✔	✔	Stichting Pensioenfonds IBM Nederland
✔	✔	✔	Stichting Pensioenfonds KPN
✔		✔	Stichting Pensioenfonds Openbaar Vervoer
✔	✔	✔	Stichting Pensioenfonds Unilever NL (Progress)
	✔	✔	Stichting Pensioenfonds voor Huisartsen
35	38	44	Total
58%	63%	73%	Response Rate

A total of 35 pension funds completed a questionnaire, while 38 pension funds responded to the profile that was sent to them. The overall response rate for the fourth edition is 73%. This rate is down from 84% in 2009. This drop can partly be explained by the 9 pension funds that were surveyed for the first time for this edition, as only 4 of them responded.

3.2 Overall results

Table 3.2 below presents the overall results of the VBDO Benchmark Responsible Investment Pension Funds in the Netherlands 2010. All the scores are out of 5.

Table 3.2: Overall results per pension fund					
Pension fund	Type	Policy	Implementation	Accountability	Overall score
Pensioenfonds Zorg en Welzijn	Industry-wide	5.0	4.4	5.0	4.7
Pensioenfonds SNS REAAL	Corporate	4.0	3.8	4.3	4.0
ABP	Industry-wide	4.0	3.3	5.0	3.9
Pensioenfonds PNO Media	Industry-wide	4.0	3.2	5.0	3.8
Spoorwegpensioenfonds	Industry-wide	3.6	3.2	4.4	3.6

Table 3.2: Overall results per pension fund					
Pension fund	Type	Policy	Implemen-tation	Accounta-bility	Overall score
Pensioenfonds Openbaar Vervoer (SPOV)	Industry-wide	3.6	2.6	4.2	3.2
BPF Landbouw	Industry-wide	3.2	3.0	3.2	3.1
BPF Schoonmaak- en Glazenwassersbedrijf	Industry-wide	4.0	2.8	2.9	3.1
BPF Bouw	Industry-wide	3.6	2.3	3.7	3.0
Pensioenfonds Architectenbureaus	Industry-wide	3.6	1.5	4.1	2.7
BPF voor het Levensmiddelenbedrijf	Industry-wide	3.6	2.0	2.7	2.6
Pensioenfonds Metaal en Techniek (PMT)	Industry-wide	4.2	1.5	3.3	2.6
Pensioenfonds TNT	Corporate	3.6	1.8	2.9	2.5
Pensioenfonds Werk en (re)Integratie	Industry-wide	3.7	1.5	3.2	2.5
Stichting Pensioenfonds KPN	Corporate	3.6	1.7	2.9	2.5
Pensioenfonds Vervoer	Industry-wide	3.1	2.0	2.9	2.5
BPF voor de Groente- en Fruitverwerkende industrie	Industry-wide	3.3	1.6	3.2	2.4
Pensioenfonds Medisch Specialisten	Occupational	3.2	1.7	2.9	2.4
Pensioenfonds voor de Metalelektro (PME)	Industry-wide	3.2	1.4	3.7	2.4
Pensioenfonds Wonen	Industry-wide	3.2	1.6	2.7	2.3
Pensioenfonds Horeca en Catering	Industry-wide	3.3	1.4	2.9	2.3
Pensioenfonds Delta Lloyd	Corporate	3.1	1.1	2.9	2.1
Pensioenfonds ING	Corporate	2.8	1.2	3.2	2.1
Pensioenfonds Shell	Corporate	3.2	1.4	2.4	2.1
Rabobank Pensioenfonds	Corporate	1.8	1.7	2.7	2.0
Stichting Pensioenfonds voor Huisartsen	Occupational	2.4	1.2	3.2	2.0
Pensioenfonds Akzo Nobel	Corporate	3.5	1.2	1.8	1.9
Pensioenfonds TNO	Corporate	3.2	0.8	2.8	1.9
Pensioenfonds voor de Grafische Bedrijven	Industry-wide	3.2	0.8	2.7	1.9
Philips Pensioenfonds	Corporate	2.4	0.7	3.2	1.8
Stichting Pensioenfonds Unilever NL (Progress)	Corporate	3.2	0.7	2.4	1.7
BPF Schilders	Industry-wide	3.2	0.8	1.5	1.6
Pensioenfonds Productschappen	Industry-wide	1.8	0.5	3.5	1.6
Pensioenfonds DSM	Corporate	2.2	0.7	2.4	1.5
BPF voor de Detailhandel	Industry-wide	1.8	1.0	2.1	1.5
Pensioenfonds voor de Woningcorporaties	Industry-wide	2.2	0.9	1.8	1.5
BPF Koopvaardij	Industry-wide	1.8	0.6	2.1	1.3
BPF SBZ	Industry-wide	2.2	0.2	2.1	1.2
Pensioenfonds Heineken	Corporate	1.8	0.7	1.5	1.2
ABN Amro Pensioenfonds	Corporate	1.8	0.4	1.8	1.1
BPF Meubelindustrie/meubileringsbedrijven	Industry-wide	1.4	0.4	2.1	1.1
Pensioenfonds Medewerkers Apotheken	Industry-wide	1.9	0.4	1.8	1.1
Stichting Pensioenfonds Achmea (SPA)	Corporate	2.2	0.3	1.5	1.1
Algemeen Pensioenfonds KLM	Corporate	1.9	0.2	1.5	1.0
Pensioenfonds KLM Vliegend Personeel	Corporate	1.9	0.1	1.5	0.9
Pensioenfonds VolkerWessels	Corporate	2.4	0.0	1.3	0.9
Stichting Pensioenfonds Fysiotherapeuten	Occupational	1.8	0.2	1.3	0.9
Stichting Pensioenfonds IBM Nederland	Corporate	1.9	0.0	1.3	0.8
Pensioenfonds Wolters Kluwer	Corporate	1.4	0.0	1.5	0.7

Table 3.2: Overall results per pension fund					
Ahold Pensioenfonds	Corporate	1.0	0.0	1.3	0.6
Pensioenfonds Hoogovens	Corporate	0.4	0.0	1.3	0.4
Pensioenfonds Ernst & Young	Corporate	0.0	0.0	1.3	0.3
ARCADIS Pensioenfonds	Corporate	0.4	0.2	0.0	0.2
Pensioenfonds Gasunie	Corporate	0.4	0.2	0.0	0.2
BPF Bakkers	Industry-wide	0.0	0.0	0.0	0.0
Molenaarspensioenfonds	Industry-wide	0.0	0.0	0.0	0.0
Pensioenfonds Fortis Bank Nederland[1]	Corporate	0.0	0.0	0.0	0.0
Pensioenfonds Stork	Corporate	0.0	0.0	0.0	0.0
Pensioenfonds UWV	Corporate	0.0	0.0	0.0	0.0
Protector (ExxonMobil NL)	Corporate	0.0	0.0	0.0	0.0

[1] On 1 July 2010, the legal merger between ABN AMRO Bank N.V. and Fortis Bank (Nederland) N.V. (FBN) was completed, creating a combined entity called ABN AMRO Bank N.V.. As a consequence, the pension funds of the former entities are currently investigating their future cooperation. As per 1 January 2011 former FBN employees will build up their pension rightswithin the ABN AMRO pension fund.

Due to the significant changes in methodology, these scores cannot be compared to the previous years' scores. The relative ranking, however, can be analyzed. The pension fund at the top of the ranking is PFZW. This does not come as a complete surprise, as this pension fund has always scored very high in previous benchmarks. Still, it is a remarkable accomplishment that PFZW has maintained its position at the top of thelist, even with the significantly expanded methodology. Coming in the second place is Pensioenfonds SNS REAAL. This very high ranking also should not come as a surprise, as the insurance part of the corporation, REAAL, also came out on the top of the rankings for the VBDO Benchmark Insurance Companies in the Netherlands. This was thanks to the commendable efforts of its asset manager (SNS AM). ABP follows closely in third position, and is in turn followed closely by PNO Media, Spoorwegpensioenfonds and SPOV. The twelve pension funds with a score above 2.5 is completed by the following pension funds:

- **BPF Landbouw**
- **BPF Schoonmaak- en Glazenwassersbedrijf**
- **BPF Bouw**
- **Pensioenfonds Architectenbureaus**
- **BPF voor het Levensmiddelenbedrijf**
- **Pensioenfonds Metaal en Techniek (PMT)**

3.2.1 Analysis of overall results

Table 3.3 below provides an analysis of the overall results, where a number of pension fund characteristics are related to the scores.

Table 3.3: Analysis of results	Policy	Implementation	Accountability	Overall score
Overall average score	2.4	1.1	2.3	1.7
Type of pension fund				
Industry-wide and occupational (31)	2.9	1.6	2.9	2.2
Corporate (29)	1.8	0.7	1.7	1.2
Newly reviewed pension funds				
Last year's population (51)	2.4	1.2	2.4	1.8
New population (9)	2.2	0.8	2.0	1.5
Size of pension funds (invested capital)				
Up to 1 billion Euro (8)	1.2	0.3	1.3	0.8
1 to 10 billion Euro (42)	2.3	1.1	2.2	1.7
From 10 billion Euro (10)	3.3	2.0	3.6	2.7

The overall results per element show that, in general, pension funds scored a lot better in formulating and communicating their responsible investment policies than they did in implementing them. The relatively low implementation score is not surprising, considering the fact that multiple asset classes are included this year. This also does indicate, however, that there is a lot of room for improvement, and a lot more can and needs to be done on implementing responsible investment policies in different asset classes.

When breaking down the results of the benchmark according to pension fund type, it becomes clear that industry-wide and occupational pension funds score significantly higher than corporate pension funds. This is true for all three elements and for the overall score, as the difference is around a full point. This is consistent with the trend in the past three editions of the benchmark, despite the revised methodology.

This year, 9 pension funds were included for the first time. There is a bit of a difference between the scores for the pension funds that were previously included and those that were included for the first time in the 2010 edition.

When the pension funds are categorized according to size, there is a clear correlation between the size of the fund and its score. The larger the pension fund, the better it formulates, implements and reports on its responsible investment policy. This conclusion is also unchanged from previous years.

As mentioned by the advisory panel, the new methodology includes multiple asset classes, while the implementation of responsible investment seems to be best developed for public equity. This could mean that pension funds which have invested relatively more in asset classes other than public equity could receive a lower score. Table 3.4 displays the results of an analysis done to test the impact of over weighting for pension funds for the implementation of responsible investment across the five asset classes. For each of the asset classes, the standard deviation was calculated and used to identify the pension funds with an over weighted asset allocation (more than one standard deviation away from the overall average).

Table 3.4: Overall average implementation scores vs. over weighted pension funds

Asset class	Average score	Average score over weighted pension funds	Number of pension funds
Public equity	1.88	2.09 ↑	9
Corporate bonds	1.30	0.48 ↓	7
Government bonds	0.27	0.54 ↑	7
Real estate	1.22	2.11 ↑	9
Alternative investments	1.08	1.71 ↑	7

While it is true that the average scores for the asset classes other than public equity are lower, pension funds that are relatively over weighted in public equity, real estate and alternative investments actually have a better score than the overall average. This could mean that they indeed put more effort in the asset class they focus on, like the VBDO encourages them to do. To a lesser extent, this is also the case for government bonds. The reason for this, however, is that one of the pension funds (Pensioenfonds SNS REAAL) has a responsible investment policy for government bonds while the rest of the over weighted funds all have a score of 0. With regards to corporate bonds, the over weighted pension funds score significantly lower than the overall average, a disappointing result considering that the sustainability research and metrics are essentially the same for public equity and corporate bonds.

The analysis above shows that it cannot be unequivocally stated that pension funds with a relatively higher asset allocation in asset classes other than publicly listed equity receive a lower score. Finally, the number of pension funds that are relatively over weighted is low, ranging from 7 to 9 pension funds out of 60.

3.3 Policy results

As described in the previous chapter, the policy section for the benchmark is composed of three criteria that investigate the qualitative, quantitative and communication aspects of the responsible investment policies of pension funds.

Fifty of the 60 pension funds surveyed for this report were able to indicate that they have a responsible investment policy. This amounts to 83%, once again an improvement is comparison to the 2009 edition of this report, where 73% had a policy. Looking at the content of this policy, the following conclusions can be made:

- 15 pension funds indicate that they have a responsible investment policy and/or base it on at least two of the themes covered in the UN Global Compact.
- 14 pension funds have a responsible investment policy based on the four themes of the UN Global Compact.
- 19 pension funds have a responsible investment policy based on the four themes of the UN Global Compact and explain how (some of the) principles are dealt with in the investment practice.
- 2 pension funds also set measurable targets for better adherence to these principles.

Looking at the percentage of the pension funds' assets covered by the responsible investment policy, it becomes clear that the majority of the pension funds' responsible investment policies cover less than 50% of their assets:

- 39 pension funds' policies cover less than 50% of their invested assets,
- 21 pension funds' policies cover more than 50% of their invested assets,
- 7 pension funds' policies cover 75-100% of their invested assets.

In communicating the responsible investment policy and actively incorporating the preferences of the participants, the following things can be noted:

- 19 pension funds provide information on their policy by using their website.
- 26 pension funds communicate directly with their participants regarding this policy and/or discuss it with the participants' council.
- 5 pension funds actively consulted the participants on their opinions regarding responsible investment and adapted the policy accordingly.

3.4 Implementation results

The second element of the benchmark methodology investigates the implementation of the responsible investment policy across the various asset classes. Table 3.4 shows that the average scores vary significantly.

Table 3.4: Average scores across asset classes

Asset class	Average score
Public equity	**1.88**
Corporate bonds	**1.30**
Government bonds	**0.27**
Real estate	**1.22**
Alternative investments	**1.08**

The implementation of responsible investment policies for the public equity asset class is much further developed than the implementation in other asset classes. Interestingly enough, the implementation of responsible investment policies in the asset classes corporate bonds, real estate and alternative investments are lower, but at a similar level. Implementation of responsible investment policies for the asset class government bonds, however, has the lowest score of all the asset classes.

3.4.1 Public equity

There are a number of criteria applicable to the public equity asset class. These are listed below along with a short description of the results:

- **Exclusions**
  39 pension funds (65%) maintain an exclusion policy. Of these pension funds, 16 pension funds excluded companies based on multiple criteria. This leaves 21 pension funds that were unable to show that they had an exclusion policy.
- **ESG-integration**
  20 pension funds (33%) demonstrably integrate ESG into their selection of investments. Six of these pensionfunds do this in a systematic fashion: ABP, BPF Bouw, PNO Media, Spoorwegpensioenfonds, SPOV, PFZW.
- **Positive selection**
  10 pension funds (17%) invest (a portion of) their public equity making use of positive selection.
- **Engagement**
  34 pension funds (57%) conduct engagement activities based on ESG-criteria. Eleven of these pension funds report on their activities in a limited fashion, while 17 pension funds show demonstrable results and provide specific details.
- **Voting**
  48 pension funds (80%) demonstrably vote on (a portion of) their public equity holdings. Twenty-five of these pension funds do so while paying explicit attention to ESG issues. Eight of these publicly initiate and/or support shareholder resolutions promoting CSR.
- **Impact investing**
  8 pension funds (13%) engage in impact investing activities in the public equity asset class that work to provide a sustainable future for planet and planet. These are: ABP, BPF Landbouw, Delta Lloyd Pensioenfonds, PGB, Philips Pensioenfonds, PMA, Shell Pensioenfonds, PFZW.

These results show that voting is the most commonly used instrument, followed by exclusions, engagement, ESG-integration, positive selection and impact investing.

3.4.2 Corporate bonds

As mentioned earlier, responsible investment in the corporate bond portfolio is less developed than in the public equity asset class. The applicable criteria are listed below along with a short description:

- **Exclusions**
  32 pension funds (53%) maintain an exclusion policy that also applies to the corporate bond portfolio. Fifteen of these pension funds exclude companies based on multiple criteria.
- **ESG-integration**
  11 pension funds integrate ESG into their corporate bond investments. Five of these pension funds do this in a systematic fashion: ABP, BPF Bouw, Heineken Pensioenfonds, Spoorwegpensioenfonds, SPOV.
- **Positive selection**
  Only 1 pension fund, Stichting Pensioenfonds Unilever NL, indicated that it incorporated positive selection into its corporate bond portfolio.
- **Engagement**
  19 pension funds made use of engagement activities for their corporate bonds holdings. This was generally done on in combination with their public equity holdings.

For corporate bonds, the most commonly used instruments were exclusions, followed by engagement, ESG-integration and positive selection.

3.4.3 Government bonds

Responsible investment for the government bond portfolio is still very much at the infancy stage. This is also reflected in the criteria as listed below.

- **Exclusions**
  6 pension funds maintain exclusion criteria for government bonds. These pension funds are: Pensioenfonds Akzo Nobel, Pensioenfonds Architectenbureaus, BPF Schoonmaak- en Glazenwassersbedrijf, PMT, Pensioenfonds SNS REAAL, PFZW.
- **ESG-integration**
  2 pension funds integrate ESG into their selection of government bonds. These pension funds are: Pensioenfonds SNS REAAL and Rabobank Pensioenfonds.
- **Positive selection**
  No pension funds make use of positive selection in their investment decisions for the government bond portfolio.

When looking at the exclusion policies for some of the pension funds in the government bond portfolio, it must be noted that a number of these fund exclude countries whose bonds are generally not invested. This means that the exclusion policy has little to no effect on the actual investment decisions. On the other hand, some pension funds invest in a restricted number of (European) country bonds where sustainability criteria are in the first instance not very visible.

Responsible investment for government bonds should focus on elements such as education level of the population, average population age, resource efficiency and availability and other non-financial aspects that potentially have an impact on investment risk and return. This is also relevant for European country bonds. A number of asset managers already have such products available.

3.4.4 Real estate

For the real estate portfolio, two types were distinguished in the criteria: direct and indirect real estate. Direct real estate criteria focused on the selection and maintenance of the holdings while the indirect real estate criterion focused on the selection of and dialogue with real estate fund managers on the topic of sustainability.

- **Direct real estate selection**
  13 pension funds (24%) demonstrably consider ESG issues in the selection and/or development of direct real estate investments.
- **Direct real estate maintenance**
  11 pension funds (20%) also demonstrably consider ESG issues in the maintenance of direct real estate investments.
- **Indirect real estate**
  16 pension funds (28%) demonstrably consider ESG issues in the selection of real estate fund managers. Of these 16 pension funds, 10 also actively seek a dialogue with these fund managers on the topic of sustainability.

3.4.5 Alternative investments

The alternative investments asset class is very broad, encompassing not only private equity and hedge funds, but also commodities and infrastructure investments. Nonetheless, ESG-criteria can and must be incorporated into the selection and engagement with external alternative investment fund managers. In addition to this, impact investments can also be made within this asset class.

- **ESG-criteria**
  14 pension funds (25%) demonstrably include ESG-criteria in their alternative investment decisions. Four of these pension funds publish the names of these investments.

- **Impact investing**
  20 pension funds (35%) invest a portion of their alternative investments in companies and/or funds that promote sustainable development. Examples include microfinance, clean tech, and renewable energy.

3.5 Accountability results

The third and final element of the overall score is accountability. It is of paramount importance that pension funds provide insight to their participants and others into their responsible investment policy and how it is implemented.

- **Public availability of responsible investment policy**
  52 pension funds (87%) provide publicly available information on their responsible investment policy. This information varied widely and ranged from pension funds indicating that responsible investment was important to well-developed policies with measurable targets.

- **Public availability of responsible investment implementation**
  Pension funds provide much less information on the implementation of their responsible investment policy:
  - Exclusions: of the 35 pension funds with publicly available information on their exclusion policy, 16 pension funds publish a list of excluded companies.
  - ESG-integration and positive selection: 9 pension funds provide insight into their ESG-integration methodology, 4 pension funds do this for their positive selection activities.
  - Engagement: 34 pension funds provide information on their engagement activities, 22 of these offer insight into their engagement results.
  - Voting: 39 pension funds provide information on their engagement activities, 29 of these also publish a detailed voting report.
  - Impact investing: 16 pension funds detail how they engage in impact investing.
  - List of investments: 9 pension funds publish a list of (a portion of) their investments.

3.6 Recommendations

By publishing a benchmark that tracks the development of responsible investment for pension funds in the Netherlands, the VBDO also wishes to provide valuable assistance to pension funds in formulating or further implementing and reporting on their responsible investment policies. Based on the results of this benchmark, the VBDO provides a number of recommendations to pension funds on how to improve their responsible investment policies for the three elements that make up the overall benchmark score.

3.6.1 Policy

- **Qualitative aspect**
  Pension funds should work to formulate a responsible investment policy that is at least based on the themes and principles included in the UN Global Compact. This internationally accepted norm is used by a wide variety of institutional investors as basis for their responsible investment policies. If a policy based on these themes and principles has already been formulated, pension funds are urged to develop measurable targets that work to align the investments with these themes and principles. In this way, progress can continue to be made.

- **Quantitative aspect**
  Pension funds should work to implement their responsible investment policies for all their asset classes. At this moment, the majority of pension funds' assets do not fall under their responsible investment policies.

- **Communication with participants**
  Pension funds should structurally look for and use inputs from their participants on their responsible investment policy.

3.6.2 Implementation

Pension funds must make an effort to implement their responsible investment policies across the various asset classes. A mix of instruments can be used to implement the responsible investment policy in different asset classes. This VBDO benchmark study can provide guidance on the steps which can be taken, as the criteria described in chapter 2 provide insight into how this can and has been done. Pension funds are advised to consider all instruments and make clear choices.

- When implementing a responsible investment policy, pension funds should look at their asset allocation when prioritizing what steps to take. The asset allocation of pension funds varies widely relative to the funds' characteristics. Some are more heavily invested in fixed income classes such as corporate and government bonds. Therefore it would make sense to give priority to formulating and implementing a responsible investment policy for these asset classes.
- Pension funds should consult with their existing asset managers on the services they can offer to the pension funds to implement their responsible investment policies. Where applicable, new asset management contracts should include agreements on how the fund's responsible investment policy will be implemented (the VBDO website provides a handbook that includes information on asset managers and responsible investment).
- For all asset classes it is important that sufficient information on ESG (Environmental, Social and Governance) issues is available to (internal and/or external) portfolio managers, to incorporate this information into the investment decision making process (the VBDO website provides a handbook that also includes information on sustainability data providers and the services they offer).
- For the real estate, alternative investments and government bond asset classes, experience with implementing responsible investment policies is still limited, and pension funds should actively engage in dialogue with the asset managers managing these asset classes to achieve progress. If no progress is made, asset managers that do consider sustainability issues can be selected to replace those that do not.

3.6.3 Accountability

- Pension funds need to increase transparency in how they report on their responsible investment activities. Although the vast majority of the pension funds included in this report provide at least a little information on their responsible investment policies, most pension funds do not provide sufficient information in how responsible investment is implemented across the various asset classes, using a wide variety of instruments. This also includes publishing a list of their actual investments in different asset classes.

Chapter 4

Inspirational examples

This chapter, put together by VBDO institutional member Sustainalytics, provides a number of inspirational examples of how pension funds and asset managers are taking steps to integrate ESG into multiple asset classes.

4.1 State of the market

On a global level, a consensus has been steadily emerging among institutional asset owners that the consideration of environmental, social, and governance (ESG) factors forms an integral part of taking fiduciary responsibility for managing the assets entrusted by pension fund participants.

Most Dutch pension funds and their asset managers have developed at least a basic strategy to structurally consider ESG factors in the investment decision-making with respect to their equity portfolios. Avoidance of investments in companies involved in the production of controversial weapons such as cluster ammunition and anti-personnel mines has become common practice. Also, many pension funds refrain from investing in companies that are associated with severe human rights violations, labor rights violations, corruption, or environmental damage. Thanks to investor pressure, companies have to consider the principles of the United Nations Global Compact.

Fortunately, Responsible Investment has developed beyond exclusion of the worst-of-the-worst companies since for a long time now. Pension funds increasingly exercise their ownership rights and seek constructive dialogue with companies. Asset managers use ESG ratings to manage ESG risks and to identify ESG opportunities, such as companies with particularly positive ESG contributions. Various Dutch pension funds have booked substantial progress with respect to transparency about their investment decision-making and ownership practices. Smaller funds are benefiting from the larger Dutch funds' leadership role in taking Responsible Investment forward.

4.2 Beyond equity

Acknowledging the fact that non-equity investments just as well provide financing to companies and governments as equity investments, pension funds and their asset managers are looking for ways to develop Responsible Investment policies for all asset classes in their portfolios.

Closely following the market, the VBDO understands that many Dutch pension funds are moving their Responsible Investment practices beyond Developed Markets equity. Other asset classes such as fixed income and real estate also make up for significant shares in investment portfolios. Certain funds have even started to pay more serious attention the sustainability impact of alternatives, such as private equity and thematic investments. Starting this year, the VBDO's benchmark considers asset-class specific developments in more detail.

Although it is generally challenging to develop practical Responsible Investment solutions, the VBDO engaged its member Sustainalytics, the Amsterdam-based ESG research specialist, to collect examples of inspiring initiatives by Dutch pension funds and their asset managers. On the next few pages, Sustainalytics presents short case studies of some remarkable Responsible Investment initiatives by five players in the Dutch pension market.

The *Responsible Investment* in Practice case studies are:

1. Responsible investment in country bonds by Mn Services
2. Thematic ESG investing by Pensioenfonds Medewerkers Apotheken
3. Engagement with external managers by Pensioenfonds TNO
4. Responsible real estate investments by PGGM
5. Responsible equity investments by PNO Media

4.3 Responsible investment in country bonds by Mn Services

Among Dutch pension funds and in the Dutch institutional asset management industry, it has largely become common practice to exclude companies from the investible universe if they are strongly associated with human rights violations, bad labor conditions, corruption, environmental malpractice, or controversial weapons. Such an exclusion policy is typically applied to both equity and, increasingly, also to corporate bonds.

With the aim of expanding its responsible investment policy to other asset (sub-)classes, Mn Services has also implemented an exclusion policy for country bond investments. Presently, Mn Services' black list includes the following eleven countries: Belarus, Eritrea, Iran, Ivory Coast, Myanmar, North Korea, Somalia, Sudan, Syria, Uzbekistan, and Zimbabwe. These countries have in common that they, or their current governments, face sanctions imposed by the United Nations and/or the European Union. In the special case of Ivory Coast, Mn Services acknowledges that the EU sanction concerns former government officials but decided to exclude the country from the investible universe after all, as the influence of the officials over national politics still appears to be significant. This decision led to the divestment of Mn Services' position in Ivory Coast bonds in 2010.

Mn Services monitors UN and EU sanctions and updates the country black list on a quarterly basis. Although investor engagement with governments is not common, Mn Services is currently in the process of writing notification letters to the governments of blacklisted countries explaining the exclusion decision and encouraging them to improve policies and governance practice.

About Mn Services: Mn Services is an administrator and asset manager for a number of Dutch pension funds. Total assets under management amount to €70 billion. Mn Services is best known for its management of the two large branch pension funds Pensioenfonds Metaal en Techniek (PMT) and Pensioenfonds voor de Metalektro (PME).

4.4 Thematic ESG investing by Pensionfonds Medewerkers Apotheken

With around EUR 1 billion assets under management, Pensioenfonds Medewerkers Apotheken (PMA) is a middle-size occupational pension fund. PMA has developed a Responsible Investment policy balancing ambition and an administrative burden which the relatively small organization can bear. As a result, PMA currently invests 12.5% of its total assets under management in funds with explicit ESG benefits. This includes both specific thematic ESG funds and more general sustainable funds with positive and negative selection based on ESG criteria and engagement. Also, PMA closely monitors all its managers on their ESG policy, which is one of the criteria for manager selection.

PMA has given itself room to invest up to 7.5% of its total assets under management in thematic ESG funds. In 2010, PMA participates in a number of clean technology and microfinance funds, amounting to 3.5% of total assets under management.

The microfinance funds have been yielding stable returns on investment. The returns on the clean technology funds have been more volatile. Because of their specific focus, these clean tech funds actively overweight certain sectors and underweight others. In other words, PMA is faced with a considerable tracking error. So far, PMA's managers have mostly used the MSCI World Index as a benchmark but this has led to relative underperformance in the past couple of years of economic turmoil. There is a need for a more appropriate, environmental market index. Without an appropriate benchmark, PMA feels that it cannot afford more investments in clean tech funds, despite the existing ambition to do so. The underperformance compared to the benchmark lowers the so-called z-score – a 5-year average return-on-investment indicator – that employers use to evaluate the performance of the pension fund. If this score turns negative, employers in the branch would no longer be tied to the branch-specific pension fund, in this case PMA.

So even if a clean tech fund has a healthy absolute risk-corrected return, it may still be prohibitive for PMA to participate in this fund as long as the investment has a downward impact on the z-score. PMA has noted that various index providers have started offering special clean tech market indices and is discussing the possible solutions with its managers. If things works out well, PMA will be happy to raise its stake in clean technology funds.

4.5 Engagement with external managers by Pensioenfonds TNO

Pensioenfonds TNO focuses its ESG engagement efforts on external asset managers instead of the invested companies. Although the fund has EUR 2 billion of diversified assets under management, it has proven to be difficult to have a significant impact when trying to influence large multinational corporations. As an alternative, it stimulates its external managers, with often much larger volumes of assets under management, to engage with such corporations.

Pensioenfonds TNO has its own responsible investment policy and principles and requires from its external asset managers to either comply or explain any deviations. The fund engages with those external managers who fail to comply or explain and seeks for opportunities to strengthen Responsible Investment policies. Also, the fund assesses whether the external managers' policies are backed by sufficient and dedicated staff and disclosure on actual performance. Similar to the joint company engagement efforts initiated from UNPRI's Intranet Clearinghouse, Pensioenfonds TNO tries to liaise with other pension funds to add persuasion power to the engagements with asset managers.

As a result of these efforts, a passive manager of Pensioenfonds TNO has developed a passive European and worldwide equity fund with an ESG overlay. Also, Pensioenfonds TNO has induced an active fund-of-funds manager of to sign up to the United Nations Principles for Responsible Investment and to consider these Principles in the fund manager selection process.

If Pensioenfonds TNO requests for proposals from external managers, it requests information on Responsible Investment policies and implementation. If an external manager has an RI policy aspect or a particular decision deviating from Pensioenfonds TNO's policy – e.g., deciding on its own not to exclude a company that is on Pensioenfonds TNO's exclusion list –, it is generally accepted as long as it is properly justified. Hence, the fund closely monitors its external managers on RI practices, but it does leave significant room for flexibility as long as real measures are taken and progress is booked.

In the meantime, Pensioenfonds TNO has not stopped advancing its own RI practice. It is now applying the same exclusion criteria for fixed income as for equity, as it acknowledges that a bond investment is just as much a stake in a company as an equity investment. Although bonds do not come with voting rights, they can just as well provide for financing of controversial activities. For the sake of transparency, the fund publishes a list of all its equity and bond investments in both funds and individual companies.

4.6 Responsible real estate investments by PGGM

The European Centre for Corporate Engagement (ECCE) surveyed property managers on environmental management practices and concluded that performance was disappointing overall. There is a general lack of meaningful data and performance objectives on energy consumption, waste production, water consumption, and carbon intensity.

Dutch asset management firm PGGM, in partnership with fellow asset manager APG and the Universities Superannuation Scheme in the UK, as sponsor of the survey has taken the ECCE findings to produce an environmental performance index of property companies. PGGM uses the index to enable pension funds, for which it manages a real estate investment mandate, to engage with property managers to address environmental performance. On average, Dutch pension funds have been investing about 10% of their asset base in both listed and private real estate over the past thirty years.

PGGM has embarked on a journey to acquire an understanding of how ESG factors can influence the risk-return profile of the investment portfolio, covering multiple asset classes. With respect to real estate, PGGM is convinced that the link between environmental performance and financial return on investment is particularly strong. The rental income and the occupancy of energy-efficient property tend to be higher and less volatile than those of conventional property. Tenants are expected to be more loyal to green buildings that should also result in better or at least more stable values, although both are still beliefs and have yet to be proven. Moreover, the real estate sector offers significant opportunities for greenhouse gas abatement and energy cost savings.

The underlying property and the environmental performance metrics are the same for listed and private real estate. The way in which the decision process is influenced is different, however. With respect to listed real estate, PGGM engages with property managers to challenge environmental performance and, through its membership of the European Public Real Estate Sustainability Committee, it is adding the investor's perspective to the evolving standards in the industry. With respect to private real estate, PGGM considers the environmental performance indicators in the investment decision-making process. As of 2011, the indicators are also included in PGGM's reporting requirements and are as such part of the legal documentation of new contracts with external fund managers.

Besides environmental factors, PGGM also pays considerable attention to governance, with particular focus on transparency and equal treatment of fund participants. Consideration of social factors is less common in the real estate industry. PGGM uses a red flag checklist used during the due diligence. Especially in the emerging markets this has proven to be a useful tool identifying human rights or labour issues that can emerge in green field developments. For example, it investigates the adoption of labour standards and health and safety plans on construction sites and the existence of forced displacement plans.

About PGGM: PGGM is the administrative organization for collective pension schemes, principally in the care and welfare sector. It is also an income provider for people in the care and welfare sector. PGGM currently manages around EUR 100 billion of pension assets of over 2.3 million participants.

4.7 Responsible equity investments by PNO Media

With EUR 3 billion of total assets under management, PNO Media is a relatively large branch-specific pension fund. PNO Media uses Media Pensioen Diensten (MPD) to administer the collective pension scheme and to manage the fund's assets. Besides an exclusionary policy and an engagement strategy, PNO Media uses ESG ratings to manage a EUR 0.5 billion Developed Markets equity portfolio. The best performing 65-75 companies are selected for investment from a universe of 400 of Europe's and North America's largest companies.

PNO Media is convinced that companies with sustained strong corporate social responsibility practices will enjoy competitive advantage in the long run. PNO Media has been satisfied with the financial return on the core portfolio for which ESG ratings are considered in the investment decision making.

Besides the described core portfolio, PNO Media has some EUR 0.5 billion more invested in equity and over EUR 0.4 billion in corporate bonds. Even though the external managers of these other corporate security holdings may have less advanced Responsible Investment strategies, they are always required to comply with PNO Media's Responsible Investment policy. Mostly, these managers work with significantly larger investment universes and they have not offered ESG ratings-based investment solutions. PNO Media also actively engages with companies that do not comply with its Responsible Investment policy and votes on all stock holdings. PNO Media is proud to have implemented a Responsible Investment strategy based on ESG ratings for its core equity portfolio and continues to explore ways to enhance its Responsible Investment practice with respect to both equity and fixed income.

Besides innovating on the policy side, PNO Media has also been pro-actively seeking effective solutions to explain its Responsible Investment strategy to the fund's participants. It has developed a dedicated website (http://pno-mediaverantwoordbeleggen.nl) for publishing Responsible Investment news, policy documents and annual reports.

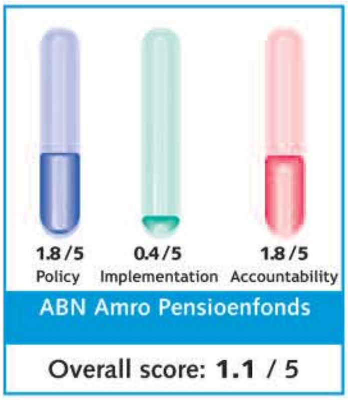
4.8 About the author

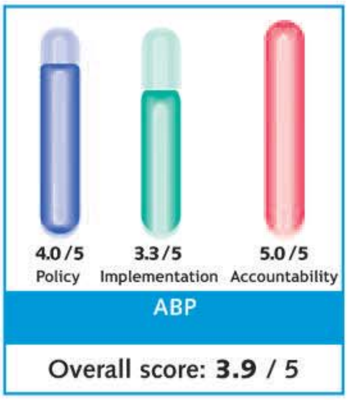
Sustainalytics is a global leader in sustainability research and analysis, serving investors and financial institutions around the world. Our international perspective is strengthened by nearly 20 years of local experience and expertise in the mainstream Responsible Investment (RI) and the more values-oriented Socially Responsible Investment (SRI) markets. Sustainalytics strives to provide consistently high quality solutions and to remain responsive to the current and future needs of our clients. The firm is headquartered in Amsterdam and has local offices in Frankfurt, Madrid, Boston and Toronto.

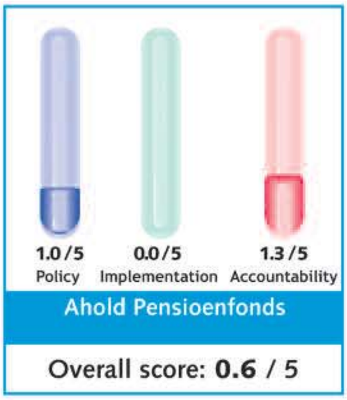
In the Netherlands specifically, Sustainalytics assists numerous asset owners and managers with the development and execution of (S)RI strategies, such as ESG integration, best-in-class, minimum criteria, engagement, and thematic impact investing.

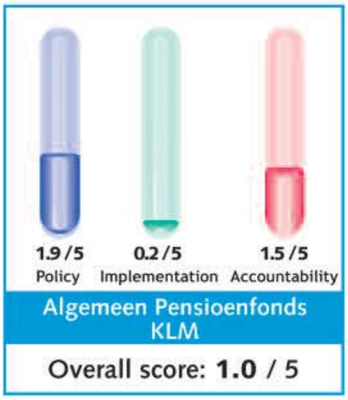
More information, publications and contact details can be found on the website: http://www.sustainalytics.com.

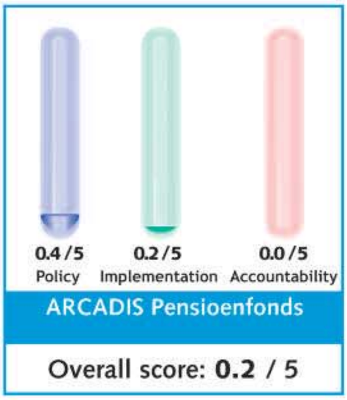
Results per company

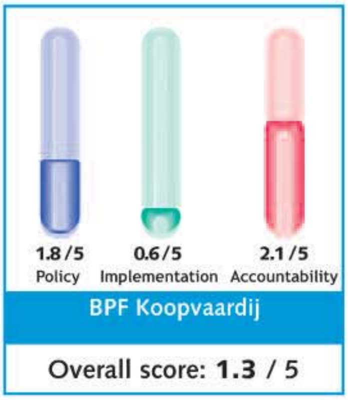


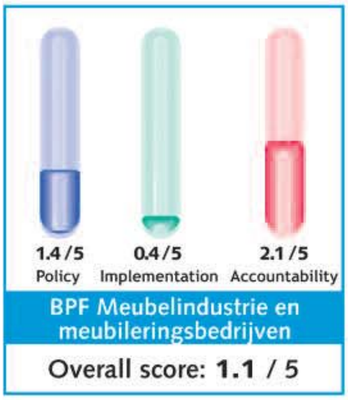


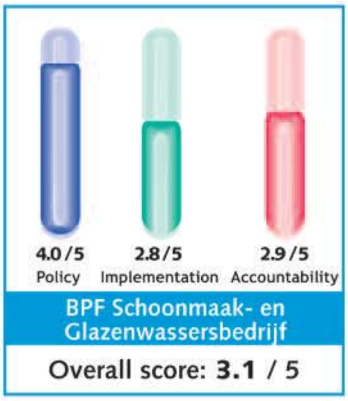








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Implementation
2.9 / 5
Accountability
BPF Schoonmaak- en Glazenwassersbedrijf
Overall score: 3.1 / 5


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Policy
1.0 / 5
Implementation
2.1 / 5
Accountability
BPF voor de Detailhandel
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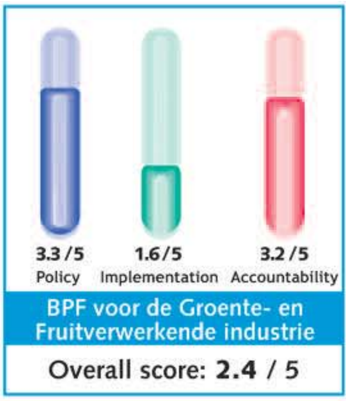
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Accountability
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Implementation
2.7 / 5
Accountability
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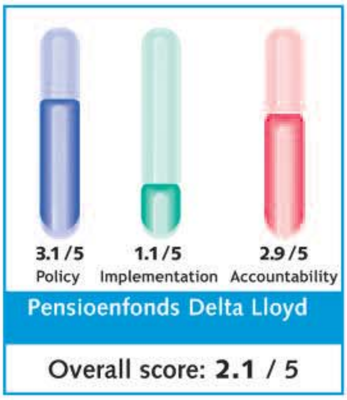
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Accountability
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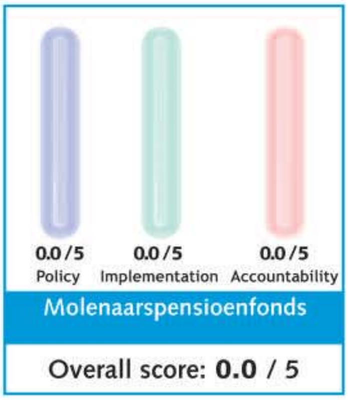
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Implementation
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Accountability
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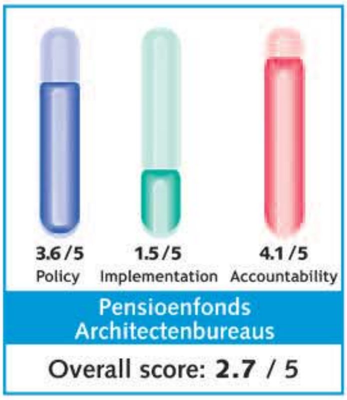
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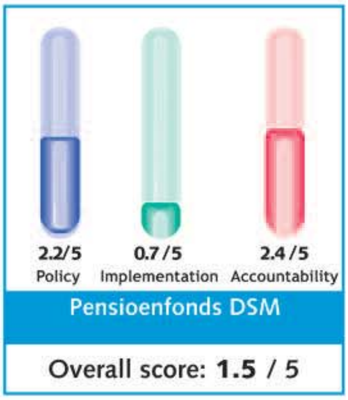
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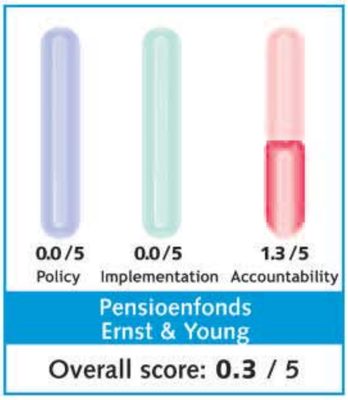
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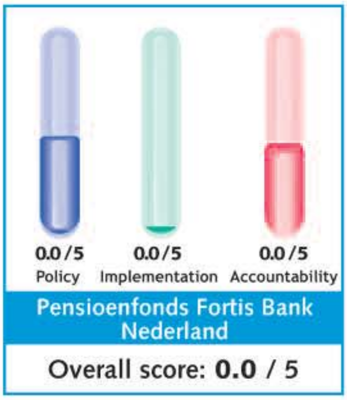
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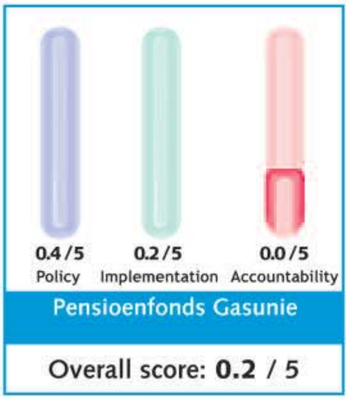
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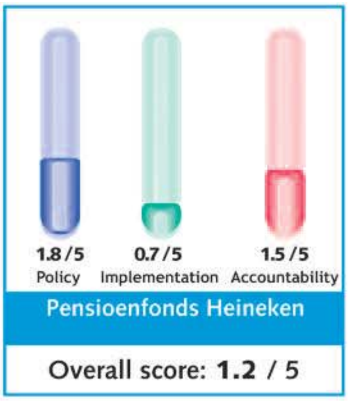
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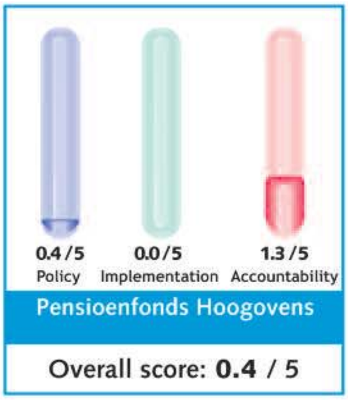
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1.3 / 5
Accountability
Pensioenfonds Hoogovens
Overall score: 0.4 / 5


3.3 / 5
Policy
1.4 / 5
Implementation
2.9 / 5
Accountability
Pensioenfonds Horeca en Catering
Overall score: 2.3 / 5


2.8 / 5
Policy
1.2 / 5
Implementation
3.2 / 5
Accountability
Pensioenfonds ING
Overall score: 2.1 / 5


1.9 / 5
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Implementation
1.5 / 5
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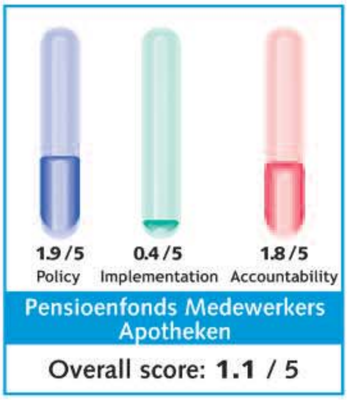
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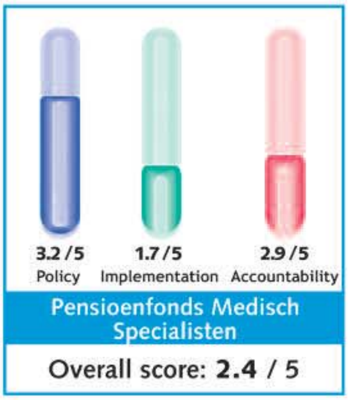
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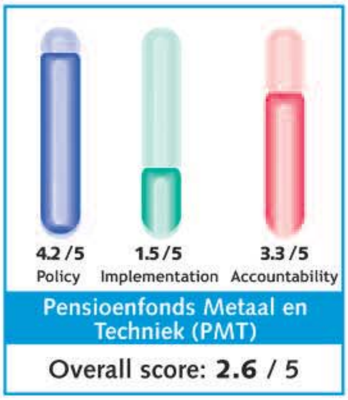
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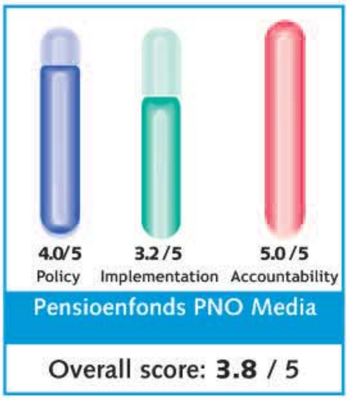
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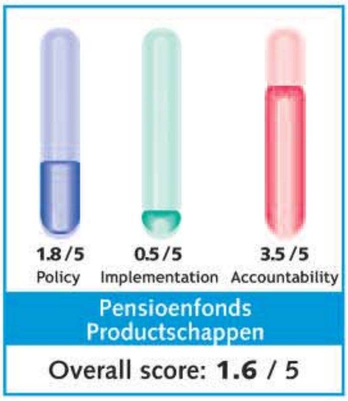
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Implementation
3.5 / 5
Accountability
Pensioenfonds Productschappen
Overall score: 1.6 / 5


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1.4 / 5
Implementation
2.4 / 5
Accountability
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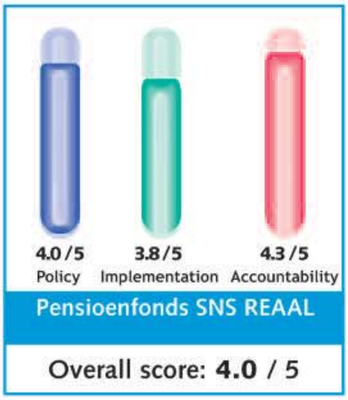
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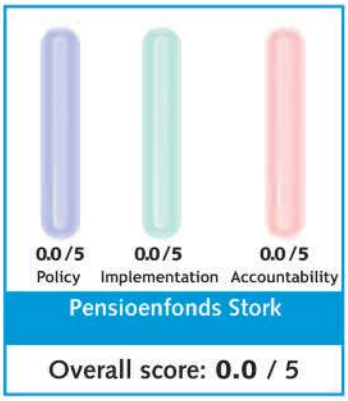
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Accountability
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0.8 / 5
Implementation
2.8 / 5
Accountability
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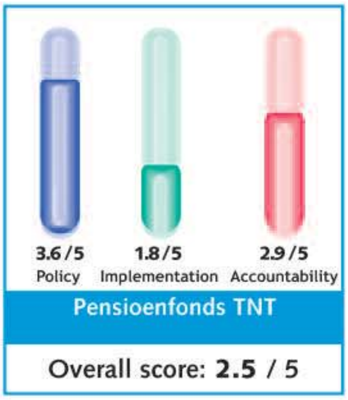
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Implementation
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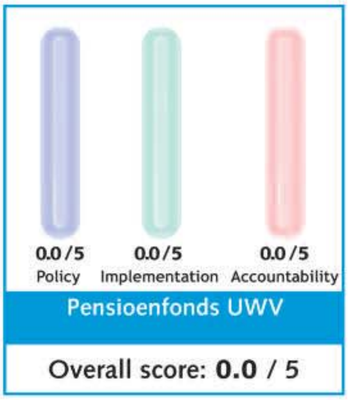
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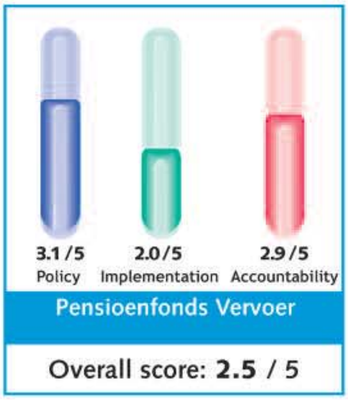
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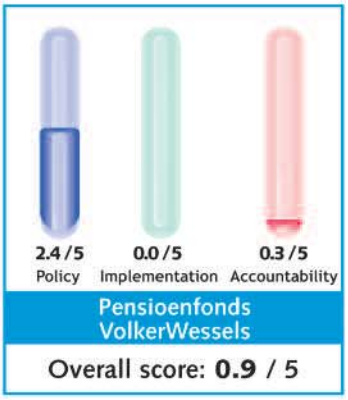
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Accountability
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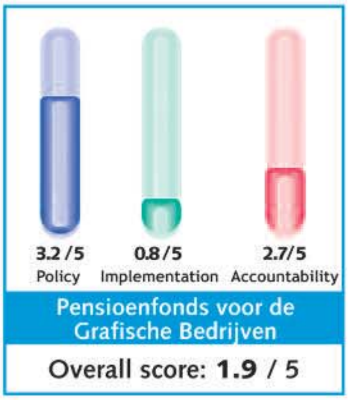
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0.8 / 5
Implementation
2.7 / 5
Accountability
Pensioenfonds voor de Grafische Bedrijven
Overall score: 1.9 / 5


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Implementation
3.7 / 5
Accountability
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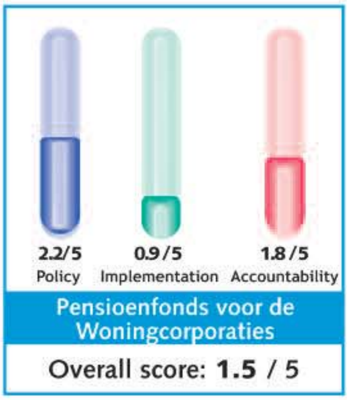
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Accountability
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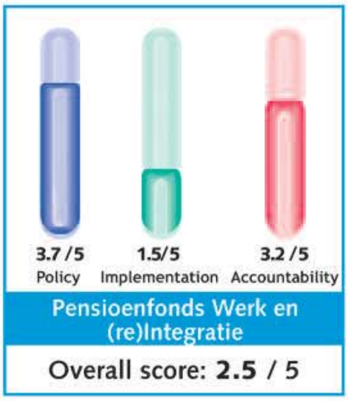
Overall score: 1.5 / 5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Implementation
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Accountability
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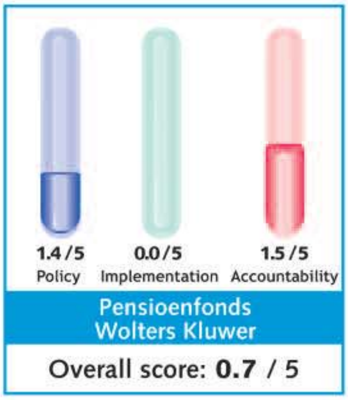
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Accountability
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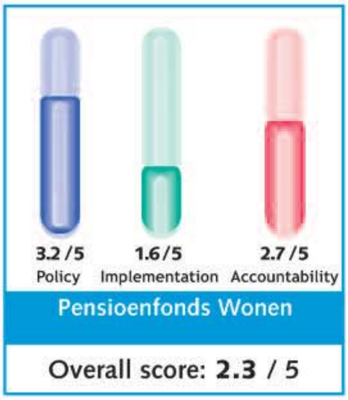
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Policy
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Implementation
2.7 / 5
Accountability
Pensioenfonds Wonen
Overall score: 2.3 / 5

5.0 / 5	4.4/5	5.0 / 5
Policy	Implementation	Accountability

Pensioenfonds Zorg en Welzijn

Overall score: **4.7** / 5

2.4 / 5	0.7 / 5	3.2 / 5
Policy	Implementation	Accountability

Philps Pensioenfonds

Overall score: **1.8** / 5

0.0 / 5	0.0 / 5	0.0 / 5
Policy	Implementation	Accountability

Protector (ExxonMobil NL)

Overall score: **0.0** / 5

1.8 / 5	1.7 / 5	2.7 / 5
Policy	Implementation	Accountability

Rabobank Pensioenfonds

Overall score: **2.0** / 5

3.6 / 5	3.2 / 5	4.4 / 5
Policy	Implementation	Accountability

Spoorwegpensioenfonds

Overall score: **3.6** / 5

2.2 / 5	0.3 / 5	1.5 / 5
Policy	Implementation	Accountability

Stichting Pensioenfonds Achmea (SPA)

Overall score: **1.1** / 5

1.8 / 5	0.2 / 5	1.3 / 5
Policy	Implementation	Accountability

Stichting Pensioenfonds Fysiotherapeuten

Overall score: **0.9** / 5

1.9 / 5	0.0 / 5	1.3 / 5
Policy	Implementation	Accountability

Stichting Pensioenfonds IBM Nederland

Overall score: **0.8** / 5

3.6/5	1.7 / 5	2.9 / 5
Policy	Implementation	Accountability

Stichting Pensioenfonds KPN

Overall score: **2.5** / 5

3.6 / 5	2.6 / 5	4.2 / 5
Policy	Implementation	Accountability

Stichting Pensioenfonds Openbaar Vervoer

Overall score: **3.2** / 5

3.2 / 5	0.7 / 5	2.4 / 5
Policy	Implementation	Accountability

Stichting Pensioenfonds Unilever NL (Progress)

Overall score: **1.8** / 5

2.4 / 5	1.2 / 5	3.2 / 5
Policy	Implementation	Accountability

Stichting Pensioenfonds voor Huisartsen

Overall score: **2.0** / 5

Appendix 1

The Ten Principles of the UN Global Compact [104]

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms. including extortion and bribery.

104 UN Global Compact, "About us, The Ten Principles", *Website UN Global Compact*, (www.unglobalcompact.org), Viewed in October 2010.

www.vbdo.nl / www.goed-geld.nl

The VBDO (Dutch Association of Investors for Sustainable Development) aims at generating a sustainable capital market, a market that brings together supply and demand, not just based on financial criteria, but also on social and environmental aspects. VBDO focuses its activities on actors in the Netherlands, within the international context.