Benchmark on Responsible Investment by Pension Funds in the Netherlands 2021

Mainstream RI in an unsustainable world

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Utrecht, The Netherlands
November 2021

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

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Ranking

Ranking 2021	Change		Ranking 2020	Name of pension fund	Overall score 2021	Gover-nance	Policy	Imple-mentation	Accoun-tability	Stars
1	–	0	1	Stichting Pensioenfonds ABP	4,0	4,6	3,9	3,4	5,0	★★★
2	–	0	2	BpfBOUW	3,9	4,6	2,9	3,6	4,8	★★★
3	–	0	3	PME	3,6	3,8	3,6	3,1	4,8	★★★
4	▲	1	5	PMT	3,5	3,3	3,3	3,1	4,8	★★★
5	▼	1	4	PFZW	3,4	2,1	3,3	3,4	4,8	★★
6	▲	15	21	Pensioenfonds PostNL	3,3	3,1	3,6	3,1	3,8	★★
7	▲	1	8	Bpf Schilders	3,2	3,1	2,3	3,2	4,1	★★
8	▲	2	10	Pensioenfonds KPN	3,0	3,5	2,9	2,8	3,0	★★
9	▼	3	6	SPW	3,0	2,1	2,3	3,4	3,1	★★
10	▼	3	7	BPL Pensioen	3,0	2,1	2,7	3,3	3,2	★★
11	–	0	11	St. Bedrijfspensioenfonds voor het Bakkersbedrijf	2,9	3,5	2,3	2,6	3,8	★★
12	▲	1	13	Pensioenfonds PNO Media	2,8	2,1	2,7	3,1	2,9	★★
13	▲	1	14	Pensioenfonds Horeca & Catering	2,7	2,7	2,3	2,6	3,5	★★
14	▼	5	9	SBZ Pensioen	2,7	3,1	2,0	2,7	2,8	★★
15	▼	3	12	Stichting Algemeen Pensioenfonds Unilever Nederland kring 'Progress'	2,7	3,8	2,9	2,5	1,8	★
16	–	0	16	Pensioenfonds Detailhandel	2,6	3,4	2,7	2,1	3,5	★★
17	▲	6	23	Stichting Pensioenfonds PGB	2,6	3,3	2,5	2,4	2,6	★★
18	▲	14	32	Pensioenfonds Vervoer	2,5	2,6	2,0	2,8	2,0	★★
19	▼	2	17	Rabobank Pensioenfonds	2,5	1,8	1,8	3,0	2,3	★
20	▼	2	18	Pensioenfonds DSM Nederland	2,5	2,1	2,0	2,0	4,8	★★
21	▲	5	26	PWRI	2,4	2,0	2,0	2,7	2,4	★
22	–	0	(22 & 25)	Rail & OV**	2,4	2,7	1,8	2,4	2,6	★
23	▼	8	15	Pensioenfonds Achmea	2,4	1,9	2,0	2,6	2,5	★
24	▲	7	31	Philips Pensioenfonds	2,3	3,6	1,6	2,2	2,3	★
25	▲	5	30	Pensioenfonds Shell	2,3	2,1	2,3	2,5	2,1	★
26	▲	13	39	Pensioenfonds UWV	2,3	2,1	3,0	1,8	3,3	★
27	▼	8	19	Pensioenfonds voor Fysiotherapeuten (SPF)	2,3	2,9	1,8	2,2	2,7	★
28	▼	4	24	Stichting Pensioenfonds Huisartsen (SPH)	2,3	3,4	1,8	1,8	2,9	★
29	▲	17	46	Pensioenfonds ING	2,2	2,2	2,1	1,9	3,5	★
30	▲	6	36	Pensioenfonds APF	2,1	2,1	2,0	2,1	2,3	★
31	▼	4	27	Bpf Koopvaardij	2,1	1,9	1,9	2,1	2,5	★
32	▲	1	33	Bpf MITT	2,1	1,3	1,9	2,1	2,9	★
33	▲	9	42	Bpf Schoonmaak	2,1	2,7	1,2	1,9	2,6	★
34	▼	5	29	Pensioenfonds Architectenbureaus	2,0	2,5	2,3	2,0	1,4	★
34	▼	7	27	Stichting Pensioenfonds TNO	2,0	3,2	1,3	1,8	2,3	★
36	▼	16	20	Stichting Pensioenfonds SNS REAAL	2,0	3,0	1,5	2,0	1,5	★
37	▲	3	40	SPMS	1,9	2,6	1,7	1,7	2,1	★
38	▼	3	35	Stichting Bedrijfstakpensioenfonds voor de Meubelindustrie en Meubileringsbedrijven	1,9	2,7	1,8	1,6	2,0	★
39	▲	4	43	Stichting Algemeen Pensioenfonds KLM	1,7	1,4	1,5	1,4	3,2	★
40	▼	3	37	ABN AMRO Pensioenfonds	1,7	2,4	2,0	1,1	2,0	★
41	▲	8	49	Stichting Pensioenfonds Vliegend Personeel KLM	1,6	2,4	0,8	1,3	2,7	☆
42	▼	1	41	Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf	1,6	1,2	2,5	1,0	2,8	★
43	▲	5	48	Pensioenfonds IBM Nederland (SPIN)	1,5	2,3	1,3	1,1	2,2	★
44	▼	10	34	Stichting Pensioenfonds Wonen	1,5	1,1	1,2	1,6	2,1	★
45	▼	1	44	Stichting Pensioenfonds KLM-Cabinepersoneel	1,5	1,7	1,5	1,1	2,5	★
46	▼	1	45	Heineken Pensioenfonds	1,4	1,4	0,9	1,1	3,0	☆
47	–	0	47	Pensioenfonds Medewerkers Apotheken (PMA)	1,4	2,7	2,0	1,1	0,6	☆
48	▼	11	37	Ahold Delhaize Pensioen	1,4	3,1	1,3	0,7	1,9	☆
48	▲	2	50	Pensioenfonds Hoogovens	1,4	1,5	1,6	0,9	2,4	☆
50	(-)		(-)	Stichting Bedrijfstakpensioenfonds voor Vlees, Vleeswaren, Gemaksvoeding en Pluimveevlees (Pensioenfonds VLEP)**	0,7	1,0	1,0	0,6	0,7	☆

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

** New respondent

Preface

After 15 years of benchmarking pension funds, we can finally say that responsible investment is becoming mainstream. While this is cause for celebration, sadly the world is still a long way from becoming sustainable. Transparency is improving: Responsible Investment (RI) strategies have been developed over the past few years, which have provided much-needed insight into the sustainability profiles of pension funds' portfolios. However, this transparency is not leading to sufficient impact on the ground. The time has come to look at the next frontier for sustainable investing; pension funds need to be bolder. This benchmark shows there may only be a few funds that are currently prepared to take the leap.

I expect many pension fund board members feel somewhat overwhelmed by the amount of environmental, social and governance (ESG) policy questions, regulation ramifications and concerns about the consequences of climate change that have most likely dominated many meetings in 2021. Therefore, it is a good sign that many board members have increased their oversight and knowledge of RI. 66% of the pension funds now have at least one board member who has taken an ESG course or undergone other relevant training.

Pension funds have agreed to have strategies ready for when the financial sector commits to the Dutch Climate Agreement in 2022. If pension funds are serious about this commitment, bold choices will need to be made. Our assessment shows that, currently, only 18% of funds have worked out a strategy to implement net-zero CO_2 emissions targets across their portfolio. On the other hand, three pension funds have already indicated that they will implement the Paris-aligned Benchmark (PAB) from the European Commission. These ambitious pension funds can quite possibly become new leaders in following VBDO benchmarks.

At VBDO, we are hopeful that the Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy frameworks will provide some much-needed clarity for sustainable finance disclosure. According to research from AF Advisors, almost half of the pension funds included in our assessment have opted out of SFDR Article 4[1]. This article requires pension funds to provide transparency of any adverse effects on sustainability relating to investment decisions, at entity level.

At VBDO, we are hopeful that the Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy frameworks will provide some much-needed clarity for sustainable finance disclosure.

Regarding the sustainability of their pension product, 36 pension funds selected Article 8. We understand that Article 8 includes a requirement to provide transparency on ESG integration in the portfolio and disclosure on the engagement with companies. Our assessment shows that almost 90% of the pension funds use engagement and integrate ESG into their portfolio. These results indicate that many pension funds will (in time) comply with their selected SFDR articles. We will follow progress closely.

We believe the next frontier for RI is investing with real-world impact. Currently, there are many unknowns as to what this entails for institutional investors; however, leading pension funds are already working hard to find answers. Investments that have sustainability as their primary goal (impact investments) are classified by SFDR as Article 9. The Autoriteit Financiële Markten (AFM) revealed in a recent report that most financial products that investors classify as falling within Article 9 do not actually meet the regulatory requirements[2]. Most notably, they do not include concrete and measurable targets in precontractual information. In another recent report, 2° Investing Initiative (2DII) argues that the SFDR is too vague when it comes to impact claims[3]. 2DII emphasizes there is still a risk of greenwashing. This said, I do believe it is a good sign that AFM intends to enforce the SFDR, but pension funds should only claim impact when it is measurable and attributable to them.

At VBDO, we hope this benchmark helps to guide the important sustainability decisions you are making. Our rigorous research, together with our impartiality, grants us a unique place in the sector. We are very proud to say that we have achieved 100% feedback again this year. We appreciate that the pandemic has placed pension funds under incredible pressure and there are so many demands on your time. Therefore, our enormous gratitude goes out to all participating pension funds. Finally, I would like to thank our sponsor, FNV, and our members for making this research possible.

I hope that you read this benchmark report with interest and are inspired to take action.

Angélique Laskewitz
Executive Director of VBDO

[1] Please refer to: https://www.pensioenproinsights.nl/nl/nieuws/bijna-helft-grote-pensioenfondsen-kiest-voor-opt-out-bij-sfdr

[2] Please refer to: https://www.afm.nl/nl-nl/nieuws/2021/september/beleggers-beter-informeren-duurzaamheid

[3] Please refer to: https://2degrees-investing.org/resource/sustainable-finance-and-market-integrity-only-promise-what-you-can-deliver

Introduction

This report provides a detailed overview of the current status and developments relating to the responsible investment practices of the 50 largest Dutch pension funds. These pension funds have a combined € 1.540 billion of assets under management (AuM), representing 89% of the assets in the Dutch pension fund sector. The pension funds are assessed based on how they formulate, govern, implement and report on their responsible investment policy. The report covers a one-year period: the calendar year 2020. We refer to this research as the 2021 benchmark throughout the report. VBDO's assessment results in a ranking in order of performance.

VBDO'S PURPOSE AND ACTIVITIES

VBDO believes that a more sustainable and responsible capital market leads to a healthier and more just world.

As an independent association, we are a passionate driver, motivator and knowledge leader for responsible investment and have been helping to anchor sustainability in companies since 1995. VBDO helps organisations to make choices that look beyond financial gain alone and consider environmental, social and governance (ESG) factors.
We work towards our mission by publishing benchmarks and theme studies, organising round tables and seminars, and asking the right, critical questions at shareholders' meetings. In our benchmarking activities, we assess to what extent Dutch institutional investors take sustainability into account in their role as responsible investors. Thanks to their shares, these types of investors own a considerable amount of the companies in which they invest, so have both rights and responsibilities. Through this benchmark, VBDO aims to motivate pension funds to take sustainability into account in their investment decisions. We send a thorough and detailed questionnaire to challenge the pension funds in all aspects of the responsible investment process. Answering the questionnaire requires a considerable amount of time and effort and raises awareness within the pension funds of the need to keep improving performance.

WHAT IS RESPONSIBLE INVESTMENT?

Responsible investment (RI) can be described as embedding societal issues in investment decision making. These issues are typically divided into ESG topics, such as climate change, biodiversity, human rights, health, diversity and anti-corruption. RI can be done in different ways, including avoiding certain issues and prioritising other issues. In its investment beliefs and policy documents, each pension fund sets out its vision on responsible investment. Ethical, financial and societal impact criteria all play a role here. This vision is then put into practice through a range of responsible investment instruments.

POSSIBLE INSTRUMENTS FOR RESPONSIBLE INVESTMENT

Exclusion

Investors exclude companies and countries from their investment universe for various reasons. There can be legal reasons not to invest in certain sectors or countries and there can also be ethical reasons to exclude an entire sector (e.g. tobacco or weapons). Companies can be excluded if their behaviour on ESG topics does not fit with the investor's RI policy.

Engagement

Investors can start a dialogue with their investees and (as shareholders) require them to perform better on certain ESG topics. This may include asking them to reduce CO2 emissions or uphold labour rights both within the company and within its supply chain. An engagement process can take several years, after which period the company has ideally improved its performance or the investor can decide to sell its shares.

For more information on RI instruments and asset classes, please see the appendix.

BENCHMARK DEVELOPMENTS

Every year, our assessment criteria are reviewed to ensure relevancy. Possible adjustments are discussed with

Figure 1 | **Overview scoring model, VBDO**

FINAL SCORE (between 0-5)

GOVERNANCE (16,6%)	POLICY (16,6%)	IMPLEMENTATION (50%)	ACCOUNTABILITY (16,6%)

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

Figure 1 shows the scoring model. The categories are weighted differently. Governance, policy and accountability each account for 16.7% of the final score, and implementation for 50%. The weighted percentage for implementation is 50% because this theme determines the final output and quality of the RI practices of a pension fund. In the governance and policy category, all questions are weighted equally. The final score for implementation is determined by multiplying the score for each asset class by the percentage of the portfolio invested in this asset class.

the participants of the benchmark. In 2020, the questionnaire was revised to better reflect the latest developments in responsible investment. In practice, this means that standards have been set higher.

HOW TO INTERPRET THE SCORES

Pension funds are given a score between 0 and 5 in this benchmark, with 5 being very sustainable. The final score reflects how each pension fund has scored in the four categories (figure 1).

The four categories are:
- Governance
- Policy
- Accountability
- Implementation

The scoring in the benchmark does not focus on individual investments (e.g. in the fossil fuel industry). Instead, the benchmark takes a more holistic approach. Leading pension funds typically have a well-defined RI policy. This includes incorporating RI instruments, taking a comprehensive ESG integration approach for investment decisions, and forging the way ahead for the rest of the sector. These pension funds have shown themselves to be at the forefront of the development of RI strategies, measurement methods and frameworks. They are starting to consider climate risks when making asset allocation decisions. In addition, they are improving the way that they report on responsible investment by integrating a vision and future ambitions into their RI report and reporting on results. As such, by demonstrating how they engage with the topic of ESG and RI, these pension funds achieve high scores.

Main findings

AMBITIOUS PENSION FUNDS ARE CATCHING UP TO THE LEADERS
Last year's leaders have kept their positions in 2021. However, that may change sooner rather than later. Over the past year, these leading pension funds have retained higher scores for governance, policy and accountability. At the same time, scores in the implementation category are converging. A pension fund's size may not be the decider for sustainability in the future; smaller, ambitious pension funds are catching up with the larger leaders.

RI IS BECOMING MAINSTREAM, BUT THE WORLD IS STILL NOT SUSTAINABLE
RI strategies: ESG integration and engagement are now implemented by 90% of the pension funds. These developments indicate that RI is becoming mainstream. As it does, the importance of a comprehensive and ambitious approach increases. With the majority of pension funds embracing RI, it may appear that our mission is almost accomplished. Unfortunately, the challenges that society is facing are not reflecting this picture. Our assessment shows that the performance of pension funds still has room for improvement.

- **Pension fund boards have increased their oversight and knowledge of RI**
42% (up from 30%) of the pension funds have formally instructed (at least) one board member to lead, implement and monitor ESG investments. 26% showed additional evidence of reviewing the asset manager's performance on ESG. In 2020, only 16% of funds provided such evidence. 40% of the board members responsible for RI have now completed ESG-related training, compared to 16% the previous year. Our results show that 34% of the pension fund boards have not received any ESG-related training.

- **Only 18% of the pension funds have a strategy to implement net-zero emissions targets**
In 2021, more than half of the pension funds still fall short of implementing the climate commitment of the financial sector to the Paris Climate Agreement. It is promising that 94% of the pension funds explicitly include climate change in the RI policy; this figure was 80% in 2020. However, net-zero emissions targets are communicated by a mere 26% of the funds (2020: 18%). Even fewer (18%) pension funds communicate a clear roadmap for the implementation of these targets.

- **ESG integration is standard policy for pension funds**
88% of the pension funds apply ESG integration to at least a selection of their public equity investments. However, we expect pension funds to be consistent. Just 58% of the pension funds demonstrably apply ESG integration to the full extent of their portfolio.

- **As an RI instrument, voting against management after failed engagement can be utilised more**
86% of the pension funds engage companies on predefined ESG themes and 72% of the pension funds have a voting policy that contains ESG requirements for routine voting decisions. However, only 52% voted against management following a period of unsuccessful engagement.

- **Half of the pension funds that invest in green bonds do not assess the use of proceeds**
While the percentage of pension funds that invest in green bonds has only slightly increased (from 55% in 2020 to 56% in 2021), the total allocation is growing steadily. Therefore, it is worrying that we are not seeing an increase in the number of pension funds that demonstrably assess the greenness of these bonds.

Recommendations

LEADING PENSION FUNDS ARE ENCOURAGED TO KEEP UP THE PACE AND BE BOLDER
RI is becoming mainstream. As it does, the importance of a comprehensive and ambitious approach increases.

- **Define board room accountability and leadership**
Define and structure the governance model for responsible investment. Formally determine the board's RI responsibilities and attribute responsibilities to (a) specific board member(s). Improve board members' knowledge of RI and increase the diversity of the board and investment committee.

- **Require asset managers to implement the RI policy and monitor adherence**
A few large asset managers can make a considerable impact when it comes to implementing sustainability goals, such as those set out in the Paris Climate Agreement. Engage with asset managers to understand their commitment to implementing responsible investment. Assess their approach to RI by benchmarking the implementation of RI instruments, such as ESG integration. Explicitly require asset managers to implement the goals of the pension fund. Make the links between real-world and financial impact clearer.

- **Define the engagement escalation strategy**
Make clear to asset managers how to escalate issues after engagement fails. Understand that escalation encompasses more than exclusion; voting against management can be an important leverage tool. Pension fund boards should decide the voting policy, exclusion criteria and other escalation options to be used when engagement fails.

- **Develop a strategy to implement climate commitments**
Measure the CO_2 footprint of your portfolio. Set targets in line with the IPCC's CO_2-reduction trajectory for 1.5°C. Show a clear roadmap for implementation, including sectoral targets, engagement and voting strategy and exclusions. Include climate change requirements and targets in the selection, monitoring and evaluation process. Ensure that all asset managers integrate these criteria in their investment analysis or index product.

1. Overall performance

This chapter gives an overview of the overall results of the benchmark study. Over the years, the benchmark has revealed a large discrepancy between the top and bottom performers. This trend continues this year, with a maximum score of 4.0 (2020: 4.3) and a minimum of 0.7 (2020: 0.7), as can be seen in the ranking on page 5.

While the average score gradually increased between 2015 and 2018, we saw it drop over the following two years to 2.1 in 2020, after a thorough overhaul of our survey. While this decline can be partly accounted for by the change in the survey, it still indicates that responsible investment needs to be significantly improved in the pension fund sector. This year, all categories saw a higher average score, with the total average score slightly increasing to 2.3.

METHODOLOGY UPDATE

Last year, our methodology changed significantly. VBDO aims to keep the survey and methodology largely unchanged over a three-year period following such an adjustment. This year, no severe changes have been made apart from one additional question regarding private equity engagement. For more information about our methodology and approach, please see the appendix.

For eight years in a row, the implementation category had the lowest score of all categories. This changed for 2020 and 2021 as the policy category now has the lowest score (figure 2).

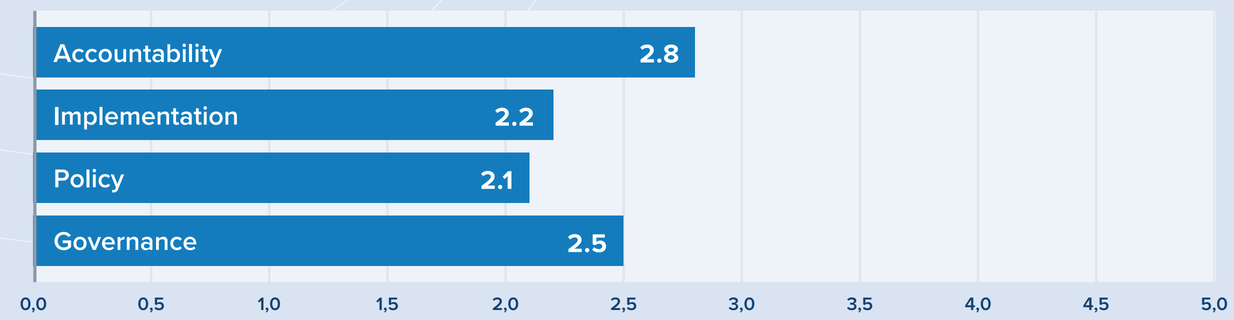
LEADERS

Last year's leaders have, on the whole, retained their positions in 2021, albeit with lower average scores than 2020.
Remarkably, some smaller pension funds are catching up with the leaders. This is mainly due to ambitious climate-related policy changes.

An important characteristic of the leading funds is that each one has a well-developed RI policy and robust processes in place. In most cases, there is also RI awareness and expertise at board level, and the board closely monitors the implementation of the RI policy. The funds take a comprehensive ESG integration approach for the majority of investment decisions. They have shown themselves to be at the forefront of the development of responsible investment strategies, measurement methods and frameworks. They also distinguish themselves from the middle group by continuously improving the way that they report on RI, in accordance with (inter) national standards and guidelines.

We've mostly seen the same pension funds rank as leaders over the 15 years that we've been benchmarking, but that may change sooner rather than later. Leading pension funds increasingly outperform others on governance, policy and accountability. However, implementation is the most important category in the benchmark and these pension funds are risking their top positions if they do not pick up the pace, because the gap is narrowing in this category. In 2020, the highest score in the implementation category was 4.0 and the tenth score was 2.7. In 2021, the highest scoring pension fund obtained

Figure 2 | **Total average score of pension funds per category.**



3.6 and the tenth achieved 2.8. This development could indicate that responsible investment is becoming mainstream. Let us hope that it will stimulate all leaders to improve.

MIDDLE GROUP

Some pension funds in the middle group have risen sharply in the ranking. It is notable that the mid-ranking pension funds are performing better in the assessed categories. Funds in the middle group have all now explained their RI process, including the RI instruments that they use. Many mid-performers have also now implemented RI instruments more consistently throughout the portfolio.

Pension funds could further improve by setting clear and measurable short and long-term goals and requiring implementation from asset managers. More can be achieved by evaluating and monitoring that implementation. Another important improvement would be to report on climate change and ESG-related risks, and on the positive and negative impact of the investment portfolio.

LAGGARDS

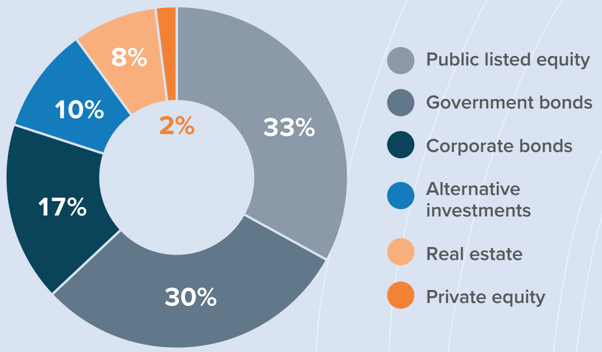
The laggards scored considerably higher on average compared to last year. While the lowest scoring 15 pension funds did not score higher than 1.5 in 2020, this has risen to 1.9 in 2021. However, some individual pension funds have seen a notable decrease in their scores, which led to them falling down the ranking from the middle group to the laggards.

Pension funds in the bottom group have been taking the first steps towards defining and implementing their RI policy. However, there is a lack of awareness, expertise and action on responsible investment. Average scores in this group are particularly low in the policy and implementation categories. What has changed this year is that most of these pension funds now recognise that they need to improve and are working to shape or strengthen their policies and processes.

MOST IMPROVED

Pensioenfonds ING is the most improved pension fund compared to last year. It has increased its average score for each of the individual assessment categories by at least 1.0, except for governance where it improved by 0.1. The most improvement was shown in the accountability category, where Pensioenfonds ING increased its average score by 2.7 points. This hard work has seen the

Figure 3 | Average asset allocation.



pension fund move from the bottom group to the middle one, and its position jump from 46th to 29th.

Significant improvements have also been made by Pensioenfonds PostNL, which has jumped from 21st to sixth on the ranking, moving up from the middle group to the leading group, and by Pensioenfonds Vervoer, which has advanced from 32nd to 18th.

BEST PERFORMING IN RELATION TO SIZE

The two largest pension funds (ABP is placed first and PFZW is placed fifth in the ranking) have almost as much assets under management (AuM) as the other 48 combined (€747 billion, representing 49% of the total assets in the scope of this benchmark). For other pension funds, the differences in score are not always explained by their size. The following table shows the best three and worst two performing pension funds in each size category. Some smaller funds are clearly outperforming larger funds when it comes to responsible investment, particularly Bpf voor het Bakkersbedrijf (11th in the ranking and 40th in size), and Pensioenfonds Schilders (seventh in the ranking and 28th in size).

Table 1 | Best and worst performing pension funds in groups of size.

Ranking 2021	Name of pension fund	Overall score 2021	AuM (x € 1 million)
Large pension funds (> 30 billion AuM)			
1	Pensioenfonds ABP	4.0	493.498
2	Bedrijfstakpensioenfonds voor de Bouwnijverheid (bpfBOUW)	3.9	73.124
3	Pensioenfonds van de Metalektro (PME)	3.6	60.727
29	Pensioenfonds ING	2.2	31.626
40	ABN AMRO Pensioenfonds	1.7	34.000
Medium- large pension funds (10 - 30 billion AuM)			
6	Pensioenfonds PostNL	3.3	10.181
8	Pensioenfonds KPN	3.0	13.000
9	Pensioenfonds voor de Woningcorporaties (SPW)	3.0	16.255
39	Algemeen Pensioenfonds KLM	1.7	10.244
48	Pensioenfonds Hoogovens	1.4	12.752
Medium pension funds (5 - 10 billion AuM)			
7	Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf	3.2	8.636
12	Pensioenfonds PNO Media	2.8	7.375
14	SBZ Pensioen	2.7	7.113
43	Pensioenfonds IBM	1.5	5.629
48	Ahold Delhaize Pensioen	1.4	6.369
Small pension funds (< 5 billion AuM)			
11	Bedrijfspensioenfonds voor het Bakkersbedrijf	2.9	4.882
27	Pensioenfonds Fysiotherapeuten	2.3	4.650
31	Bpf Koopvaardij	2.1	4.646
47	Pensioenfonds Medewerkers Apotheken (PMA)	1.4	3.990
50	Pensioenfonds VLEP	0.7	3.711

2. Results per category

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

RESULTS 2021

- On average, pension funds scored 0.3 points higher in this category than in 2020.
- 26% of the pension fund boards have at least one board member appointed to lead, implement and monitor ESG investing. This was 16%.
- The level of knowledge of board members has increased: 70% of the pension fund boards now have at least one member who has completed an ESG training course (compared to 45% in 2020).
- 40% of the board members responsible for ESG investing have completed an ESG course or undertaken training.
- The average score for governance is 2.5; scores range from 1.0 to 4.6.

RECOMMENDATIONS FOR GOVERNANCE

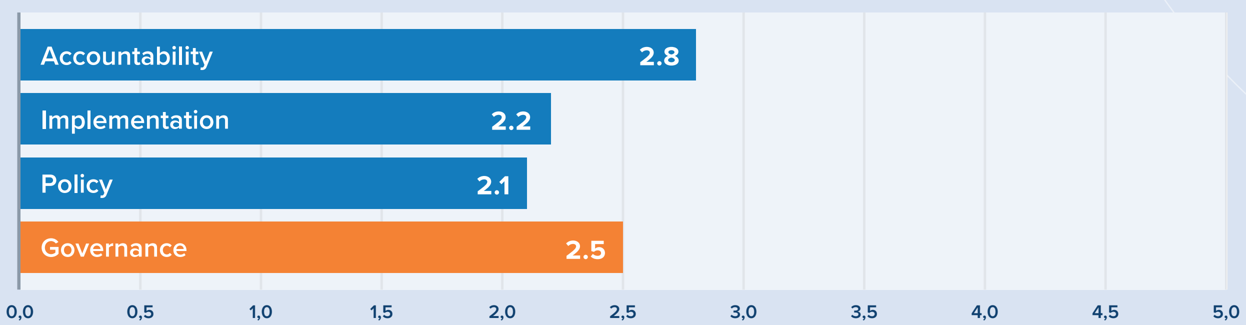
- Formally determine the board's RI responsibilities.
- Ensure sufficient countervailing power at board level, by increasing its knowledge of RI and the diversity of the board and investment committee.
- Keep a training register, which includes the organisation that provided the training, the type and level of the training, who was trained and at what date the training took place.
- Engage with asset managers on the implementation of the pension fund's RI policy.

FORMALISE BOARD ROOM ACCOUNTABILITY AND LEADERSHIP ON RI

With so many other responsibilities, how does the board stay in control of its RI policy? VBDO believes that pension fund boards need proper governance arrangements to demonstrate that they are in charge of implementing the RI policy. External experts and fiduciary managers are often consulted for substantive information and policy support. When an appointed board member lacks suitable RI knowledge, experience or training, it can be extremely difficult for them to challenge the advice that they receive from outside experts, fiduciary managers, asset managers, service providers and other external parties. Therefore, formalising board room accountability and demonstrating a sufficient level of knowledge go hand-in-hand.

For an example of how to formalise responsibilities, please refer to the illustration shown in figure 6 from Pensioenfonds Detailhandel's governance model. The board clearly designates separate roles to the tasks put forward in the RI policy. It is clear who is responsible, who advises, which party executes and monitors and how often this is done throughout the year. This level of formalisation and transparency provides stakeholders with certainty that the board is taking the lead on RI.

Figure 4 | **Average results per category.**



TEXTBOX 1 Regulator expectation of expertise at pension fund board level

VBDO believes the recent addition of climate risks to the assessment framework of De Nederlandsche Bank (De Beleidsregel Geschiktheid 2012) is a positive development. A candidate may be assessed on its knowledge about relevant climate-related risks and regulations and how climate may impact the pension fund. From the 2020 benchmark onwards, VBDO questions pension funds about their boards' level of RI knowledge.

To provide clarity and guide pension funds, De Nederlandsche Bank (DNB) has set out its expectations for the expertise of pension funds on several laws and regulations, codes and guidelines. These include: "De open norm in art. 106, lid 1 Pensioen Wet; de Beleidsregel Geschiktheid 2012 (Beleidsregel) van De Nederlandsche Bank (DNB) en de Autoriteit Financiële Markten (AFM); DNB 16-12-2016, 'Guidance normenkader beleggingskennis, verwacht niveau beleggingskennis bestuurders' (Guidance) als invulling van de open norm; de Handreiking Geschikt Pensioenfondsbestuur 2017; de Code Pensioenfondsen (Code)."

Boards are tested on their knowledge and understanding of the investment process. Requirements vary depending on the role of the board member. VBDO has been of the opinion that boards' knowledge of ESG-related matters should also be tested. This is especially important given the changing opportunities and threats relating to ESG. Therefore, increasing prudential supervision is an important step in the right direction.

Our findings show that 42% (up from 30% in 2020) of the pension funds have formally instructed (at least) one board member to lead, implement and monitor ESG investments. 26% provided additional evidence of reviewing the asset manager's performance on ESG. In 2020, only 16% provided such evidence.

Figure 5 | **Board room accountability and leadership on RI.**

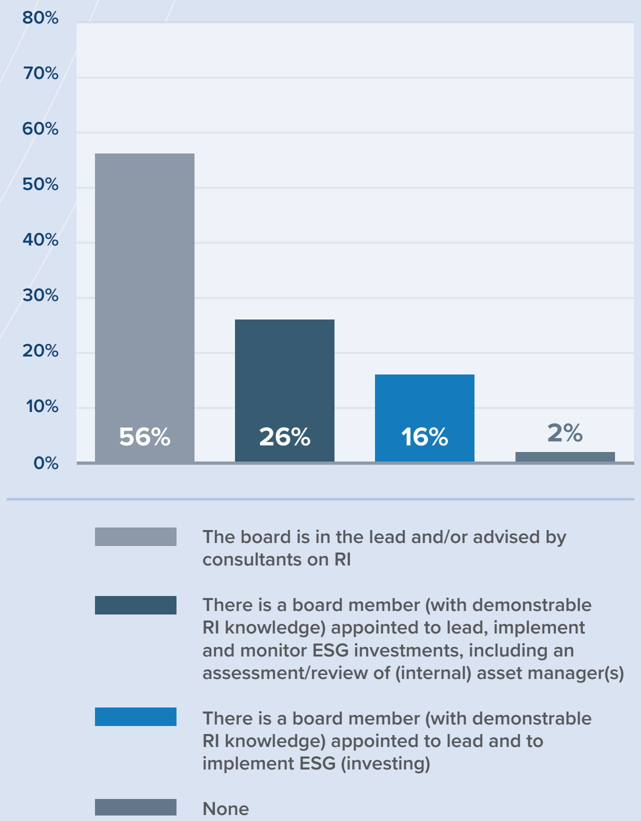


Figure 6 | **Screenshot from Pensioenfonds Detailhandel's RI governance model (in Dutch). Retrieved from: www.pensioenfondsdetailhandel.nl/mvb-detail-page/hoe-organiseren-we-verantwoord-beleggen**

Taak	Verantwoordelijk*	Advisering	Uitvoerend	Monitoring /controle	Frequentie
Evalueren MVB-beleid	Bestuur/portefeuille houder Henk van der Kolk	Cie. VB	Bureau		Jaarlijks
Implementatie MVB-beleid					
Uitsluiten landen	Cie. VB*	Bureau	BMO/ Sustainalytics	Custodian	Per kwartaal
Uitsluiten bedrijven	Cie. VB*	Bureau	BMO/ Sustainalytics	Custodian	Per kwartaal
SDG-integratie Tracking Error	Bestuur	Bureau/ Cie. VB	Coördinerend vermogensbeheerder	Custodian?	Jaarlijks
SDG-integratie systematiek	Cie. VB*	Bureau	FTSE Russel	MSCI-data	Jaarlijks
Engagement	Bestuur	Bureau/ Cie. VB	BMO	Derde partij	Continue
Stemmen (hoofdlijnen)	Bestuur	Bureau/ Cie. VB	BMO	Data derde partij	Jaarlijks
ESG Riskmanagement (OESO)	Bestuur	Cie. VB	BMO/ Sustainalytics	Bureau	Halfjaarlijks
Financieel ESG Risicomanagement	Bestuur	Cie. VB	Bureau/Mercer/ BMO/MSCI	FTSE Russell Data	Tweejaarlijks
Selectie, monitoring, evaluatie ESG-dienstverleners/uitvoerders	Bestuur	Cie. VB	Bureau	Derde partij	Jaarlijks (monitoring) Uitgebreide evaluatie (driejaarlijks)
Kennis agenda	Bestuur	Cie. VB	Bureau/derde partij		Jaarlijks

*Uiteindelijk is het bestuur verantwoordelijk voor alle taken van het pensioenfonds

GAINING RI KNOWLEDGE

The extent to which a fund's RI policy is successfully implemented partly depends on the level of knowledge of the board, the investment committee and the external parties they work with. Expertise in RI helps to give direction when it comes to formulating, achieving and measuring goals.

Pension funds need competent staff to incorporate ESG in a meaningful way and to assess and appoint third parties. Therefore, the first commitment a board should make is to undertake training itself, and to ensure that relevant stakeholders within its management team also undertake training, in order to gain a greater understanding of various ESG disciplines. The market offers a multitude of sustainable investment short courses, seminars and leadership programmes developed for – and often by – financial practitioners. These courses can be very helpful for acquiring ESG knowledge, if the intended learning goals are carefully considered.

BOARD ROOM OVERSIGHT

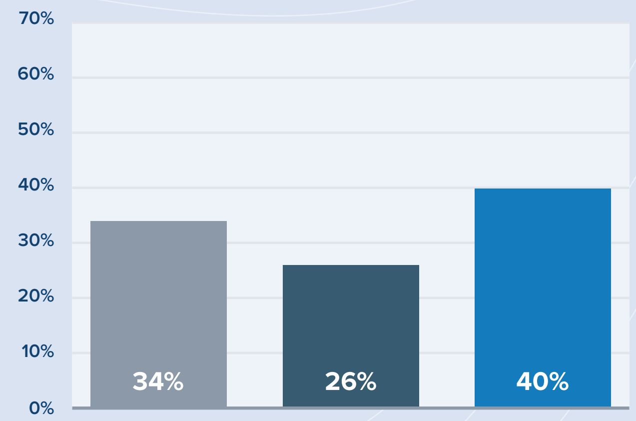
Implementation of the RI policy is the most important category of the benchmark. VBDO analyses implementation for six investment categories. The introductory questions for the first three implementation categories were added in 2020 to gain better insight into how the pension fund communicates the most relevant ESG requirements to asset managers and service providers.

For the public-listed equity and fixed-income categories, VBDO assesses the full scope of implementation, from the process of selecting asset managers to evaluation and monitoring. We have determined a three-step approach for our assessment. First is the minimum requirement that asset managers have to adhere to, e.g. the level of ESG knowledge of analysts and portfolio managers. The second step expects pension funds to integrate ESG and RI in the investment process. Examples are: asset managers who demonstrably consider ESG criteria in investment decisions and/or that the ESG targets set by the pension fund are mandated requirements. For the third step, whereby a fund can achieve maximum points, VBDO expects pension funds to show how their portfolio contributes to real-world impact. Examples of this include implementing the Paris Climate Agreement or the UN SDGs. It is important to note that the total portfolio needs to make such an impact in order for a pension fund to achieve maximum points, not just a few impact investments that make up a limited percentage of the overall portfolio.

Our results show that 34% of the pension fund boards have not received any ESG-related training.

However, 40% of the board members responsible for RI have completed ESG-related training, compared to 16% in 2020.

Figure 7 | **Knowledge level on RI.**



The board of the pension fund does not have demonstrable RI knowledge

The pension fund shows members of (one) of these bodies have completed RI training courses either for: (a) The person who is formally responsible for the RI policy, (b) The supervisory board, (c) The governing body, (d) The accountability body

The board member responsible for RI has completed an ESG training/course

In their engagement with asset managers, pension funds need to ensure that practitioners fully understand the complex technical aspects of relevant tools, e.g. carbon accounting for investments. Asset managers also need a good understanding of a range of complex ESG topics, such as biodiversity, pollution and ecosystems. These are specialised areas, so experts may need to be brought in to support the asset manager.

For many pension funds, getting a seat at the table with asset managers is a challenge. Due to financial constraints, pension funds often choose large, passive managers to manage their assets. These 'universal asset owners' can play a considerable role in implementing sustainability goals, such as the Paris Climate Agreement. Therefore, engaging with them is important. Please refer to the following conversation VBDO had with Arian Borgers, Investment Manager at Philips Pensioenfonds. He shares insights from his engagement with BlackRock.

How to engage with an asset manager

Arian Borgers – Stichting Philips Pensioenfonds

CAN INVESTORS SUCH AS BLACKROCK CHANGE THE WORLD?

The actions that large asset managers take on behalf of millions of investors are hugely important. Look at the amount of capital managed by BlackRock (and the other large asset managers: State Street and Vanguard) and maybe even more specifically how they utilise their voting rights. There is a growing amount of pressure on their voting behaviour, and I believe these asset managers are responding positively. Specifically, when I look at BlackRock, our master manager, societal pressure combined with new laws and regulations and also BlackRock's own growing conviction that sustainability risk is investment risk (as detailed in Larry Fink's last two annual letters to CEOs) has amplified the efforts of its investment stewardship team.

HOW DID YOU MANAGE TO GET A SEAT AT THE TABLE?

BlackRock is our master manager, which is like a fiduciary manager with limited discretion. While we decide on our asset allocation and the managers we hire, BlackRock is responsible for implementing, monitoring and reporting on all our mandates, whether these are managed by BlackRock's internal teams or external asset managers. We continuously engage with various teams at BlackRock during the year. For example, I am in daily contact with our relationship managers and have regular contact with BlackRock's Investment Stewardship team too.

Having this level of direct contact is quite unique. I think because we have been a client for over 15 years, the relationship grew in a certain way. BlackRock executes most of our responsible investment policy. On some areas, we require customisation, especially for active ownership reporting. The development of the reports and subsequent conversations on the content contributed to a close relationship with BlackRock's Investment Stewardship team. It is a partnership where we can leverage their insights, share our perspectives on issues that are important to us, and gain an increased understanding of the approach they take to engagement and voting at companies. We are aware that this is an unusual decision for an asset owner, but we explicitly chose this approach. At Philips Pensioenfonds, we dedicate a lot of our time to engaging with BlackRock.

IS THIS STRATEGY SUCCESSFUL?

We believe so. Over the past five years, BlackRock has enhanced the level of public transparency on their active ownership with companies. I like to believe that the many questions from us and other clients was one factor, among others, that contributed to that evolution. Our discussions have changed over the years from urging them to improve their disclosure, to informed dialogue on the contents of the reported stewardship information. For example, we asked how they implement the OECD guidelines and why they voted in a certain way. We appreciate the efforts that BlackRock now puts into clearly articulating its stewardship expectations, engagement priorities and voting behaviour. Towards the end of 2020, for instance, BlackRock informed clients that it viewed shareholder proposals playing an increasingly important role in its stewardship efforts around sustainability. And recently (in 2021) the team demonstrated how it had delivered on this commitment through voting in support of more shareholder proposals.

We choose to engage with BlackRock in an informed way and we make our demands clear beforehand. By choosing quality over quantity, we can engage better. For example, by asking what steps BlackRock is taking to implement the due diligence framework from the IMVB covenant. By following up on a specific company, we can learn a lot about BlackRock's approach to other companies as well.

DO PENSION FUNDS ALSO HAVE THE LEVERAGE TO CHANGE THE ACTUAL FUND STRUCTURES, BY ADDING ESG CRITERIA TO SELECTION CRITERIA?

That is a question of supply and demand. In my view, two things can contribute to shifts in investments. First, 'ESG funds' need to have similar, low fee structures to the traditional ones. And second, the exclusion lists applied to the majority of fund offerings (such as money market funds) need to become stricter. Both areas are slowly improving.

YOU SPECIFICALLY CALL ON PENSION FUNDS TO UNDERSTAND HOW THEY CAN BEST USE THEIR LEVERAGE?

We often see our peers invest with BlackRock but choose to retain a separate engagement and voting provider. This has its own benefits, but we have deliberately chosen to follow our asset manager's active ownership approach because of our strong partnership. This gives us the leverage to share our views and the issues that are important to us with the largest asset manager in the world.

Active ownership matters for pension funds especially because they are long-term investors. In addition, they are important clients for asset managers, which means that it is useful for both parties to (at least) have a dialogue about stewardship. For example, our choice to outsource most of our active ownership to BlackRock and build this partnership means we can have an informed dialogue with an influential active ownership team. In other words, if our efforts can contribute just a little bit to the active ownership by BlackRock, this can have meaningful effects in the real world.

2.2 Policy | Effective responsible investment policies rely on ambitious and comprehensive frameworks. The investment framework should reflect the values of the pension fund and its stakeholders. To effectively guide asset managers, the policy should include a long-term vision and measurable targets. Strategic asset allocation and asset liability modelling can be influenced by the long-term strategic objectives of the pension fund.

RESULTS 2021

- On average, pension funds scored 0.4 points higher than in 2020.
- Pension funds demonstrated better consistency when it came to implementing the RI policy; 70% provided evidence of sufficient alignment compared to 56% in 2020.
- Only 18% of the pension funds provide targets with a clear roadmap for implementation.
- 94% of the pension funds explicitly include climate change in the RI policy (2020: 80%). Net-zero emissions targets are communicated by 26% of the funds (2020: 18%).
- The average score for policy is 2.1; scores range from 0.8 to 3.9.

RECOMMENDATIONS FOR POLICY:

- Understand and develop a vision on impact. Targets should have a demonstrable effect on the real world.
- Ensure the RI policy is implemented by all asset managers. Determine and communicate a strategy to implement long-term targets. Include explicit requirements for asset managers in mandates and fund selection, and evaluate implementation during due diligence processes.
- Implement the Paris Climate Agreement. Measure the CO_2 footprint of the portfolio, using (inter)nationally developed standards. Exclude sectors that are unable to change. Engage with both heavy-emitting companies and those working to and enable the world to transition to net-zero, using sectoral pathways that are in line with IEA and IPCC scenarios.

IMPROVED ALIGNMENT OF THE INVESTMENT PORTFOLIO WITH THE RI POLICY

Measuring the effectiveness of RI policies can be done in different ways. In this benchmark, one of the criteria to determine effectiveness is the level of alignment between the RI policy and the implementation by the asset managers. Pension funds have to provide evidence of selection and monitoring requirements for asset managers that include the goals and targets of the RI policy. We then evaluate the level of implementation of the various RI instruments mentioned. In 2021, 30% of the pension funds have no consistent alignment between their RI policy and investment portfolio. This means that their objectives, ESG themes and ESG-integration strategies are not consistently applied by the asset managers.

It is a promising development that 70% of the pension funds consistently implement their RI policies. This is an increase from 56% in 2020. Pension funds that formalised the implementation of the RI policy in their requirements from asset managers have played an important role in this increase. Moreover, these pension funds applied a due diligence process to understand the implementation of asset managers on RI. We believe that increasing the RI requirements for asset managers will not only influence the pension fund's portfolio; it will also positively influence the generic approach to investing of the asset manager.

According to our assessment, at least three pension funds have committed to implementing the PAB benchmark

CLIMATE STRATEGIES ARE LACKING

Gradually, we're seeing more pension funds formulating long-term targets and including a clear roadmap for implementation in their RI policies. Figure 10 shows an increase of 6 percentage points compared to 2020 for this assessment question. However, it's still the case that only 18% of the pension funds have a strategy that embeds the RI targets that they have communicated to stakeholders. It remains that many pension funds are still working out their strategy for implementing the Paris Climate Agreement, even though the deadline for the climate commitment from the financial sector is 2022.

While we continue to encourage pension funds not to limit their targets to climate change only, it's the ESG theme that pension funds most commonly develop targets on. 26% of the pension funds explicitly commit to aligning their portfolio with the net-zero target of the Paris Climate Agreement. The pension funds that show a clear strategy are becoming more specific, some of them published sector-specific CO_2 emissions targets. These types of targets will allow pension funds to benchmark companies according to their sectoral transition pathways and enhance the effectiveness of engagement. To enable pension funds to set targets that have a demonstrable effect on CO_2 emissions in the real world, the European Commission has developed a Paris-aligned Benchmark (EU PAB) and a Climate Transition Benchmark (CTB). According to our assessment, at least three pension funds have committed to implementing the PAB benchmark[4].

[4]Among others, Pensioenfonds UWV. Please refer to this interview for more detail: www.ipe.com/news/in-depth-uwv-fund-to-introduce-paris-aligned-benchmark/10054151.article

Figure 8 | **Average results per category.**

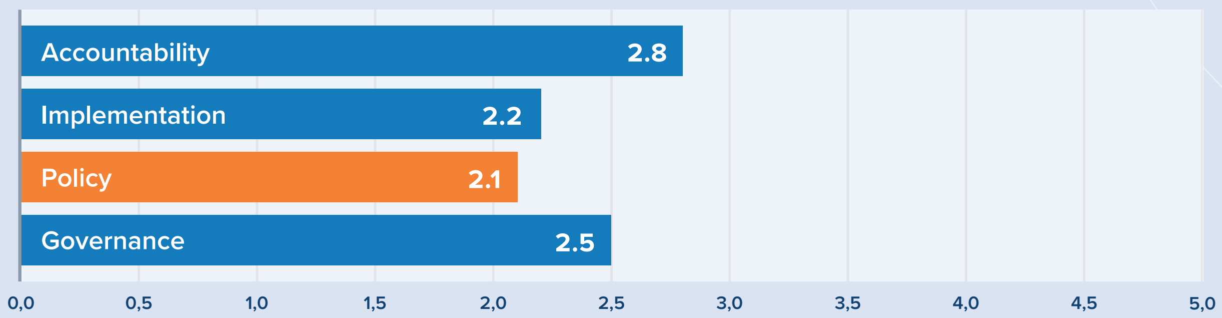


Figure 9 | **Consistency of RI implementation throughout the portfolio.**

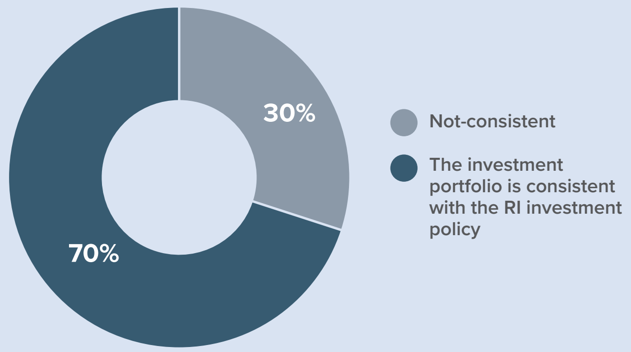


Figure 10 | **Long-term targets and implementation strategies.**

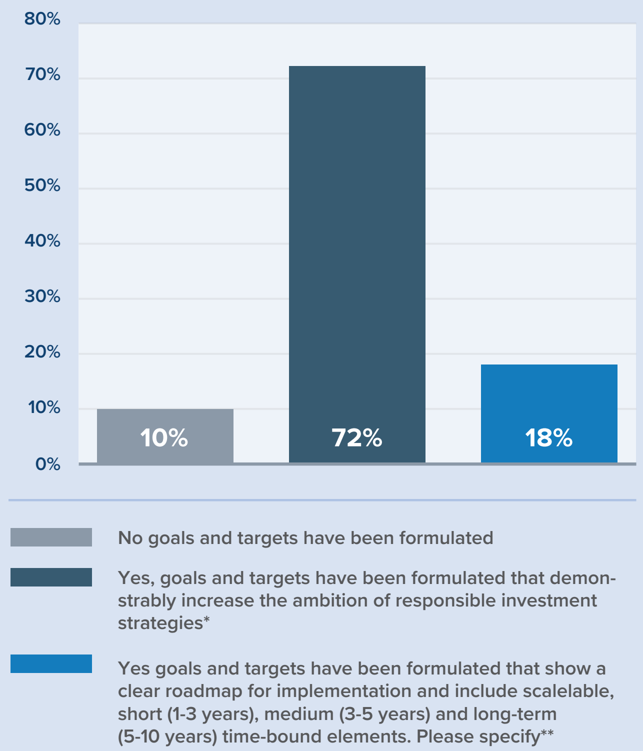
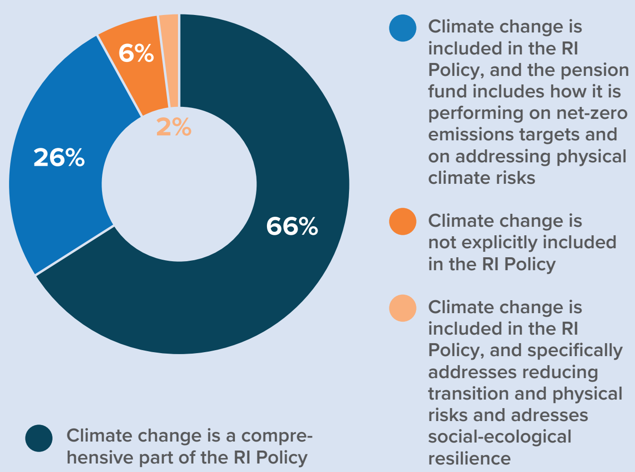


Figure 11 | **Climate change policy.**



2.3 Implementation | Executing the RI policy throughout the portfolio is crucial. Pension funds should invest responsibly across the various asset classes and implement the applicable RI instruments. The final score awarded for implementation is determined by the allocation of assets.

RESULTS 2021

- On average, pension funds obtained a score 0.2 points higher than in 2020.
- 90% of the pension funds apply at least two exclusion criteria to their equity portfolio.
- 88% of the pension funds apply ESG criteria in the investment decision making process for publicly-listed equities. 58% show consistent implementation throughout the PLE portfolio.
- 32% of the pension funds that invest in private equity engage with fund managers. 6% engage with governments (on all three ESG themes).
- 86% of the pension funds engage companies on predefined ESG themes. 52% integrate the results of engagement in voting against management.
- Only half of the pension funds that invest in green bonds review the use of proceeds.
- The average score for implementation is 2.2; scores range from 0.6 to 3.6.

RECOMMENDATIONS FOR IMPLEMENTATION

- Require all asset managers to implement the RI policy of the pension fund.
- Include ESG integration requirements in the selection, monitoring and evaluation process; ensure that all asset managers integrate these criteria in their investment analysis or index product.
- It is key that pension funds evaluate, monitor, participate and make their expectations clear to asset managers. Ultimately, pension fund boards should decide the voting policy, exclusion criteria and other escalation options to be used after engagement fails.
- Make full use of RI instruments for all asset classes:
  - Integrate E&S requirements in the voting policy for routine voting items.
  - Use voting as an escalation strategy after failed engagement.
  - Develop and implement an engagement policy for other counterparts, such as governments and real estate fund managers.
- Align the investment portfolio with real-world impact:
  - Incorporate real-world impact indicators (e.g. to use in determining the greenness of the use of proceeds of green bonds).
  - Incorporate absolute target benchmarks (such as the Paris-aligned benchmarks from the European Commission).

2.3.1 Exclusion

An exclusion policy indicates what type of investments a pension fund will not make. Exclusion can be done for various reasons, including legal grounds, reputational risks, ethical beliefs and sustainability considerations.

Figure 12 | **Average results per category.**

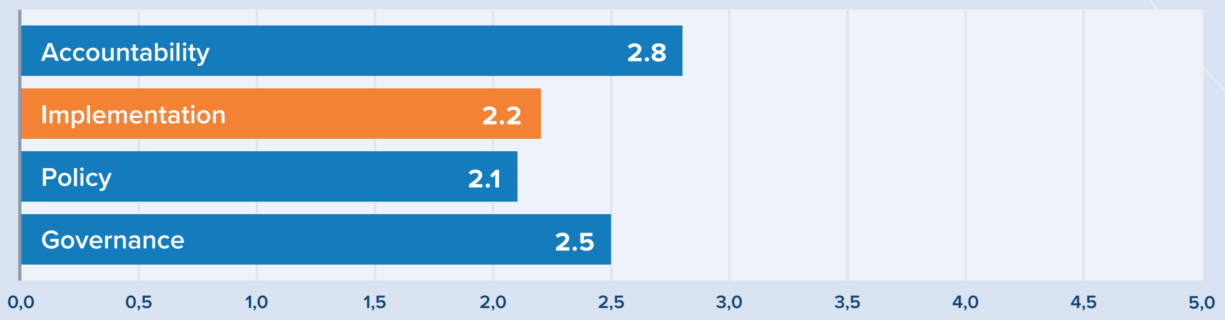


Table 2 | **Responsible investment instruments and the different asset classes included in the benchmark.**

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

It can be applied to companies, sectors and countries. Exclusion is a relatively basic step to take, but it does require a vision on controversial issues. VBDO's benchmark only acknowledges exclusion criteria beyond legally binding regulations. For example, all Dutch funds are legally prohibited from investing in cluster munitions, so we do not count that as an exclusion policy.

RESULTS 2021

- 90% of the pension funds apply at least two exclusion criteria to their equity portfolio.
- 86% apply two or more criteria to corporate bond investments.
- Only 24% apply two or more exclusion criteria to government bond investments.

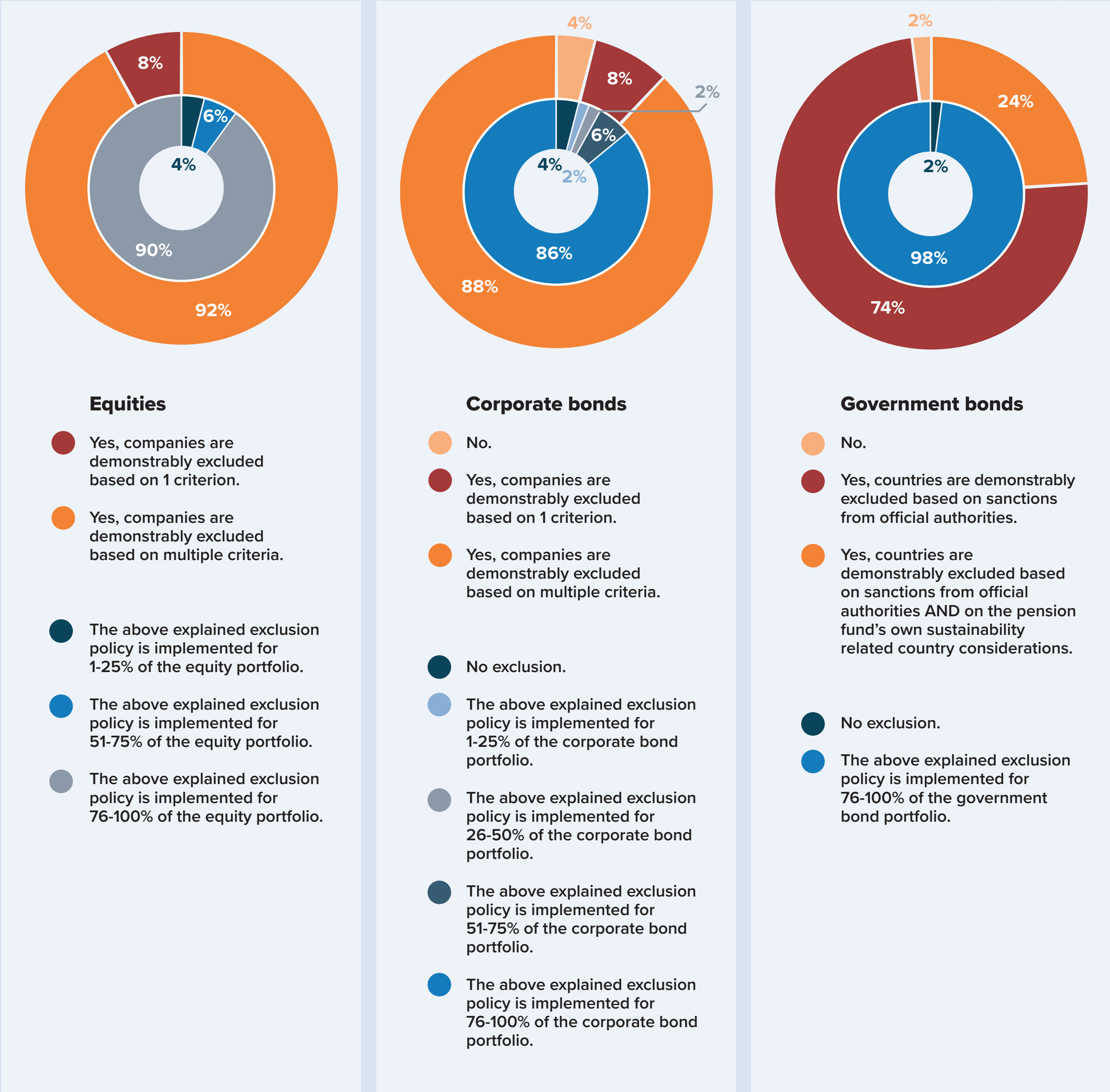
Pension funds have different approaches to exclusion, depending on their beliefs and vision. For example, while some funds might have a zero-tolerance threshold for certain activities, others might use exclusion as an escalation option following engagement with companies operating in those same activities. Both methods of exclusion can be used to influence company behaviour in line with the RI policy.

The most frequently given reasons for excluding companies are their involvement with controversial weapons (other than legally inhibited cluster munitions) and United Nations Global Compact violations. In the last few years, sector-specific exclusions are increasingly being applied as well. Many pension funds exclude companies that source revenue from tobacco products, and coal and tar sands mining and exploration. In 2021, we're also now seeing pension funds announcing that they will sell (or have already sold) their shares in oil and gas companies.

When it comes to government bond portfolios, exclusion criteria are mostly based on official sanction lists (e.g. those from the United Nations and European Union). 24% of the pension funds use additional sustainability-related considerations in order to exclude countries from their investment portfolio. The pension funds that do, use country benchmarks such as those provided by Freedom House, Transparency International and the ITUC Global Rights Index.

We expect pension funds to explicitly require asset managers to implement the exclusion criteria throughout the portfolio and to monitor compliance. In our assessment, we review the consistent application of the exclusion policy by pension funds. It is promising to see that nearly all exclusion criteria are applied consistently across the portfolios. The scores for exclusion for the three applicable asset classes are shown in figure 13.

Figure 13 | **Exclusion in the PLE, corporate and government bond portfolios.**



2.3.2 ESG integration

ESG integration refers to the process by which environmental, social and governance factors are integrated into the investment decision-making process. This integrative approach ensures that ESG criteria are identified and assessed in order for the fund to make an investment decision. ESG criteria can expose risks that might otherwise remain undiscovered, and can also identify investment opportunities.

RESULTS 2021

- 88% of the pension funds apply ESG criteria in the investment analysis or passive funds structure for equities. 58% show consistent implementation throughout the PLE portfolio.
- In 2020, 78% provided evidence of ESG integration in public equities.
- 72% of pension funds demonstrated that ESG integration is consistently implemented in the corporate bond portfolio (2020: 46%).
- 98% of the pension funds integrate ESG criteria in the selection of real estate funds; 46% require a maximum GRESB rating.

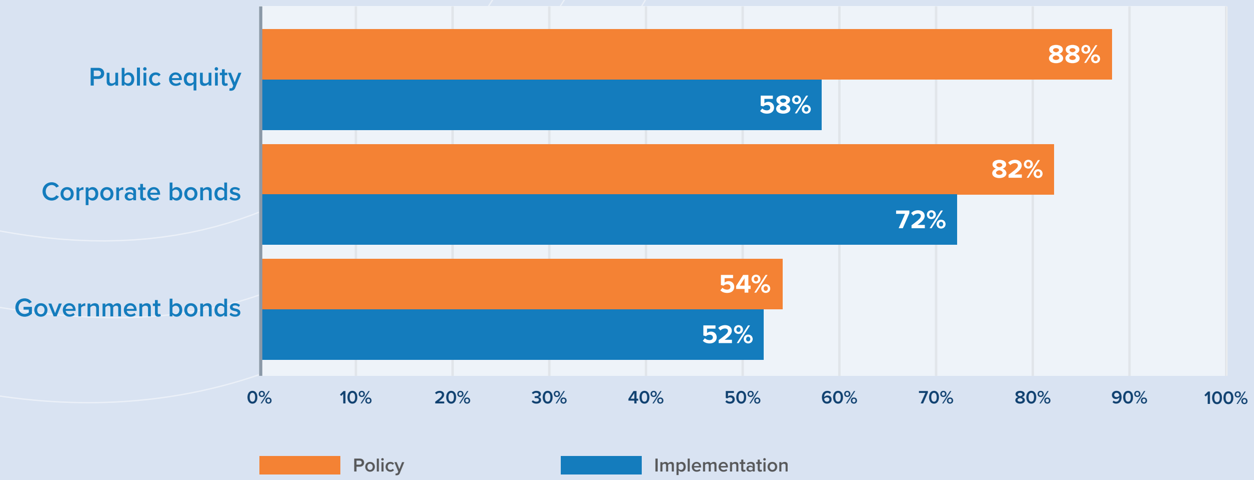
ESG integration is standard policy for pension funds
In 2021, the process of integrating ESG criteria in the passive fund structure or investment analysis process has become standard practice. 88% of the pension funds apply ESG integration to their publicly listed equity portfolio. This figure has increased from 78% in 2020. Still, only 58% of the pension funds provided evidence that ESG integration is applied to the full extent of the portfolio. Pension funds should require asset managers to show their ESG-integration methodology before hiring. There are all sorts of strategies out there and pension funds are expected to understand which strategies are effective. Only then can the 'implementation gap' shown in figure 14 be overcome.

On the other hand, this year has seen a remarkable increase in the consistent implementation of ESG integration in the corporate bond's portfolio. In 2020, 46% of the pension funds were able to demonstrate that implementation is applied to the full portfolio; in 2021 this is 72%. A further 10% could demonstrate that ESG is integrated to a lesser extent.

While ESG integration has become a standard feature of pension funds' RI implementation, it remains difficult to determine the real-world impact of this strategy. We understand ESG integration to be an instrument that pension funds use to reduce financial risks. It is unclear what the impact of ESG integration is on the sustainable development of the economy.

No pension fund could provide evidence of integrating real-world impact targets in their portfolio. However, the several pension funds that have decided to implement the Paris-aligned Benchmark show that science-based

Figure 14 | **ESG integration in public equity and fixed income.**



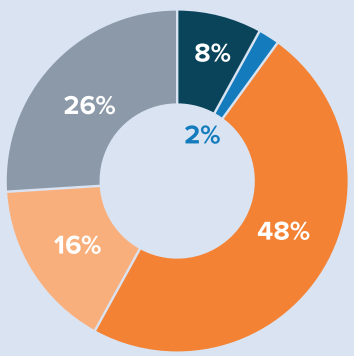
and real-world impact targets can be adopted. In 2022, we will see whether the benchmark is being implemented consistently.

ESG INTEGRATION IN GOVERNMENT BONDS

The integration of ESG factors into developed market bonds is less frequently applied by pension funds. 46% do not systematically integrate ESG criteria in the bond selection process. For emerging market bonds, 30% do not apply ESG integration; 6% of the pension funds do not invest in emerging market debt.

Pension funds allocate most government debt to Western European countries, where in their view 'ESG risks are less likely to occur'. VBDO's view is that ESG factors also need considering for government debt in the developed market. In addition, according to a paper by EIOPA, there is limited knowledge regarding climate risk, and sovereign bonds are the least covered area in this instance . Given the importance of sovereign bonds to pension funds' investment portfolios – comprising almost a third of their holdings – pension funds should assess if developed countries pursue policies in line with scientific climate scenarios. This means that pension funds should also take fossil fuel exposure into account and determine whether their investments are enabling a just transition to a carbon-neutral landscape and aiding climate adaptation. This analysis should feed into an engagement policy for governments.

Figure 15 | **ESG integration in indirect real estate.**



- Not applicable
- No
- Yes, the pension fund demonstrably considers ES(G) issues in selection and evaluation of real estate fund managers/publicly listed real estate companies
- Yes, the pension fund demonstrably considers ES(G) issues in selection and evaluation of real estate fund managers/-publicly listed real estate companies and has developed its own ES(G) criteria in addition to ratings from benchmarking agencies such as GRESB
- Yes, the pension fund demonstrably considers ES(G) issues in selection and evaluation of real estate fund managers/-publicly listed real estate companies and selects only real estate funds/publicly listed real estate companies that receive a maximum rating by fund benchmarking agencies such as GRESB

ESG INTEGRATION IN REAL ESTATE

On average, pension funds have allocated 8% of their assets to real estate. In a rapidly urbanising world, real estate has great potential to accelerate sustainable development, considering its substantial use of materials and land, and also because the lives of people are centred around buildings.

In 2021, the process of integrating ESG criteria in the passive fund structure or investment analysis process has become standard practice.

92% of the pension funds invest in real estate; 98% of these demonstrably integrate ESG criteria in the fund manager selection process. On top of that, 46% have ambitious sustainability requirements in place that expect fund managers to obtain maximum ratings from benchmarking agencies such as GRESB. We expect pension funds to have a strategy in place for both new and existing buildings. Fund managers may increase their GRESB score by only buying newer buildings, while existing and older buildings do not improve. It is a good sign that various pension funds have strategies to make existing buildings sustainable as well.

ESG INTEGRATION IN INFRASTRUCTURE

Infrastructure is a key driver of economic growth and development. 52% of pension funds include infrastructure in their investment portfolio. Investors can consider a broad range of material ESG issues that these investments might face over the assets' lifetime. Specific ESG factors can be included that are relevant for infrastructure investments, such as greenhouse gases, climate change adaptation, ecological enhancement, sustainable supply chains, and labour, health and safety standards.

Green infrastructure investments play a vital role in enabling society to mitigate and adapt to climate change, as they can facilitate ecosystem services such as water purification and water flow, temperature regulation, biodiversity, and coastal and erosion protection. They also play a fundamental role in societies by enhancing quality of life.

62% of the pension funds that invest in infrastructure demonstrably consider both environmental and social issues in the selection of infrastructure investments. Only 8% did not integrate any environmental or social issues.

ESG INTEGRATION IN PRIVATE EQUITY

56% of the pension funds invest in private equity funds. On average, pension funds allocate just 2% of total assets to private equity. Yet for many pension funds that do invest in private equity, allocation can total 8% of total assets. For those pension funds in particular, an ESG strategy for private equity is important. We expect pension funds to formalise ESG requirements to fund managers in a side letter and report on additional ESG criteria. New for 2021, we also ask pension funds to state if and how they engaged with private equity fund managers.

52% demonstrated that they integrated the results of engagement in a vote against the management board of a company.

All the pension funds that invest in private equity consider ESG criteria when making a fund investment. 60% also require that funds report additional ESG criteria.

2.3.3 Active ownership

Engagement with investee companies is a preferred strategy by pension funds to exert their influence on ESG policy and practice. The process of engagement is usually carried out by asset managers and specialised engagement service providers. Engagement policies should contain escalation strategies that go beyond exclusion. For example, voting against management could be utilised more when engaging with companies.

RESULTS 2021

- 86% of the pension funds engage companies on predefined ESG themes (2020: 74%).
- 52% integrate the results of engagement in voting against management (2020: 32%).
- 72% of the pension funds have a voting policy that contains ESG requirements for routine voting decisions (2020: 47%).
- 32% of the pension funds that invest in private equity engage with fund managers on all three ESG themes.

It is important that pension funds understand that RI instruments can influence each other. When pension funds decide to invest in companies, engagement on predefined ESG themes and norms is essential. We are proud to say that in 2021, engagement has become a standard practice for pension funds. Where in 2020, 74% engaged

[5] EIOPA, 'Climate Risk Assessment of the Sovereign Bond Portfolio of European Insurers', Financial Stability Report, 12-2019.

with companies, this year the number grew to 86%. In addition, 52% demonstrated that they integrated the results of engagement in a vote against the management board of a company.

There is still a large group of pension funds that engage with companies but do not escalate when engagement fails. We expect pension funds to communicate their engagement strategy to companies upfront. This strategy should contain the escalation elements that companies can expect if engagement fails. Many of the themes that pension funds engage on are too important not to utilise the breadth of RI instruments. Please read the interview with Senior Engagement Specialist Frank Wagemans from Achmea IM, where we discuss the various options investors have when engaging with companies. Most importantly, it is key that pension funds evaluate, monitor, participate and make their expectations clear to asset managers. Ultimately, pension fund boards should decide the voting policy, exclusion criteria and other escalation options.

Climate change is the ESG theme engaged upon the most by pension funds in the Netherlands. 58% of the pension funds have engaged with companies on reducing CO_2 emissions in line with the Paris Climate Agreement, and a further 14% have engaged with companies on adapting to the consequences of climate change. Engagement with companies on net-zero emissions target setting is important. Additionally, pension funds can be more specific in their expectations of companies. For example, even when oil and gas companies publish CO_2 emissions reductions targets, absolute CO_2 emissions can still rise. Therefore, the most recent Climate Action 100+ report emphasises the importance of capital expenditure (CapEx) targets for companies in order to align with IEA and IPCC scenarios.

BEYOND COMPANY ENGAGEMENT

Why should engagement be limited to the corporate issuers of stock and credit, when other investment categories could potentially yield real-world impact? In 2020, we added a question about engagement with governments to our questionnaire. This year, an additional question was added in order for us to gain an understanding of the percentage of pension funds that engage with private equity fund managers. While private equity does not have an ESG tradition similar to public equities, impact can be substantial when fund managers apply stricter sustainability requirements. Our results show that only one-third of the pension funds that invest in private equity (56%) engage with fund managers on all three ESG themes.

The evidence provided during our assessment shows that private equity engagement by pension funds largely focuses on enhanced reporting by companies. Often, private equity is left out of the generic active-ownership policy and communications by pension funds and their asset managers. We believe that a standardised engagement approach for private equity could greatly benefit the ESG performance in this asset class.

Engagement with real estate fund managers on all three ESG themes is lower this year (26%) compared to 2020 (36%). Also, engagement with governments was demonstrated by only 6% of the pension funds. This has slightly dropped from 10% in 2020. Given the results, it is a good sign that six pension funds have decided to bundle their power and collectively engage real estate fund managers[6].

For government bonds, the evidence this year shows that emerging market debt asset managers are engaging with issuing countries. This engagement ranges from social issues in India, to discussions with the Czech Coal Board. We believe thematic engagement with governments should especially be considered. For example, this could address a specific issue such as deforestation, where engagement with companies alone may not be effective but engaging all stakeholders involved (including policymakers) may yield positive results. Pension funds should expect a more holistic engagement approach from asset managers to address the most pressing ESG issues.

Figure 16 | **Engagement, voting and escalation.**

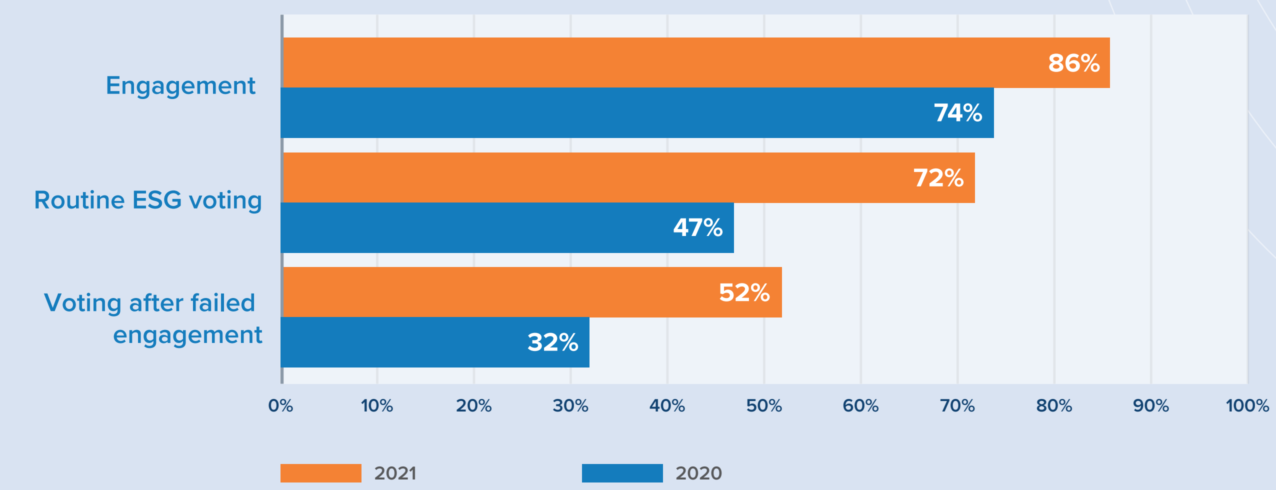


Figure 18 | **Governments, real estate and private equity assets engagement.**

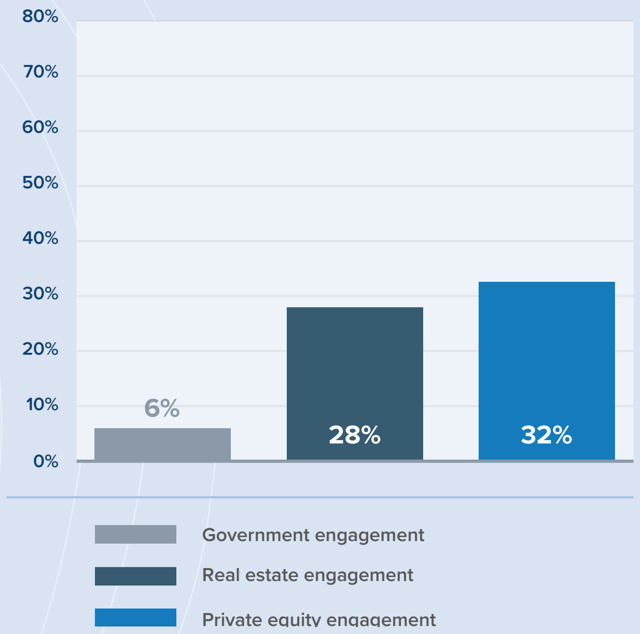
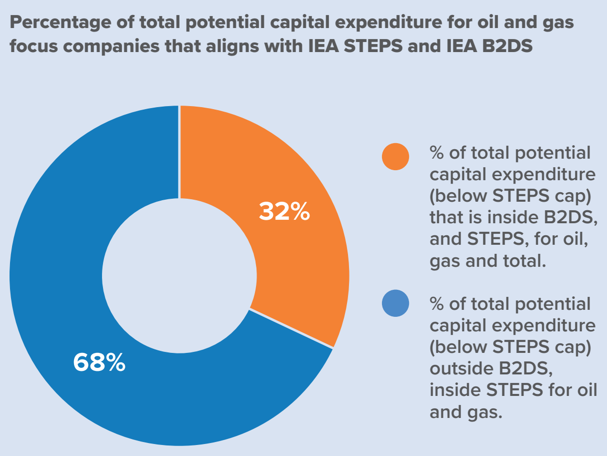


Figure 17 | **Percentage of capital expenditures of oil and gas companies that align with below 2 degrees scenarios. Climate Action 100+ 2020 Progress Report.**

Capital expenditure alignment
This indicator assesses all upstream oil and gas companies (33) on their potential capital expenditure for unsanctioned oil and gas projects between 2020 and 2030 with associated production between 2020 and 2040 and how this aligns with the demand constraints from IEA B2DS relative to the business as usual approach assumed in IEA STEPS2. Carbon Tracker's assessment shows that on average 32% of upstream oil and gas focus companies' unsanctioned oil and gas project capital expenditures match the demand constraints in the B2DS scenario, leaving 68% unmatched with such demand constraints. This metric is unchanged from 2019.



[6] Please refer to this press release from the collective Global Real Estate Engagement Network (GREEN): https://green-engagement.org/pension-funds-team-up-to-push-for-faster-esg-progress-in-real-estate/

How to escalate after failed engagement

Frank Wagemans – Achmea IM

HOW IS YOUR ENGAGEMENT STRATEGY AND ESCALATION STRATEGY STRUCTURED?
Often, escalation in an engagement process is regarded as a binary choice; you either choose to continue to engage or you exclude the company. But there is a broad range of options between continuing the engagement and excluding a company. At the moment, we are structuring and formalising these options into an escalation strategy. We are basing this escalation strategy on our conversations with clients, their preferences, internal discussions and actions that we undertook in 2020 in regards to the co-filing of resolutions, asking questions at AGMs and initiating an investor statement.

WHY HAVE YOU CHANGED YOUR APPROACH?
Scientific research shows us that 'power' is potentially an important source of leverage for shareholders during engagement. However, many companies do not think investors use the actual power at their disposal at present. For companies that are open to engagement and with whom investors have a constructive dialogue, this is not necessarily a problem. However, companies that are more defensive towards engagement cannot be compelled to change their strategies if sufficient leverage is not applied.

WHAT INSTRUMENTS ARE AT YOUR DISPOSAL?
Investors can be more vocal towards companies and have a wide range of instruments at their disposal to do so, ranging from asking questions at AGMs and voting against specific items on the agenda, to filing resolutions and supporting initiatives by other stakeholders. This is one of the main reasons why we have started using investor statements, co-filed resolutions at pharma companies' AGMs and more recently started to vote against the re-election of board members. Engine No 1. (at ExxonMobil) is an important example of this. Also, we can vote against the remuneration policy or specific board members if we see that specific ESG topics are not sufficiently integrated in the remuneration policy or that the board lacks specific expertise or diversity. We have seen that this approach is effective. For example, we asked questions at the AGMs of Casino and Carrefour on the topic of the living wage and got important commitments. This approach is not a magic wand of course; when it comes to Amazon, for example, we haven't seen any investor action succeed.

WHEN DO YOU USE WHICH INSTRUMENT?
We routinely closely monitor the progress of our companies under engagement. Twice a year, we make a formal assessment of each company in our engagement programme. We discuss if they have followed up on their commitments and our expectations. Based on that analysis, we then determine if we have to escalate. This also means prioritisation, as we cannot co-file a resolution at the AGM of every company that we engage with. The escalation instrument we use is predominantly company specific and depends on the individual characteristics of the engagement.

DO YOU DISCUSS ESCALATION WITH PENSION FUNDS?
Yes, we do. We informed our engagement and proxy voting clients on our more structured approach for our escalation strategy. It is up to our clients if they want to make the required changes to their policies. For example, for voting policies, pension funds need to give us approval to vote against a board of management when engagement fails. Therefore, this is (or will be) something we discuss with pension funds.

CAN A CLIENT BLOCK ESCALATION?
In the end, it is the pension fund that is in charge of its engagement, voting and exclusion policy. For example, a company in our engagement programme was formally listed as eligible for exclusion by a client after a two-year period. However, the company was responsive to our engagement, and we saw that they were aiming to make some positive steps in the short-term, shortly after the two-year period. So, a policy to uniformly exclude a company after two years may not always be appropriate. In the end, it is the pension fund that makes the call to exclude.

DO YOU USE COLLABORATION WITH OTHER INVESTORS TO ESCALATE AFTER INDIVIDUAL ENGAGEMENT FAILS?
We use collaborative engagements often, as both a tool for escalation and also as a starting point. We know from experience that collaboration is effective. Collaboration can provide us with additional leverage, such as local access to a company through another investor. It remains important to choose collaborations where investors are on the same page. Sometimes the group becomes too large to have a consistent view regarding companies.

Pension funds, should be clear about what they expect from their asset managers in collaborative engagements. For example, do you expect your asset manager to use escalation or a specific tone-of-voice towards companies?

HOW DO YOU CO-OPERATE WITH OTHER MEMBERS OF COLLABORATIVE ENGAGEMENTS?
It really depends on the group. We can collaborate very intensively with other members of the Platform Living Wage Financials, while Climate Action 100+ can be more like a big-tent collaboration.

HAVE YOU ESCALATED ON THE TOPIC OF THE LIVING WAGE? WE SEE ESCALATION HAPPENING LESS OFTEN ON HUMAN RIGHTS ISSUES COMPARED TO CLIMATE ISSUES.
Yes, for example we've asked questions at the AGMs of Carrefour and Casino. It is also very important that we send a signal to the board through the way we vote on this topic, because we don't see many company-wide living wage strategies yet. That is why we are developing this escalation strategy through our routine voting policy.

Fortunately, on this topic we see that governments are increasingly putting human rights and the living wage on the corporate agenda. This helps us to engage more effectively as well. In Germany and France, for example, we see the implementation of regulation on human rights due diligence, which also amplifies our engagement requests. Do we need to apply escalation more often? Yes. Is the tide also changing to do so? Also, yes.

IS ESCALATION THROUGH EXCLUSION PREFERRED?
We hear from companies that they fear a resolution or vote against management more than (silent) exclusion. Yet, publicly voicing (potential) exclusion can be effective. Engagement is most effective when a resolution or vote is on the table. Corporate governance regulation can be helpful here as well, for example, the fact that remuneration policies are now formally on the agenda in Europe. Similarly, the possibility to table written questions beforehand at French AGMs that must be publicly answered helps shareholders to publicly challenge boards on salient topics.

2.3.4 Impact investing

Impact investments are investments made with the explicit intention of achieving a positive, measurable environmental and social impact whilst also generating a financial return.

RESULTS 2021

- The percentage of pension funds that allocate more than 5% of their investments to green government bonds has tripled in the last three years to 24%.
- Only half of the pension funds that invest in green bonds review the use of proceeds.

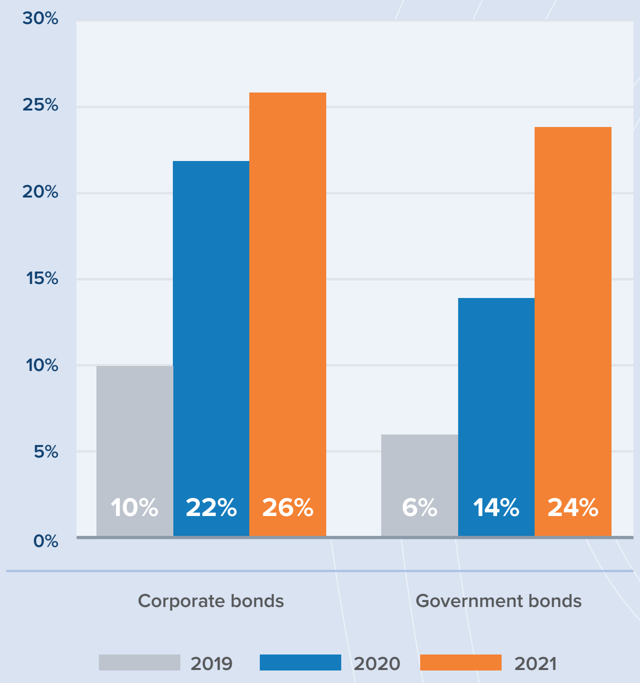
ON IMPACT

According to the Global Impact Investing Network (GIIN): "Impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return." Naturally for institutional investors, investing without financial return is often not in line with their fiduciary duty. The GIIN views impact investing in a holistic sense where the financial return, environmental impact and social impact constitute the integrated value of an investment (IV = F + S + E). This last equation is generally how VBDO views impact investing.

Applying this integrated sense of impact investing to asset classes can be done in various ways. As we assess various instruments of responsible investment, it is important to determine what we define as an impact investment and what we don't. For that we follow the four requirements set forth by the GIIN: 1.) State the environmental or social objective of the investment; 2.) set performance targets using standardised metrics; 3.) monitor and manage the performance of investees against the targets and 4.) report on the social and environmental performance against the targets. We used this format to design our impact investing questions for the various asset classes.

One of the recognised impact investments is a green bond. We ask pension funds to use the impact conceptualisation from the GIIN when investing in green bonds. According to our criteria, pension funds need to state that they invest with an explicit intention to solve an environmental or social issue. We assess this by reviewing the pension fund's mandate with its asset manager or its RI policy. Both the mandate and the RI policy

Figure 19 | **Pension funds that invest >5% in green bonds.**



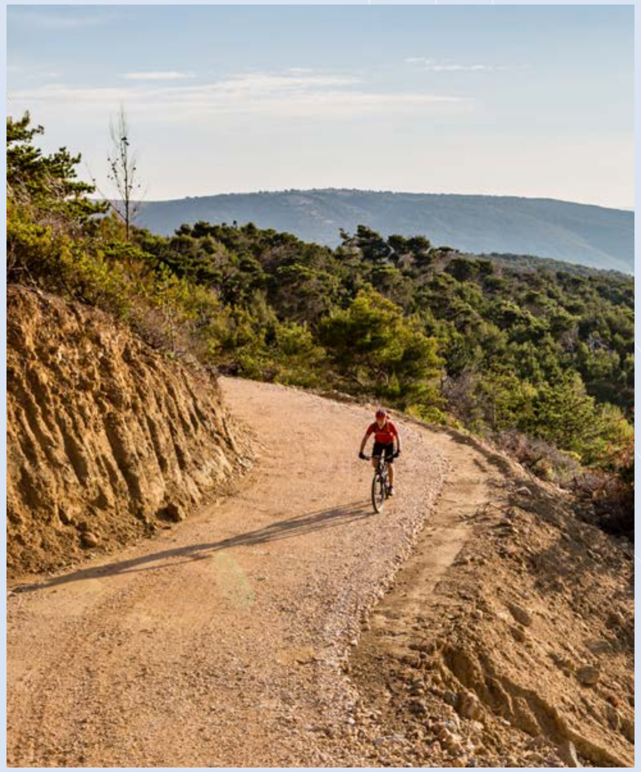
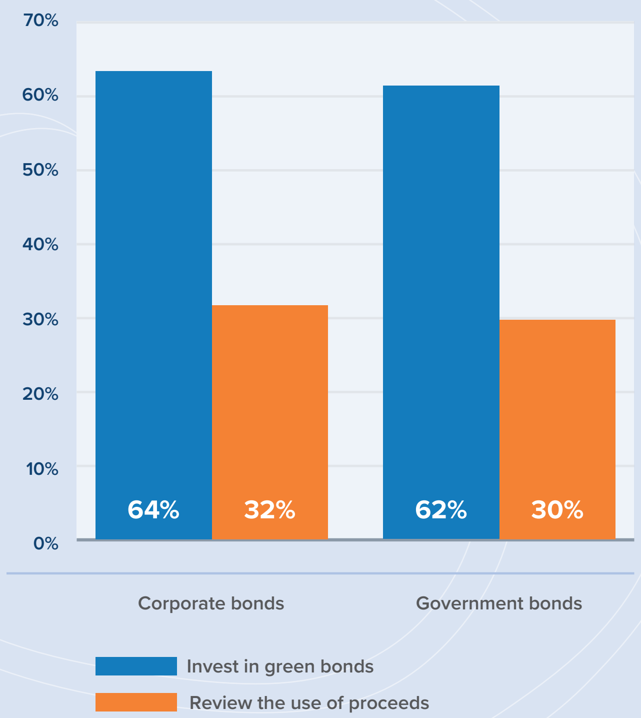


Figure 20: Percentage of pension funds that review the 'greenness' of the use of proceeds.



should state the explicit intention as well as the intended allocation. This minimum requirement ensures a green bond purchase is done with the intention of generating integrated value, rather than showing up in a portfolio because of its financial characteristics and sold whenever a return can be made. Impact investments are impact driven.

Managing and reporting on the social and environmental performance of the investment is the most important feature of an impact investment. Yet, as can be witnessed by figures 20 and 21, for most impact investments, the environmental or social impact is not managed. Practically, this means that the use of proceeds of a green bond issuance is not reviewed by the investor.

Because pension funds designate most of their asset allocation to public equities, asset managers are busy delineating what an impact investment could entail for this asset class. In 2021, VBDO reassessed its scoring methodology for the impact investment question in the public-listed equity asset class. This resulted in a lower average score for this assessment question than in previous years. As previously explained, we determine impact investments as being those made with an explicit intention to create a positive impact on society and/or the environment. That intention should exist from the outset of the investment and be made clear to the investee company. This is important, because it ensures that a company upholds its impactful practices, which could influence other companies' practices.

Pension funds should then manage and report on the actual impact achieved and how this compares to the performance targets that were set. Pension funds should be able to show that financial return is not prioritised above ESG return for impact investments. To avoid the risk of greenwashing, the steps outlined by the GIIN are helpful when assessing impact investments. This is also the case for secondary markets, such as public-listed equity.

ALLOCATION OF GREEN BONDS INCREASES

Green bonds play an important role in financing green assets. Pension funds increasingly steer their fixed-income portfolios towards green debt. Green bonds are attractive to institutional investors because of their simplicity (they have the same recourse to the issuer as traditional debt) and long investment horizons, along with the growing awareness of environmental factors in investment philosophies, and regulatory support.

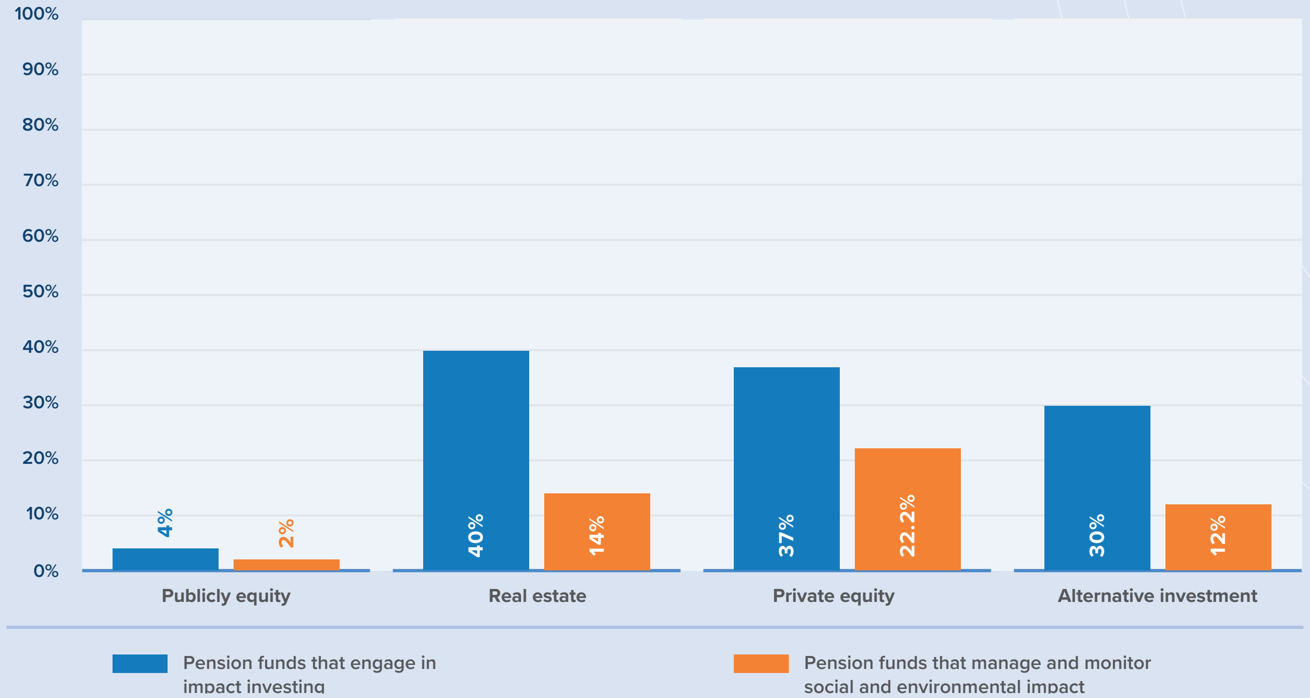
Currently, 56% of pension funds invest in green bonds, which is just a slight increase compared to last year (2020: 55%). Green bonds that were not intentionally selected – in other words, if they just incidentally happen to be part of the portfolio – are not included in this percentage. We expect pension funds to explicitly make clear their intention to solve environmental issues with the green bond, before investing. The total allocation to green bonds has increased significantly over the years. Our results show that the amount of pension funds that allocate more than 5% of their investments to green government bonds has tripled in the last three years.

HALF OF THE PENSION FUNDS THAT INVEST IN GREEN BONDS DO NOT ASSESS THE USE OF PROCEEDS

A similar amount of pension funds invest in green bonds (56% in 2021; 55% in 2020), but the total allocation is growing steadily. In other words, the pension funds that do invest in green funds are increasing their allocation. Therefore, it is worrying that the number of pension funds that demonstrably assess the greenness of these bonds is not increasing. In order for pension funds to understand the impact of their investments, especially the use of proceeds by green bonds, it is crucial to actually measure this impact. In addition, prior to investing, it is important to assess the issuer of the green bond and its intention, strategy and sustainability performance. When undertaking this analysis, pension funds (and their advisors) should be aware of the underlying ESG criteria (e.g. data and ratings) available to them.

Pension funds should also pay attention to how 'green' the impact is that's being made. In other words, pension funds need to examine the underlying projects and judge how sustainable these actually are, in order to determine what the actual impact of the bond will be. Usually, this information can be found in the Green Bond Framework of the issuer. If this information is not given, or does not seem satisfactorily robust, then the investment might not make the positive social and/or environmental impact that the pension funds have been led to believe.

Figure 21 | **The percentage of pension funds with impact investments per asset class, along with the pension funds that evaluate the achieved impact of their investments.**



Making the connection between expected impact and achieved impact (measured with an impact assessment), is necessary in order to differentiate between investments that merely intend to make an impact and those that actually do achieve an impact. Therefore, it is necessary to not only measure the output of impact investments, but also to formulate impact investment expectations and to re-evaluate existing investments. GIIN states: "Impact measurement & management is more than counting metrics. It means considering information about risks, returns and impact to learn, adjust and improve investment decision-making."

TEXTBOX 2 **The Sustainable Finance Disclosure Regulation**

On March 10, 2021, regulation came into force for the financial sector regarding the disclosure of sustainable investments and sustainability risks. This regulation is known as the Sustainable Finance Disclosure Regulation (SFDR). The SFDR is part of the European Commission's Action Plan for Financing Sustainable Growth. It aims to improve the provision of information to end investors about the sustainability-related effects of financial market participants' investment policies and decisions. Both asset managers and pension funds are financial market participants that provide financial services to end investors. Therefore, they have to adhere to the SFDR's several articles, which should help to ensure the transparency of sustainability claims.

In order to comply with the financial market regulation, pension funds should provide:

1. **Transparency of sustainability risks in precontractual information (Articles 3 & 6), and transparency of the remuneration policy concerning the integration of sustainability risks (Article 5);**
2. **Transparency of any adverse effects on sustainability relating to investment decisions, at entity level (Article 4);**
3. **How a product fulfills sustainable objectives (Article 9) or characteristics (Article 8).**

Articles 8 and 9 are designed to classify the sustainability impact disclosure of financial products. Article 9 focuses on financial products that have a sustainable impact as an objective. Article 8 focuses on financial products that promote ecological or social aspects. Article 6 focuses on financial products that are not promoted as being sustainable. Pension funds need to determine which article applies to their investments. According to research from AF Advisors in March 2021, 36 of the top-50 pension funds chose Article 8; one chose Article 6; and 26% did not select an article at that time. 44% of the pension funds opted out of Article 4 and will not provide transparency on the adverse effects of sustainability relating to their investment policy.

The classifications should not be seen as a sustainability benchmark because the articles do not guarantee the sustainability impact of the investment. The only goal of the SFDR is to ensure that the sustainable impacts that financial institutions claim are valid. In addition, SFDR does not contain explicit requirements for which financial products classify as Article 8 or 9. This could undermine the effectiveness of the regulation. According to a recent white paper from 2° Investing Initiative (2DII), the regulation does not address the false impact attribution claims that financial products sometimes make. 2DII argue that greenwashing is unavoidable without proper oversight of sustainability claims, more research and data leading to the development of evidence-based frameworks to understand investor impact, and financial institutions adopting a more cautious approach to sustainability impact claims.

2.4 Accountability | Accountability is the final category in this VBDO benchmark. Concrete and transparent reporting provides stakeholders (and society as a whole) with an insight into a pension fund's strategy and results regarding responsible investment. Part of this transparency involves showing how the responsible investment policy is designed. It is also important to report regularly and in a high-quality manner on strategies, goals, results and the impacts of responsible investment. Information in such reports can be the starting point for communication with and accountability to participants of the fund, while also being informative for other relevant stakeholders.

RESULTS 2021

- On average, pension funds scored 0.3 points higher than in 2020.
- Almost all pension funds report on their exclusion policy (98%), voting policy (96%) and engagement policy (90%).
- 39% of the pension funds incorporate strategic objective performance in the annual RI report; 16% report following (inter)national standards.
- Only 14% of the pension funds communicate the impact of investments to stakeholders.
- The average score for accountability is 2.8; scores range from 0.7 to 5.0.

RECOMMENDATIONS FOR ACCOUNTABILITY

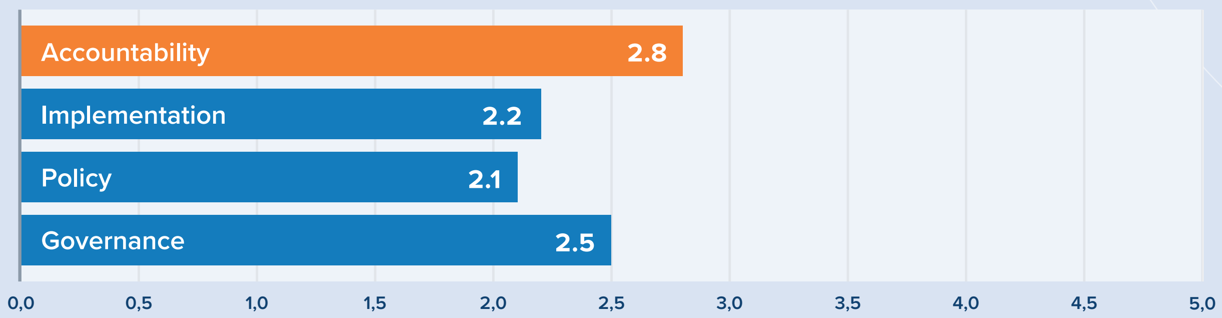
- Ensure the pension fund's disclosure complies with regulatory requirements.
- Disclose the outcome and impact of RI instruments to participants.
- Make use of comparable, widely used (inter)national standards and guidelines for (thematic) disclosure of ESG information.
- Communicate the impact of investments to stakeholders.
- Inform participants of the content and impact of the RI policy through multiple channels (e.g. newsletters, direct e-mail and social media).

REPORTING ON RESPONSIBLE INVESTMENT

Reporting on responsible investment is no longer voluntary[7]. Since the 27th of November 2019, pension funds are required to:

- Report on the acknowledgement, measurement, monitoring and control of ESG risks.
- Assess and report the potential (financial) impacts on assets from ESG risks (e.g. climate change and social risks) and changing regulations.
- Report how ESG criteria are integrated into the investment policy.

Figure 22 | **Average results per category.**



[7] Please refer to regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

Since last year, VBDO has specifically focused on the implementation of (inter)national standards and guidelines to disclose relevant (thematic) ESG information. 16% of the pension funds were able to demonstrate that they implement standards and guidelines, such as CO_2 and biodiversity accounting (PCAF & PBAF), and other issue-specific standards. Disclosing in line with these frameworks assists comparability and facilitates the measurement of ESG information.

Legislation and non-financial reporting guidelines are becoming more demanding. With this in mind, pension funds should ensure that they comply with relevant non-financial regulatory standards and recommendations. In addition, both the RI policy and the reporting on its implementation should be easily accessible through an RI report or substantial section in the pension fund's annual report. Ideally, these reports should be verified by an external auditor.

REPORTING ON RI STRATEGIES HAS IMPROVED

Over the years, substantial improvement has been made with regards to reporting. The biggest differences between pension funds are visible in the depth of their reporting; while some pension funds only explain their policy and adhere to a 'comply or explain' approach, others provide insightful overviews and concrete results. All pension funds do, at least, include a substantial (albeit at times general) explanation of responsible investment in their annual report or RI report on their website.

While we can see that most of the pension funds do provide information on their RI policy and strategies, this is not the case for full disclosure on concrete results and the impact of RI outcomes. Although results have improved compared to last year, there remains a discrepancy between the explanation of the methodology for implementing an RI instrument and actually reporting on the outcomes of the applied instrument, as shown in figure 21.

Pension funds need to commit to reporting on the outcomes of impact investment. It is perhaps not surprising that only 16% of the pension funds that VBDO assessed

Figure 23 | **Reporting on responsible investment.**

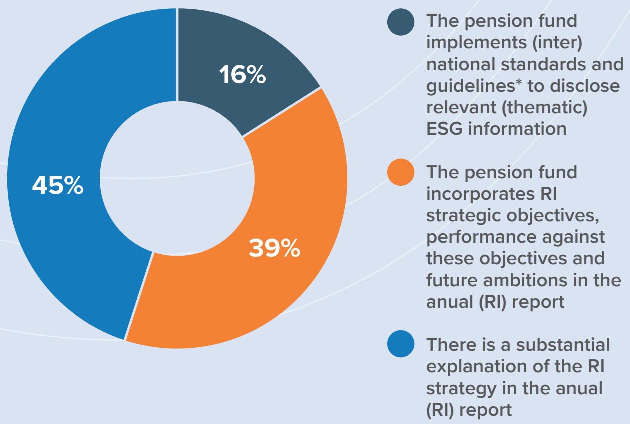
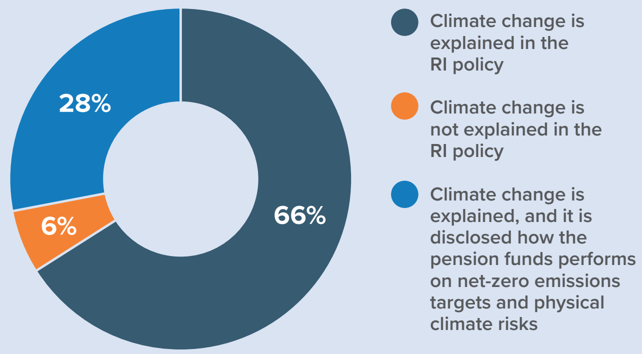


Figure 24 | **Climate change reporting.**



implement thematic disclosure standards and guidelines. We consider proper disclosure on the outcomes and impact of RI instruments as an important next step for pension funds to take in order for them to become more accountable to relevant stakeholders.

REPORTING ON CLIMATE CHANGE HAS IMPROVED

Disclosing information on climate change, such as specific policies and performance on climate-related topics, is an important step towards accountability. Our results show that almost all pension funds (94%) disclose information on climate change to their stakeholders, which is a great improvement compared to last year (78%).

Yet, publicly disclosing performance on climate change activities, including net-zero emissions targets, adaptation to physical risks, and social-ecological resilience, is lagging behind; only 28% of all pension funds report on such activities. It is essential that pension funds improve their reporting on climate change by showing stakeholders how they align investments with the goals set by the Paris Climate Agreement, how they perform on supporting adaptation to the physical impacts of climate change and how they contribute to climate change mitigation. For guidance on correct climate adaptation disclosure, pension funds can consult a publication from The Institutional Investors Group on Climate Change (IIGCC) .

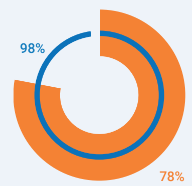
Figure 25 | Transparency on implementation.

The figure on the right gives an overview of transparency per responsible investment instrument. Almost all instruments are properly explained by most pension funds, but the level of depth to which pension funds report on outcomes leaves room for improvement.

EXCLUSION

98% of the pension funds publicly explain their exclusion policy.

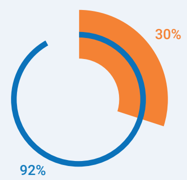
A total of 78% include a list of excluded companies and countries, and the reason for the exclusion.



ESG INTEGRATION

92% of the pension funds publicly explain the methodology for ESG integration.

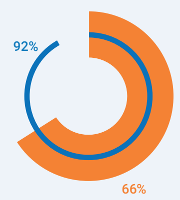
30% include an overview of results.



ENGAGEMENT

92% of the pension funds publicly explain their engagement policy.

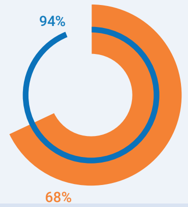
A total of 66% report on concrete results.



VOTING

94% of the pension funds publicly explain their voting policy.

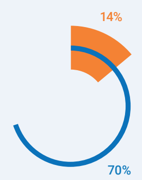
68% disclose a complete and detailed voting report.



IMPACT INVESTING

70% of the pension funds publicly report on impact investing.

14% of all pension funds report on the achieved impact.



Appendix I - Methodology

Over the years, the benchmark has developed significantly and it has become a relevant tool to measure responsible investment by pension funds in the Netherlands. The study is impartial and its most important aim is to, together with Dutch pension funds, enhance the sustainability performance of both individual pension funds and the sector as a whole.

BENCHMARK FACTS:

I. The scope of the benchmark is determined by selecting the 50 largest Dutch pension funds derived from the figures of the Dutch Central Bank.

II. The assets that are included in this benchmark are the assets of Dutch pension funds, independent of where these are being managed.

III. The implementation of the responsible investment policy is considered to be the most important element, because this relates to the actual impact of the investment, rather than just the intention. Therefore, this receives 50% of the total score. Governance, policy and accountability account for the remaining 50% between them.

IV. The topic governance is to be considered from the viewpoint of the management of the pension fund, not from the asset manager's perspective.

V. The total score for implementation is dependent on the different scores of the asset classes (publicly listed equity, corporate bonds, government bonds, real estate, private equity and alternative investments). The weight of the asset classes in the determination of the implementation score is dependent on the asset allocation. Other assets, such as cash, interest swaps and currency overlays, are not included in this benchmark study.

VI. Within each asset class, it is determined which responsible investment instruments are (reasonably) implementable. Each question receives an equal weighting.

VII. VBDO is indifferent whether an investor takes an active or passive and direct or indirect investment approach and we assess what responsible investment strategies are being applied regardless.

The abovementioned facts are based on VBDO's consultation with the pension funds participating in this study. This consultation includes an annual physical meeting with a selection of participating pension funds. Key to this meeting are the quantified survey results.

THE BENCHMARK

The VBDO Benchmark 'Responsible Investment by Pension Funds in the Netherlands 2021' compares the responsible investment performance of the 50 largest pension funds in the Netherlands based on their activities in 2020. VBDO assesses responsible investment through detailed profiles of each pension fund. All 50 pension funds participated in the benchmark study by answering questions and providing evidence to support their answers.

In 2020, the methodology was thoroughly revised to better reflect developments in responsible investment. This year, one question was added to the benchmark methodology on engagement with private equity fund managers. Therefore, the 2021 assessment scores are best compared to the 2020 scores rather than earlier ones.

Figure 26 | Benchmark process.

VBDO BENCHMARK PROCESS

The benchmark aims to stimulate pension funds to inform themselves about their current status of responsible investment and to challenge them to take next steps. The research process consists of several phases:

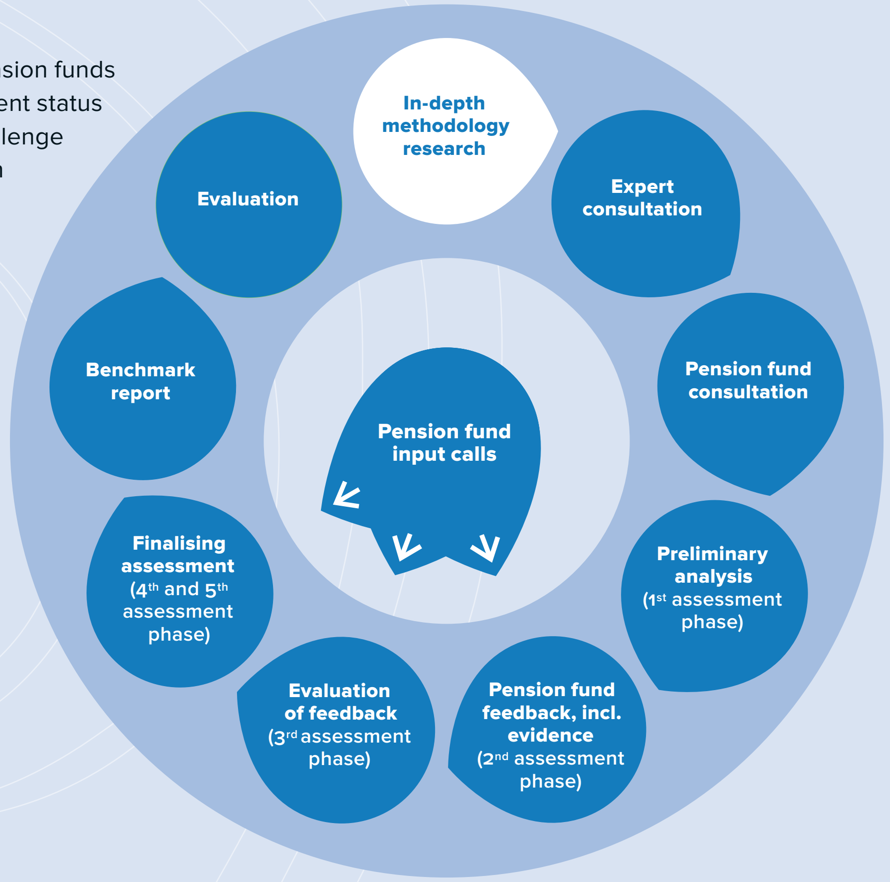


Table 2 | **Responsible investment instruments and the different asset classes included in the benchmark.**

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

SETUP

The questionnaire comprises four themes:

I. Governance | The first theme regards the governance of pension funds on responsible investment, including board room awareness and expertise of RI, board room accountability and oversight, and the consulting of participants and relevant stakeholders.

II. Policy | This theme focuses on the responsible investment policy that is in place. The policy's applicability to the entire portfolio is analysed, as is its depth and quality.

III. Implementation | The implementation of the responsible investment policy applies to six different asset classes. Table 4 shows the asset classes with the corresponding responsible investment strategies that are covered in the study. VBDO believes that the asset owners should take responsibility for the investments that are made on their behalf. Therefore, all implementation questions include the whole investment chain from pension fund to asset manager. The questions focus on how strategies were implemented in 2020.

IV. Accountability | This section discusses transparency around responsible investment policies, strategies, results and reports.

SCORING MODEL

The categories are weighted differently. Governance, policy and accountability each account for 16.7% of the final score, and implementation accounts for 50%. Together, they total 100%. The weighted percentage for implementation is 50% because this category determines the final output and quality of the responsible investment practices of a pension fund. In the governance and policy categories, all questions are weighted equally. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class. In the accountability category, five subcategories are distinguished: the publication of the responsible investment policy; the list of investments; transparency on implementation; actively informing customers and other stakeholders about the RI Policy; and verification of the responsible investment report. Figure 27 gives an overview of the scoring model.

Figure 27 | **Overview scoring model, VBDO**

FINAL SCORE (between 0-5)

- GOVERNANCE (16,6%)
- POLICY (16,6%)
- IMPLEMENTATION (50%)
- ACCOUNTABILITY (16,6%)

Figure 1 shows the scoring model. The categories are weighted differently. Governance, policy and accountability each account for 16.7% of the final score, and implementation for 50%. The weighted percentage for implementation is 50% because this theme determines the final output and quality of the RI practices of a pension fund.

Total score on category Implementation =

- Score public equity X % of the portfolio
- Score corporate bonds X % of the portfolio
- Score sovereign bonds X % of the portfolio
- Score real estate X % of the portfolio
- Score private equity X % of the portfolio
- Score alternative investments X % of the portfolio

In the governance and policy category, all questions are weighted equally. The final score for implementation is determined by multiplying the score for each asset class by the percentage of the portfolio invested in this asset class.

Star ranking

VBDO

VBDO uses a 0–5 star rating system as well as ranking pension funds from 1 to 50. The star rating is based on both a fund's total score and on the scores it has attained for the individual categories of governance, policy, implementation and accountability. The criteria for each star rating might change in the future. The following minimum scores currently determine the number of stars awarded:

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

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

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

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

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

0 STARS
A total score below 1.5

Appendix II - Responsible investment strategies and asset classes

Responsible investment strategies

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

- **Exclusion**

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

Concerning the exclusion of government bonds, pension funds can exclude countries based on official sanction lists of, for example, the EU and UN or based on other criteria. In January 2013, investments in cluster munitions were legally banned in the Netherlands. In the opinion of VBDO, responsible investment should be a practice that goes beyond merely following legal obligations. Therefore, the pension funds can only receive points for exclusion criteria that go further than merely excluding cluster munitions.

- **ESG integration**

Even when some companies are excluded, pension funds may see a considerable difference in the RI approach of the companies that they invest in. Where one company may only abide by the current environmental and social laws of the country in which it operates, another may pursue high social and environmental standards in every country in which it is active. Pension funds should consider this when developing their investment policies and give preference to companies that perform well in relation to corporate responsibility.

VBDO defines ESG integration as the process by which ESG criteria are incorporated into the investment process. This involves more than just screening the portfolios against exclusion criteria. ESG integration can go one step further by identifying and weighing ESG criteria, which may have a significant impact on the risk return profile of a portfolio. Therefore, VBDO distinguishes between investors making ESG information available to the portfolio manager on the one hand and investors systematically incorporating ESG criteria into each investment decision on the other hand. The latter is rated higher because this approach truly meets the spirit of ESG integration. An example of effective ESG integration is positive selection, this is defined as choosing the best performing organisation out of a group of similar organisations (in terms of sector, industry and class) using ESG criteria. In this case, ESG criteria form the basis for selecting companies that perform above average on ESG issues. Integration of ESG criteria in the investment selection process can be done for all asset classes. Regarding publicly listed equity and bonds, the assessment in this benchmark considers both the extent and the volume of ESG integration.

- **Engagement**

Pension funds can actively exert influence on companies in which investments are made by entering into dialogue with them. If the policy and behaviour of a company in which investments are made are at odds with the pension fund's responsible investment policy, the pension fund should (to some extent) use its influence to alter the conduct of that company. Institutional investors that have formulated an engagement policy, actively seek dialogue with companies outside the shareholder meeting. In order to obtain optimal engagement results, it is essential to evaluate and monitor the engagement activities and take further steps based on the outcome of the engagement activities. Engagement can be used throughout the portfolio, either directly with companies and governments or indirectly through fund managers.

- **Voting**

Institutional investors can actively exert influence on companies in which they invest by voting during shareholder meetings. Many institutional investors vote at shareholder meetings, but their voting policy is often 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 emphasises social and environmental issues. By pro-actively introducing or supporting resolutions about sustainable development and corporate social responsibility, companies can be pushed towards improvement and corrective action. For this benchmark, voting behaviour is examined only for the publicly listed equity asset class.

- **Impact investing**

Impact investing refers to active investments that are made in companies or projects with a view to improving sustainability or clearly offering added value for sustainable development. Examples are investments in sustainable energy sources, innovative clean technology, affordable medicine, microcredit and sustainable forestry. Impact investing might look like positive selection, because it may be using the same positive ESG criteria and can be done by investing in specially constructed funds, but it is not a best-in-class approach. Rather, investors choose a specific theme or development area and search for companies or projects that contribute to this development and thus create added value for society. VBDO also values the measurement and evaluation of the actual environmental and social impact of the investments. This instrument is applicable to all asset classes.

Asset Classes

- **Publicly listed equity**

The public equities market consists of the publicly traded stocks of large corporations. The risks and opportunities connected to ESG issues should play a role in the analysis and adjustments of an equity portfolio. The pension fund has many tools to integrate ESG issues into its investment decisions, including both the exclusion and selection of companies within the portfolio, voting and engagement.

- **Corporate (including covered) bonds**

For corporate bonds, responsible investment activities can be similar as for equities, however corporate bonds do not come with voting rights and they 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 due to growing client demand, bond managers are working to integrate ESG factors in fixed-income portfolios.

- **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. One of the main ways that responsible investment influences this asset class is when countries with dictatorial regimes are excluded because of their human rights violations. This is a clear example of the results of an ESG risk analysis. ESG rating agencies increasingly offer products to screen bonds portfolios on corporate governance regulatory practices, environmental policies, respect for human rights and international agreements. Pension funds can also invest green, social or SDG bonds to invest with impact.

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

- **Private equity**
With regards to private equity, an institutional investor can stimulate innovative and sustainable companies because it can directly influence management and encourage entrepreneurs to focus on developing businesses with high-impact social and/or environmental missions. This is especially the case for companies located in regions and communities that are underserved, which can promote the creation of local jobs. With this in mind, integrating the responsible investment policy in the selection process can be an important tool for institutional investors.

- **Alternative investments**
Depending on the asset allocation and asset definitions of an investor, alternative investments can include many kinds of assets. Because these investments are usually a small part of an investor's total portfolio, this benchmark limits assessment of this asset class to hedge funds, infrastructure, commodities, mortgages and impact investments in general. Information provided on other asset classes will not be considered.

I. Although hedge funds are often handled as a separate asset class, the underlying assets are generally publicly listed securities (stocks and bonds) and their derivative products. Thus, investors could consider an ESG analysis of underlying assets and theoretically use the same tool for ESG management as for public equity and fixed income. Likewise, integrating the responsible investment policy in the selection process can be an important tool.
II. Infrastructure is widely considered to have a positive social impact. Infrastructure investors should consider a broad range of material ESG issues that these investments might face over the assets' lifetime. Examples of ESG issues could include biodiversity impact, labour, health and safety standards, resource scarcity and degradation, extreme weather events and supply chain sustainability. It is, therefore, relevant to monitor how ESG is integrated in infrastructure investments.
III. Regarding commodities, investors could direct capital to commodities with better ESG profiles and consider the source (region) of the commodity. As there are few ways to foster positive ESG changes, investors may advocate change on a broader level within commodities exchanges. Another important tool is the integration of the responsible investment policy in the selection process of commodity investments or asset managers.

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