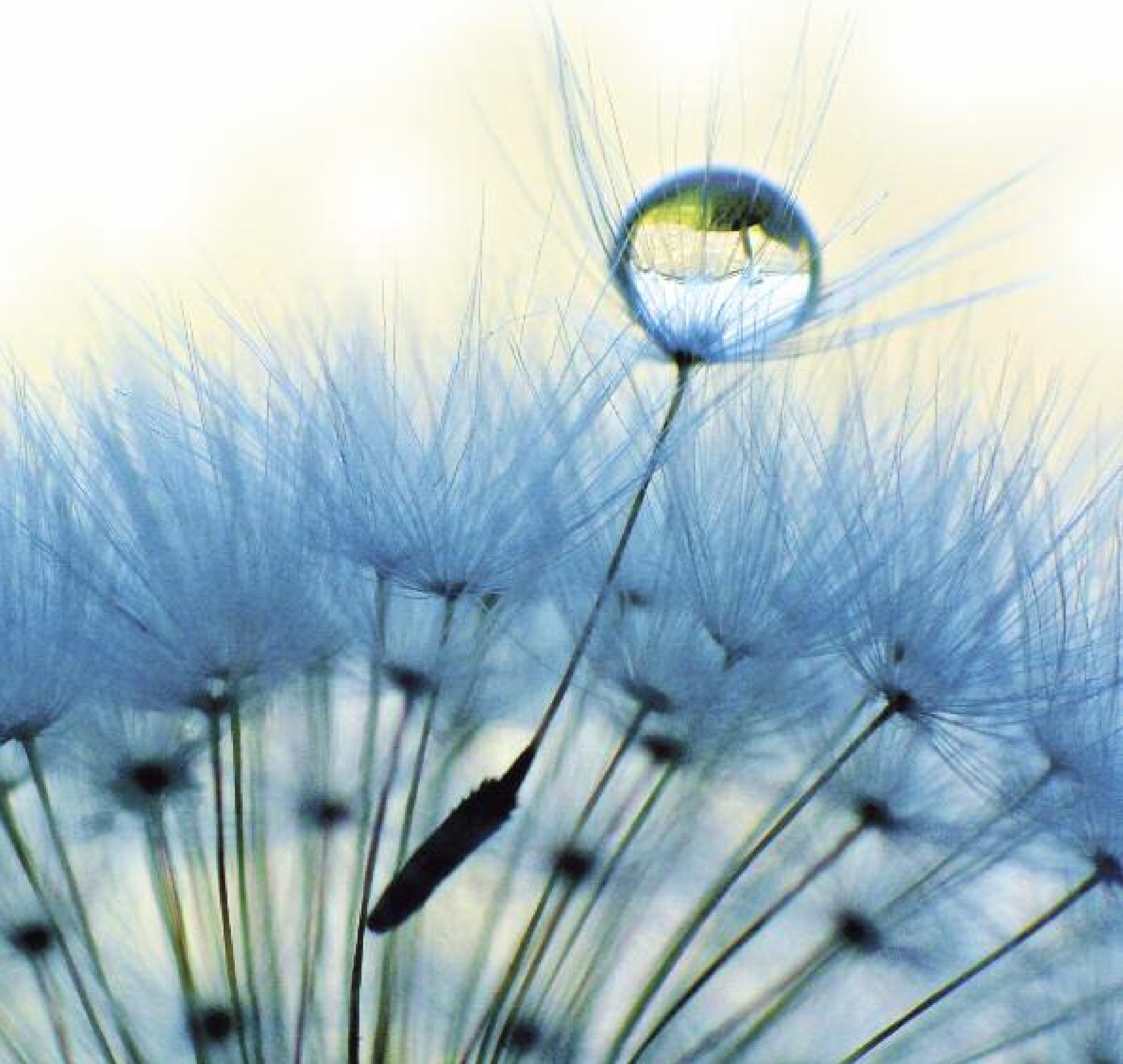
VBDO

Benchmark Responsible Investment by Insurance Companies in the Netherlands 2017

Investing for a sustainable world?



About VBDO

The Dutch Association of Investors for Sustainable Development (VBDO) is a not for profit multi-stakeholder organisation. Our mission is to make capital markets more sustainable. Members include asset managers, NGOs, consultancies, trade unions, insurance companies, banks, pension funds and individual investors. VBDO is the Dutch member of the international network of social investment fora (SIFs). VBDO believes that sustainability has to be embedded in the capital markets. VBDO's activities target both the financial sector (investors) and the real economy (investees) and can be summarised as follows:

Engagement

Since the foundation more than 20 years ago, the core activity of VBDO has been engagement with 40+ Dutch companies listed on the stock market. VBDO visits the annual shareholders' meetings of these companies, asking specific questions and voting on environmental, social and governance (ESG) themes. The aim of this engagement is to promote sustainable practices and to track progress towards the companies becoming fully sustainable, thereby providing more opportunities for sustainable investments.

Thought leadership

VBDO initiates knowledge building and sharing of ESG-related issues in a pre-competitive market phase. Recent examples of this include: three seminars on strategic asset allocation; the development of guidelines on taking Natural Capital into account when choosing investments and organizing round tables about implementing human rights in business and investor practices.

Benchmarks

Benchmarks are an effective instrument to drive sustainability improvements by harnessing the competitive forces of the market. They create a race to the top by providing comparative insight and identifying frontrunners, thus stimulating sector wide learning and sharing of good practices. VBDO has extensive experience in developing and conducting benchmarking studies. VBDO has conducted annual benchmarking exercises, for example, since 2007 about responsible investment by Dutch pensions funds, and since 2012 responsible investment by Dutch insurance companies. This has proven to be an effective tool in raising awareness about responsible investment and stimulating the sustainability performance of pension funds and insurance companies.

Currently VBDO is assessing the feasibility of an international responsible investment benchmark, which would focus on pension funds and insurance companies. VBDO is one of the founding partners of the Corporate Human Rights Benchmark, which ranks the 500 largest companies worldwide on their human rights performance, and makes the information publicly available, in order to drive improvements. VBDO's Tax Transparency Benchmark ranks 64 listed multinationals on the transparency of their responsible tax policy and its implementation.

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

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Investing for a sustainable world?

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A research paper by VBDO
(Dutch Association of Investors for Sustainable Development)

The dutch insurance sector
manages approximately

€ 500 billion

euro's in assets under management

Preface VBDO

For the seventh time VBDO reviewed sustainability performance of the 30 largest Dutch insurance companies. Aim of this report is to provide insurance companies and their stakeholders with insights into the current status of responsible investment in the Dutch insurance sector.

Angélique Laskewitz

Research into responsible investment policies and practices of insurance companies is of great importance for several reasons. First of all, the Dutch insurance sector manages approximately € 500 billion euro's in assets under management. These assets create vast sustainability opportunities. Secondly, it contributes to the license to operate for insurance companies, as responsible investment can reduce their reputational risk. Thirdly, it enables better-informed investment decisions, since ESG information supplements traditional analysis.

Finally, the responsible investor contributes to a more stable financial system and contributes to the future challenges of society.

I find it encouraging that most insurance companies have increased their overall score, especially when compared to the previous benchmark (2015) which indicated that the sustainability performance in the insurance sector had stagnated. Moreover, the middle and high performers in this study experience significant growth and the sector results are closer to each other than ever. I encourage the low performing insurance companies to set a sustainability ambition and to consult insurance companies in higher performance categories.

When comparing responsible investment in the insurance sector to pension funds, the latter are clearly ahead in their performance, with the exception of the largest insurance companies, which are comparable with the leaders in the pension market.

However, the insurance sector is of a different nature and is unique by its own characteristics. Firstly, there are many different types of insurance companies (accident, health, etc.) and secondly, European insurance companies are subject to Solvency 2, which provides them with a legal framework with regard to their invested capital and governance. Both characteristics strongly influence their actions, and specifically in what asset classes insurance companies invest.

Finally, I encourage all insurance companies to embrace the upcoming insurance sector' covenant, which attempts to establish a common ground with regard to several important sustainability themes.

I would like to thank all insurance companies who participated in this study and I hope you enjoy reading this report.

Angélique Laskewitz
Executive Director, VBDO
June 2017

Preface Dutch Association of Insurers

In front of you lies VBDO's latest benchmark about sustainable investments by Dutch insurance companies. An important research, because with over 500 billion euros of investment, Dutch insurance companies can make a valuable contribution to social goals and a sustainable society. In recent years, insurance companies have taken great steps in this area. Within the Dutch Association of Insurers, all members are bound by our Sustainable Investment Code, which is based on the UNPRI and Global Compact. A large proportion of insurance companies is doing even more by actively engaging in engagement processes, voting at share-holders' meetings and having an active exclusion policy.

Leo De Boer

Do insurance companies do enough? I think the only correct answer is that you can never do enough. Every year, the VBDO research shows improvements are possible. At the same time, and that is the positive of this research, it appears that every year, insurance companies score better. The sector is clearly on the right track.

Within the Dutch Association of Insurers, the theme of socially responsible investing plays an crucial role. The Sustainable Investment Working Group follows current developments, shares practical examples and inspires insurance companies and investors in investment areas. According to insurance companies, sustainability is much more than just a belief. It is mainly about risk management and financial economic policy and it is not just about urning green because of the reputation.

One of the issues that we notice is climate change. In 2015, the Centre for Insurance Statistics calculated the consequences of the future climate scenarios of the KNMI. In the most favourable climate scenario, precipitation damage is due to (extreme) precipitation and will increase by 5 percent in 2085, however; the most unfavourable scenario will increase the precipitation damage by 139 percent.

The precipitation damage is now around 90 million euros per year. The number of hailstorms can also increase significantly. Hail now causes an average of 35 million euros a year in damage, of which 20 million euros by "ordinary" hail and 15 million by "extreme" hail. In the scenarios with the highest expected increase in temperature, the KNMI minimally expects a doubling of the number of extreme hailstorms.

Although it is an illusion to completely eliminate climate change, the consequences can be limited. For example: investment policy can play an important role to reduce damage caused by precipitation and hail.

I am happy to see that both worlds are meeting more often. The insurance sector is clearly on the right track, but may occasionally use an incentive. Both of these elements are reflected in this VBDO benchmark.

Leo De Boer
Director Dutch Association of Insurers
Verbond van Verzekeraars

Precipitation damage is now around
90 million euros per year

The number of hailstorms can also increase significantly. Hail now causes an average of

35 million euros

per year in damage...

Ranking

Ranking 2017	Change	Ranking 2015	Name of insurer	Overall score 2015	Overall score 2017	Gover-nance	Policy	Imple-mentation	Accoun-tability
1	=	1	**Zwitserleven**	4.4	4.1	5.0	4.5	3.5	4.5
2	+	3	**a.s.r.**	3.9	3.9	5.0	4.5	3.1	4.7
3	−	2	**Reaal**	4.2	3.5	4.2	4.0	2.8	4.4
4	+	5	Nationale Nederlanden	3.1	3.4	3.1	3.5	3.1	4.3
5	=	5	Aegon	3.1	3.3	3.3	2.5	3.5	3.5
5	−	4	Achmea	3.4	3.3	4.4	3.0	3.0	3.1
7	+	8	Loyalis	2.8	3.2	3.3	2.5	3.3	3.3
8	*	*	Dela	*	3.1	3.8	3.2	2.8	3.4
9	−	7	Menzis	3.0	3.0	2.9	4.0	2.4	3.8
10	−	9	Delta Lloyd	2.7	2.9	4.6	3.0	1.9	4.1
11	=	11	Legal & General Nederland	1.9	2.8	3.3	2.7	2.5	3.1
12	−	10	Zorg en Zekerheid	2.5	2.5	2.9	3.5	2.2	2.1
13	+	20	Allianz Nederland	0.7	2.1	3.8	3.0	1.2	2.4
14	+	15	ONVZ	1.3	1.8	2.9	2.2	1.3	2.2
15	−	13	BNP Paribas Cardif	1.9	1.7	2.9	1.9	1.3	1.7
15	−	12	CZ Groep	1.9	1.7	1.9	2.2	1.5	1.8
15	=	15	De Goudse	1.3	1.7	2.3	1.7	1.6	1.3
18	=	18	Generali	1.1	1.4	1.7	0.7	1.5	1.5
19	−	14	VGZ	1.4	0.9	1.3	1.3	0.3	1.9
20	−	19	TVM	0.8	0.8	2.3	0.6	0.3	1.0
21	=	21	Onderlinge 's-Gravenhage	0.4	0.6	0.4	0.0	0.6	1.2
22	*	*	Yarden	*	0.5	0.4	0.0	0.5	0.8
23	−	22	Klaverblad	0.3	0.3	0.0	0.0	0.3	0.8
23	*	*	NV Schade	*	0.3	0.0	0.0	0.2	1.0
23	+	26	DSW	0.0	0.3	0.0	0.5	0.3	0.0
26	=	26	HDI Gerling	0.0	0.0	0.0	0.0	0.0	0.0
26	*	*	Monuta	*	0.0	0.0	0.0	0.0	0.0
26	*	*	MS Amlin	*	0.0	0.0	0.0	0.0	0.0
26	*	*	NH van 1816	*	0.0	0.0	0.0	0.0	0.0
26	*	*	ZLM	*	0.0	0.0	0.0	0.0	0.0

Figure 1 Ranking 30 largest Dutch insurance companies.

* New participant in the study.

Management summary

This report, published by the Dutch Association of Investors for Sustainable Development (VBDO), provides a detailed overview of the current status quo and trends within the responsible investment practices of the 30 largest Dutch insurance companies. The insurance companies are assessed based on how they govern, formulate, implement and report on their responsible investment policy. The report covers the results over a one year period, the calendar year 2016. As no research was conducted covering the year 2015, the results are presented in comparison with the results over the year 2014. This management summary covers the most significant conclusions and recommendations. A more extensive overview of the conclusions and specific recommendations can be found in the chapters three and four.

Overall responsible investment performance of Dutch insurance companies improved

Dutch insurance companies have increased their responsible investment performance, mainly because they improved the implementation of their responsible investment policy and became more transparent. The amount of insurance companies that have a responsible investment policy in place remained the same. However, the previously existing large gaps in the total scores became smaller in 2016. Nonetheless, differences remain in the reporting quality and the level of depth on how sustainability is integrated into the investment activities. On the one hand, most middle and high performing insurance companies have increased their performance. On the other hand, there is still a small amount of insurance companies that lag far behind. In a broader perspective: the insurance sector still appears to be lagging behind the pension sector. But despite this, it is a positive and encouraging sign that the responsible investment performance among Dutch insurance companies has increased.

Recommendations

- Responsible investment should be seen as non competitive and knowledge should be shared.
- Low performing insurance companies should attempt to catch up with the rest of the sector.
- Continuously monitor and update the responsible investment policy in relation to societal developments.

Responsible investment to be further integrated into the overall strategy

The responsibility for the responsible investment policy found its way further up to the senior management board. And just over half of the senior boards discussed the responsible investment policy at least once in 2016. However, only a quarter of the insurance companies demonstrably sets sustainability targets for their asset managers. Furthermore, the number of insurance companies that consulted either policyholders or society in general (e.g., NGOs) remained stable, but should be improved. Despite the upward trend, in order to anchor responsible investment within the organization, it should have a more prominent role in the overall strategy.

Recommendations

- Responsible investment should be an integral element of the overall business strategy and vision.
- As an asset owner, the insurance company should take responsibility on sustainability issues.
- Build trust with society regarding the insurance company's intentions on responsible investment.

Policy frameworks to be further substantiated

A clear and detailed policy on responsible investment is essential for embedding it into the organization. An important first step is to integrate responsible investment into the overall investment beliefs, currently just over half of the insurance companies do so. Next up: it is vital to set targets on sustainability in order to set a goal and track progress, over a quarter of the insurance companies do so. However, targets that measure the actual impact on society and corporations are hardly set. Most insurance companies integrate both Environmental, Social and Governance (ESG) factors into their policy but only a few pioneers incorporate the SDGs into their policy.

Recommendations

- Connect the responsible investment policy to the company's long term strategy and societal themes.
- Aim at setting clear and measurable targets for the insurance company.

Responsible investment instruments to be exerted to their full extent

The most crucial element of responsible investment is the implementation of the responsible investment policy. Compared to 2014, there is an increase in overall implementation performance among the Dutch insurance companies. ESG themes are more systematically integrated into the investment decision making process and the insurance sector has become more engaged as a result of active engagement and voting activities. Although the increase in the implementation of the responsible investment policy is a positive step forward, in perspective: the average total score is currently still one full point below half of the maximum score (5).

Recommendations

- Develop additional exclusion criteria that go beyond controversial weapons.
- Ensure systematic ESG integration for all asset classes.
- Work together with other investors on engagement and voting to increase investor influence.
- Take the lead as an asset owner to increase the amount of impact investments.

Increase public accountability

Insurance companies should be transparent about their responsible investment practices. An important reason for this is that consumers can make better informed decisions about the insurance companies they select. Other societal stakeholders can also use this information to properly assess insurance companies. The total average accountability performance improved slightly in 2016. However, reporting quality varies in level of both detail and extent. Transparency on the implementation of the responsible investments has substantially improved and an increasing amount of insurance companies provides a list of all the investments made. However, still a substantial amount of insurance companies did not respond to VBDO inquiry or publish any form of responsible investment reporting on its website.

Recommendations

- Further develop and increase the extent of reporting on the responsible investment activities.
- Specifically focus on the results of the responsible investment policy and demonstrate the actual impact that has been made.

Management samenvatting

Dit rapport, uitgegeven door de Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO), geeft een gedetailleerd overzicht van de manier waaropde 30 grootste Nederlandse verzekeraars hun verantwoord beleggingsbeleid organiseren, implementeren en er over rapporteren. De verzekeraars worden beoordeeld op de volgende vier categorieën: bestuur, beleid, implementatie en transparantie. Het rapport bevat de resultaten over een periode van één jaar, het kalenderjaar 2016. Aangezien er geen onderzoek is uitgevoerd over het jaar 2015, worden de resultaten weergegeven in vergelijking met de resultaten over het jaar 2014.

De algehele prestatie van de Nederlandse verzekeringssector op het gebied van verantwoord beleggen is verbeterd

Nederlandse verzekeringsmaatschappijen hebben hun verantwoord beleggen prestaties verbeterd, voornamelijk door het verbeteren van de implementatie van hun verantwoord beleggingsbeleid en de toegenomen transparantie. Het aantal verzekeringsmaatschappijen dat een verantwoord beleggingsbeleid opgesteld heeft is gelijk gebleven. Echter, de verschillen in de totale score van de verzekeringsmaatschappijen zijn kleiner geworden in vergelijking met 2014.

Toch blijven er verschillen bestaan in de kwaliteit van rapporteren en het niveau en de diepte van de integratie van duurzaamheid in de beleggingsactiviteiten. Aan de ene kant hebben de meeste verzekeringsmaatschappijen in het midden en hoge segment hun prestaties verbeterd. Aan de andere kant is er nog een klein aantal verzekeringsmaatschappijen dat ver achterblijft. Vanuit een breder perspectief gekeken lijkt de verzekeringssector achter te lopen op de pensioensector. Desondanks, is het een positief en bemoedigend teken dat de prestaties van Nederlandse verzekeringsmaatschappijen op het gebied van verantwoord beleggen zijn verbeterd.

Aanbevelingen

- Verantwoord beleggen zou als noncompetitief moeten worden gezien en kennis zou onderling gedeeld moeten worden.
- Laag presenterende verzekeringsmaatschappijen zouden een voorbeeld moeten nemen aan de rest van de sector.
- Het verantwoord beleggingsbeleid zou aangepast moeten worden aan de maatschappelijke ontwikkelingen.

Verdere integratie van het verantwoord beleggingsbeleid in de strategie

Het bestuur is steeds vaker verantwoordelijk voor het verantwoord beleggingsbeleid. Verder heeft ruim de helft van de besturen het verantwoord beleggingsbeleid minstens één keer besproken tijdens een bestuursvergadering in 2016. Echter, slechts een kwart van de verzekeringsmaatschappijen stelt concrete duurzaamheidsdoelstellingen voor hun vermogensbeheerders. Het aantal verzekeringsmaatschappijen dat polishouders of de maatschappij (zoals bijvoorbeeld NGO's) consulteert is stabiel gebleven. Desalniettemin is er ruimte voor verbetering door regelmatigere communicatie en consultatie. Ondanks de opwaartse trend om verantwoord beleggen binnen de organisatie te verankeren, zou verantwoord beleggen een meer prominente rol moeten spelen in de algemene strategie.

Aanbevelingen

- Verantwoord beleggen zou een integraal onderdeel moeten zijn van de algemene bedrijfsstrategie en visie.
- Als asset owner zal de verzekeringsmaatschappij verantwoordelijkheid moeten nemen over duurzaamheidsissues.
- Het is belangrijk om vertrouwen op te bouwen met de samenleving met betrekking tot de voornemens over verantwoord beleggen

Substantieer het verantwoord beleggingsbeleid

Een duidelijk en gedetailleerd beleid is essentieel om verantwoord beleggen goed te integreren in de organisatie. Een belangrijke eerste stap is het integreren van verantwoord beleggen in de algemene beleggingsopvattingen, dit wordt momenteel door iets meer dan de helft van de verzekeringsmaatschappijen gedaan. De volgende stap is het formuleren van duidelijke duurzaamheidsdoelstellingen, dit word door slechts een kwart van de verzekeraars gedaan. Het is essentieel om doelen vast te stelen die de daadwerkelijke impact op de maatschappij en bedrijven meten, deze worden echter nauwelijks vastgesteld. De meeste verzekeringsmaatschappijen integreren de drie ESG factoren (milieu, sociaal en bestuur) in hun beleid, maar slechts een paar pioniers integreren de

Sustainable Development Goals van de VN (SDG's) in hun beleid.

Aanbevelingen

- Het verantwoord beleggingsbeleid zou met de langetermijnstrategie en maatschappelijke thema's verbonden moeten worden.
- Formuleer duidelijke, gedetailleerde en meetbare doelstellingen voor de verzekeringsmaatschappij.

Benut de totale potentie van de instrumenten voor verantwoord beleggen

Het meest cruciale onderdeel van verantwoord beleggen is de implementatie van het verantwoord beleggingsbeleid. In vergelijking met 2014 is er een toename van de gemiddelde score voor de implementatie van het verantwoord beleggingsbeleid. ESG thema's worden meer systematisch geïntegreerd in het besluitvormingsproces en de verzekeringssector is meer betrokken door actieve engagement- en stemactiviteiten. Hoewel de toename van de implementatie van het verantwoord beleggingsbeleid een positieve vooruitgang is: de gemiddelde totale score is momenteel nog steeds ver onder de helft van de maximaal te behalen score (5).

Aanbevelingen

- Het verder ontwikkelen en implementeren van uitsluitings criteria die verder gaan dan controversiële wapens.
- ESG integratie zou systematisch moeten worden toegepast op alle asset classes.
- Werk samen met andere investeerders op het gebied van engagement en stemmen op aandeelhoudersvergaderingen om de invloed op bedrijven te vergroten

Verhoog de transparantie over activiteiten en resultaten omtrent het beleid verantwoord beleggen

Verzekeringsmaatschappijen zouden transparanter moeten zijn over hun beleggingsactiviteiten. Een belangrijke reden hiervoor is dat consumenten zo beter geïnformeerd zijn bij het selecteren van verzekeringsmaatschappijen. Andere maatschappelijke belanghebbenden kunnen deze informatie ook gebruiken om de verzekeringsmaatschappijen correct te beoordelen. De totale gemiddelde score voor transparantie is licht verbeterd in 2016. De kwaliteit van de rapportage varieert echter zowel op detail als in omvang. Transparantie in de uitvoering van de beleggingen is aanzienlijk verbeterd en een toenemend aantal verzekeraars geeft een overzicht van alle gemaakte investeringen. Echter, een aanzienlijk aantal verzekeringsmaatschappijen reageerden niet op het VBDO-onderzoek of publiceerde geen informatie over verantwoord beleggen op haar website.

Aanbevelingen

- De kwaliteit en kwantiteit van rapportages over de verantwoord beleggingsactiviteiten verbeteren en verhogen.
- Rapportages zouden specifiek gericht moeten zijn op de resultaten van het verantwoord beleggingsbeleid en zouden de feitelijke impact die is gemaakt duidelijk moeten aantonen.

Table of Contents

...of which

20 million euros

by "ordinary" hail and

15 million euros

by "extreme" hail

Chapter 1. **Introduction**

Background

In front of you lies the seventh annual edition of VBDO Benchmark Responsible Investment by Insurance Companies in the Netherlands. This study presents developments on the way the 30 largest Dutch insurance companies govern, formulate, implement and report on their responsible investment policy. In this year's Benchmark, the scope of these 30 insurance companies is adjusted, resulting in a better distribution of insurance companies types [1]. The report covers the results over a one year period, the calendar year 2016. As no research was conducted covering the year 2015, the results are presented in comparison with the results over the year 2014.

Objective

The objective of this report is to provide insurance companies and their stakeholders with insights into the current status of responsible investment among the 30 largest Dutch insurance companies. This comparative study offers insurance companies an impartial instrument to assess how their policies and practices regarding responsible investment compare to those of their peers.

Methodology

The research and the scoring methodologies are based on an iterative process, which has developed and improved over seven years of VBDO Benchmarks on 'Responsible Investment by Insurance Companies'. Every year a review on relevancy of the assessed criteria and necessary additions are discussed with participants of the benchmark. More detailed information about the methodology can be found in the appendices.

Categories and scores

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

Outline of the report

The report is structured as follows. The subsequent chapter discusses the general results of the insurance companies on responsible investment and details how they score on the different categories; chapter three states the most important conclusions of this research; and finally the final chapter puts the recommendations that the vbdo has for the sector forward.

[1] For more information regarding the determination of the scope, see appendix 1 Methodology.

Chapter 2. **Results**

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

Ranking 2017	Change	Ranking 2015	Name of insurer	Overall score 2015	Overall score 20
1	=	1	**Zwitserleven**	4.4	4.1
2	+	3	**a.s.r**	3.9	3.9
3	−	2	**Reaal**	4.2	3.5
4	+	5	Nationale Nederlanden	3.1	3.4
5	=	5	Aegon	3.1	3.3
5	−	4	Achmea	3.4	3.3
7	+	8	Loyalis	2.8	3.2
8	*	*	Dela	*	3.1
9	−	7	Menzis	3.0	3.0
10	−	9	Delta Lloyd	2.7	2.9
11	=	11	Legal & General Nederland	1.9	2.8
12	−	10	Zorg en Zekerheid	2.5	2.5
13	+	20	Allianz Nederland	0.7	2.1
14	+	15	ONVZ	1.3	1.8
15	−	13	BNP Paribas Cardif	1.9	1.7
15	−	12	CZ Groep	1.9	1.7
15	=	15	De Goudse	1.3	1.7
18	=	18	Generali	1.1	1.4
19	−	14	VGZ	1.4	0.9
20	−	19	TVM	0.8	0.8
21	=	21	Onderlinge 's-Gravenhage	0.4	0.6
22	*	*	Yarden	*	0.5
23	−	22	Klaverblad	0.3	0.3
23	*	*	NV Schade	*	0.3
23	+	26	DSW	0.0	0.3
26	=	26	HDI Gerling	0.0	0.0
26	*	*	Monuta	*	0.0
26	*	*	MS Amlin	*	0.0
26	*	*	NH van 1816	*	0.0
26	*	*	ZLM	*	0.0

Figure 2.1 Overall results of the insurance company benchmark 2017.

2.1) Overall performance

Leaders (1 – 3)

Within the top three companies, a minor decrease in overall performance is seen. Zwitserleven maintained its leading position in the benchmark, however its overall score decreased slightly since 2014 from 4.4 to 4.1. a.s.r. maintained the same total score of 3.9 but rose from the third to second position. Reaal's total score decreased from 4.2 to 3.5 and moved to the third position in the group of sector leaders. The decrease in the total score can mainly be attributed to changes in the methodology, and increased strictness in the evaluation of the result. Even though the top three are similar to the year 2014, the scores of other top performers are closer to the leaders than before. It seems competition at the top is intensifying.

Top performers (4-11)

The top performers show small progress in their overall scores. The average score of the top performers increased from a 2.8 score to 3.1 this year. Nationale Nederlanden increased its overall score by 0.3 and took over the fourth position from Achmea. Dela was evaluated for the first time and enters the ranking as a top performer with a total score of 3.1. A remarkable increase of 0.9 for Legal & General Nederland results in a 2.8 score, making the insurance company a top performer for the first time. However, their position remained unchanged.

Middle performers (12-18)

Increases in the total score can be seen at the middle performing segment as well, which decreases the gap between the top and middle performers. Allianz, ONVZ, De Goudse and Generali significantly increased their overall scores; for Allianz and ONVZ this led to a substantial increase in the ranking, espectively 7 positions and 1 position. The average score of the middle performers increased from a 1.5 score to 1.9 this year.

Low performers (19-30)

In this years' benchmark seven insurance companies were analysed for the first time, of which most scored at the bottom of the ranking. Compared to the previous benchmark, the scores of Onderlinge 's-Gravenhage and DSW slightly increased, while VGZ dropped five positions due to a decrease of 0.5 points.

Overall Performance

Most insurance companies increased their overall score. This can also be seen in the average total score which increased from 1.6 in 2014 to 1.8 in 2016. The aggregated increase can mainly be attributed to an increased performance within the middle and top segments. Compared to the previous benchmark issued in 2015, the scores of the top 3 either decreased or remained the same; this is due to minor changes in the methodology and an increased strictness in the evaluation of the results.

There is also a decrease in the gaps between the overall scores and an increased competition between the insurance companies. Hence, to obtain a high rank in this benchmark a higher performance was needed. Despite this, it can be concluded that the Dutch insurance sector improved and further substantiated its responsible investment practices. This improvement can be seen in figure 2.2, which shows the development of the total score and the scores on the various categories since 2012. After a steep decrease in scores (2014), mainly due to changes in the methodology, the insurance sector is improving. The scores of the year 2015 are not presented, as the VBDO did not conduct a research covering that year.

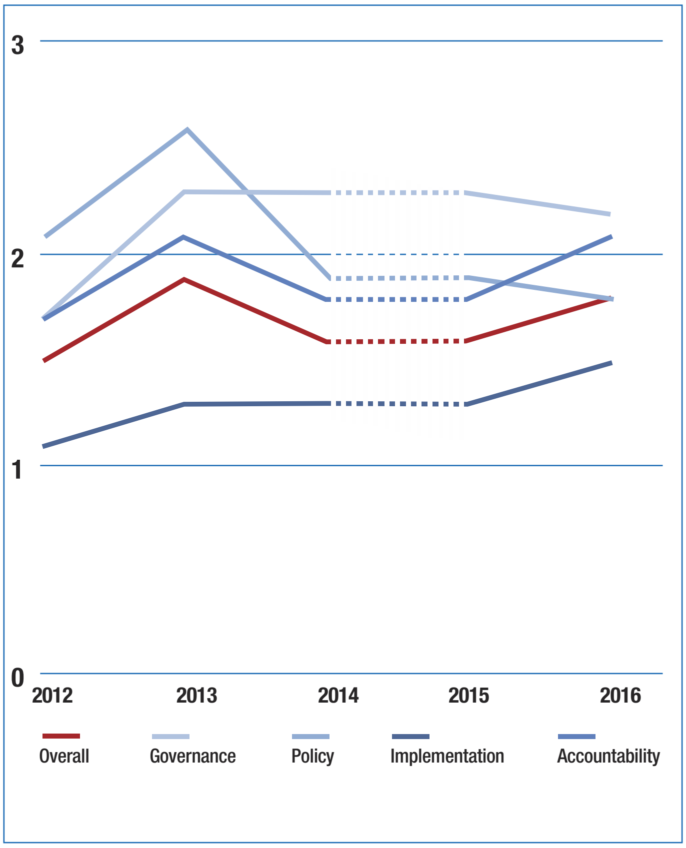


Figure 2.2 Average scores of the benchmarks responsible investment by insurance companies 2012-2016

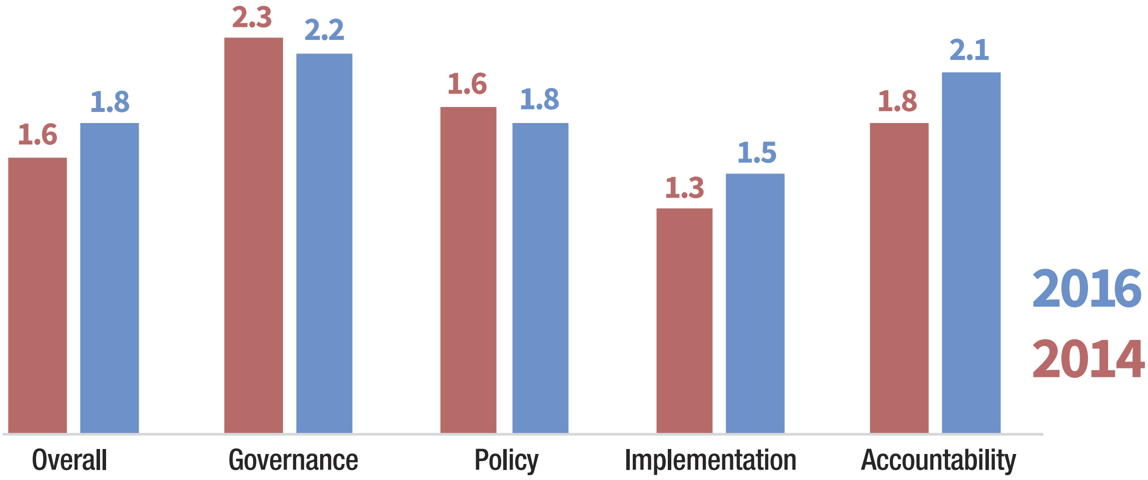


Figure 2.3 Average results of the total score, governance, policy, implementation and accountability of 2016 compared to 2014.

Table 2.4 Top 3 of large, medium and small insurance companies, based on assets under management (AuM).

Large (> 10 billion AuM)		Assets	Scores
1	Zwitserleven	€ 30.631	4.2
2	ASR	€ 38.700	3.9
3	Reaal	€ 25.670	3.7

Medium (1< AuM > 10 billion)		Assets	Scores
1	Loyalis	€ 3.156	3.2
2	Dela	€ 4.289	3.1
3	Menzis	€ 1.623	3.0

Small (< 1 billion AuM)		Assets	Scores
1	Zorg en Zekerheid	€ 386	2.5
2	ONVZ	€ 595	1.8
3	BNP Paribas Cardif	€ 664	1.7

As can be seen in figure 2.3, the average scores for governance and policy do not show significant differences. At the same time, the scores for implementation and accountability have both increased by 0.2 and 0.3, respectively. The implementation category is valued highly by VBDO, because the implementation activities show the actual steps that have been taken, and therefore has the most impact. The increase and further changes in the four different categories will be explained in the subsequent sections.

The previous benchmark, issued in 2015, showed a strong relationship between the size of an insurance company in terms of assets under management and the level of responsible investment in the Dutch insurance market. It can be concluded that larger insurance companies perform better than the medium-sized, and the medium-sized firms on their turn outperform the smaller companies. Notably, this benchmark shows an increase in the overall score for the medium sized companies, indicating that they have taken further steps and action within their responsible investment practices. An overview of the top 3 large, medium and small insurance companies is presented in Table 2.4.

2.2) Results per category

To provide better insight into the underlying factors that determine the overall results, each researched category is analysed separately in the following sections. It should be noted that five insurance companies did not respond to the questionnaire nor publish relevant sustainability related data on their website. This skewed the results negatively.

2.2.1) Governance

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

Performance on governance remained stable

The overall score for governance has remained stable compared to 2014. Zwitserleven and a.s.r. obtained the highest possible score, making them the highest performers on governance in the sector. Allianz (+1.8), ONVZ (+1.6), Generali (+0.6), shared the highest increase in governance performance. In the following figures the most important results on governance performance can be seen.

Responsibility for RI policy always at executive board level

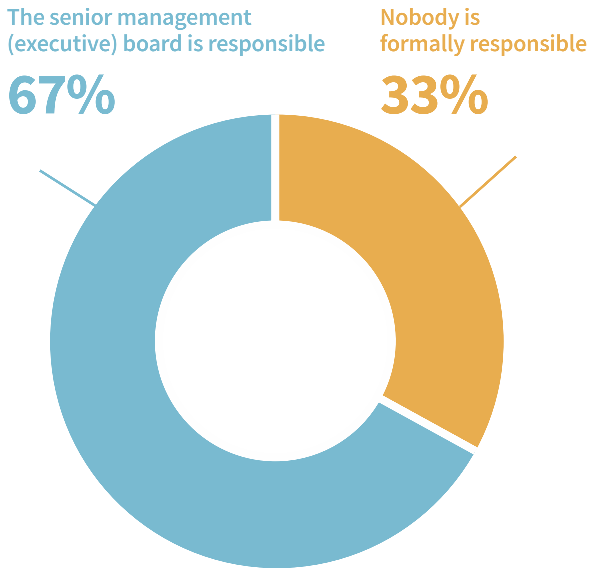


Figure 2.5 **Responsibility of the development and approval of the responsible investment policy.**

Compared to 2014 the responsibility for the responsible investment policy found its way further up to the senior management board. At 67% of the insurance companies the (executive) board bears responsibility for the responsible investment policy. Currently, at 33% of the insurance companies, nobody bears the responsibility for responsible investment. These results show that when responsibility for the responsible investment policy is formally laid down, this is always at executive board level instead of lower management levels. Related to the responsibility of the responsible investment is the frequency of discussion, as shown in figure 2.6.

Frequency of discussion increased

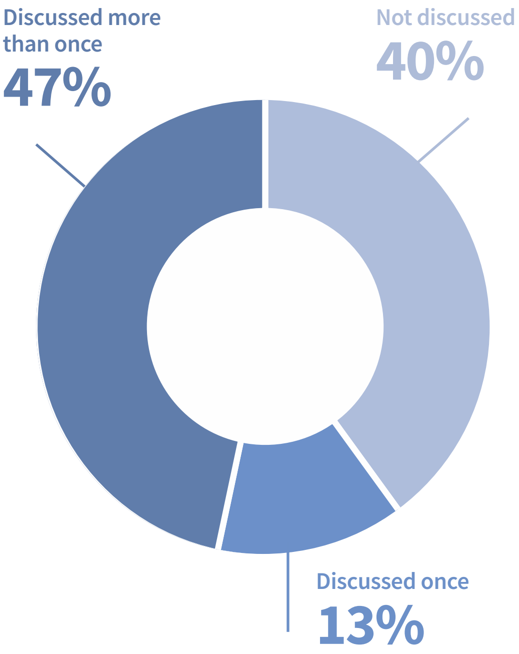


Figure 2.6 **Frequency of discussions on responsible investment policy at senior level.**

As can be seen, more than half of the senior boards discussed the responsible investment policy in 2016, 47% of those senior boards discussed it at least twice. Still, 40% of the insurance companies did not discuss responsible investment at all at board level, which is higher than in 2014. According to VBDO, quantity of discussion about responsible investment at the board level is a good indicator for responsible investment performance. However, rather than the quantity of discussions, when analysing the results, VBDO's focus lies primarily on the content and quality of these discussions. Often the responsible investment policy is briefly touched, and the discussion lacks depth or a concrete roadmap.

Setting targets for asset managers remains uncommon

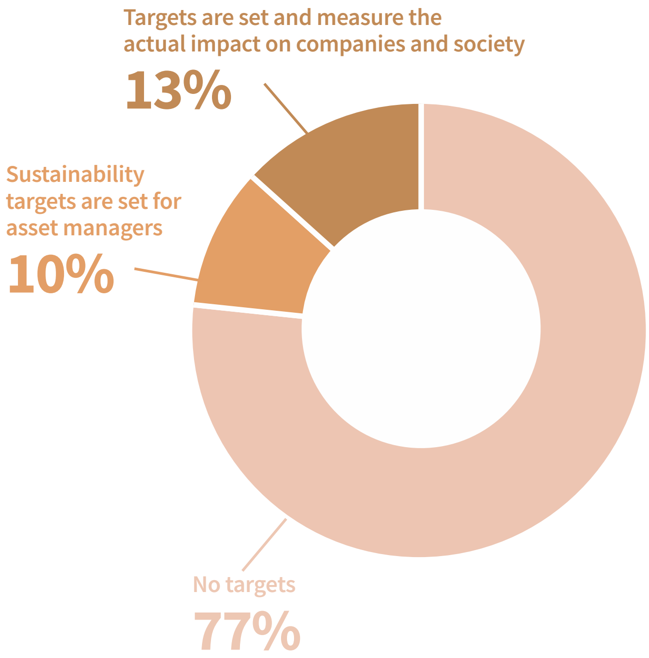


Figure 2.7 **Sustainability targets for asset managers.**

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

In total 23% of the insurance companies demonstrably set sustainability targets for their asset managers (figure 2.7). A slightly higher percentage (13%) sets targets that measure the actual impact of the investments. VBDO encourages insurance companies to go further than only setting targets for the asset manager. By measuring the impact of these targets on companies and society, the insurance companies will get more insight in the effect of their policies. It helps them to accurately track progress and steer on possible improvements; and, to present their clients with actual responsible investment performance.

Consultations with stakeholders remained stable

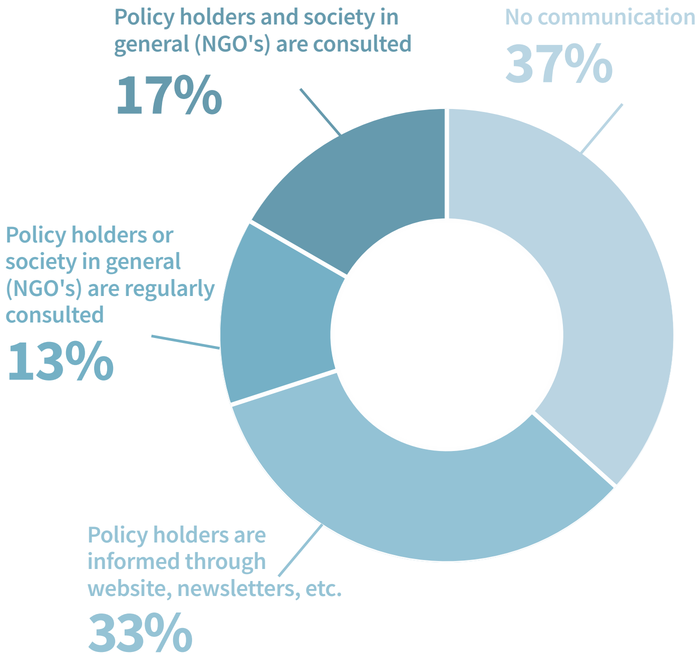


Figure 2.8 Communication and consultation with policyholders and other stakeholders regarding the responsible investment policy.

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

The number of insurance companies that consulted either policyholders or society in general (e.g., NGOs) remained exactly the same compared to 2014. The same conclusion goes for the number of insurance companies that consult both policyholders and society. These figures indicate that, at least for a certain group of insurance companies, consultations are a recurring activity. However, more insurance companies did not communicate with stakeholders at all in the year 2016 (37%). Providing an overview of the responsible investment policy on the website is an easy way to communicate with stakeholders, this could be implemented much more frequently.

Stakeholder dialogues

Some insurance companies organise special stakeholder dialogues, where different kinds of stakeholder groups are questioned about what the most material issues are. These stakeholder groups consist of customers, employees, suppliers, and also civil society. The insurance company uses this information to evaluate its responsible investment policy and adapt the policy where necessary.

A company can seek constructive dialogue with, for example, policyholders or NGOs on how the insurance company can assume its responsibilities, and decrease negative and improve positive effects on society. In this way, the insurance company becomes aware of any discontent between themselves and stakeholders, in an early stage.

2.2.2) Policy

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

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

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

Performance on policy remained stable

Out of a maximum of five points the overall average score for policy has remained stable compared to 2014. No insurance company obtained the highest possible score. However, Zwitserleven and a.s.r. scored 4.5 out of 5, making them the highest performers on policy in the sector. Allianz (+2.5), Menzis (+1) and Zorg en Zekerheid (+0.8) shared the highest increase in policy performance. The most important results are outlined in the following figures.

Most investment beliefs cover responsible investment

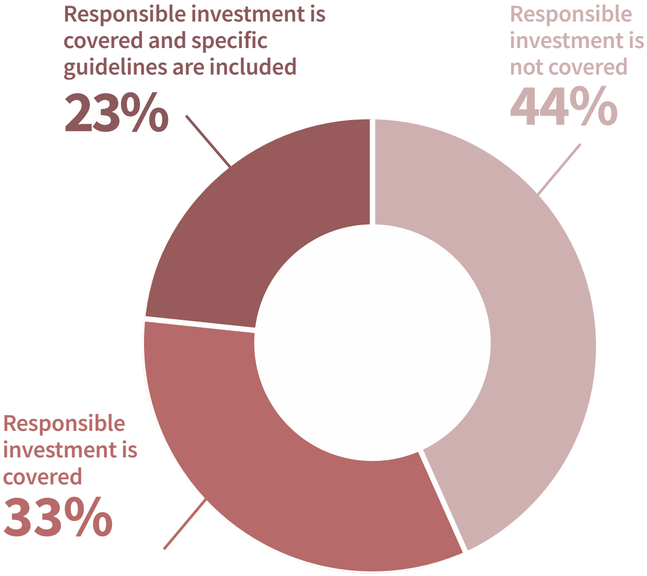


Figure 2.9 Responsible investment covered in the investment beliefs.

For the first time, VBDO asked a question about the investment beliefs. Specifically, it was asked whether or not responsible investment is integrated into these beliefs. The investment beliefs are unique to each insurance company and contain the insurance company's beliefs on the highest abstraction level. Investment beliefs covering responsible investment can have different forms, such as, “we want our clients to become old in a world that is sustainable”, or, “to prevent negative societal effects and, where possible, contribute to positive societal effects”, and, “both financial as well as social value are equally as important”.

Only 23% of all insurance companies specifies more deeply how the impact of investment beliefs is to be realised by providing guidelines. A guideline can be, for example, that an insurance company specifies different sustainability focus themes and what steps are being taken to incorporate the investment beliefs. A specific guideline is, for example, "Environmental, social and governance (ESG) factors are systematically taken into account in the investment processes and decision-making". Specific guidelines are then followed by a further explanation on how the factors are taken into account. Or, a specification on how the Responsible investment beliefs and policy are embedded in the overall internal policy-framework.

As is shown in figure 2.9, 56% of the insurance companies incorporate responsible investment in their investment beliefs. This illustrates the importance of responsible investment at the highest abstraction level. In some cases the insurance company does not have specific investment beliefs in place or responsible investment is only part of their overall investment strategy. Therefore, some insurance companies do have a responsible investment policy, yet still fall under the 44% of companies that do not cover this policy in the investment beliefs.

Zwitserleven

Responsible Investment at Zwitserleven:

Zwitserleven believes that it is their fiduciary duty to invest in a responsible way. We all want to have enough money to be able to retire comfortably. But we also want to live in a world where we can still enjoy our retirement and live a worthwhile life. This is why responsible investing is the starting point of our investment beliefs. Zwitserleven encourages the companies it invests in, to make socially responsible choices. Zwitserleven engages with these companies and votes at their annual shareholder meetings. Zwitserleven only invests in companies that respect international treaties and pass a 'sustainability test', also known as the ESG criteria. The test checks whether companies respect agreements made on: Human rights, Labour laws, Corruption, The environment, Weapons and Customer and Product integrity.

Next to that Zwitserleven focusses on specials themes. For example on climate (change). Climate change is a challenge that will be with us for many decades to come, but for which the solution is in our hands today. Reducing greenhouse gas emissions now will have a great impact in the longer term. In 2015, world leaders reached a historic agreement at the Climate Summit in Paris. Since then, both governments and the private sector have pledged to achieve measurable targets. Zwitserleven and its asset manager ACTIAM have done the same by using investments as a means of combating climate change.

To testify to this, Zwitserleven has signed the Montreal Carbon Pledge and the Paris Pledge for Action. The Paris climate agreement has been added to the Fundamental Investment Principles as a guideline.

To contribute Zwitserleven has set a specific and measurable goal: -40% greenhouse gas emissions by all companies we invest in. To get there Zwitserleven uses positive selection, ESG integration, active ownership and exclusion as instruments. Together with the asset manager ACTIAM an energy-transition policy was developed. Next to that the carbon footprint of all Zwitserleven mutual funds are calculated and published. Since the introduction of the new strategy the weight of green bonds in the fixed income portfolio has shown a strong growth to approx. 10% of the portfolio.

Targets that measure the actual impact on society and corporations are unique

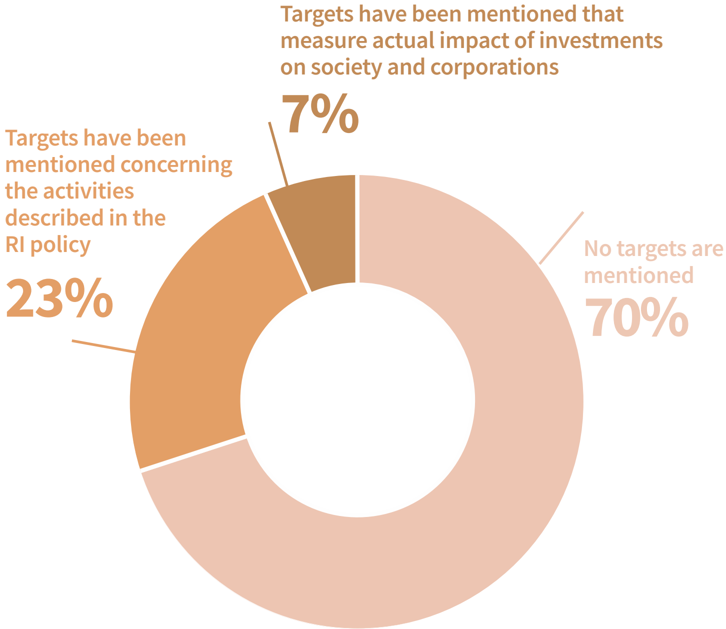


Figure 2.10 Sustainability targets mentioned in the long term strategy and vision.

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

It is remarkable that most insurance companies (70%) have not mentioned sustainability factors in their current target setting at all. 23% of the insurance companies have set sustainability targets in relation to the responsible investment policy, and a minor 7% actually measures the impact of investments on society and corporations. Based on the explanation of the insurance companies, it can be concluded that it remains difficult to set clear and measurable sustainability targets.

[2] https://www.zwitserleven.nl/go/download/255468bb4b8ceff1291eb98981c7e81ab591

ESG themes are widely covered

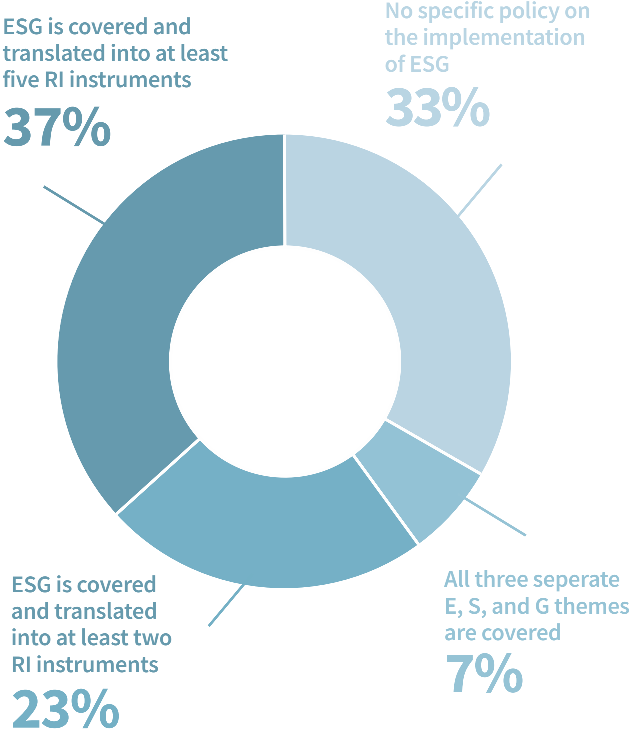


Figure 2.11 ESG themes covered in the responsible investment policy.

VBDO selected the widely accepted ESG themes (Environmental, Society, Governance) as a basis for assessing the content of the policies. This means that the policy should explain which themes are important to the investor and how the themes are used in the investment decision process. Figure 2.11 shows that in most cases (67%) the responsible investment policy of the insurance company covers all three themes. According to VBDO, the translation of the ESG themes into responsible investment instruments such as engagement, voting, ESG integration, exclusion and impact investing is vital in reaching the goals (as outlined in the policy). 60% of the insurance companies translate ESG factors into instruments. Of those that translated ESG into instruments, 39% translate them into at least two instruments. And 61% translate them into all five instruments. These results demonstrate that ESG themes are widely accepted as a basis for the responsible investment instruments.

Use of ESG information on a strategic level is still in its infancy

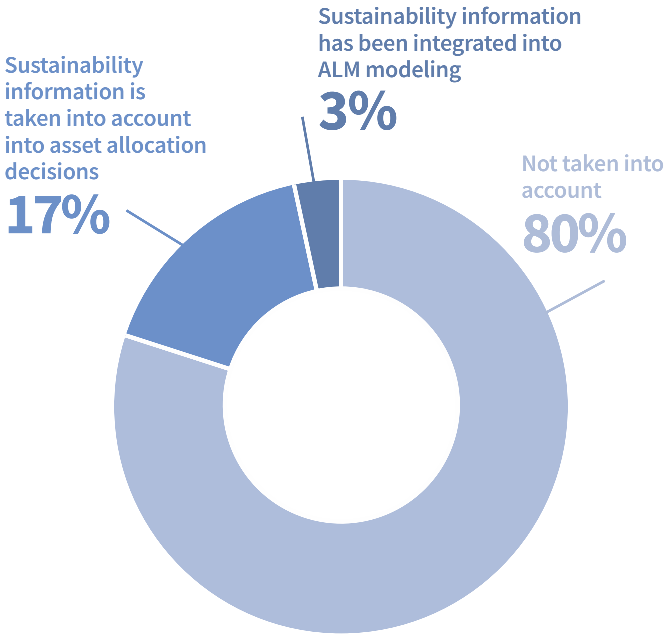


Figure 2.12 Sustainability in strategic asset allocation.

ESG information should also be taken into account in strategic asset allocation, especially since this has an impact on multiple sectors and asset classes. For example information related to renewable or fossil fuels (e.g., the discussion on the "Carbon Bubble") can be integrated into the investment process and lead to a larger or smaller exposure to the fossil fuel sector in all asset classes. Although the use of ESG information on a more strategic level is still in its infancy, the results of this study show that this information is increasingly integrated into investment decisions related to asset allocation. The highest attainable score (2) is awarded to insurance companies that integrate sustainability information into their ALM-modelling.

a.s.r.
de nederlandse
verzekerings
maatschappij
voor alle
verzekeringen

Strategic Asset Allocation at a.s.r.

a.s.r. is including ESG increasingly in its Strategic Asset Allocation. Sectors are already taken into account in the SRI screening by assigning different sector weights to each ESG Sustainability Drivers. For example, environmental issues are a dominant theme in the oil and gas sector, social issues are more prominent in the pharma sector, and governance is important for the financial sector.

During 2016 a.s.r. carried a study on climate risks and the impact on a.s.r. Strategic Asset Allocation. Related to this, a number of measures were implemented during the year such as the exclusion policy for companies deriving 30% of their revenues from coal and or lignite and an increasing allocation to green bonds and renewable energy in various asset classes

Sustainable Development Goals

On September 25th 2015, all the member states of the United Nations adopted the Sustainable Development Goals which define the global sustainable development priorities and aspirations for 2030. The new sustainable development agenda contains 17 goals with specific targets. It commits countries to address the root causes of poverty, increase economic growth and prosperity for all, within the boundaries of the planet [3].

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

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

The financial sector has also started an initiative for a joint SDG investment agenda, with 18 signatories, including a variety of insurance companies. This Dutch SDG Investing (SDGI) agenda serves to reinforce commitment; to offer concrete recommendations for collective action to create a greater SDG investment environment; and to increase the net positive contribution to each of the seventeen SDGs, with a specific focus on Goal 17 (Partnerships for the goals).

In the report ‘Building Highways to SDG Investing’, the signatories state that: “we believe it is in our best interest, as well as that of our clients and investees, to consider the largest societal challenges of our time in our work and investments.”[4]

[3] http://www.un.org/sustainabledevelopment/blog/2015/09/historic-new-sustainable-development- agenda-unanimously-adopted-by-193-un-members/
[4] https://static1.squarespace.com/static/582981ddebbd1ad7f34681b6/t/5899acd5c534a5036aeada0c/1 486466378381/Building+Highways+to+SDG+Investing+PDF.pdf

Room for development in incorporating the SDGs

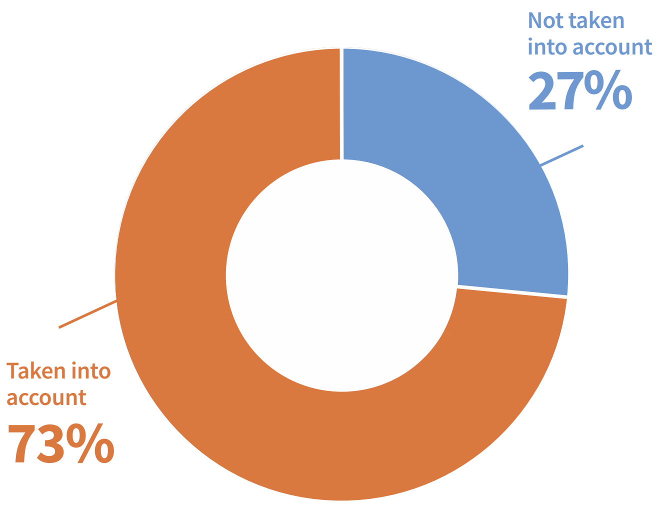


Figure 2.13 **Incorporation of the Sustainable Development Goals into the responsible investment policy (the results are self-reported).**

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

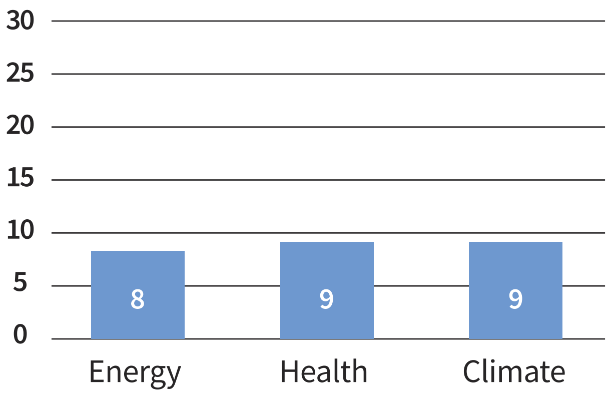


Figure 2.14 **Most frequent incorporated Sustainable Development Goals (the results are self-reported).**

The most popular goals for the respondents were; goal 13: climate action, goal 3: good health and well-being; and goal 7: affordable and clean energy.

The VBDO encourages insurance companies to:

- Conduct a materiality analysis to identify which SDGs are relevant for the insurance company. Relevant SDGs are those which are closely linked to the insurance company's core activities, mission, vision, investment beliefs, and areas where the insurance company can make a large positive impact or reduce negative impact;
- Use the SDGs to create new investment opportunities that have a positive impact on the identified SDGs. By identifying relevant SDGs, companies can create new business opportunities and lower their risk profiles. The SDGs define growing markets. On the website of UN PRI, insurance companies can find investment opportunities[5];
- Set measurable, time-bound targets which are in-line with UN targets. Report on progress to concretize the ambition towards contributing to the goals;
- increase impact for the SDGs. This can be realized by shared research, signing the SDG Charter NL, and open resources or shared projects.

2.2.3) Implementation

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

This section analyses:

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

[5] https://www.unpri.org/download_report/22974

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

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

Overall implementation results

Implementation performance substantially improved

The overall implementation score increased compared to the results of 2014. Figure 2.15 shows the average scores of implementation in total and per asset class. Overall, the implementation of the responsible investment policy increased in every single asset class, with the most significant increases in the asset classes public equity (from 1.4 to 1.9) and corporate bonds (from 1.4 to 1.9). The implementation score for government bonds, real estate and alternative investments remained relatively stable. It must be noted that, although an increase in the implementation of the responsible investment policy is a positive step for the insurance sector, the maximum score that can be achieved for implementation is 5.0. Hence, the average scores of all separate asset classes perform under half of the maximum score.

	Asset mix	2016	2014
Total implementation		1.5	1.3
Public equity	19%	1.9	1.4
Corporate bonds	24%	1.9	1.4
Government bonds	51%	1.4	1.2
Real estate	4%	1.3	1.3
Alternative investments	2%	0.9	1.0

Figure 2.15 Total score of implementation per asset class.

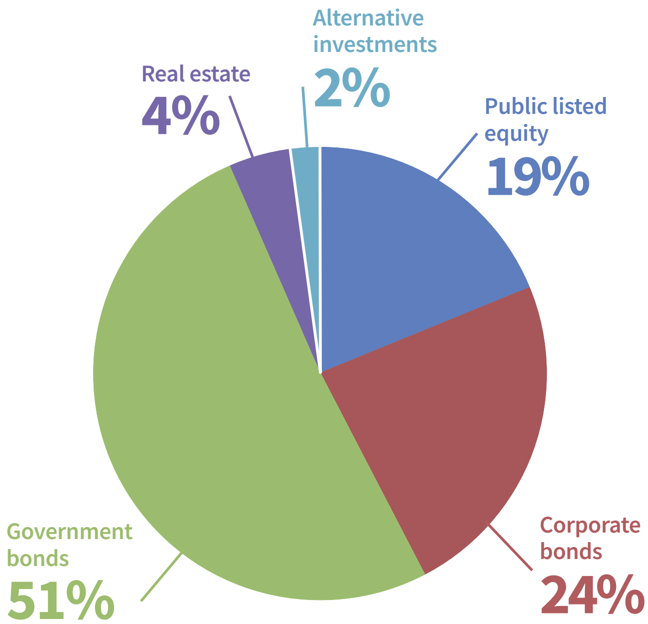


Figure 2.16 Allocations per asset class.

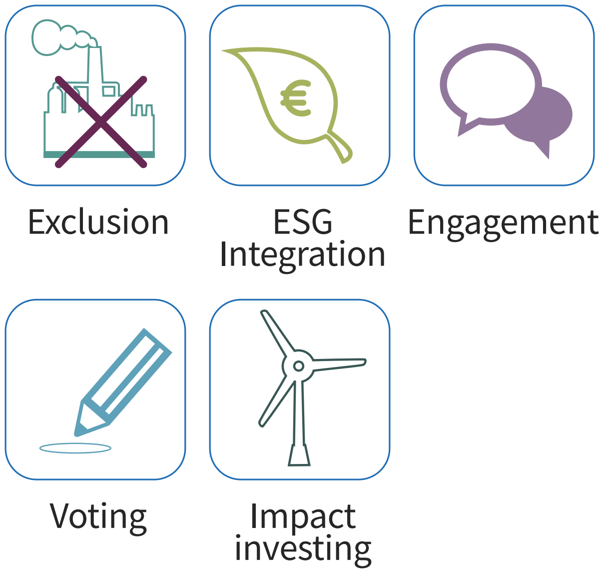
Figure 2.16 shows the weight of the asset classes in the total portfolio of the insurance companies. The allocation of assets determines the final score on implementation. The allocations per asset class show that the weight of government bonds (51%) is notably higher than the weight of the other asset classes. The weight of assets in the total allocation shifted, especially for public equity (2016: 19%, 2014: 10%) and government bonds (2016: 51%, 2014: 56%). This may have contributed to differences in the final scores on implementation, compared to the previous study. The investments in the major asset classes seem to be unevenly distributed, as public equity

and corporate bonds are much smaller. Notably, the 2014 figures show a similar distribution. Only alternative investments show a clear decline, from 7% in 2014 to 2% in 2016.
The average score of the top 10 best performers is 3.0, while the middle performers have an average score of 1.5. The gap in the average scores indicates that, between the middle performers and the top performers, there is a clear distinction regarding the implementation of the responsible investment policy. Nevertheless, the middle performers improved from 1.1 over the year 2014 to 1.5 over the year 2016, which is in line with the trend in this year's study.

When analysing the top 5 best performers, Zwitserleven and Aegon share the first place with a score of 3.5. The second place is occupied by Loyalis (3.3), while a.s.r. and Nationale Nederlanden come in third with 3.1 points. The close scoring indicates that, among the top performers, competition on implementation is increasing. Interestingly, the top scores decreased compared to 2014. This is probably mainly due to the distribution of assets, which determine the weight of the scores, and the added questions on private equity. Notable is the increase in implementation score for Allianz from almost zero (0.3) to 1.2 and for Legal & General from 1.5 to 2.5.

Results based on responsible investment instruments

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



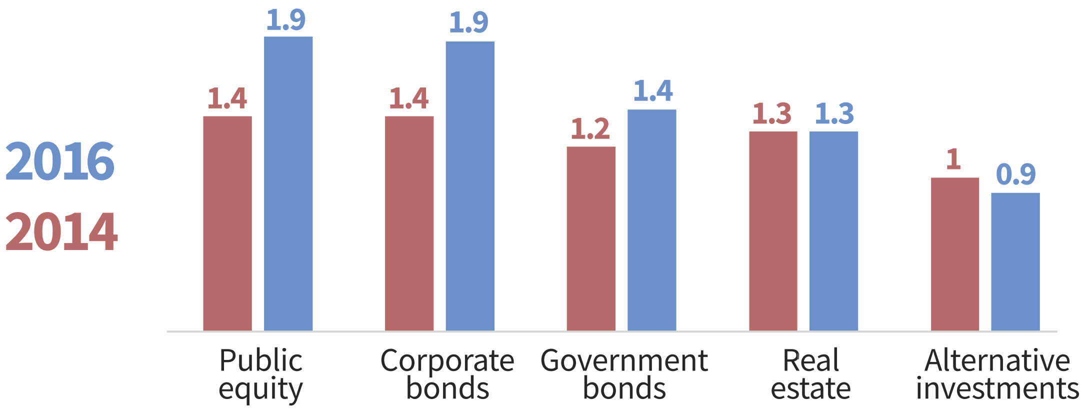
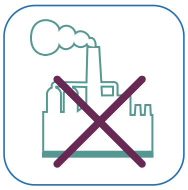


Figure 2.17 Total scores per asset class based on total score of applicable instruments.



I. Exclusion

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

Although exclusion's basic nature, it does require a vision on controversial issues, e.g., corruption scandals, human rights violations or arms. Since 2013, exclusion of investment in cluster munitions is legally binding in the Netherlands. VBDO only assesses exclusion strategies that go beyond legally binding criteria. The most common criterion of exclusion encountered during the study was the exclusion of investments into controversial weapons (other than cluster munition). For public listed equity, exclusion based on one criterion could deliver one point and exclusion based on multiple criteria two points. Insurance companies can only r eceive the maximum score (i.e., 2/2) if insurance companies are demonstrably excluding companies based on multiple criteria. Other criteria used for exclusion were: tobacco companies and violations of UN Global Compact themes, e.g., human rights, labour rights, environment or anti-corruption[6].

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

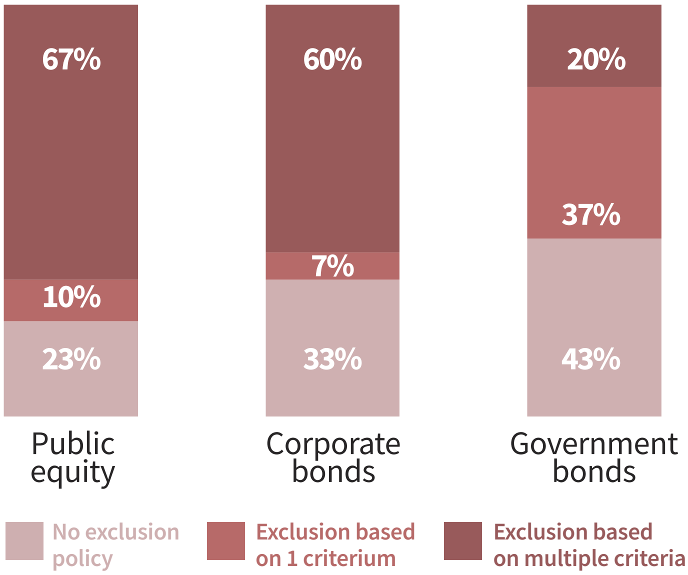


Figure 2.18 Extent of the exclusion policy per asset class.

As can be seen in figure 2.18, the exclusion policy was addressed in the three major asset classes. Both public equity and corporate bonds have a relatively far reaching exclusion policy, while implementation in government bonds lags behind. If an exclusion policy is implemented in public equity and corporate bonds, the majority excludes companies based on multiple criteria. This differs for government bonds, where the majority does not have an exclusion policy at all or only uses the UN and EU sanction lists. Excluding based on an insurance company’s own sustainability criteria - related to country considerations - is in its infancy; there is much to gain here.

When compared to the previous study, the extent of exclusion increased for all asset classes. For public equity, exclusion based on multiple criteria increased from 52% (2014) to 67% (2016). For corporate bonds the increase was also high, from 48% (2014) to 60% (2016). This indicates that the exclusion of companies, based on more criteria than controversial weapons, is gaining importance. The figures for government bonds show a slight increase compared to the previous study. The asset classes public equity and corporate bonds have similar characteristics; therefore, it is advisable to consider how the exclusion policy in public equity could be applied to corporate bonds. This could result in a more extensive policy for corporate bonds in the future.

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

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

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

Especially for insurance companies, the exclusion of tobacco producers is a common practice due to the connection between many insurance companies and the health sector. This also applies to those pension funds whose participants work in the health sector. 64% of the responding insurance companies state that the best way to act on tobacco is the exclusion of tobacco producers. While only 20% of the participating pension funds indicate that exclusion is the best approach.

II. ESG Integration

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

- **Insurance companies integrate ESG in some initial form. For example, they require their asset managers to be a signatory to the PRI.**
- **Insurance companies use ESG information in a structured manner. For example, by using ESG information in the composition of an ESG index or through the use of one-pagers regarding company sustainability performance.**
- **Insurance companies integrate ESG criteria systematically with ongoing effects on individual holdings. For example, an automatic under or overweighting in company stock based on ESG criteria.**

Figure 2.19 records changes in ESG integration among insurance companies for public equity, corporate and government bonds together (a further breakdown of these results is available at VBDO upon request). Since 41% of the insurance companies do not have any form of ESG integration in place, it can be concluded that ESG integration is not mainstream. As can be seen in figure 2.19, this percentage is almost identical to the result in the previous study; it indicates that ESG integration remains an essential instrument on which to focus. Although there was a decrease in the use of ESG factors in the evaluation of investments (e.g.: being a signatory to PRI), the decrease probably led to an increase in the systematic use of information during the selection process. Therefore, a positive development is visible concerning the implementation, in some form, of ESG integration.

Regarding the investments in government bonds, there are two main subclasses: developed market and emerging market bonds. According to some insurance companies, ESG integration in emerging markets is more difficult than for developed market bonds. Because, the latter is considered more "ESG proof". Nevertheless, there are frontrunners that do research and incorporate ESG criteria into the selection of developed market bonds. Therefore, in this year's study, a distinction was made between developed and emerging market bonds. In figure 2.20 the results of ESG integration per asset class are highlighted[7].

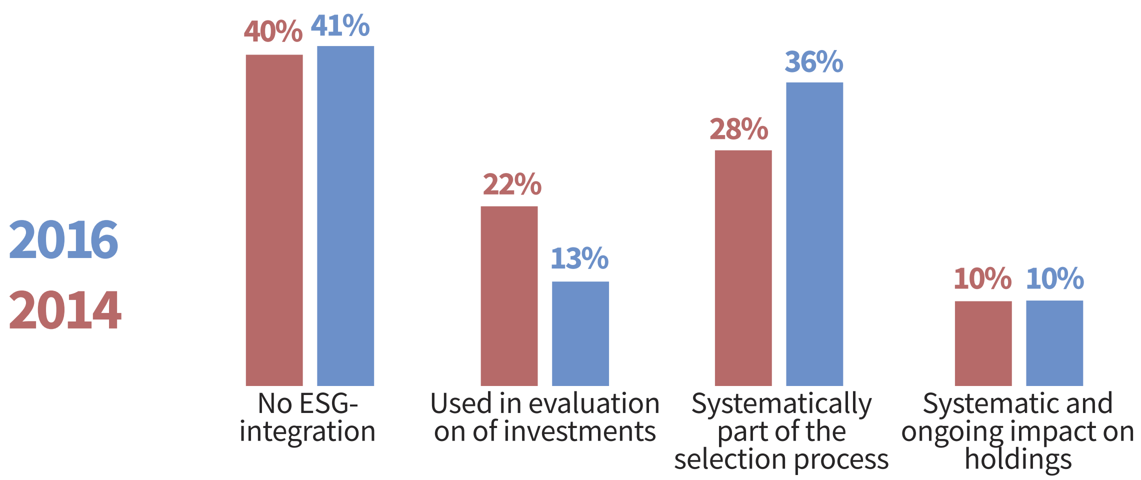


Figure 2.19 Extent of ESG integration 2016 compared to 2014 for public equity, corporate bonds, developed and emerging market bonds together.

[7] Note, for emerging market bonds only 86% is presented; the remaining 14% of the insurance companies did not invest in emerging market bonds.

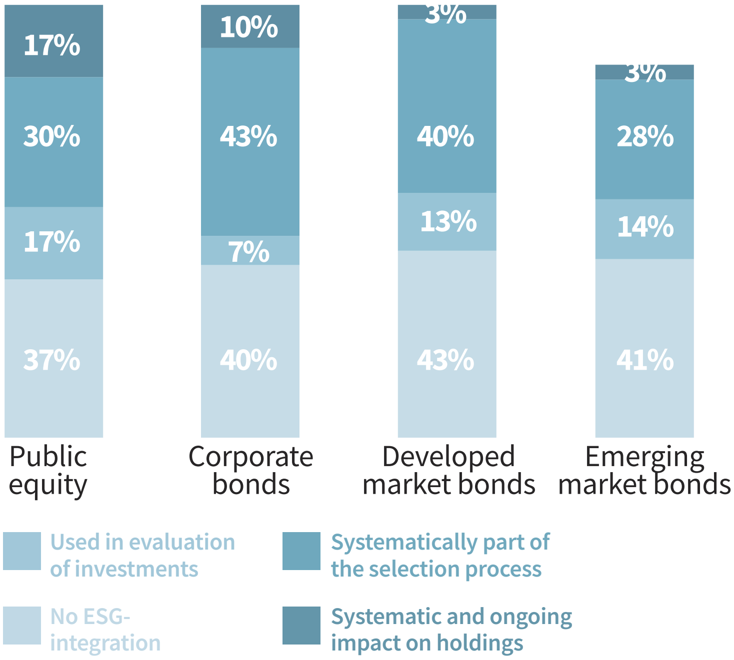


Figure 2.20 Extent of ESG integration for public equity, corporate bonds, developed market bonds and emerging market bonds.

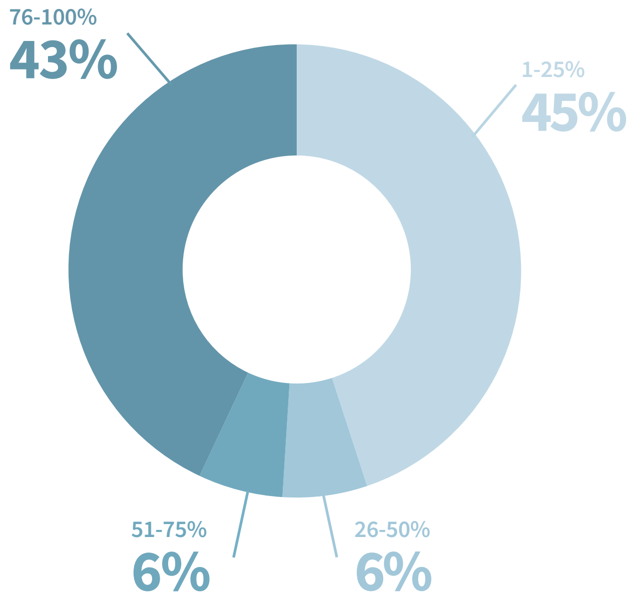


Figure 2.21 Volume of ESG-integration.

The figures show that the scores are relatively equally divided among the various asset classes, yet distinct differences remain. This indicates that the insurance companies have implemented different ESG integration policies, varying from one asset class to another. As stated previously, the use of ESG information in the evaluation of investments is mostly implemented by the requirement to be PRI signatory. When analysing the use of ESG in the selection process in a systematic way, the figures remarkably show that for corporate bonds this is implemented more often (53%) than for public equity (47%). Especially the systematic use of ESG information in the selection process is a useful tool to realise a significant impact on the portfolio. Hence, the increase in the systematic use of ESG information compared to the previous study is a meaningful development.

The average portfolio coverage of ESG integration appears to remain stable compared to the previous study for the combined equity, corporate and government bonds portfolios. Figure 2.21 shows that a significant amount of insurance companies (43%) implemented some form of ESG integration for most of the portfolio (76-100%). No implementation took place for 26-50% of the portfolio, which is why this is not covered in the figure.

ESG integration in alternative asset classes

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

Looking at the companies that provided an explanation regarding their private equity investments, nine companies have investments in this category (45%). This indicates that private equity is an accepted investment category, although the weight of this asset class is negligible. Of the nine companies that have investments in private equity, eight (89%) considered ESG issues in their indirect private equity investments.

Only one insurance company reported to have investments in direct private equity, where ESG issues were considered. Overall it can be concluded that if an insurance company has investments in private equity, some form of responsible investment policy is in place.

Responsible investments in real estate were measured by the degree of integration of ESG issues in (1) the maintenance or purchase of direct real estate, and (2) in the selection and evaluation of real estate managers. Real estate is not a common asset class for insurance companies to invest. It constitutes only 4% of the total asset mix, with 12 insurance companies having at least some direct or indirect real estate investments. Responsible investing in real estate is done in multiple ways. Directly, for example, by considering energy efficiency and requiring the use of sustainable building materials. Or indirectly, for example, by investing in sustainable real estate funds. Nine insurance companies, that is 75% of all insurance companies that invest in real estate, consider ESG issues in their direct investments and another nine in their indirect investments.

Exceptionally, in 2016 no investments were made in commodities, based on the response of the insurance companies. Several insurance companies stated that, because of ESG criteria, investments in commodities were excluded. Investments in commodities can be seen as controversial because of the financial speculation, especially with agricultural commodities on futures. Another alternative investment is hedge funds. Two insurance companies consider ESG issues in some of their hedge fund investments and one company in all hedge fund investments. The numbers halved compared to 2014, probably resulting from less investments in these funds.

Good practice: responsible real estate at Nationale Nederlanden

With the adoption of its Responsible Investment Policy Framework in 2014, NN Group set out to integrate Environmental, Social and Governance considerations in a systematic way. This was and remains applicable for all asset classes that NN manages for its insurance general account, and includes its portfolio of private real estate investments. The portfolio, worth circa EUR 5 billion, is invested directly in individual buildings, private real estate funds, and joint-ventures, all for the longer term. The investments are spread over sectors and regions across Europe.

The process to include ESG factors in NN's real estate portfolio started with a study in cooperation with the Eindhoven University of Technology. This study helped strengthen NN's philosophy that sustainability needs to be implemented throughout the supply chain to create a leverage effect and bring long-term value - not only for NN as an investor, but also for its tenants. This philosophy is reflected in NN's long-term ambition to be the leading provider of sustainable real estate products in its peer group.

Working closely with its (external) real estate manager, NN further translated its ambition into medium-term objectives (3-year), and annual action plans for the direct real estate portfolio. These action plans needed to be as concrete as possible, e.g., obtain a sustainability certificate for all assets above EUR 30 million; include a sustainability clause in all proprietary management contracts; and roll out a tenant satisfaction survey.

Parallel to this, NN developed specific responsible investment guidelines for Real Estate (published on its website) to ensure that the strategy for incorporating ESG considerations is implemented in the day to day work of all teams that are involved in the management of the portfolio. The guideline also sets out the requirement that all NN's real estate and fund managers participate in the GRESB Real Estate assessment.

III. Engagement

As shareowners of the companies they invest in, insurance companies can actively influence the policies of these companies by entering into a dialogue. A total of 18 insurance companies (60%) actively engage with companies regarding their assets in public equity and 16 (53%) with regard to corporate bonds. Fifteen of them engage on all ESG themes (Environmental, Social, Governance) for their public equity portfolio. Fourteen engage on all ESG themes for their corporate bonds investments, which is more than in the previous study (2014: 10). As can be seen in figure 2.22, the average score on engagement increased, which indicates that an increasing number of insurance companies actively engages with companies on more ESG themes. Despite that the maximum score here is 3, the development shows that insurance companies are increasingly committed to actively enter into dialogue with the companies they invest in.

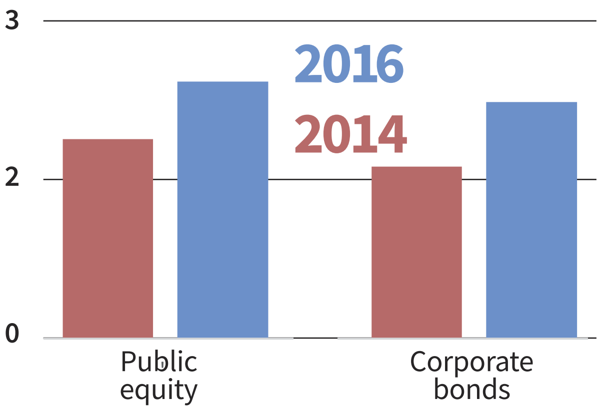


Figure 2.22 Total scores on public listed equity and corporate bonds (max score = 3).

From those that are engaged in public equity, eight insurance companies (44%) have some form of evaluation of the engagement process. These eight do not, however, take further steps based on the results of the engagement. Seven additional insurance companies, around 47% of those that engage, do take further steps to follow-up on the engagement. These numbers are stable compared to the previous study. Insurance companies also engage companies in their corporate bond portfolio. And although this practice is less common, similar policies are implemented. For those that are engaged in corporate bonds, four companies (25%) have some form of evaluation, while an additional nine companies (56%) take further steps based on the results of engagement.
The percentages of the two asset classes are not comparable, as the number of companies that engage differs.

Figure 2.22 provides an overview of the percentage, as an average of both asset classes, of insurance companies that evaluate their engagement process. This figure shows that, of all insurance companies in this study, almost half (47%) have implemented a policy regarding the evaluation of the process of engagement and the measurement of progress.

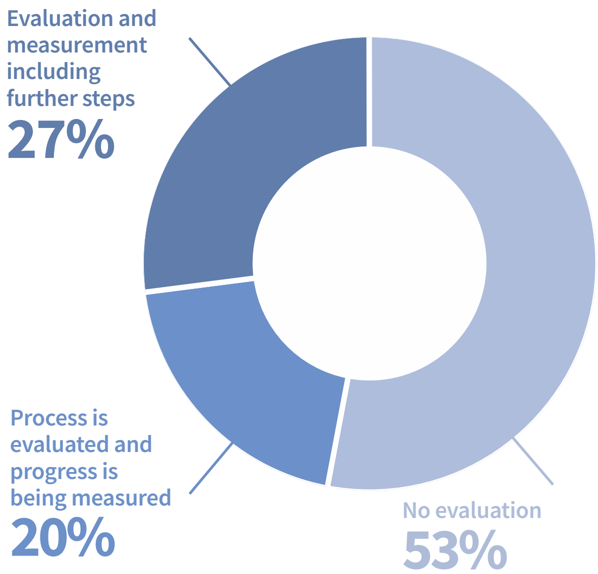


Figure 2.23 Engagement process in public equity and corporate bonds.

As was mentioned in the previous section, the share of real estate in the total asset allocation is small. Nevertheless, engagement policies in real estate are an important part of the measurement of responsible investment practices in real estate. Of the 22 insurance companies that have investments in indirect real estate, six (27%) demonstrably engaged with real estate fund managers on ESG criteria. Besides engagement, three insurance companies showed demonstrable results over the year 2016.

Engagement practices

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

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

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

Some examples of engagement:

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

IV. Voting

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

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

To be effective, a clearly defined voting policy is required, explicitly emphasizing social, environmental, and governance issues. The responsible voting policy can be implemented by the insurance company directly, or through the voting policy of the external party. As can be seen in figure 2.24, 56% of the insurance companies demonstrably vote on (a part of) their public equity holdings. This percentage remained the same compared to the 2014 figures (2014: 55%).

Out of the total, seven (23%) insurance companies vote while paying explicit attention to ESG issues, and another seven (23%) publicly initiate and/or support shareholder resolutions promoting CSR or sustainability. When comparing to the previous study, a distinct shift is visible from companies that paid explicit attention to ESG issues (2014: 28%) to publicly initiating and/or supporting shareholder resolutions (2014: 14%). Of those that voted, most insurance companies (65%) voted on 75%-100% of their equity portfolio.

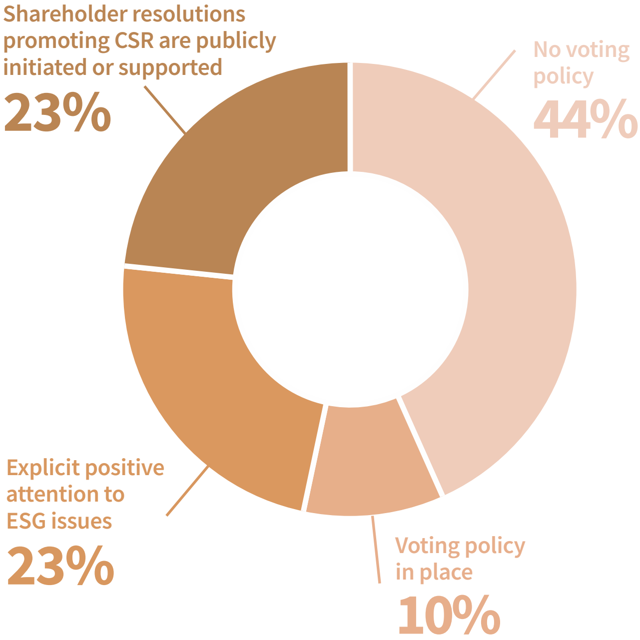


Figure 2.24 Extent of the voting policy.

Securities lending

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

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

Considering all responding insurance companies, 13 stated that they did not lend their securities in the year 2016. Several companies stated this was based on their risk or ethical considerations. A total of six insurance companies currently have measures in-place that integrate sustainability issues into securities lending, i.e., responsible securities recall policies.

Examples of provisions in recall policies of Dutch insurance companies include:

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

V. Impact investing

Impact investing is an investment strategy that aims to generate financial and social or financial and environmental returns. As shown in figure 2.25, there are four key characteristics of impact investing: the intention to achieve a positive societal impact, competitive financial return, impact measurement, and a long term horizon. Not all four need to be fulfilled for an investment to be categorised as an impact investment.[8]

Figure 2.25 Impact investment criteria.

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

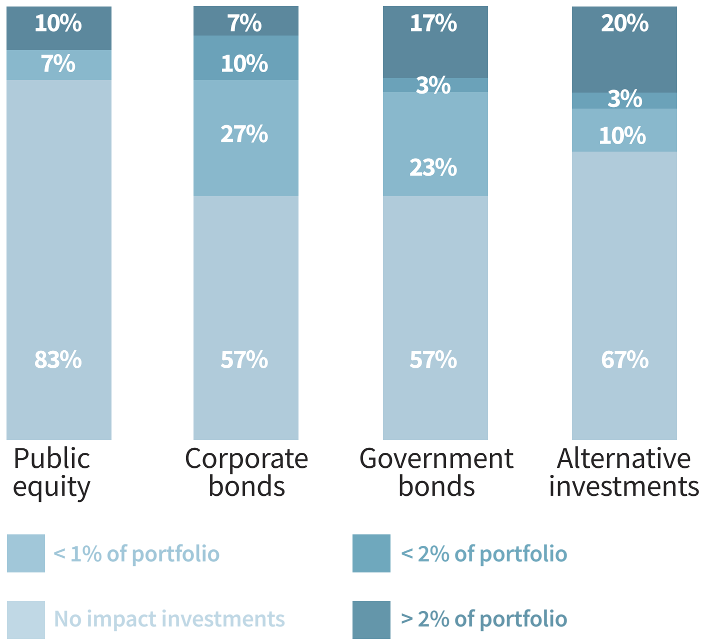


Figure 2.26 Volume of impact investments per asset class.

Figure 2.26 provides an overview of the extent of impact investment in the various asset classes. Compared to 2014, the number of companies that have impact investments in their portfolio remained the same. In line with previous years for both insurance companies and pension funds, the results indicate that impact investing in public equity is not common. Most of the insurance companies (83%) do not have any form of impact investments in public equity.

Impact investments in green and social bonds, measured under the asset classes corporate and government bonds, are more common. As can be seen in figure 2.26, 44% of the insurance companies make investments in green and social bonds, a result similar to the 2014 study. In previous years, every new study showed a sharp increase, while this year a stagnation is visible.

Looking at the alternative investments portfolio, it can be concluded that the impact investments also remained stable. Remarkably, the volume in alternative investments seems to be higher than in other asset classes. However, 20% of the insurance companies stated that impact investments comprise more than 2% of the alternatives portfolio. The fact that the group of insurance companies without impact investments in

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

this asset class is relatively significant (67%) is possibly a result of the low amount investments in this asset class. The weight of alternative investments consists of only 2% of the total asset allocation. Another explanation is that most insurance companies do not have investments in alternatives at all. Examples of impact investments in alternatives are microfinance, renewable energy infrastructure, and venture capital investments in innovative private equity.

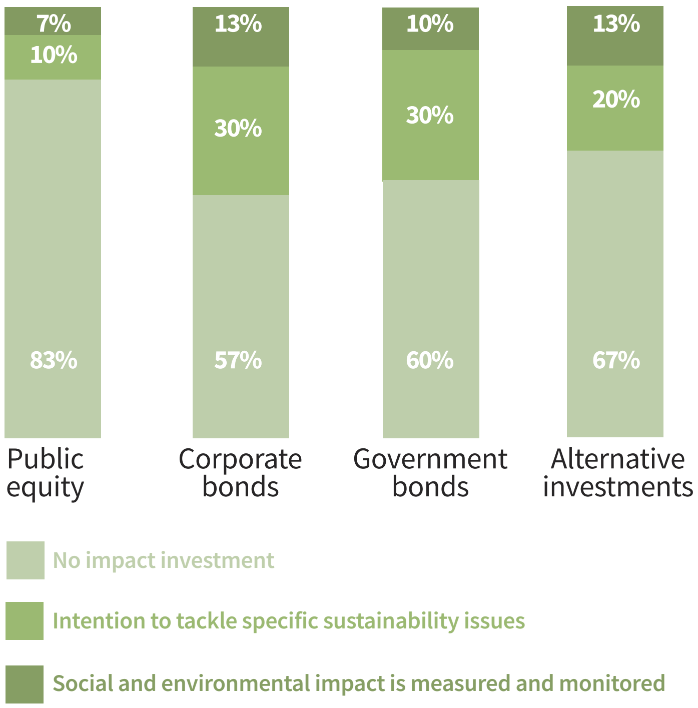


Figure 2.27 Process of impact investment per asset class.

In the upper parts of figure 2.27 the percentage of the insurance companies that have impact investments is shown. As was stated before, most insurance companies have investments in green and social bonds. This is 43% for corporate bonds and 40% for government bonds. When only focusing on the companies that engage in impact investing, the results show other percentages. Of the insurance companies that have investments in green and social bonds, 31% measured and monitored the social and environmental impact of the investments, a decline compared to 2014 (45%). In the alternative asset class, 44% of the insurance companies that have investments in green and social bonds also measured and monitored the impact, which is considerably higher.

In this study, impact investment in real estate was measured for the first time, but no points could be received and it does not count for the total score. The results show that a total of 3 out of 30 insurance companies engage in impact investing in real estate to tackle specific societal and/or sustainability issues. Best-in-class strategies, such as only selecting GRESB Green Stars, were not included as impact investments in real estate. The results indicate that impact investment is still in its infancy.

Impact investment

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

Impact investments can be made in, for example:

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

2.2.4) Accountability

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

The corporate website is the starting point for an insurance company to publish its responsible investment policy. By doing this, (potential) clients are informed about the responsible investment practices of the insurance company and they can take this into account in the selection of their insurance company.

If the insurance company follows the responsible investment policy of an external asset manager, VBDO expects an easy to find and accessible link to this policy on the corporate website. Front running insurance companies also publish a list of their investments (other than exclusions). They also actively inform policyholders and other stakeholders about their responsible investment policy and results through different communication tools, e.g., magazines, short movies, newsletters and social media.

Accountability performance improved

Out of a maximum of five points, the average score on accountability increased from 1.8 in 2014 to 2.1 in 2016. No insurance company obtained the highest possible score. However, a.s.r. scored 4.7; Zwitserleven, 4.5; and Reaal, 4.4; making them the highest performers on accountability in the sector. Allianz (Accountability +1.6), Nationale Nederlanden (Accountability +1.5), Legal & General (Accountability +1.5) and Reaal (Accountability +0.8) shared the highest increase in accountability performance. The most important results on accountability performance are presented in the following figures.

Level of detail and extent of reporting vary significantly

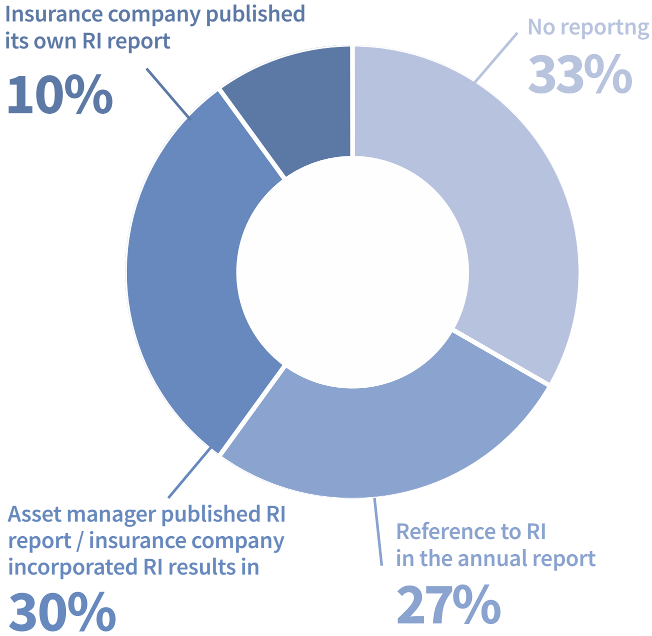


Figure 2.28 Reporting of the responsible investment policy and results.

Of the insurance companies in scope 67% reported annually on responsible investment. However, the level of detail and the extent vary significantly. The criterion, 'reference to responsible investment in the annual report', is interpreted several ways: some insurance companies covered this by dedicating only a single paragraph to sustainability, whereas other insurance companies (or their external asset manager) publish a comprehensive responsible investment report. A small amount of insurance companies published a responsible investment report themselves. One insurance company integrated an extensive responsible investment report into the annual report.

Remarkable increase of transparency on implementation instruments

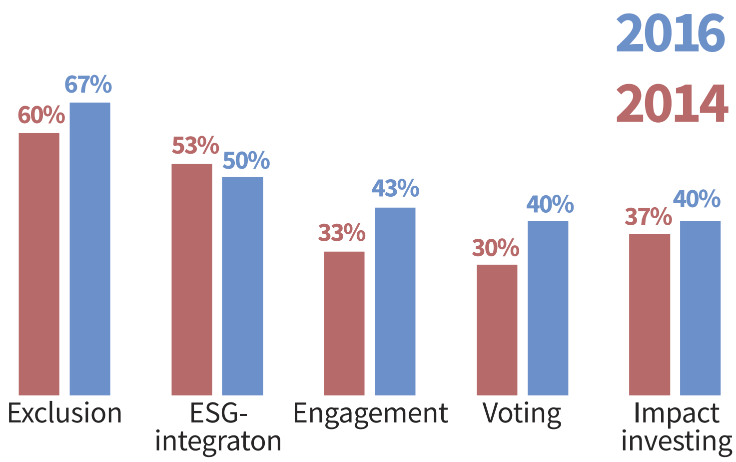


Figure 2.29 Reporting of the responsible investment policy and results.

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

In the case of exclusion, 60% of the insurance companies publicly explained their exclusion policy. A smaller percentage added a list with excluded countries and companies, including the reason for their exclusion. With regard to ESG integration, a minor decrease is observable. This decrease, however, does not indicate an actual downward trend in performance. 50% of the insurance companies still explained their methodology for ESG integration. However, this year VBDO was stricter in her verdict on what counts as a methodology for ESG integration.

An increasing share of insurance companies explain and publish the engagement policy. A part of them explain the engagement policy and provide a general overview of the engagement activities, i.e., how many engagements were executed, based-on which ESG themes, or sectors focused upon. The smallest proportion of insurance companies explains and publishes an engagement policy. This includes the undertaken engagement activities and reporting of concrete results. Taking further steps, as a result of engagement activities, improves the effectiveness of the engagement policy.

Compared to 2014, the insurance companies are more transparent on their voting policy. However, only 40% reports on voting. In a few cases, a voting activity overview report was published. The reports included basic voting results such as, the amount of votes that were cast, or which service provider has the mandate to cast the votes. Detailed voting activity reports are rare, as they contain additional comprehensive information, e.g., the number of meetings, agenda items, votes by region and/ or votes by topic.

Disclosing the list of investments becoming more prevalent

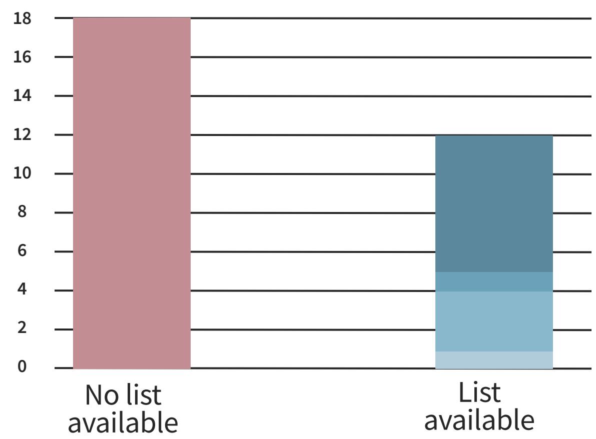


Figure 2.30 Number of insurance companies with a publicly available list of investments.

Percentage of the total portfolio covered by the list.

Using a publicly available list of investments, the insurance companies provide an overview of all the investments made. In these lists the names of the companies and the funds invested in are disclosed. It is an excellent way of improving the transparency of the company. Providing such an overview publicly is highly valued by VBDO and recommended for other parties. As can be seen in figure 2.30 a total of 12 companies has a publicly available overview of some parts of the investments in the portfolio. Seven insurance companies had a list available which covered 76-100% of the total portfolio, significantly more than in 2014.

Distinctiveness through stakeholder dialogue

Some institutional investors see responsible investment only from a reputational risk management perspective. For them, it is important that the responsible investment ensures that no negative attention is drawn from media and NGOs. Additionally, their main reason for implementing a responsible policy is to keep their license to operate. On the other hand, some insurance companies also perceive sustainability as a business driver. Here, the insurance company takes an open stance and listens carefully to the different stakeholders.

Distinctiveness through transparency

Not only in the evaluation and adaptation of the responsible investment policy, but also on the accountability, an insurance company can actively reach out to their customers and other stakeholders. Actively informing stakeholders about the responsible investment policy and outcome is regarded as the next step for full accountability. This should exceed publishing the sustainability information and report on the website, and should include the disclosing of information about responsible investment (at e.g., face-to-face meetings, newsletters or information packages). In the year 2016 a total of nine companies (30%) actively informed the policyholders by means of one of the aforementioned communication tools. In this manner, insurance companies can become distinctive from their peers by being open, and interconnected, with clients and society.

Chapter 3. **Conclusions**

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

I. Overall conclusions

Overall responsible investment performance improved
In general the responsible investment performance of the 30 largest Dutch insurance companies has improved in 2016 compared to 2014 (see figure 2.3). Most insurance companies report on sustainability, however, differences remain in the reporting quality and the level of depth on how sustainability is integrated into the business activities. The overall improvement in performance is mainly due to an increase in performance on the categories 'implementation' and 'accountability'. Furthermore, responsible investment practices have not become more widespread. The amount of insurance companies that have a responsible investment policy in place remained the same. This means there is still an amount of smaller insurance companies that lag far behind in responsible investment performance.

Both middle and high performers experience significant growth
Based on the average scores of the middle and high performing segments it can be concluded that both segments improved their total performance. Where the middle performing segment of insurance companies usually had a low performance, this segment has shown substantial progress on responsible investment. The scores of the individual insurance companies have become more proximate, which illustrates that the middle performers have taken action and significantly improved their responsible investment performance. This growth path is expected to continue in the next years which, in time, will put more pressure on the insurance companies in the top performing segment. The top segment (without leaders) experienced a slight increase in performance score as well, ndicating that the insurance companies at the top continue to improve their responsible investment practices.

A more gradual increase in performance
The individual total scores of all insurance companies increased more gradually compared to 2014. Where in 2014 significant gaps in the scores between the various performance categories (the low, middle, high and leaders segments) existed, these gaps have been filled up in 2016. This demonstrates that the responsible investment performance of the Dutch insurance sector has become more congregated. This in turn leads to increased competition between the insurance companies, as the overall ranking positions can easily change positively or negatively.

Size, in terms of assets under management, still determines level of responsible investment
There is a strong relation between the level of responsible investment per individual insurance company and the total assets under management (see figure 2.4). The largest firms, in terms of assets under management, outperform the firms that have a smaller amount of assets under management. The average scores of the large (> 10 billion AuM), medium (1< AuM > 10 billion), and small (< 1 billion AuM) insurance companies differ significantly. The top performing insurance companies together, have the largest market size of the population covered in this study. The relatively large number of non performing smaller insurance companies are skewing the average scores negatively. When not considering the bottom ten in the total scores, the average score increases from 1.8 to 2.6.

II. Conclusions on categories

Governance performance

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

Average score on governance in line with previous years, yet improvement in assigning responsibility
Out of a maximum of five points the overall score for

governance has remained stable compared to 2014. The results show that the responsible investment policy found its way further up to the senior management board. The frequency of discussion increased as well.

Setting sustainability targets remains uncommon
In line with the previous studies it can be concluded again that setting sustainability targets is not a common practice for insurance companies. A vast majority of 77% of the insurance companies did not set any sustainability targets for their asset managers. This number is even higher than in the previous study over the year 2014. It seems that setting clear and concrete targets is difficult and requires specific attention.

Stakeholder consultation not widespread
Consulting clients or NGOs regarding the adaption or formulation of the responsible investment policy is not broadly executed. Nine insurance companies consulted stakeholders, five did this with both clients and NGOs. Consulting the policyholders is not a common practice for insurance companies, consultation often take place with other stakeholders such as NGOs.

Policy performance

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

Overall performance on policy remained stable
After a steep decrease in the previous study, the performance on policy is stabilising. The content and extensiveness of the policy is essential in order to improve and increase the level of sustainable investments. With a score of 1.9, less than half of the maximum score, insurance companies should pay more attention to the development of their responsible investment policy.

ESG themes are broadly covered
For the first time the widely accepted ESG (Environmental, Social, and Governance) themes were selected as a basis for assessing the content of the policies. The results reveal that most insurance companies translate the ESG themes into various responsible investment instruments. All the insurance companies with a responsible investment policy in place cover ESG, which is 67% of all companies in the scope. 90% of those insurance companies translated the ESG themes into at least two responsible investment instruments. Notwithstanding, the use of ESG information on a strategic level is still in its infancy.

Targets that measure the actual impact on society and corporations are hardly set
70% of the insurance companies did not set any sustainability targets regarding their long term strategy. These results are in line with previous studies and with the score on setting targets for asset managers. Especially formulated targets in a clear and measurable way and integrating them in the long term strategy and vision remains difficult for insurance companies.

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

Implementation performance

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

The overall implementation score indicates an increase in performance
Compared to the previous results over the year 2014 the

performance on implementation shows clear progress. Implementation of the responsible investment policy increased in all asset classes, indicating that the improvement is widespread. Most significant was the increase in the asset classes public equity (1.9) and corporate bonds (1.9). This is mainly due to the improvements in exclusion and engagement policies. Nevertheless, the score on implementation is still less than half of the maximum score and the lowest of all categories. Implementation was measured similarly as last year, except or more questioning on private equity. However, the change in the weight of the questions, as can be read in the methodology section, resulted in a change in the overall score on implementation as well.

Insurance companies increasingly exclude on multiple criteria

Exclusion is on the rise in all measured asset classes. Insurance companies show an increasing tendency to exclude companies from their investments based on multiple criteria. In public equity and corporate bonds the increase was the highest, with respectively 67% and 60% of the insurance companies excluding based on multiple criteria. For government bonds a slight increase in exclusion score was visible as well. The results show that more insurance companies exclude based on their own sustainability related considerations instead of merely EU and UN sanction lists.

Use of ESG integration more systematic

Although the use of ESG information in the investment decision making process is still not widespread, the integration of ESG factors has become more systematic. Comparable to last year, 41% of the insurance companies do not have any form of ESG integration in place. This indicates that the number of insurance companies using ESG in their selection process remained unchanged. However, a significant shift is visible from insurance companies that used ESG factors in their evaluation process to the systematic use of ESG factors in the selection process (2014: 28%; 2016: 36%). The depth in ESG integration increased, but should be increased further in the coming years. The systematic and thorough integration, with ongoing effects on individual holdings is practiced by only 10% of the insurance companies, the same as in 2014.

Insurance companies perform well on active ownership

The performance on active ownership increased for the insurance companies, the scores on engagement and voting both increased. Institutional investors hold a strong position in the companies they invest in, and can influence the policies by voting at annual shareholder meetings and engage into dialogue with them. An increasing number of insurance companies actively engages with companies on multiple ESG themes. In addition, the voting practices increased as well. VBDO values the measurement and evaluation of these practices, as this contributes to sustainability performance and transparency.
82% of the insurance companies that have engagement policies in place, evaluate the process and measure progress. 48% of these companies take further steps based on the engagement results. The voting practices of companies are more in depth as well; 41% of the insurance companies with voting policies in place publicly initiated or supported shareholder resolutions promoting CSR or sustainability.

Majority of the insurance companies does not engage in impact investments

Although the general trend indicates that impact investments are increasing in the financial sector, the number of insurance companies engaged in impact investments stagnated. Most impact investments are made in green and social bonds. Of the insurance companies investing in green and social bonds, around 28% actually measures and monitors the impact of the investments. Therefore, impact measurement and the tracking of progress of impact investments should be enhanced. Impact investments in alternatives are still lagging behind, although interesting microfinance initiatives have been launched.

Accountability performance

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

Accountability performance improved

Together with implementation, accountability showed an increase in overall score from 1.8 in 2014 to 2.1 in 2016. However, no insurance company obtained the highest possible score. This result can be explained by an increasing practice on transparency, especially regarding the implementation instruments.

Insurance companies more transparent on most implementation instruments

The results show a significant increase in the scores on transparency on exclusion, engagement, voting and impact investing. Not only did the number of insurance companies that do not publish sustainability related information at all decrease, the transparency on the various instruments became more extensive. Insurance companies increasingly publish their policies on their website, and provide overviews of their (impact) investments and activities, such as engagement.

Reporting quality varies significantly in level of detail and extent

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

Majority of insurance companies does not actively reach out to their clients

Although an increase is noticeable in the score of active transparency, the majority of the insurance companies does not actively reach out to their clients regarding responsible investment. Because most clients do not visit the website regularly or read the annual report, it is important to actively reach out to the clients to inform them about responsible investment policies, practices, and results. In 2014 only 13% actively informed their clients, while in 2016 this number rose to 30%. Nevertheless, still 21 insurance companies do not inform their clients with even one communication tool. Practical tools could be newsletters, social media, or presentations.

Chapter 4. **Recommendations**

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

General recommendations

- **Responsible investment should be seen as non competitive and knowledge should be shared**
  - o Create a basis for communication and sharing of knowledge with Dutch colleagues, but also internationally. Sharing best practices and joint learning sessions are useful tools.
  - o Initiate the conversation between insurance companies, NGOs, regulators and governmental agencies on how to jointly address topics such as human rights, climate change and other themes related to the Sustainable Development Goals.

- **Low performing insurance companies should attempt to catch up with the rest of the sector**
  - o The larger top scoring companies in the segment should engage their colleagues with lower scores. Work together to strengthen the capacity of especially the smaller insurance companies.
  - o Define blue prints for responsible investment policies that can be used as a starting point for smaller insurance companies that have limited capacity in the field of responsible investment.
  - o A start for laggards is to define an ambition and goals, to look into the responsible investment policies of better performing peers, and to reach out to collaboratively harness the ESG opportunities of the responsible investment policy.

- **Continuously monitor and update the responsible investment policy in relation to societal developments**
  - o Add references to current societal topics, such as the SDGs or climate change, to your responsible investment policy in order to maintain societal relevance.
  - o Keep a close eye on the developments of the covenant, and take a pro active stance in the implementation of the sector covenant.

Governance

- **Responsible investment should be an integral element of the overall business strategy and vision**
  - o Make responsible investment an integral element of the business strategy. Linking them provides focus and makes the corporate responsible investment policy fit in with the profile and vision of the insurance company.
  - o The executive board should play an active role in developing the responsible investment strategy.

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

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

Policy

- **Connect the responsible investment policy to the company's long term strategy and societal themes**
  - o Define what responsible investment means for the insurance company.
  - o Include a separate overview of investment beliefs, which include the insurance companies' vision and the basic principles for investment. Responsible investment should be part of these investment beliefs.
  - o Formulate a long term sustainability strategy and vision, which indicates that the insurance company is thinking ahead of tomorrow's challenges.

o Keep the responsible investment policy up to date by including socially relevant themes, such as climate change and the Sustainable Development Goals (SDGs).
o Expand the applicability of the responsible investment policy to all asset classes and asset managers.

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

Implementation

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

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

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

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

Accountability

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

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

Appendix 1. **Methodology**

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

Underlying presumptions

The most important underlying presumptions in this benchmark are:

I. The assets that are included in this benchmark are the assets of the Dutch policy-holders, independent of where these are being managed.

II. The implementation of the responsible investment policy is considered to be the most important element, because here the actual impact is being made. Therefore this receives 50% of the total score. Governance, Policy and Acccountability amount for the remaining 50%.

III. The topic 'Governance' is to be considered from the viewpoint of the management of the insurance company, not from the asset manager's perspective.

IV. The total score for ‘Implementation’ is dependent on the different scores of the asset classes (public listed equity; corporate bonds; government bonds; real estate; private equity and alternative investements). The weight of the asset classes in the determination of the implementation-score is dependent on the asset allocation. Other assets, such as cash, mortgages, interest swaps and currency overlays, are not included in this benchmark study.

V. Within each asset class it is determined which ESG instruments are (reasonably) implementable. Each question receives an equal weighting.

VI. VBDO is indifferent if an investor takes an active or passive and direct or indirect investment approach and asseses what responsible investment strategies are being applied. The abovementioned underlying presumptions are based on VBDO’s consultation with the insurance companies participating in this study.

This consultation is based upon:

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

In numbers:	
30	**Dutch insurance companies**
4	**Categories**
51	**Questions**
5	**Max. total score**
63%	**Response rate**

Figure 4.1 Benchmark responsible investment by insurance companies in numbers.

The benchmark

The VBDO Benchmark 'Responsible Investment by Insurance Companies in the Netherlands 2017' compares the responsible investment performance of the 30 largest insurance companies in the Netherlands based on data of 2016. VBDO assesses responsible investment through detailed profiles of each insurance company. This year a response rate of 63% was achieved.

The following changes were made to the methodology:

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

This year some insurance companies had a substantially different asset allocation. If their scores on 'implementation' were also lower on this particular asset class compared to the previous benchmark, these scores were affected negatively.

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

III. **Emerging markets and developed markets were assessed individually in the asset class government bonds.**

IV. **Private equity became a separate asset class with three seperate questions (as opposed to 'alternatives' with one question).**

V. **Policy: a question on investment beliefs was added.**

VI. **Policy: themes in the investment policy are now assessed on whether they cover environment, social and governance (ESG) in stead of wether the responsible investment policy cover the themes in the United Nations Global Compact.**

Scope

The VBDO consulted twice with a selection of insurance companies to determine the scope of the study. Two issues were discussed, namely: determining the universe of the study and what assets should be included in the study. In consultation with the sounding group the 30 largest Dutch insurance companies derived from the figures of the Dutch Central Bank [9] were selected. It concerns the Netherlands-based insurers, the Dutch licensee. Furthermore, in this year's Benchmark there is a better distribution of insurance companies types, representing the entire insurance sector. All invested assets were taken into account.

Approach

The benchmark is set up to stimulate insurance companies to inform themselves about their current status of responsible investment. The research process consists of three phases:

I. VBDO executes a preliminary analysis, which is shared with the insurance company after completion.
II. In the second phase, the insurance company comments on the preliminary analysis which VBDO intepprets, integrates, further elaborates upon and again shares with the insurance company.
III. The final phase consists of the insurance company assessing the integrated analysis after which the final version is shared and finalized by VBDO.

[9] https://www.dnb.nl/statistiek/statistieken-dnb/financiele-instellingen/verzekeraars/index.jsp

Setup

The questionnaire is composed of four categories:

I. Governance

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

II. Policy

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

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

Figure 4.2 Responsible investment strategies and the different asset classes included in the benchmark.

III. Implementation

The implementation of the responsible investment policy applies to six different asset classes. Figure 4.2 shows the asset classes with the corresponding responsible investment strategies that are covered in the study. VBDO believes that the asset owners should take responsibility for the investments made on their behalf. Therefore all implementation questions include the whole investment chain from insurance companies to asset manager or fund of a fund manager. They are directed towards the state of implemented strategies in 2016.

IV. Accountability

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

Scoring model

The categories are weighted differently. Governance is 16.6%, policy is 16.6%, implementation is 50% and accountability is also 16.6%, which makes a 100% in total. The weighted percentage for implementation is 50% because this theme determines the final output and quality of the responsible investment practices of an insurance company. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class. Figure 4.3 gives a general overview of the scoring model.

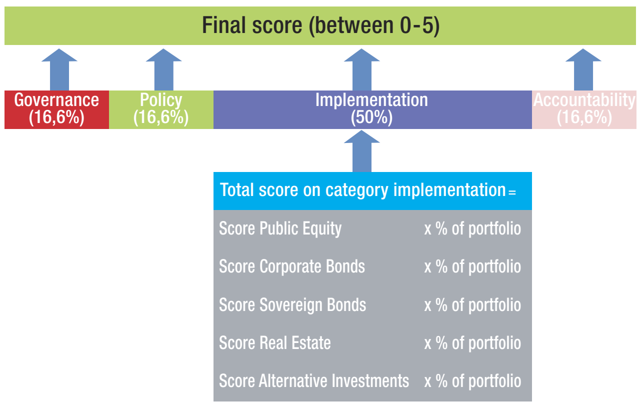
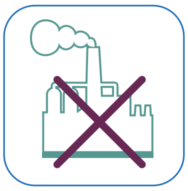


Figure 4.3 Overview of the scoring model.

Appendix 2. **Responsible investment strategies and asset classes**

Responsible investment strategies

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



• Exclusion

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

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

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

• ESG integration

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

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

• Engagement

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

• Voting

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

• Impact investing

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

Asset Classes

• Publicly listed equity

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

It is also possible to take ESG criteria into account with passive investments, by following a sustainable index or by using an engagement overlay.[10]

• Corporate (including covered) bonds

For corporate bonds responsible investment activities can be similar as for equities, with the difference those corporate bonds do not have voting rights and bring a fixed return. This reduces the financial risk, but also offers fewer opportunities to take advantage of high returns and to influence the policies of a company. Because bondholders lack the voting power shareholders have, most ESG integration activity has been in equities. But with growing client demand, bond managers are working to integrate ESG factors in fixed-income portfolios. Still, according to some institutional investors "it will be months, even years, before responsible investment in bonds reaches the level it has in equities", but it does not mean it is not possible at all. This also counts for engagement, which can be done at the time of issuance.[11]

• Government / sovereign bonds

Like corporate bonds, government bonds (together often referred to as fixed-income) are generally regarded as one of the safer, more conservative investment opportunities. They are issued to fund public services, goods or infrastructure. The first association about responsible investment and this asset class may often be exclusion of countries with dictatorial regimes, because of their human rights violations. This is a clear example of the results of an ESG risk analysis. ESG rating agencies increasingly offer products to screen bonds portfolios on corporate governance regulatory practices, environmental policies, respect for human rights and international accords and there are sustainable government bond funds. Investors can also seek those government bonds that support the creation of public goods, such as needed infrastructural improvements, support for schools, or the development of sustainable energy sources and purchase government debt targeted to a specific activity. ESG analysis for sovereign bonds, let alone positive selection, is not practiced often. This also means that by using ESG analysis investors can use information, which is not yet totally integrated in the market prices.

• Real estate

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

• Alternative investments

Depending on the asset allocation and definitions of an investor, alternative investments can include many kinds of assets, while at the same time experiences with and strategies for responsible investments are in their infancy. Also because the investments are a small part of total investments, this research limits this asset class to private equity, hedge funds, commodities and the category "other alternative investments". Information provided on other asset classes will not be taken into account. The following opportunities were derived from literature[12]:

I. With regard to private equity an institutional investor can stimulate innovative and sustainable companies because it can directly influence management, encourage entrepreneurs to focus on developing business with high-impact social and/or environmental missions, especially in regions and communities that are underserved, and promote creation of local business and jobs. Also integrating the responsible investment policies in the selection process can be an important tool for institutional investors.

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

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

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. Also integrating the responsible investment policies in the selection process of commodity investments or asset managers can be an important tool for this category.

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