VBDO

Benchmark **Responsible Investment by Pension Funds** in the Netherlands 2013

The contents, conclusions and recommendations are, however, the sole responsibility of the VBDO.

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

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Foreword

This is the seventh edition of our annual Benchmark Responsible Investments by Pension Funds in The Netherlands. Originally this research was set up to address the questions of pension funds, when challenged in the media about their investments in cluster bombs, about the definition of responsible investment. Since then we've seen a continuing growth both in the participation and support of the pension funds and in the level of responsible investment.

As to the first point, we are very proud to announce that for the first time we have realised a response rate of 100%! All of the 50 largest pension funds of The Netherlands have cooperated to this benchmark. Moreover, we've noticed that pension funds use this research to see where they stand, to find best practices and to set objectives for their asset managers regarding the level of responsible investment.

As for the contents, practically all pension funds now have a responsible investment policy and a large group has set clear targets. Implementation has improved, notably regarding engagement and in asset classes like bonds. Regarding accountability, 49 out of 50 pension funds have published their responsible investment policy, although this information is highly technical, sometimes difficult to find and hardly verified by an independent auditor.

Regarding the methodology, 2 new elements were added this year. We've added alternative investments like private equity and hedge funds, and found that pension funds still are struggling to implement responsible investment policies in these areas. We've also looked at governance, to see how boards operate and to what extent they consult their participants and other stakeholders. Although responsible investment is discussed in most boards, the frequency and depth of the discussion differs. Moreover, less than one quarter of all funds consult their own participants regarding their views and needs on responsible investment. We believe that a true dialogue on this topic is a great opportunity to improve the bond between the pension funds and their participants, and also will increase the legitimacy of the boards.

Regarding the latter: the world of pension funds is still a men's world. Only 14% of all board members are female, and we see no improvement here. Research has shown that boards with a high diversity perform better in the field of responsible investment. I gladly leave any conclusions about balanced views and the speed of changes to the reader.

I would like to thank our sponsor Oxfam Novib for making this research possible. I also thank the 50 largest Dutch pension funds for their participation and their drive to progress in this complicated matter, thereby creating long term value for the world and their participants. Finally I congratulate Pensioenfonds Zorg en Welzijn that again proved their leadership in this field by keeping the number 1 position.

Giuseppe van der Helm
Executive Director VBDO

Executive Summary

This is the seventh annual edition of the VBDO Benchmark Responsible Investment by Pension Funds in the Netherlands. This report, published by the Dutch Association of Investors for Sustainable Development (VBDO), provides a detailed overview of the current status and trends of Dutch pension funds regarding responsible investment. Research consultancy Profundo has provided the background chapter and performed an external consistency check on the results.

A research on the responsible investment policies of pension funds is of great importance because of the large sums invested, more than € 1 trillion in total. We believe it is necessary that all stakeholders of Dutch pension funds know if their money is invested in a sustainable and responsible way. Are the investments invested in accordance with the values of the participants? Are investments screened on environmental and social criteria so that (financial) risks can be minimised? And last but not least, are the investments contributing positively to sustainable economic development? Both participants and other stakeholders are looking for answers to these questions.

Researched Group

This study focuses on the 50 biggest pension funds in the Netherlands. The VBDO is proud to have achieved a response rate of 100% for the first time, from which can be derived that this research report is highly valued by the pension fund and asset management industry in the Netherlands.

New Methodology: governance and alternative investments added

As in the previous editions the pension funds were sent a questionnaire and the replies have been analysed and checked by the VBDO. When needed the pension funds were asked to provide additional evidence. Just like the previous versions questions were asked on the themes of policy, implementation and accountability. For this seventh benchmark also several additions were made to the methodology. The new category 'governance' was added to the questionnaire to get a better view on how pension fund boards manage their influence on responsible investment and how participants and participant councils are consulted on this topic. More detailed questions were added regarding investments in private equity, hedge funds and commodities. In the analysis more attention is paid to describing best practices, analysing the reasons for the difference in scores and explaining trends in the score(s).

Overall conclusions

- Since 2010, the response rate has increased each year, showing both a greater willingness to cooperate and an increasing perception of the importance of public transparency for pension funds.
- This year's top 10 consists of (with the overall score):

2013	Pension fund	Overall score
1	Pensioenfonds Zorg en Welzijn	4,3
2	Bedrijfspensioenfonds voor de Landbouw	4,2
3	Stichting Bedrijfstakpensioenfonds voor de Media PNO	3,9
4	ABP	3,8
5	Stichting Pensioenfonds van de Metalelektro (PME)	3,5
6	Stichting Bedrijfstakpensioenfonds Zorgverzekeraars	3,3
7	Stichting bedrijfstakpensioenfonds voor de Bouwnijverheid (bpfBOUW)	3,3
8	Stichting Bedrijfspensioenfonds voor de Koopvaardij	3,3
9	Stichting Pensioenfonds Productschappen	3,2
10	Pensioenfonds voor de Architecten bureaus	3,2

- Due to methodological changes it is hard to compare this year's results with the results of previous editions. However, on several fronts improvements can be seen regarding the responsible investment practices of Dutch pension funds.
- An analysis has been made of the size of pension funds related to their score. As in earlier years, the larger pension funds score slightly better, which has been the case since the first edition of the benchmark. It should be noted that there are notable examples showing also smaller pension funds can achieve relatively high scores regarding responsible investments. A few examples of these are Pensioenfonds Productschappen and BPF Koopvaardij. Therefore the size of a pension fund cannot be seen as an impediment to successfully formulating and implementing a responsible investment policy.

Recommendation:

- Small pension funds can learn from their high ranking peers how to successfully formulate and implement a responsible investment policy and should co-operate more on this topic.

The governance of responsible investment

- Regarding diversity of the pension funds boards only gender has been investigated. As for the 50 largest pension funds, 86% of the board is male. Over the last years this percentage has not shown any increase. This low level of diversity within the pension fund boards raises questions such as whether the participants are properly represented and if enough attention is being paid to stimulating diversity in background, expertise and opinions in board discussions.
- It is positive to note that responsible investment is being discussed in most pension fund boards. However, the frequency and depth of the discussion differs amongst pension funds. The VBDO states that the board should have a steering role regarding responsible investment instead of only following the advices of the fiduciary manager.
- Only 40% of the pension funds uses external advice, besides their fiduciary manager, for their responsible investment practices.
- It is matter for concern that only 22% of the pension funds boards directly consult their participants and other stakeholders on the responsible investment policy. Specifically the preferences of the participants and the knowledge NGO's have on specific issues can enrich the responsible investment policy and implementation. It is however positive that some pension funds are leading the way and have best practices that can be fairly easily implemented by other pension funds, for example surveying their participants or organising round tables on ethical dilemmas such as investments in tobacco.

Recommendations:

- Pension funds should raise the diversity in their boards.
- The VBDO recommends pension funds to make sure that enough expertise on responsible investment is present in the board. For example by selecting board members with specific expertise on this topic or using external advisors in addition to the fiduciary manager.
- The board can take a more proactive role and set clear targets for the fiduciary manager to constantly improve the responsible investment policy and implementation.
- The board can consult their participants more frequently on the topic of responsible investment and enter into dialogue with NGOs.

The responsible investment policy

- Almost all pension funds have a responsible investment policy. Over the years there has been a steady improvement regarding the quality of the responsible investment policy. An important note is that there is still room for improvement regarding the explanation of how the policies are put into practice and the coverage over all asset classes.
- 68% of the pension funds have included some sort of targets in their responsible investment policy by which the responsible investment policy can be continuously improved and monitored.

Recommendations:

- Clear goals should be mentioned in the responsible investment policy so that the policy and implementation can be evaluated thoroughly.

The implementation of responsible investment

- The new law that bans the use of investments in the production of cluster ammunition has a significant effect on the policies of pension funds. 98% of the pension funds had a ban on investment in cluster ammunition in place in 2012, against 84% in the previous benchmark study. The VBDO sees this as evidence that government regulation clearly has its effects. Although over the past years, there also has been a growing trend among pension funds to exclude certain investments such as cluster ammunition. Therefore the new law is not as impactful as it appears. The VBDO does not see laws and regulations as a substitute for improvements by the pension sector itself. However, the cluster ammunition law helps to push the laggards among pension funds to improve their policies and implementation.
- The scores of asset classes such as public equity and corporate and government bonds have improved. Especially the active ownership instruments, (engagement and voting) are more and more implemented in the sector and show a steady increase over the years.
- Concerning ESG integration, few pension funds evidenced an implementation of the instruments accounting for a demonstrable and verifiable impact on individual holdings. Since the market seems to move in the direction of ESG integration, the VBDO advises pension funds to integrate ESG criteria into a systematic manner.
- Positive selection as an investment instrument remains relatively underused, and funds seem somewhat reluctant to its implementation. Moreover, there is a lack of transparency and sector-wide understanding on how this instrument could be used in a more structural way and as a structural part of the responsible investment policy. On a sector-wide basis, thus, the funds could work towards developing more experience on how to implement positive selection and develop a comprehensive approach to its structural adaptation in passive as well as active investments.
- This year the methodology was fine-tuned to provide a more detailed view on the developments regarding alternative investments such as hedge funds, private equity and commodities. The results show that the implementation of responsible investment policies regarding these asset classes is still uncharted territory for many pension funds. For example, only 16 pension funds have a (limited) form of responsible investment policy for commodity investments. However, also regarding alternative investment there are positive examples of pioneers showing that responsible investment can be practised for investments in private equity, hedge funds and commodities. The VBDO recommends pension funds and asset managers to combine their expertise and to jointly develop policies and implement responsible investment into these asset classes.
- Most pension funds use relatively few instruments to implement their responsible investment policy.

Recommendations:

- The VBDO advocates that pension funds should apply the full range of methods at their disposal, from exclusions and ESG integration to voting and engagement. In this way the responsible investment policy will be implemented in an integral way.
- More attention can be given to the implementation of responsible investment in government bonds and alternative investments.

Accountability

- The increase in accountability and transparency concerning the responsible investment policy of pension funds is one of the most interesting developments. Of the 50 pension funds, 49 report on their responsible investment policy.
- There is still room for improvement. The quality and quantity of the reporting varies. Sometimes the reporting is limited to a few lines. Also the information regarding responsible investment policies is difficult to find for participants and other stakeholders. The information is also quite technical which makes it difficult for non-experts to form an opinion on the responsible investment policy and implementation. However, there are positive examples of pension funds that report in a clear and understandable way and explain responsible investment in an attractive way to all stakeholders.
- As regards the different responsible investment instruments more information was published about exclusion and ESG integration.
- There is little verification of the responsible investments reports or responsible investment chapters in the annual reports. Only 16% of the pension funds practise some form of external verification on this topic.

Recommendations:

- Pension funds should report in a more clear, visual and attractive way on their responsible investment policy so that the information is easy to grasp for participants and other stakeholders.
- It is recommended to use external verification regarding the reporting on responsible investment.

Samenvatting

Dit is de zevende jaarlijkse editie van de VBDO Benchmark Verantwoord Beleggen door Pensioenfondsen in Nederland. Dit rapport is een uitgave van de Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO). Onderzoeksbureau Profundo heeft het achtergrond hoofdstuk aangeleverd en voerde een externe controle uit op de door de pensioenfondsen aangeleverde informatie. Een onderzoek naar het verantwoord beleggingsbeleid van pensioenfondsen is van groot belang vanwege de grote bedragen die worden geïnvesteerd, in totaal meer dan € 1 biljoen (€1.000 miljard) euro. Alle stakeholders bij de Nederlandse pensioenfondsen moeten inzicht krijgen of en hoe het geld wordt geïnvesteerd op een verantwoorde of duurzame manier. Worden de beleggingen geïnvesteerd in lijn met de ethische voorkeuren van de deelnemers, zijn de investeringen gescreend op milieu- en sociale criteria zodat (financiële) risico's kunnen worden geminimaliseerd en, last but not least, leveren de investeringen een positieve bijdrage aan een duurzame economische ontwikkeling? Op al deze vragen verdienen de deelnemers van deze pensioenfondsen, en andere stakeholders een antwoord.

Onderzoeksgroep

Deze studie richt zich op de 50 grootste pensioenfondsen in Nederland. De VBDO kan met gepaste trots melden dat er voor het eerst een respons van 100% is behaald, waaruit het belang kan worden afgeleid dat de pensioenfonds- en vermogensbeheersector in Nederland hecht aan dit onderzoek.

Nieuwe methodologie: *Governance* en *Alternative Investments* toegevoegd

Net als bij de vorige edities kregen de pensioenfondsen een vragenlijst toegestuurd en controleerde en analyseerde de VBDO vervolgens de antwoorden. Waar nodig werd de pensioenfondsen gevraagd om extra bewijs aan te leveren. Net als in de voorgaande edities werden er vragen gesteld over beleid, implementatie en verantwoording. In deze zevende benchmark zijn daarnaast een aantal zaken in de methodiek toegevoegd. Er is een nieuwe categorie 'governance' aan de vragenlijst toegevoegd om een beter zicht te krijgen op de manier waarop besturen van pensioenfondsen hun invloed op verantwoord beleggen uitoefenen en hoe deelnemers en deelnemersraden worden geïnformeerd over dit onderwerp. Daarnaast zijn er meer gedetailleerde vragen toegevoegd ten aanzien van investeringen in private equity, hedgefondsen en grondstoffen. Ook is in de analyse meer aandacht besteed aan het beschrijven van best-practices, het analyseren van de redenen voor verschillen in scores en het verklaren van trends.

Belangrijkste conclusies

- Sinds 2010 is er een jaarlijkse groei in de respons te zien, waaruit enerzijds een grotere bereidheid om samen te werken spreekt en anderzijds een toenemende onderkenning van het belang van de publieke transparantie voor de pensioenfondsen.
- Dit jaar bestaat de top 10 uit (met een maximaal mogelijke score van 5 punten):

2013	Pensioenfonds	Totale score
1	Pensioenfonds Zorg en Welzijn	4,3
2	Bedrijfspensioenfonds voor de Landbouw	4,2
3	Stichting Bedrijfstakpensioenfonds voor de Media PNO	3,9
4	ABP	3,8
5	Stichting Pensioenfonds van de Metalelektro (PME)	3,5
6	Stichting Bedrijfstakpensioenfonds Zorgverzekeraars	3,3
7	Stichting bedrijfstakpensioenfonds voor de Bouwnijverheid (bpfBOUW)	3,3
8	Stichting Bedrijfspensioenfonds voor de Koopvaardij	3,3
9	Stichting Pensioenfonds Productschappen	3,2
10	Pensioenfonds voor de Architecten bureaus	3,2

- Als gevolg van methodologische veranderingen is het moeilijk om de resultaten van dit jaar te vergelijken met de resultaten van eerdere edities. Op meerdere fronten zijn echter verbeteringen te zien ten aanzien van het verantwoord beleggen van Nederlandse pensioenfondsen.
- Er is een analyse gemaakt om te zien of de grootte van het pensioenfonds gerelateerd is aan de score in de benchmark. Zoals ook in voorgaande jaren, scoren de grotere pensioenfondsen relatief beter. Dit is al het geval sinds de eerste editie van de benchmark. Er dient opgemerkt te worden dat er voorbeelden zijn die laten zien dat ook kleinere pensioenfondsen hoge scores met betrekking tot verantwoord beleggen kunnen behalen. Enkele voorbeelden hiervan zijn Pensioenfonds Productschappen en BPF Koopvaardij. De grootte van een pensioenfonds kan dus niet worden gezien als een belemmering voor succes bij het formuleren en implementeren van een verantwoord beleggingsbeleid.

Aanbevelingen:

- Kleine pensioenfondsen kunnen leren van hun hoog in de lijst verschenen collega's hoe je een verantwoord beleggingsbeleid succesvol kan formuleren en implementeren en zouden meer samen moeten werken op dit onderwerp.

De *governance* van verantwoord beleggen

- Met betrekking tot de diversiteit van de pensioenfondsen is alleen de man-vrouwverhouding in het bestuur onderzocht. Van de 50 grootste pensioenfondsen bestaat het bestuur gemiddeld voor 86% uit mannen. In de afgelopen jaren is er geen toe- of afname in dit percentage te zien. Deze lage diversiteit in de pensioenfondsbesturen roept vragen op. Zijn de deelnemers wel goed vertegenwoordigd en wordt er voldoende aandacht besteed aan het stimuleren van diversiteit in besturen qua achtergrond, kennis en meningen?
- Het is goed om te merken dat verantwoord beleggen een thema is binnen de meeste pensioenfondsbesturen. Echter, de frequentie en de diepte van de discussie verschilt per pensioenfonds. De VBDO vindt dat het bestuur een sturende rol ten aanzien van verantwoord beleggen dient te nemen, in plaats van alleen het opvolgen van adviezen van de fiduciair manager.
- Slechts 40% van de pensioenfondsen maakt voor hun verantwoord beleggingsbeleid gebruik van extern advies naast hun fiduciair manager.
- Bij slechts 22% van de pensioenfondsen worden de deelnemers en andere belanghebbenden rechtstreeks geconsulteerd over het verantwoord beleggingsbeleid. Juist de voorkeuren van de deelnemers en de kennis over specifieke kwesties die NGO's ter beschikking hebben kunnen het verantwoord beleggingsbeleid en de implementatie ervan verbeteren. Het is echter positief dat sommige pensioenfondsen hierin het voortouw nemen. Hun best-practices kunnen worden overgenomen door andere pensioenfondsen. Een voorbeeld hiervan is het organiseren van ronde tafelbijeenkomsten waarbij gesproken wordt over ethische en andere duurzaamheidskwesties, zoals het al dan niet investeren in tabaksproducenten.

Aanbevelingen:

- Pensioenfondsen zouden de diversiteit in hun raad van bestuur moeten verhogen.
- De VBDO adviseert pensioenfondsen om ervoor te zorgen dat er voldoende deskundigheid over verantwoord beleggen aanwezig is in het bestuur. Bijvoorbeeld door het selecteren van bestuursleden met specifieke expertise over dit onderwerp of met behulp van externe adviseurs, naast de inbreng van de fiduciair manager.
- Het bestuur kan een meer proactieve rol spelen en duidelijke doelstellingen voor de fiduciair manager vaststellen om het verantwoord beleggen beleid en de implementatie ervan voortdurend te kunnen evalueren en verbeteren.

- Het bestuur zou haar deelnemers vaker moeten raadplegen over verantwoord beleggen en meer in dialoog moeten gaan met NGO's.

Het verantwoord beleggingsbeleid

- Bijna alle pensioenfondsen hebben een verantwoord beleggingsbeleid. In de loop der jaren is er een gestage verbetering ten aanzien van de kwaliteit van dit beleid. Een belangrijke opmerking is dat er nog steeds ruimte voor verbetering is met betrekking tot de implementatie en reikwijdte van het beleid.
- 68% van de pensioenfondsen hebben doelen in hun verantwoord beleggingsbeleid opgenomen waarmee het beleid continu kan worden geëvalueerd en verbeterd.

Aanbevelingen:

- In het verantwoord beleggingsbeleid zouden duidelijke doelen moeten worden geformuleerd, zodat het beleid en de implementatie ervan kan worden geëvalueerd en verbeterd.

De implementatie van het verantwoord beleggingsbeleid

- De nieuwe wet die investeringen in de productie van clustermunitie verbiedt heeft een significant effect op het beleid van pensioenfondsen. 100% van de pensioenfondsen had een verbod op investeringen in clustermunitie in 2012, tegen 84% in de vorige benchmark. De VBDO ziet dit als een bewijs dat de regelgeving van de overheid effect heeft gehad. De afgelopen jaren was er echter ook al een groeiende trend waar te nemen onder pensioenfondsen om bepaalde investeringen te stoppen, zoals cluster-munitie. Daarom is de nieuwe wet niet zo baanbrekend als hij lijkt. De VBDO ziet de wet- en regelgeving niet als een substituut voor verbeteringen door de pensioensector zelf. Echter, de clustermunitie wet helpt wel om de achterblijvers onder de pensioenfondsen te stimuleren om hun beleid en de implementatie ervan te verbeteren.
- De scores van beleggingscategorieën zoals aandelen, bedrijfsobligaties en staatsobligaties zijn verbeterd. Vooral de instrumenten voor actief aandeelhouderschap (engagement en voting) worden meer en meer toegepast in de sector en tonen een gestage stijging ten opzichte van vorig jaar.
- Met betrekking tot de ESG-integratie hebben slechts enkele pensioenfondsen weten aan te tonen dat de implementatie van het instrument een aantoonbare, systematische en verifieerbare invloed heeft op de beleggingsbeslissingen. Aangezien de markt lijkt te bewegen in de richting van ESG-integratie, adviseert de VBDO de pensioenfondsen om ESG-criteria op meer systematische wijze te integreren in hun beleggingsbeslissingen.
- Positieve selectie blijft als een beleggingsinstrument relatief onderbenut, en fondsen lijken enigszins terughoudend het te implementeren. Bovendien is er een gebrek aan transparantie en begrip over hoe dit instrument als een meer structureel onderdeel van het verantwoord beleggingsbeleid kan worden ingezet. Op sectorniveau zouden de fondsen kunnen werken aan het ontwikkelen van meer ervaring over hoe je positieve selectie kunt implementeren en kunt ontwikkelen tot een alomvattende aanpak in zowel passieve als actieve investeringen.
- De aanpassing in de methodologie maakt het mogelijk een gedetailleerder beeld te krijgen van de ontwikkelingen met betrekking tot alternatieve beleggingen zoals hedgefondsen, private equity en grondstoffen. De resultaten tonen aan dat deze asset classes nog relatief onbekend terrein zijn voor veel pensioenfondsen. Slechts 16 pensioenfondsen hebben bijvoorbeeld een (beperkte) vorm van beleid op het gebied van investeringen in grondstoffen. Echter, ook met betrekking tot alternatieve beleggingen zijn er positieve voorbeelden van voorlopers. Zij laten zien dat een beleid op dit onderwerp wel succesvol geïmplementeerd kan worden. De VBDO adviseert pensioenfondsen en vermogensbeheerders om hun expertise te bundelen en gezamenlijk beleid te ontwikkelen en te implementeren voor deze beleggingscategorie.

- De meeste pensioenfondsen gebruiken niet alle tot hun beschikking staande instrumenten om hun verantwoord beleggingsbeleid te implementeren.

  Aanbevelingen:

  - De VBDO pleit ervoor dat pensioenfondsen het volledige scala aan instrumenten dat tot hun beschikking staat, zouden moet gebruiken. Van uitsluitingen, ESG-integratie, voting tot engagement in de verschillende asset classes. Op deze manier zal het verantwoord beleggingsbeleid op een meer integrale wijze worden geïmplementeerd.
  - Er kan, in het bijzonder, meer aandacht worden besteed aan de implementatie van verantwoord beleggen in staatsobligaties en alternatieve beleggingen.

Verantwoording

- De stijging van transparantie met betrekking tot het verantwoord beleggingsbeleid van pensioenfondsen is een van de meest interessante ontwikkelingen. Van de 50 pensioenfondsen, hebben 49 pensioenfondsen hun verantwoord beleggingsbeleid gepubliceerd.
- Toch is er ruimte voor verbetering. De kwaliteit en kwantiteit van de rapportage over het verantwoord beleggingsbeleid verschilt enorm. Soms wordt de rapportage beperkt tot enkele zinnen. Ook is de informatie over het verantwoord beleggingsbeleid veelal moeilijk te vinden voor de deelnemers en andere stakeholders. De informatie is vaak ook vrij technisch, waardoor het moeilijk voor niet-deskundigen is, om een oordeel over het verantwoord beleggingsbeleid en de implementatie ervan te vormen. Ook hier zijn echter positieve voorbeelden van pensioenfondsen, die op een duidelijke en gemakkelijk te begrijpen manier hun verantwoord beleggingsbeleid aan alle betrokkenen uitleggen.
- Van de verschillende verantwoord beleggingsinstrumenten werd meer informatie gepubliceerd over uitsluiting en ESG-integratie.
- Een klein deel van de verantwoord beleggen rapportages en/of het hoofdstuk verantwoord beleggen in de jaar verslagen wordt geverifieerd. Slechts 16% van de pensioenfondsen maakt gebruik van externe verificatie.

  Aanbevelingen:

  - Pensioenfondsen zouden op een duidelijke, transparante en visueel-aantrekkelijke manier hun verantwoord beleggingsbeleid moeten presenteren, zodat deze informatie begrijpelijk is voor deelnemers en andere belanghebbenden.
  - De VBDO raadt pensioenfondsen aan om de rapportage over het verantwoord beleggingsbeleid meer te laten verifiëren door een externe partij.

Chapter 1 Introduction

This is the seventh annual edition of the VBDO Benchmark Responsible Investment by Pension Funds in the Netherlands. This report is published by the Dutch Association of Investors for Sustainable Development (VBDO). Research consultancy Profundo has provided the background chapter and performed an external consistency check on the results. The report presents the development of the Dutch pension funds on/regarding formulating, implementing and reporting on their responsible investment policy. For the first time, also the governance of responsible investment by the boards of the pension funds has been taken into account. A research on the responsible investment policies of pension funds is of great importance because of the large sums invested, more than €1 trillion in total. It is very important that all the stakeholders of the Dutch pension funds gain insight into if and how the money is invested in a sustainable way. This study focuses on the 50 biggest pension funds in the Netherlands and with a response rate of 100% we are proud to provide this insight and give a detailed and general overview of the current status and trends of Dutch pension funds regarding responsible investment.

For this seventh benchmark several changes have been made to the methodology. As stated above an extra category 'governance' was added to the questionnaire this year to get a better view on how pension fund boards manage their influence on responsible investment and how participants and participants councils are consulted on this topic. More detailed questions were added regarding investments in private equity, hedge funds and commodities. In the analysis more attention is paid to describing best-practices, analysing the reasons for the difference in scores and explaining trends in the score(s).

The contents of this research report are as follows: chapter 2 is a background chapter and provides an introduction to the Dutch pension sector, motivations for pension funds to implement responsible investment and recent developments in this field. The subsequent chapter, chapter 3, describes the research objectives and the methodology used. This chapter also provides insight into the scoring model and the way in which the information for this benchmark was gathered. Chapter 4 details the results of the research process, starting with the research group and response rate. This is followed by the overall results and an analysis of the average scores according to a number of different variables such as size. The detailed results for the four categories (governance, policy, implementation and accountability) are also presented in this chapter. Finally, in the last chapter, a number of concluding remarks and recommendations are made based on the results.

A breakdown of the individual scores of the pension funds and background information on the different asset classes and methods used in responsible investment can be found in the appendices.

Chapter 2 Background and trends in the Dutch Pension sector and in responsible investment

2.1 Motivations for pension funds to invest responsibly

Introduction

Responsible investment is an approach to investment that explicitly acknowledges that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental companies and economic systems.

This paragraph looks at the various motivations that pension funds can have to apply responsible investment instruments. Responsible investment instruments do not need to be universal to every organization - they should closely reflect the identity and the unique character of the pension fund. Defining the motivations for pension funds to invest responsibly is important as this helps to define the pension funds' Environmental, Social and Governance (ESG) expectations and their subsequent responsible investment strategies. Investor views and motivations to adopt responsible investment strategies can be divided in five main, interrelated categories: fiduciary duty, risk management, financial performance, expectations from stakeholders and universal ownership.

Fiduciary duty

One of the issues disputed most with regard to the adoption of responsible investment policies by pension funds is the issue of fiduciary duty or fiduciary responsibility. Until recently, many in the pension and insurance sector took the viewpoint that a (socially) responsible investment policy would be incompatible with the sector's primary task, meaning the guarantee of a stable and inflation-proof pension for its participants. This so-called fiduciary responsibility was supposed to be at odds with any (socially) responsible investment policy, which was believed to yield a lower return on investments. This argumentation can be disputed for a number of reasons.

In October 2005, one of the largest law firms in the world, *Freshfields Bruckhaus Deringer*, compiled a report for the *UNEP Finance Initiative* (UNEP FI). It demonstrated that different jurisdictions have different interpretations of the *fiduciary responsibility* of pension funds. This responsibility, however, does not force pension funds to merely consider financial criteria: '*…integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.*' [1]

The same applies to the Dutch Pensioenwet (Pension Act). Article 135 of the Pension Act does demand from pension funds that they follow an investment policy that is in accordance with the 'prudent person' principle. The 'prudent person' principle implies that pension funds are to invest their capital with due regard to the interests of entitled and pensionable persons. No pension fund may pursue interests that are not related to the pension rights and claims of participants. This restriction does not mean, however, that pension funds may not consider non-financial issues. They may do so, as long as non-financial interests do not dominate to the extent that the fund's investment policy no longer leads to an acceptable risk-return profile. [2]

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

Furthermore, investment management agreements should clarify the expectations of the parties (i.e. institutional investors and asset managers) and to make clear that ESG is regarded as a mainstream consideration. *Fiduciary II* also highlights that institutional investment consultants and asset managers have a professional duty of care to proactively raise ESG considerations with their clients. Failure to do so may have serious consequences because there is a risk that they will be sued for negligence. To this extent *Fiduciary II* shows how a pension fund can operationalize ESG integration in investment mandates. [3]

Risk management

Improving their risk management is often the main, or at least an important, reason for pension funds to adopt a responsible investment policy: pro-actively identifying, preventing and mitigating impacts reduces the risk of getting involved in disputes or being accused of not involvement of ESG violations.[4] Implementing a responsible investment strategy in this view means to reduce potential reputational, regulatory and financial risks.

Besides a professional duty to invest responsible, the financial sector also considers responsible investment activities as a matter of risk management that may eventually even yield higher returns. In January 2010, the Dutch Committee on Investment Policy and Risk Management (also referred to as *Committee Frijns*) recommended that pension funds should include objectives in the field of sustainable development and corporate social responsibility in their risk and investment policies. Such recommendations are increasingly being put into practice, with more and more investors that want companies to include information about their impact on the environment in their annual reports, to help judge potential risks. [5]

The Penrose Financial Survey 2010, about the future of the investment industry in the United Kingdom, asked 100 organizations (60% asset managers, 14% pension funds, 16% consultants/advisory and 9% other) about their reasons for including environmental factors in their investment strategy. The results showed that a significant part of the respondents sees environmental factors both as a risk and an opportunity. The major part (44%) of the respondents answered that “Environmental factors pose a significant risk to investment portfolios, so these non-financial factors must be taken into consideration” and 24% thought that it is a “growth sector with potential for outperformance”. [6]

Financial performance

There is a growing recognition in the financial community that effective research, analysis and evaluation of Environmental, Social and Governance (ESG) issues is a fundamental part of assessing the value and performance of an investment, and that ESG issues have the potential to materially impact the valuation of investments over the longer term. Indeed, for some investors, this has been the key catalyst for adopting a responsible investment strategy. Furthermore, companies that are pro-active in respecting human rights save on costs resulting from disputes with dissatisfied stakeholders (employees and communities). [7]‘

While investors have long acquaintance with the financial materiality of environmental and social disasters, many still need to be convinced of the materiality of ESG issues and their link to financial value. In 2006, the UNEP FI concluded that there is robust evidence that ESG issues affect shareholder value in the short and long term, and the impact on share price can be valued and quantified, and key material ESG issues become apparent but their importance varies between sectors. [8]

A study of Risklab focused on the connection of ESG to strategic asset allocation and the portfolio context. This had been missing in earlier research on ESG risk, while strategic asset allocation could be the main factor driving long-term portfolio returns, says Risklab. Its study, published in March 2010, pointed out that the integration of ESG factors into portfolio construction could significantly reduce long-term investment risk and potentially boost returns because of the high probability that companies that do not manage ESG issues will be more volatile. The study involved building a quantitative model of ESG risk factors in a portfolio to determine their influence on equity risk over a 20-year horizon. According to Risklab, investors should strive to optimize their global equity investments and minimize exposure to ESG risks. [9]

Pension funds traditionally have long-term investment horizons; this longer-term perspective fits well with the growing evidence that responsible investment approaches can lead to enhanced long-term returns. The long-term financial benefits of integrating themes such as good governance, resource scarcity and labour standards into asset management are becoming increasingly apparent and are therefore of particular relevance to long-term investors. [10]

Besides their own financial return it is also wise for pension funds to take the externalities for society as a whole into account. In 2011, Trucost calculated the cost of global environmental damage and examined the importance of the matter for capital markets, companies and institutional investors. Therefore it assessed the financial implications of unsustainable natural resource use and pollution by business. According to their report, annual environmental costs from global human activity amounted to US$ 6.6 trillion in 2008, equivalent to 11% of GDP and are increasing. Of these costs the top 3000 public companies cause over US$ 2.15 trillion. Such externalities can reduce returns to investors but logically also for the society as a whole. [11]

Expectations from stakeholders

Another driver for the adoption of responsible investment by pension funds is the increasing acknowledgment by investors that that they are corporate citizens and that they share an ethical or moral responsibility for the external (social and environmental) consequences of their investment choices. Sustainable investors can be motivated by the conviction that investors should play a critical role in the transition towards a more sustainable economy. Therefore social and ecological criteria must play a critical role in the creation and use of financial products.

Public attention for responsible investment by institutional investors (pension funds, insurance companies and fund managers) is increasing globally since the turn of the century. In the Netherlands, most attention was initially focused on corporate governance issues instead of social and environmental issues, as revealed by a 2006 VBDO report into pension fund annual reporting. [12] But gradually attention for social and environmental issues increased. This can be derived from publications such as:

- “Toekomstagenda Milieu” (Environmental Future Plan), April 2006; [13]
- “De Kracht van Pensioenfondsen” (The Strength of Pension Funds), April 2007; [14]
- Zembla documentary “Het Clusterbomgevoel” (The Cluster Bomb Sensation), March 2007;
- “Maatschappelijke belangenafweging en transparantie in het beleggingsproces” (Societal interests and transparency in the investment process), April 2007; [15]
- “De gearriveerde Toekomst” (The Future has arrived), November 2007 - to be reviewed in 2012 by the Pensioenfederatie. [16]

In 2008, studies by sociologist Derk Erbé indicated that participants of pension funds are willing to accept a higher premium if fewer investment risks are taken and if socially responsible invested. Moreover, participants would like to exercise more influence on the investment policy to ensure that pension funds take account of their moral interests, in particular reflected in responsible investment. [17]

A Dutch pension savers survey in May 2012 amongst 518 people found that 70% of the savers wanted their retirement assets invested in a socially responsible manner, while only 43% said they wanted the highest possible returns for their assets. Independent Dutch polling group Motivaction on behalf of Natuur & Milieu carried out the survey.

Universal ownership

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

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

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

2.2 Pension fund Governance

Introduction

Governance relates to how the board is constituted and how it performs its role. Governance lies at the heart of the way a pension fund is run. Good governance helps pension funds to improve performance, drive growth, better manage risks, and better weather financial crises.

Important governance issues include board composition and structure, the board's remit and the discretionary decisions a board takes to deliver on its duties as set down in law, and demanded by shareholders, employees and participants.[21] However also the way the board manages stakeholder expectations, how it sets the tone from the top and how the board manages the monitoring of the responsible investment policies by the asset manager(s) will be discussed in the upcoming paragraphs.

ESG factors are an important dimension of participants and other stakeholders expectations and as such it can be regarded a responsibility of the board to answer to those expectations. Therefore, embedding the analysis of ESG factors into investment activities should be considered part of a pension funds overall expectations for their fund's performance.

Setting the tone from the top

There is a reason why the board is the focus of many good governance procedures. It is up to the board and the executive management of the pension fund to govern the conduct of the funds activities, the behaviour of its employees and to ensure the implementation of a responsible investment strategy. [22] Boards take decisions that have far-reaching consequences and directly affect the lives of millions of people. [23] Conversely, a lack of decisive action may have equally significant consequences.

The pension fund board bears ultimate responsibility for the pension fund, and as such for both the financial as well as the non-financial return on investment. Responsible investment is based on acknowledging the responsibility an institutional investor has to decrease negative, and improve positive effects on society. Therefore a pension fund board only has to be aware of economic developments, but also has to be aware of the preferences of their stakeholders, such as participants, employees and NGO's. Regular contact and a good dialogue between the pension fund board, management, employees, participants are important to raise awareness about the ESG needs, requirements and possibilities and are valuable in building trust and understanding. [24] Questions from participants must be answered in writing, by telephone or online. A participant survey may be used to test the judgment of participants with respect to the responsible investment strategy.[25] The 2012 Benchmark Pension funds however showed no strong developments in the communication with participants. Including the participants in a more systematic manner, and including them in the decision-making process remains a point of future attention and possible development. Also seeking constructive dialogue with NGOs on how the pension fund can assume its responsibilities can be regarded an effective way of staying informed on recent developments.

Furthermore, in terms of the allocation of day-to-day responsibility for managing the responsible investment strategy various skills and forms of expertise are needed. Without enough skills and expertise, it is unlikely that an investor will be able to effectively implement a responsible investor strategy. To be able to implement a proper responsible investment strategy, there should be someone in the board with related knowledge and/or experience. A board should strive to be a rich mix of attributes, experiences, cultures, viewpoints, diverse perspectives and skill sets that can best contribute to the diverse set of responsibilities of pension funds. [26] However, because boards presently foremost exist out of employees and employer organizations, having this expertise on board remains a big challenge for Pension Funds. [27]

Furthermore, it is assumed that a board that lacks diversity lacks the ability to critically review its own behaviour. [28] Moreover, pension funds should strive towards, more gender equality as a growing body of research shows a broad set of business benefits associated with gender diversity on corporate boards: improved financial performance and shareholder value, increased customer and employee satisfaction, rising investor confidence, and greater market knowledge and reputation. [29] Presently Dutch pension funds board can not be regarded diverse as they are predominantly composed out of male board members.

Building external capacity

Given the complexity of asset management, special expertise and good systems are needed. Many pension funds can not afford to set this up internally. In recent decades a vast majority of pension funds have outsourced a large part of their asset management tasks to external providers. In 2011, 89.5% of the corporate pension funds, 94.8% of the industry wide pension funds and all occupational pension funds in the Netherlands outsource more than 30% of their asset management. [30]

Different models are used for outsourcing asset management. The entire management of all assets of a pension fund can be outsourced to one specific asset manager, who controls the entire investment portfolio. Asset management can also be outsourced in stages: first the fiduciary management is outsourced to one party that carries responsibility for the return on investments. The fiduciary managers in turn outsource parts of these investments to other asset managers who are given mandatory powers over a specific investment portfolio (shares, bonds, real estate, etc.), sometimes limited to a geographic region. In this way, an experienced asset manager is allocated to each of the investment categories. Fiduciary asset managers are often the same companies to which pension administrations have been outsourced, or their subsidiaries. Fiduciary management, however, can also be outsourced to large, foreign investment banks and asset managers.

Finally, a number of variations of outsourcing are also possible. The executive organizations of ABP (APG) and PFZW (PGGM) use such an intermediary form: they act as investors for the largest part of the pension fund capital and at the same time act as fiduciary asset managers for mandates given to capital executives in specific investment categories. The fact that all Dutch pension funds have outsourced the management of investment share capital to one or more capital executives makes it difficult to ascertain the companies in which they have invested. Equally difficult to ascertain is the influence they exert on the investment policies of these asset managers.

That pension funds outsource their asset management activities to be able to use available capacity more efficient, or to be able to implement or expand the responsible investment strategy without having to expand the internal workforce, is wise. [31] However, outsourcing asset management activities does not dismiss pension funds of the need to be in control. Nor does it dismiss them from their responsibilities towards their participants.

To assess whether a potential external manager is managing the pension fund's portfolio in a way that is aligned with the pension funds ESG expectations and practices, ESG-related requirements should be incorporated into an request for proposal (RFP) or similar document to frame the dialogue between the pension fund and the candidate manager. ESG related-requirements regarding the identification and management of ESG factors might include pension funds stated commitments and/or approach towards relevant principles, policies or standards, additional focus on certain themes or sectors and the importance of incorporating ESG factors into certain asset classes (e.g. public listed equity, fixed income, real estate) and investment strategies (e.g. active, passive, quantitative, fundamental). After a manager is selected, a pension fund may negotiate and agree on a number of ESG-related terms and conditions that can be formalized into the main contract or in an additional side letter. [32]

By developing structured processes for monitoring and evaluation a pension fund can measure progress and assess the extent to which the internal staff and external agents responsible are fulfilling their ESG-related expectations. To be able to monitor the asset manager, clear reporting requirements should be defined. The information that a pension fund board requests during monitoring may be similar to the agreed ESG policies and practices. The amount, frequency and type of information pension funds request from external asset managers depend on the mandate, the agreed ESG policies and practices, and the pension fund capacity to review the information. At a minimum, reporting should cover all aspects of what was agreed upon in official documents. [33]

Relevant regulation and initiatives

Dutch Corporate Governance Code

On March 10, 2003, a committee, led by Morris Tabaksblat was asked to develop a code for listed companies and their shareholders. The Corporate Governance Committee (Tabaksblat Committee) published the first Dutch Corporate Governance Code on the 9th of December 2003. On the 30th of December 2004, the Dutch Corporate Governance Code, also called Code Tabaksblat, came into force. The code contains more than 100 rules on, among other tasks, methods, amount and composition of the remuneration of directors and auditors. In addition, the code strengthened the position of the shareholders.[34]
The legislator designated the Dutch Corporate Governance Code as a code of conduct to which listed companies should refer in their annual report, in which they should indicate to the legislator to what extent they have complied with the principles and best practice provisions and, if necessary, explain where and why they deviated from the code. [35] This principle is called the 'apply or explain'-principle.

The Minister of Finance, the Minister of Justice and the Minister of Economic Affairs have installed a new Dutch Cor-

porate Governance Code Monitoring Committee on the second of July 2009. The Monitoring Committee's official terms of reference are to help ensure that the Dutch Corporate Governance Code is practicable and up to date and to monitor compliance by Dutch listed companies. The latest version of the code entered into force on the first of January 2009. [36]
Although most chapters focus on Dutch listed companies, chapter IV.4 of the Dutch Corporate Governance Code describes principles and best practice provisions on the liability of shareholders. This includes voting discretion and willingness to enter into dialogue with a Dutch of international company an institutional investor owns shares in. As institutional investors, such as pension funds, fall under this code.

Dutch Pension Code

The Labour foundation (Stichting van de Arbeid - STAR) in 2005 developed a governance code specifically focussed on pension funds. The code, named 'Principles for Pension Fund Governance', was developed in 2005 and included guidance on important themes like transparency, accountability and communication, financial control, diversity and professional and competent governance. [37] On 11 April 2012, the Pension Federation and the Labour foundation (STAR) informed the Minister of Social Affairs and Employment by letter on an initiative to draw up and monitor a governance code for pension funds in line with the already existing codes for banks and insurers. [*] The code was published 6th of September 2013, applies to all pension funds in the Netherlands and will officially come into force as of January 2014. The Pension Code includes the same topics and themes as the 2005 Principles for Pension Fund Governance, but additional contains guidance in relation to expertise and diversity of the board, responsible investment, complain mechanisms, implementation and outsourcing. [38] It is the first time a code explicitly mentions the responsibilities of a pension fund with regard to responsible investment. The code requires pension funds to define a responsible investment strategy and make this available for stakeholders. Furthermore, the pension fund should take shareholder interests into account and make sure stakeholders support the investment strategy at hand. Regarding diversity, pension funds are required to have at least one woman and one person younger than forty on the Board. Moreover, the pension fund has to create a diversity policy which sets out how the pension fund is going to ensure diversity of the board. The governance code is based on the 'comply or explain' principle. Pension funds must report annually on how the Code is applied and respected. The corresponding monitoring committee shall monitor the application of the Code. [39]

Dutch Pension Act

For the Dutch government essential points of a sustainable and affordable pension system are a good mix between the three pillars, the benefits of a solidary and collective pension and the possibility of mandatory participation. At the same time the government thinks that reforms of the pension system cannot assure that a pension is fully guaranteed because much higher capital requirements would be needed. Pensions have to be flexible and move along with developments on the financial markets and changes in life expectancy, leading to less guarantees and more flexibility in risk sharing.

In 2007 the “Pension Act” was introduced to increase transparency, security and knowledge regarding pensions in the Netherlands. Outsourcing pension fund administration has become compulsory under the Pension Act. In order to prevent unfair competition, pension funds may no longer execute their own pension schemes. Instead, contracts must be drawn up with executive organizations.
Another element introduced by the Pension Act is that a certain level of involvement by participants has to be assured by pension funds. Compliance with the requirements of the Pension Act is supervised by De Nederlandsche Bank (DNB) and the Netherlands Authority for Financial Markets (AFM). [40] Research by the Economic and Social Council (SER) showed that many pension funds had well implemented the principles. However, small funds had difficulty to establish good governance. [41]

The Bill "Wet Versterking Pensioenfondsbestuur", published 13 July 2013, complements the pension fund act. This objective of the bill is to strengthen the statutory rules for the governance and participation of pension funds. It requires sufficient expertise of the board as internal supervision. The act will to a greater or lesser extent have complications for all pension funds. The Fund may choose from three governance models, but in each of the models employers, employees and retirees are clearly represented. The main changes of the act are as followed:

- Pensioners get a permanent place in the pension fund boards. However, they cannot constitute a majority ;
- The current 'deelnemersraad' will be substituted by a 'deelnemers- en pensioengerechtigdenraad'.
  The difference lies in the composition of the council as employers will no longer be part of this council.
- There are clear quality requirements regarding the expertise of members of the board;
- Pension funds should report on their responsible investment policies and implementation.
- Internal control is improved.

In addition, the September 2013 Governance Code, as discussed in the previous paragraph, will be firmly rooted in the new Pension Fund Act. This implicates that all pension funds, whether or not they are Pension Federation members, are bound to this code requirements regarding responsible investment and Board diversity; The code requires pension funds to define a responsible investment strategy and make this available for stakeholders. Furthermore, the pension fund should take shareholder interests into account and make sure stakeholders support the investment strategy at hand. Regarding diversity of the board, pension funds are required to have at least one woman and one person younger than forty on the Board. Moreover, the pension fund has to create a diversity policy which sets out how the pension fund is going to ensure diversity of the board.

2.3 Accountability

Motivations

In ethics and governance, accountability is about the board being answerable to stakeholders for performance, both financial and non-financial, and for the way that performance is achieved. There is an expectation by society that as a whole that it is right for companies to account for their action and particularly for their social and environmental impacts. This is key to fostering trust and demonstrating respect, and issues of stakeholder accountability have been highlighted in particular by reactions to the economic crisis of 2008. It is clear that today more than ever stakeholders expect that the pension funds are governed transparent and with integrity. People expect pension funds to communicate openly and offer insight into their doings. By being transparent, pension funds can be hold accountable for the investment choices they make and to be able to align their strategies with stakeholders' expectations. In paragraph 0 the importance of transparent reporting on ESG policies and procedures, investment portfolio and active ownership is explained in more detail.

Transparent reporting

One of the basic principles of corporate social responsibility (CSR) is transparency. According the OECD Guidelines for Multinational Enterprises and ISO 26000 standard on CSR, companies must open and clear about the policies and activities of the company, including the implementation of CSR. This certainly applies to financial institutions, for which the trust of society is of great importance. [42]

The call for transparency in the financial sector is increasing among consumers, civil society and the government. For a pension fund, whose participants are representatives of society, this is a call not to be ignored. There are several issues on which pension funds should be transparent towards their members and other stakeholders. Pension fund stakeholders can only have informed feedback when pension fund ensure reporting on:

- ***Responsible investment policies and procedures***
  The pension fund should communicate on its responsible investments policy through the website, the annual report and/or brochures, including non-financial information relating to themes such as environmental, social and employee-related matters, respect of human rights, anti-corruption and bribery aspect. A sustainability report should be a balanced and reasonable representation of the performance of a pension fund in the field of responsible investment. This means a pension fund should disclose a statement in their annual report including material information relating to themes such as environmental, social and employee-related matters, respect of human rights, anti-corruption and bribery and the instruments used to implement the responsible investment policy.
- ***Information on the portfolios of the pension fund***
  A well-founded responsible investment policy is important, but does not guarantee that in practice the fund does not invest in companies that do not meet the policy requirements. In society in general, and in particular by civil society organizations and participants of the fund, a growing need exists for specific information about the companies and governments that pension funds invest in. [43] By being transparent about their actual investments, pension funds strengthen the implementation of their responsible investment policies. Furthermore, by being more transparent about in which companies and governments they invest, they offer stakeholders the opportunity to assess whether the investments of the fund are in line with the agreed socially responsible investment strategy of the fund.
- ***Active ownership performance***
  Pension funds should report about the number of companies with which they have been interacting on social and environmental issues. Pension fund members are specifically starting to ask questions about the outcomes that result from active ownership and, more widely, stakeholders are starting to challenge investors to demonstrate that responsible investment (in particular, investment integration and active ownership) provide real benefits in terms of ESG outcomes. To fulfill this demand, pension funds could gather and report information on:
  - Their own processes and actions. This can include information on, for instance, the resources they have committed to engagement and the activities they have conducted (e.g. the number of meetings they have had with companies, the issues they have raised).
  - The visibility and awareness raising outcomes they have achieved. Examples could include the number of investors they have persuaded to sign a letter and the level of press coverage they have achieved.
  - The changes that have occurred in corporate practice or performance. For example, it is often possible to point to companies taking certain actions (e.g. adopting a policy, starting to report on performance) and achieving certain outcomes (e.g. reductions in reported emissions). [44]

According to UNCTAD both communications on social responsibility by corporations and ESG analyses by investors must be improved to better indicate the contributions and impacts of business. Better reporting practices should start with generating more consistent, coherent and comparable information. Although about half of institutional investors disclose some information regarding responsible investment, only 13 of the 100 largest pension funds worldwide had an explicit annual report on responsible investment practices, said UNCTAD in August 2010. It is also worth mentioning that 10 of those funds are signatories of the Principles for Responsible Investment. [45]

2.4 Responsible investment developments

Developments in use of responsible investment instruments

The *PRI Report on Progress 2011* found that 95% of the asset owners and 93% of the investment managers have a responsible investment policy that addresses ESG issues. Eurosif's first study of corporate pension funds, examining to what extent and in what manner they have adopted responsible investment policies, was released in September 2011. In total 169 pension funds in 12 European countries concluded the survey, of which 94 (56%) state that they have a responsible investment policy. A similar amount of respondents (60%) think that ESG factors affect the long-term performance of the pension fund and even more respondents (66%) feel that having a responsible investment policy is part of their fiduciary duty. Not surprisingly public equity is mostly covered by their policies, followed by bonds and real estate. The three instruments most commonly used by the respondents are voting, negative screening, and integration of ESG factors into investment decisions. [46] Research conducted by the Dutch Pension Federation in 2012 revealed that approximately three quarters of the Dutch pension funds who participated in the study has a responsible investment policy and 12 percent are engaged in formulating its policies. This shows that, especially in larger funds, policy in the field of responsible investment in recent years has become commonplace.[47]

Table 1: Pension funds that implemented a responsible investment policy in 2012

Type of pension fund	BPF	OPF		
Implementation stage	**Number**	**Percentage**	**Number**	**Percentage**
Policy fully implemented	**25**	**68%**	**40**	**53%**
Implementation partly implemented	**6**	**16%**	**9**	**12%**
Implementation in progress	**0**	**0%**	**1**	**1%**
Formulating policy	**3**	**8%**	**11**	**15%**
After discussion decided not to formulate a policy	**2**	**5%**	**8**	**11%**
No policy	**1**	**3%**	**6**	**8%**
Total	**37**	**100%**	**75**	**100%**

Bron: Pensioenfederatie, 2012, "Inventarisatie Beleid voor Verantwoord Beleggen van Pensioenfondsen".

The Eurosif European SRI Study 2012 showed that norms-based screening is the fastest growing, although not uniform across the individual markets, as well as a relatively new strategy. Positive screening is mostly based on criteria related to the UN Global Compact. [48] The second fastest growing strategy is exclusions. Almost half of European assets under management have policies that specify the exclusion of companies involved in the manufacture of controversial weapons. Other common exclusions are tobacco, alcohol, gambling and nuclear weapons. A recent survey by Novethic shows that opposition among financial institutions against the exclusion of companies who behave irresponsibly decreases. Companies are increasingly excluded through European investors. Between 2009 and 2011 the use of this responsible investments strategy rose by 54%, representing an amount of more than 2340 billion.[49]

Furthermore, a recent survey on behalf of the United Nations Global Compact into the progress of the Principles for Responsible Investment found that the world's major investors are now actively integrating ESG issues into their investment policies and engagement strategies. 88% of investment manager signatories to the PRI are conducting at least some shareholder engagement on ESG issues. [50] The *PRI Report on Progress 2011* found that all respondents have a voting policy that covers corporate governance issues, although fewer policies include environmental and social issues. Almost 90% of signatories vote at company meetings, and 61% of asset owners monitors to a large or moderate extent whether their external managers vote in accordance with their responsible investment policy. [51]

Besides voting, 67% of the asset owners and 61% of the investment managers have a shareholder engagement policy in place for listed equities. For corporate fixed income only around 40% of the signatories have such a policy in place. Investors reported a significant amount of engagement on ESG issues, but they vary in intensity from sending a letter to having multiple interactions at high levels. Investment managers generally manage engagements internally while asset owners report that only 41% of engagement is run by internal staff. The remaining is run by external investment managers or specialist services providers. [52]

The most popular strategies in the Netherlands are Exclusions, Integration and Engagement and Voting. [53]

A survey by Theodoor Gilissen in June 2011 among 289 small and medium sized pension funds in the Netherlands, with a response rate of 22.5%, showed that the main reason for small and medium pension funds not to invest responsible is a lack of believe in the added value of sustainability. Moreover, there is lack of information and a lot of misunderstanding about the SRI products available: they are perceived to be complicated and expensive. The passive investment style predominates among small and medium-sized pension funds. They also are more risk averse and allocate a greater portion of their assets towards fixed income. Many of the respondents feel that making decisions on SRI is the responsibility of their asset manager. [54]

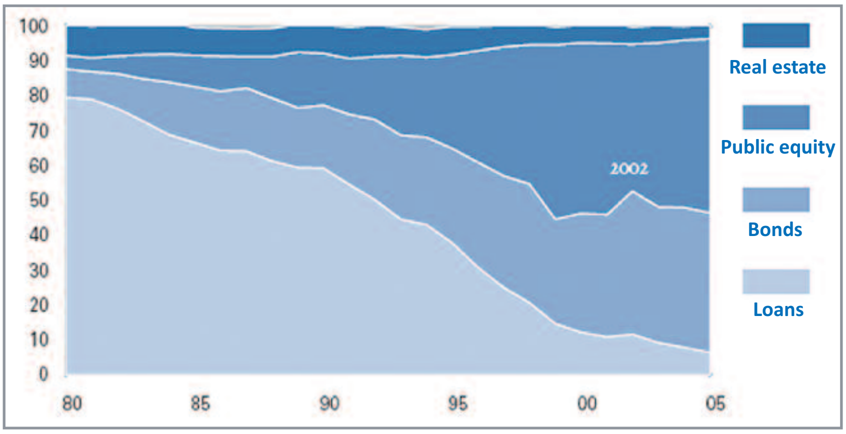
Furthermore, pension funds generally adapted very conservative and cautionary attitudes towards risk during (and after) the financial crisis of 2008 in an effort to recover their balance sheet. This slowed down the integration of responsible investment processes at many (small and medium) pension funds, because this is seen as unconventional and risky. Another concern has been the changing regulatory environment with greater governance and risk controls that are difficult to manage for small and medium sized pension funds. [55]

Changes in asset allocation and ESG integration

The total investments of Dutch pension funds amounted to € 855 billion at the end of June 2012. [56] In order to cover future pension obligations, pension funds invest their participants' premiums. They invest in various asset classes in order to spread risks and achieve maximum long-term return on investment, which creates an investment mix that varies per pension fund. Although not always to the same extent, the average investment mix of Dutch pension funds has changed considerably over the last 25 years. The changes are best summarized as follows: [57]

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

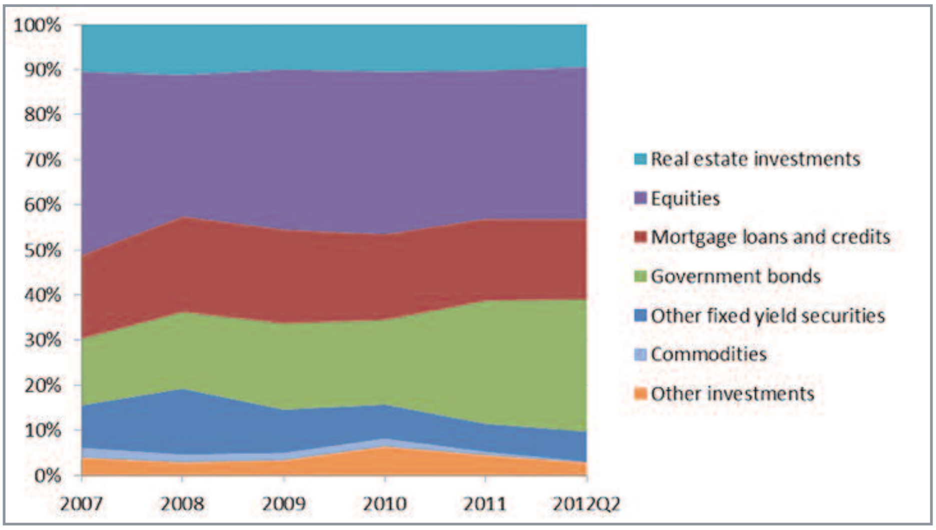
Figure 1: Investment mix development Dutch pension funds 1980-2005



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

Figure 2.2, based on recent figures published by De Nederlandsche Bank, shows that the above trends has changed somewhat.

Figure 2: Investment mix of Dutch pension funds 2007-2012



Based on: DNB, "Supervisory data on pension funds. Table 8.9 Pension assets invested at pension funds' risk", De Nederlandsche Bank, 20 September 2012.

As a response to the financial crisis that started in 2008, which affected share prices strongly, investments in equities decreased in favor of bonds and other fixed income assets. From 2007 to 2012, global government debt outstanding increased by 9.2 percent, equivalent to 21 percent of global financial assets of US$225 trillion. For pension funds and other asset owners, bonds take on an even greater importance because they have provided a bedrock of security in the past. [58] The average pension fund has 34 percent of its portfolio in fixed income, according to a 2013 study by global professional services firm Towers Watson & Co. Investments in equities however recovered fast and remained relatively stable since 2009.

The *PRI Report on Progress 2011* found that almost half of the respondents have an internal management process in place to a large extent in relation to listed equities in developed markets (47%). For other asset classes this varies from 11% (hedge funds) to 36% (non-listed real estate investments).

Because of their positive contribution to risk-adjusted returns and portfolio diversification, commodities investments have grown considerably in the past years and are expected to continue their growth path in the coming years. According to Barclays Capital over US$ 400 billion of institutional and retail money was invested in commodities in 2011, compared to only US$ 6 billion in 2005.

Infrastructure is another asset class that, with a growth of institutional investors' allocations of almost 370 per cent, has undoubtedly become increasingly popular over the years. The 2011 results of the PRI's Reporting and Assessment survey indicate that 18 per cent of PRI signatories now invest in infrastructure. Of these signatories, 44 per cent invest directly in unlisted infrastructure, 62 per cent invest indirectly, and 6 per cent invest in both.

Impact investment is still merely characterized as an investment philosophy and not as a process or a strategy. The Eurosif report therefore focuses on definitions and aspects instead of quantitative data. It does however present a breakdown of assets by category: microfinance (55%), community investments (18%), social business / entrepreneur funds (19%) and other assets (8%).

Chapter 3 Methodology

In this chapter the methodology of this study will be explained. First the research objectives of this research and a description of the researched pension funds will be put forward. Subsequently the research period and process will be explained. Then, in section 3.5 the division of tasks and responsibilities will be described followed by the scoring model, used to assess the pension funds. Finally the main suggestions of the advisory panel are put forward.

3.1 Research objectives

The objective of this benchmark study is to provide pension funds and their participants an insight into the current status of responsible investment among the 50 largest Dutch pension funds. This comparative research offers pension funds an impartial instrument with which they are able to assess the extent to which their responsible investment policy adequately reflects their social responsibilities and how it compares to their the policies of their peers. The report is of special value to the participants of pension funds, who can not switch, but on the basis of this research can determine how their pension fund operates and can engage with the board of their pension fund.

3.2 Research period & pension funds surveyed

The period to which this research applies is 2012. The different general figures of the pension funds, such as the asset allocation, cover the period up to the end of 2012. The information about the implementation of responsible investment instruments was related to the first half of 2013, the latest.

For this edition of the benchmark, the 50 largest pension funds in assets were surveyed, which is the same amount as in 2012. The list of researched pension funds is the same as in the 2012 study. In section 4.1 the characteristics of the researched group can be found.

3.3 Research process

The research process has changed in comparison with previous years. A questionnaire was integrated in excel and sent to the pension funds. When filled in, this automatically provides a profile and score. Like in 2011 and 2012 the profile of last year's benchmark was sent to selected pension funds to facilitate filling in the questionnaire.

After receiving the filled-in questionnaire of the pension funds and matching publicly available information (which consists of annual reports and websites), the VBDO reviewed the profile and sent the reviewed profile back with potential additional questions. On the basis of the reply the VBDO assigned the final scores to the pension funds for all assessment issues and criteria. In the end research consultancy Profundo provided the VBDO with an independent review of the scores of a sample of pension funds, to enhance the integrity of the results. Profundo was also responsible for writing the background chapter, which can be found in chapter 2.

3.4 Adaptations to the Methodology

3.4.1 Adaptations

This report is the seventh edition and a new methodology has been implemented in which:

- The governance of responsible investment by the (board) of the pension fund is included in the methodology. Is the responsible investment policy for example discussed in the board and have participants and stakeholders been consulted?
- The questions focusing on the implementation, especially regarding real estate and alternative investments were improved and expanded.

- In the former methodology a pension fund theoretically scores over 100% could be reached at certain categories. The scoring model is adapted to prevent this.
- Special attention is paid to the actual impact of responsible investment in changing corporate social and environmental performance. For example: is the impact engagement cases have on CSR policies measured by the pension fund?
- More attention was paid to best-practices in the sector to provide the laggards in with concrete examples regarding setting up and implementing responsible investment.
- Due to the differences between pension funds, more attention in the final result is given to rankings in separate categories. An analysis is made why there are differences between types of funds and recommendations are given on how these differences can be diminished.

With these changes the benchmark provides a more accurate assessment of the changes in responsible investment policy, implementation and accountability in the Dutch pension fund sector and regarding the governance of this process. The VBDO plans to maintain this updated methodology for the next three years.

3.4.2 Categories assessed

To compare the policy and the implementation practices of the pension funds, a number of assessment issues were defined based on literature, the former benchmark studies on responsible investments by Dutch pension funds and insurers and on conversations with institutional investors. The scores of the assessment issues were added up using weighting percentages, to reach an overall score for all pension funds included in this research. Not all assessment issues have been weighted equally, but the individual weighting percentages of all assessment issues add up to a total of 100%. The weighing percentages for governance, policy and accountability were chosen to be equal. However implementation was chosen to be 50% because especially this category defines the final output and quality of the responsible investment practices of a pension fund.

The assessment issues have been divided into four categories. For an overview of all the questions asked and possible answers per category, we refer to the appendix. In short per category the following weighing factors are applied and the following themes are discussed:

***Governance* (16,6%)**

This category focuses on the governance of the pension funds and the role the board and participant's councils proactively play in shaping and monitoring the responsible investment policy.

***Policy* (16,6%)**

This focuses on the responsible investment policy in place. Its reach, depth and quality are surveyed. Does the policy, for example, cover all the asset classes and are indicators mentioned on which the policy can be evaluated?

***Implementation* (50%)**

Focuses on the actual implementation of the responsible investment policy. What are the methods used and are they effective and thoroughly implemented throughout all the asset-classes? The included asset classes are: public listed equity; corporate bonds; government bonds; real estate and alternative investments. A complete overview and description of the asset classes is given in appendix 1.

***Accountability* (16,6%)**

In this category attention is given on how the communication and transparency on the responsible investment takes place. Is reported on all asset-classes, the results of the responsible investment policies and do all actors, such as board and beneficiaries have access to the information they need?

3.4.3 Asset-classes and score

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

Therefore, this methodology tries to take into account the available instruments, and their possibilities and limitations, for eacht asset classes and provides room for each investor to implement its responsible investment policy in the way it fits best to its organisation, investment mix and decision process. For each asset class a number of assessment issues, based on the instruments, has been identified.

The final score for the category implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class. If an investor for example does not invest in a particular asset class, it is not necessary to have detailed policies and implementation procedures, and these scores will not be taken into account in the final score. On the other hand, when a pension fund invests for 70% in public equity, the implementation score for public equity also weighs for 70% in de category Implementation.

The overall score is calculated on the basis of the score in each category and their weighing factors. The overall score of each pension fund lies between 0 and 5 points. More background information on the different asset classes and the instruments used can be found in the appendix.

3.5 Scoring model

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

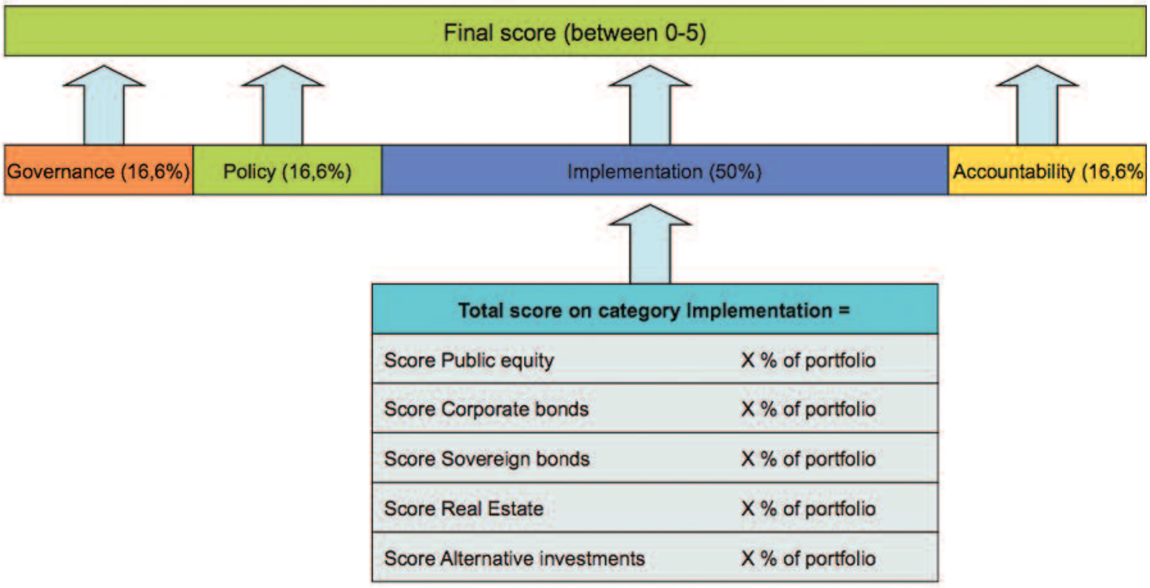
The assessment issues have been divided into three categories:

- **Governance (16,6%)**
- **Policy (16,6%)**
- **Implementation (50%)**
- **Accountability (16,6%)**

In the next paragraphs these categories will be discussed in depth.

Within the category Implementation (and for one question in the category Policy) the score is dependant and the asset allocation of the specific pension fund. In short this means that the score of a pension fund which has a large share of public equity in its portfolio is also more dependant on its score on public equity. This will be discussed in more detail in paragraph 3.4.3. Figure 3.1 gives a general overview of the scoring model.

Figure 3.1: General overview of the scoring model



3.6 Advisory panels

3.6.1 Advisory panel April 2013

Before the start of the benchmark study a meeting was planned with pension funds, asset-managers and experts to discuss the methodology used. Several points were raised on how to improve the methodology. Although the individual members did not agree on all topics with each other, the main opinions are described here:

The most prominent:

- Provide insight in the reasons why there are differences in the scores between pension funds and give the comparison of similar pension funds a more prominent place in the report.
  Added in this version of the benchmark.
- Give more emphasis on best-practices in the sector.
  Added in this version in the benchmark.
- Present the results in a more visual and transparent way.
  Several graphs are added.
- Adapt the scoring model in the category implementation to prevent scores over 100%.
  Scoring model is adapted accordingly.

3.6.2 Advisory panel October 2013

Also before the publication of the research report, it is standard practice for the VBDO to organize a final advisory panel. In this panel different representatives from the pension fund sector are given the possibility to provide feedback on the research process, the preliminary results and the conclusions. By organizing an advisory panel, the VBDO ensures that the findings in the research correspond to the common beliefs within the sector and reveals possible flaws in the research methodology.

The most prominent issues raised:

- Positive that the category governance is added.
- Send out the questionnaire earlier in the year. Preferably May or June.
- Is "responsible investment" the right term used in this benchmark? Preference for the use of the term "sustainable investing".
- Investments in infrastructure are hard to categorise in the present methodology. Recommended to specify this in the upcoming year.
- The user-friendliness of the questionnaire should be improved.
- The questions on sustainable remuneration should be adapted to focus more on the control the board has on the resources invested in the implementation of the responsible investment policy.
- It is a positive development that this year more evidence to be supplied by the pension funds.
- It would be important to add questions in the upcoming benchmark on the next frontier for responsible investment; the integration of sustainability in strategic asset allocation.

These issues will be taken into account in the next edition of the benchmark.
The VBDO would like to thank the participants for their efforts to improve the benchmark.

Chapter 4 Results

In this chapter the results of the research will be presented. First, the research group characteristics will be described. This is followed by a breakdown for the results of governance, policy, implementation (per asset class) and accountability. Finally, the overall results and an analysis of these results will be stated.

4.1 Research group characteristics

4.1.1 Description of researched group

Of the 50 pension funds, 21 are corporate, 26 are industry-wide and 3 are occupational. The total assets under management (AuM) of all the covered pension funds are €811.5 billion. The largest pension fund had €279,3 billion in AuM, whilst the smallest had €219.0 million in AuM.

The total number of participants covered by the pension fund is 13.9 million people, comprising the active and non-contributing participants and pensioners. The participants on average were 64% male and 36% female. When looking at the board of the pension funds, on average 86% were male and 14% were female. Also the participants' councils see a low level of diversity with 84% of the members being male.

Investigated pension funds indicated that 63% of their assets are managed actively and 37% passively. Thirty-three pension funds indicated that they have appointed a fiduciary manager, 12 have not. The remaining pension funds did not answer this question. Pension funds have on average 28% of their assets in public listed equity, 18% in corporate bonds, 37% in government bonds, 8% in real estate and 10% in alternative investments (not including cash and other asset classes not covered by the benchmark).

4.1.2 Response rate

As described in the previous chapter, the pension funds had two opportunities to provide feedback on the profiles. First, they had the opportunity to fill in the questionnaire. On basis of this questionnaire the VBDO responded with questions and, when needed, a request to provide additional information. Table 4.1 provides insight into which pension funds responded to the two feedback opportunities.

Table 4.1 Response rate

Name Pension Fund	Filled in the questionnaire	Supplied additional information	Overall Respons
ABN Amro Pensioenfonds	x	x	x
ABP	x	x	x
Ahold Pensioenfonds	x	x	x
Akzo Nobel	x	x	x
Architectenbureaus	x	x	x
Bedrijfstakpensioenfonds Groente- en Fruitverwerkende Industrie	x	x	x
BPF Bouw	x	x	x
BPF Detailhandel	x		x
BPF Koopvaardij	x	x	x
BPF Landbouw	x	x	x

Name Pension Fund	Filled in the questionnaire	Supplied additional information	Overall Respons
BPF Levensmiddelenbedrijf	x	x	x
BPF Meubelindustrie en meubileringsbedrijven	x	x	x
BPF SBZ	x	x	x
BPF Schilders	x	x	x
BPF Schoonmaak	x	x	x
Delta Lloyd	x	x	x
DSM	x	x	x
Fysiotherapeuten	x	x	x
Gasunie	x	x	x
Heineken	x	x	x
KLM Algemeen Pensioenfonds	x	x	x
KLM Vliegend Personeel	x	x	x
KPN	x	x	x
Pensioenfonds Grafische Bedrijven	x	x	x
Pensioenfonds Horeca en Catering	x	x	x
Pensioenfonds ING	x	x	x
Pensioenfonds Medewerkers Apotheken [1]		x	x
Pensioenfonds PNO Media	x	x	x
Pensioenfonds Post NL	x	x	x
Pensioenfonds Productschappen	x	x	x
Pensioenfonds Shell	x	x	x
Pensioenfonds TNO	x	x	x
Pensioenfonds UWV	x	x	x
Pensioenfonds Vervoer	x	x	x
Pensioenfonds voor Werk en (re)Integratie	x	x	x
Pensioenfonds Wonen	x	x	x
Pensioenfonds Zorg en Welzijn	x	x	x
Philips Pensioenfonds	x	x	x
PME	x	x	x
PMT	x	x	x
Rabobank Pensioenfonds	x	x	x
SNS REAAL	x	x	x
Spoorwegpensioenfonds	x	x	x
Stichting Pensioenfonds Achmea	x	x	x
Stichting Pensioenfonds Huisartsen	x	x	x
Stichting pensioenfonds IBM Nederland	x	x	x
Stichting Pensioenfonds Medisch Specialisten	x	x	x
Stichting Pensioenfonds Openbaar Vervoer	x	x	x
Stichting Pensioenfonds Unilever (Progress)	x	x	x
Stichting Pensioenfonds Woningcorporaties	x	x	x

[1] Pensioenfonds Medewerkers Apotheken has delivered information for the benchmark but wants to note that the used methodology is, in its opinion, not suited to its specific investment process.

4.2 Governance

4.2.1 Results

For the first year pension funds were asked questions regarding the role of the board and general fund governance in relation to responsible investment. This has led to some interesting results.

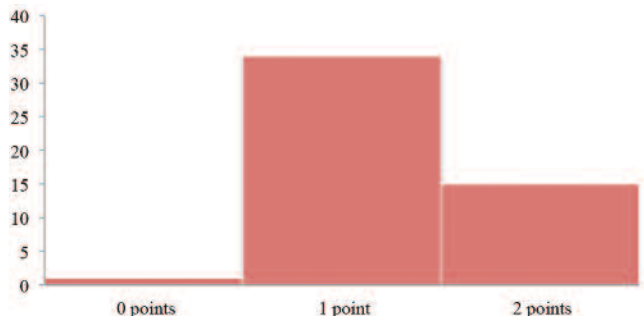
Responsible Investment on the agenda in the board: Frequency

0 points: In total 1 pension fund (2%) of the pension funds states that responsible investment had not been on the agenda in the board

1 point: At 68% of the pension funds responsible investment was on the agenda at least one time.

2 points: At 30% of the pension funds responsible investment was a regular topic on the agenda.

Figure 4.2: Responsible investment on the agenda of the board



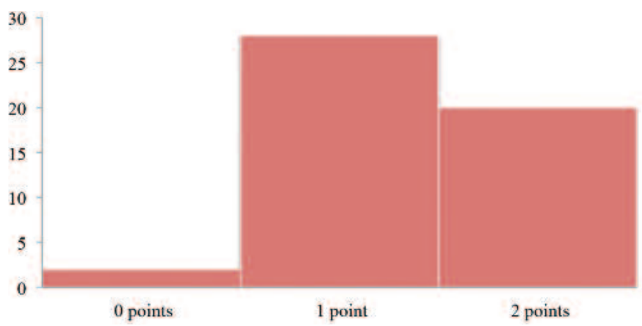
Responsible Investment on the agenda of the board: Information

0 points: 2 pension funds (4%) do not use any external information regarding responsible investment.

1 point: 28 pension funds (56%) use solely the information from their asset manager regarding responsible investment.

2 points: 20 pension funds (40%) also use information from other sources to shape and evaluate their responsible investment policy

Figure 4.3: Information sources used by the board



Sustainability targets

The question whether sustainability targets are set by the board provided a wider variety of answers:

0 points:	68% of the pension funds does not set any targets for asset-managers regarding the improvement of responsible investment policies and implementation;
1 point:	20% sets qualitative targets on the improvement of responsible investment policies and implementation;
2 points:	6% sets quantitative targets on the improvement of responsible investment policies and implementation;
3 points:	6% measures the actual impact of responsible investment on CSR policies of companies as well.

Remuneration

0 points:	74% of the pension boards have not implemented sustainability targets in the remuneration;
1 point:	26% has implemented sustainability targets in the remuneration of the asset-manager.

Best practices Governance: **Board Responsibility**

The board of a pension fund has an important role to play in shaping the responsible investment policy and evaluating the implementation done by the asset manager. First and foremost, the board needs to be informed about the progress of the implementation, preferably at each board meeting. Furthermore, the board should have sufficient information and independent information to carry out its role.

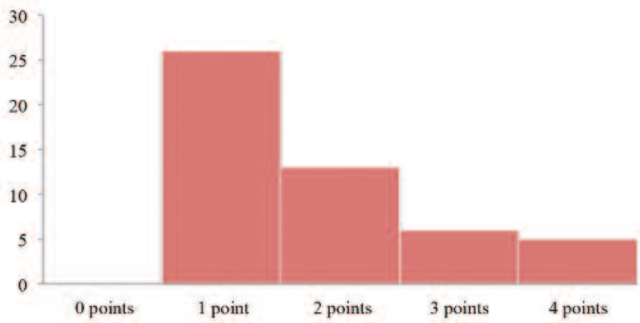
Almost all best performing pension funds show evidence that the board of the pension fund is in control by discussing the topic of responsible investment at each board meeting. Regarding the information the board uses, some best practices can be identified. PNO Media has appointed an independent external advisor that reviews the responsible investment policy and challenges the board of the pension fund as well as the asset manager. BPF Levensmiddelenbedrijf has set up an investment advisory committee that has challenged their asset manager to expand the responsible investment policy to passive investment funds. BPF Landbouw has hired a specific research consultancy to evaluate the responsible investment policy of the pension fund. Pensioenfonds Zorg en Welzijn has set up an Advisory Board Responsible Investment that meets quarterly with the pension fund and the asset manager to discuss matters regarding responsible investment. Other pension funds have hired academic experts to help them with their assessment of the responsible investment funds.

The VBDO advises boards of pension funds to take more responsibility on the governance of the responsible investment policy and implementation. This can be done by discussing this topic regularly at meetings and being informed by external parties, such as academic experts, research consultancies or other external advisors.

Communicating and consulting participants and stakeholders.

1 point:	52% of the pension funds inform their participants regarding responsible investment, for example on the website or with newsletters.
2 point:	26% consults the participants' council regarding the responsible investment policy.
3 points:	12% consults or surveys their participants' councils regarding the responsible investment policies.
4 points:	10% of the pension funds consult also other stakeholders such as NGOs, besides their participants.

Figure 4.4: Communication with participants and stakeholders



Best practices Governance: **Consulting Participants**

The board has the responsibility to represent the interests of the participants and to shape the responsible investment policy according to the preferences of the participants. Methods such as engagement have the possibility to be shaped according to the themes deemed important by the participants. But also exclusion can be shaped to the preferences of the participants. Pension funds in the health care sector can for example exclude tobacco as these investments run against everything where this sector stands for.

*There are several positive examples of pension funds that actively use methods to get to know the preferences of their participant and to discuss responsible investments policies with them. Examples are **ABP** and **BPF Landbouw** who organize meetings directly with participant and into dialogue with them over the responsible investment policy. Other positive examples are **Bedrijfstakpensioenfonds Groente & Fruitverwerkende industrie** or **Pensioenfonds Werk en (re)Integratie** who have surveyed their participant over their responsible investment policy.*

The VBDO recommends all pension funds to focus more on the preferences of their participants. In the long run this empowers the responsible investment policy and makes sure the pension fund can fulfill its fiduciary duty not only in a financial way but also in the field of responsible investment.

4.2.2 Analysis

It is positive to note that responsible investment is being discussed in most pension fund boards. However, the frequency and depth of the discussion differs amongst pension funds. The VBDO states that the board should have a steering role regarding responsible investment instead of only following the advices of the fiduciary manager.

Only 40% of the pension funds use external advice, besides their fiduciary manager, for their responsible investment practices. It is important for the board to have access to new, and sometimes, critical input regarding its responsible investment policy. Therefore it is advised that the board makes use of external advisors from the academic world or from the NGO sector.

It is matter for concern that only 22% of the pension funds boards directly consult their participants and other stakeholders on the responsible investment policy. Specifically the preferences of the participants and the knowledge NGO's have on specific issues can enrich the responsible investment policy and implementation. A true dialogue on this topic is a great opportunity to improve the bond between the pension funds and their participants, and also will increase the legitimacy of the boards.

4.3 Policy

4.3.1 Results

The policy component consists of three criteria that investigate the qualitative, quantitative and communication aspects of the responsible investment policy of the pension funds. Of the 50 pension funds surveyed in this research, 50 were able to show that they have a responsible investment policy in place, which corresponds to 100%, which is better compared to last year's results. When looking into the content of the policy, it can be seen that:

1 point: 8 pension funds (16%) showed that they have a responsible investment policy and base it on at least two of the themes covered in the UN Global Compact;

2 points: 23 pension funds (46%) have a responsible investment policy based on the four themes of the UN Global Compact

3 points: 19 pension funds (38%) have a responsible investment policy based on the four themes of the UN Global Compact and explain how (some of the) principles are dealt with in the investment practice.

When looking at the percentage of the pension funds' assets covered by the responsible investment policies, last year 30% of the pension funds covered less than 50% of their assets. This year the results are as follows:

1 point: 9 pension funds (18%) have a policy that covers less than 50% of their assets

2 points: 12 pension funds (24%) have a policy that covers between 50% and 75% of their assets;

3 points: 29 pension funds (58%) have a policy that covers more than 75% of their assets.

Policy performance indicators

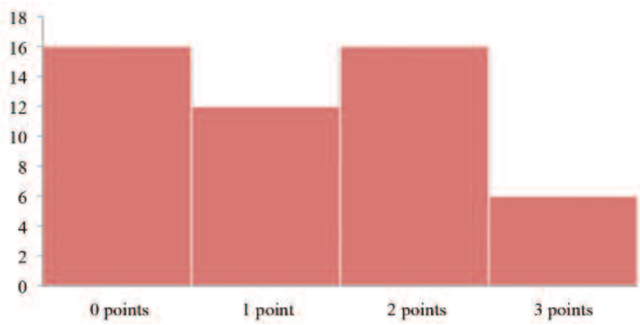
0 points: 16 pension funds (32%) do not have any policy performance indicators on which the policy can be monitored

1 point: 12 pension funds (24%) have qualitative indicators

2 points: 16 pension funds (32%) have quantitative indicators

3 points: 6 pension funds (12%) have quantitative indicators and also measure actual impact corporate social and environmental policies.

Figure 4.5: Performance indicators



4.3.2 Analysis

In comparison with last year's result this is a positive development on a sector-wide basis regarding the content of the policy. Furthermore, this positive development can be identified in previous years as well, making the improvement in policy content a more structural development.

Still a large difference can be seen in the quality and quantity of the responsible investment policies among pension funds. Some measure only a few paragraphs while others span up to ten pages. Some are quite vague, while others specify in detail the reach and choices made regarding responsible investment.

Although the extent of the responsible investment policy still leaves room for improvement this year again showed an improvement in comparison with last year. In 2012 30% of the pension fund had a policy which covered less than 50% of their assets against 18% in 2013.

Best practices: **Policy**

*The VBDO recommends pension funds to explain in their policies how responsible investment is put into practice in each asset class and how the responsible investment policy is evaluated. A clear best practice is **Pensioenfonds Zorg en Welzijn**, which explains in their policy how this is put into practice in each asset class and has identified clear KPIs on which the policy and implementation can be evaluated. See for more information: http://www.pfzw.nl/over-ons/beleggingen/verantwoord-beleggen/verslagen/Documents/Verantwoord_Beleggen_Jaarverslag_2012.pdf.*

4.4 Implementation

4.4.1 Results

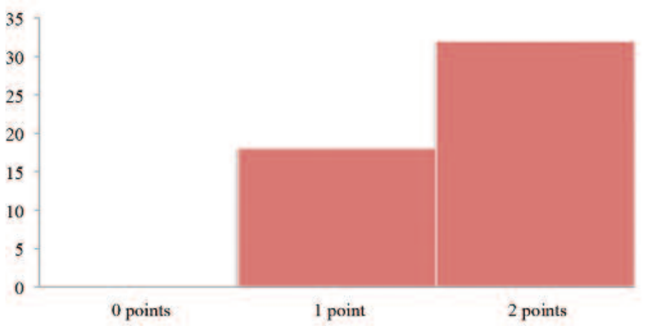
The third element of the benchmark research is the implementation of the responsible investment policy. As can be seen in the methodology chapter, five asset classes have been identified.

Public listed equity

A number of different instruments can be used when implementing a responsible investment policy in the public equity class. These are listed below with a description of the results.

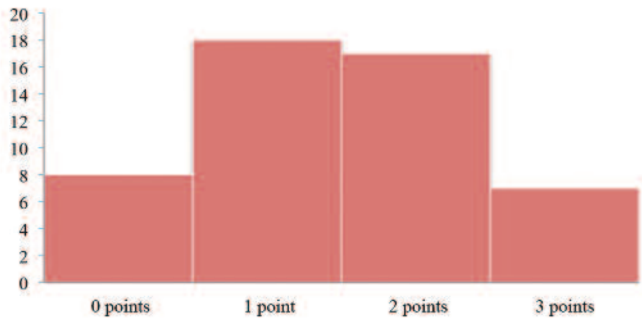
- **Exclusion:** 50 funds (100%) have adopted an exclusion policy. A strong growth in comparison with last year, related with the legal obligation to exclude producers of controversial weapons. Of these pension funds, 32 funds (64% of total) have adopted a policy based on multiple criteria. Also an increase in comparison with last year.

Figure 4.6: Exclusion in public listed equity



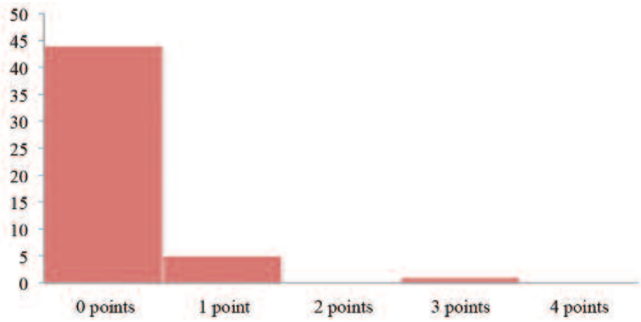
- ESG-integration: 42 pension funds (84%) have demonstrably integrated ESG-criteria into the investment decision. Of these, 24 funds (48 % of total) have integrated ESG in a systematic manner. 7 pension funds (14%) have implemented a systematic ESG-integration, which accounts for a demonstrable and verifiable impact on individual holdings.

Figure 4.7: ESG-integration in public listed equity



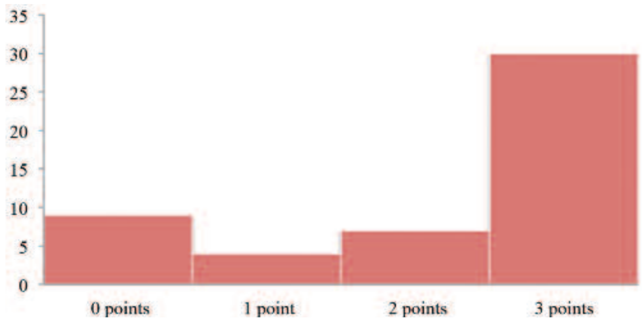
- Positive selection: 44 pension funds (88%) do not make use of positive selection. 5 pension funds invest less than 10% of their total public equity portfolio making use of positive selection. 0 pension funds invests between 25% and 50% of their public equity portfolio, and 1 over 50%.

Figure 4.8: Positive selection in public listed equity



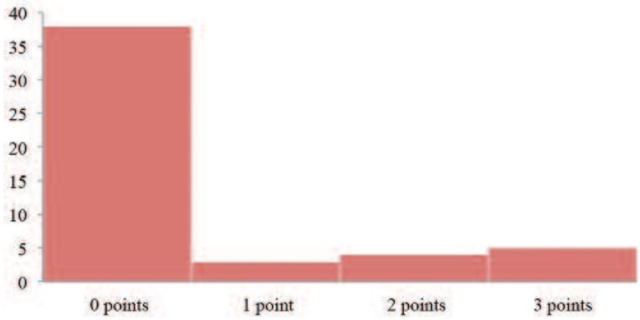
- Engagement: 41 pension funds (82%) are actively engaging with companies on the basis of ESG-criteria. 30 of them show demonstrable results and provide specific details. This is the same as last year.

Figure 4.9: Engagement in public listed equity



- **Voting:** 49 pension funds (98%) demonstrable vote on (a part of) their public equity holdings. 9 do so while paying explicit attention to ESG-issues (18% of total) and 0 of these publicly initiate and/or support shareholder resolutions promoting CSR. The majority of the pension funds (78%) voted on 75%-100% of their equity portfolio. This is the same as last year.
- **Impact investing:** 12 pension funds (24%) used impact investing to implement their responsible investment policy. 3 of these funds allocated less than 1% of their equity holdings to impact investing, 4 pension funds allocated between 1% and 2% and 5 funds allocated 2% or more to impact investing.

Figure 4.10: Impact investing in public listed equity

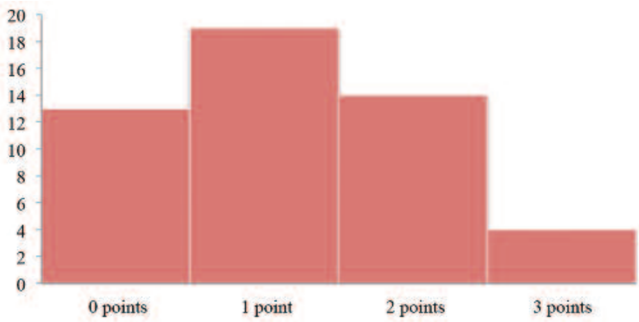


Corporate Bonds

For corporate bonds, fewer instruments are available to implement the responsible investment policy. The available instruments are exclusion, ESG-integration, positive selection and engagement. The different instruments are listed below:

- **Exclusion:** Only three funds do not have any exclusion regarding corporate bonds. Of the 47 pension funds which do exclude the majority (31 funds) used multiple criteria to exclude.
- **ESG-integration:** 37 pension funds (82%) integrate ESG-criteria into the investment decision with the investments in corporate bonds. Only 18 of these pension funds did this demonstrably in a systematic way, from which 4 pension funds have implemented a systematic ESG-integration that accounts for a demonstrable and verifiable impact on individual holdings. This ESG-integration within the corporate bonds portfolio is a positive, noticeable development over the past years, with each benchmark showing a steady increase.

Figure 4.11: ESG-integration in corporate bonds



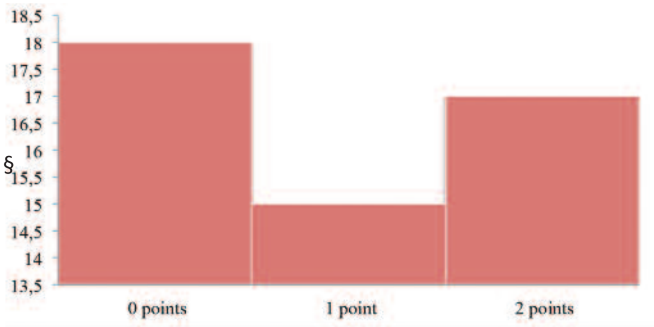
- **Positive selection:** This year 3 pension funds used the instrument of positive selection in the corporate bond portfolio.
- **Engagement:** Concerning the engagement instrument for the corporate bond portfolio, 39 funds (78%) engaged with companies in their corporate bonds portfolio. 10 of these report on their activities in a limited manner and 25 showed demonstrable results and specific details.

Government Bonds

The instruments available for the government bonds portfolio are exclusion, ESG-integration and positive selection. Like past years, the scores are lower than in the other asset classes, but a sharp increase in the use of the instrument can be seen, continuing the upward trend of previous years.

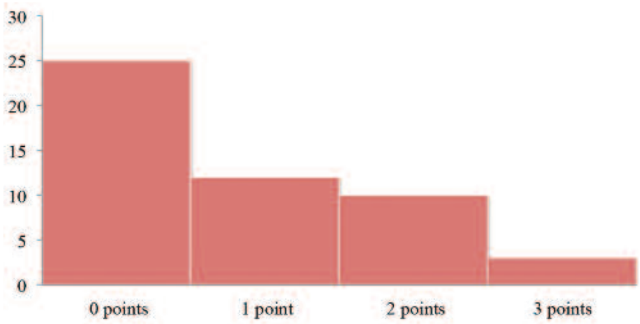
- **Exclusion:** 18 pension funds (36%) don’t have any exclusion policy regarding government bonds.
  15 pension funds (30%) maintain exclusion criteria for governments bonds although these bonds are not commonly traded. 17 pension funds (34%) exclude countries with commonly traded bonds.

Figure 4.12: Exclusion in government bonds



- **ESG-integration:** This year, 12 pension funds in some way integrated ESG-criteria into the investment decision for government bonds. For example by having asset managers who have signed the PRI. 10 systematically included ESG-criteria in their portfolio management and 3 funds implemented ESG-integration in such a way that it had a verifiable impact on individual holdings.

Figure 4.13: ESG-integration in government bonds



- **Positive selection:** 5 pension funds use the instrument of positive selection in their government bond portfolio, this is an increase considered to last year when only 1 fund practiced positive selection.

Best practices: **ESG Integration**

The integration of (material) environmental, social and governance criteria into the investment decision (ESG-integration) has become more popular in recent years and can be done in several ways. ESG-integration can be implemented in public listed equity, corporate and government bonds and alternative investments; and can be implemented in both active and passive investments. All these different ways result in different approaches.

Several pension funds start by selecting only managers that have signed the Principles for Responsible Investment (PRI), which states that the signatory party should implement ESG-criteria into their investment decision.

***Pensioenfonds Zorg en Welzijn** has constructed a passive ESG-index that selects the top 90% of companies in each sector in the equity portfolio. The companies are selected from a set of over 70 indicators measuring performance in terms of ESG factors. **BPF Landbouw** and* **Unilever Pension Fund** *are examples of funds that have set up quantitative models in which they calculate the ESG-risk of a government bond, and use this data to evaluate their government bond holdings, which result in an overweight or underweight position.*

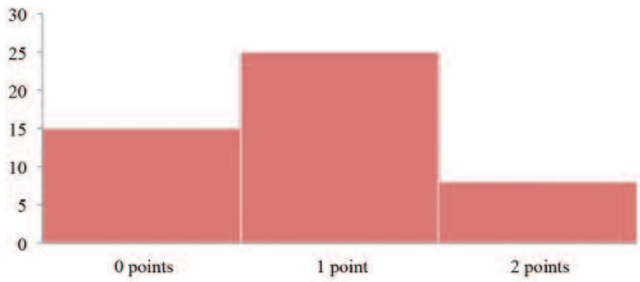
To better assess the risk or from a sustainable development perspective, the VBDO advises pension funds to use ESG-integration at the different asset classes, regardless whether the pension fund is using an active or a passive strategy.

4.3.4. Real Estate

The asset class is divided into direct and indirect real estate. Direct real estate focuses on the selection and maintenance of holdings, while indirect real estate focuses on the selection of real estate managers and the dialogue with these managers on the topic of sustainability.

- **Direct real estate selection:** 27 funds consider ESG-issues in selection/development of new real estate object.
- **Indirect real estate:** This year, 33 pension funds (66%) incorporated ESG-criteria into the selection of real estate managers or publicly listed real estate companies. From these 33 pension funds, 8 pension funds (16%) only select the most sustainable ones.

Figure 4.14: Implementation of indirect real selection and evaluation



- **Engagement:** For real estate 17 pension funds used engagement and entered into dialogue with their real estate fund manager.

Alternative investments

The final asset class is alternative investments, which comprises different types of investing strategies including private equity, hedge funds, infrastructure and commodities. The two instruments identified in this asset class are the integration of ESG-criteria and impact investing.

- **Private equity:**
  26 of the pension funds have some form of responsible investment policy in place regarding private equity.
- **Hedge Funds:**
  8 pension funds have some form of responsible investment policy and implementation regarding their investments in hedge funds.
- **Commodities:**
  15 pension funds have some form of responsible investment policy and implementation regarding their investments in commodities.
- **Other alternative investments:**
  14 pension funds have some form of responsible investment policy and implementation regarding their investments in other alternative investments
- **Impact investment:**
  19 funds made investments in companies, which promote sustainable investments (such as microfinance institutions, renewable energy etcetera). 6 of them invested less than 1% of their assets in alternative investments to impact investments; 3 pension fund invested between 1% and 2%; and ten 5% or more. This is comparable with last year.

Best practices: **Alternative investments**

Alternative investments are an asset class in which responsible investment is not as common as in public equity. However, also in this asset class more and more pension funds are developing policies.

*There are several best practices and recommendations that can be made. A first step can be to make sure that when investing in alternative investments such as private equity, the responsible investment policy is followed. Secondly it is important to practice due diligence concerning investments in alternative investments. Several pension funds send out detailed questionnaires with questions on responsible investment themes before investing in private equity or commodities. Thirdly it is important to specify the responsible investment policy for alternative investments. Positive examples are pension funds that for example have a detailed policy on commodities such as **Ahold Pensioenfonds** and **Pensionfonds Zorg en Welzijn**.*

4.3.6 Analysis implementation

Due to the change in methodology it is difficult to compare the results of last year's benchmark with the results of this year, but in general it can be concluded that the implementation of a responsible investment policy is the highest in public equity together with corporate bonds, which was also the case in the last three years. The scores in the asset classes government bonds and alternative investments are lagging behind.

Public listed equity

Considering all instruments for public equity, it should be noted that positive selection and impact investing are the least popular instrument, while exclusion, voting and engagement are the most widely used. This is a relatively stable situation compared to past years. All pension funds have an exclusion policy, which can be attributed to the fact the there is a legal obligation to exclude producers of controversial weapons. Because responsible investment should be more then follow legal obligations the standard in the next edition of the benchmark will be raised on this topic.

Corporate bonds

This asset class has seen a strong increase in the use of exclusion, engagement and ESG-integration. Positive selection is lagging behind with only 3 pension funds practicing this instrument.

Government bonds

Exclusion is the most widely used instrument in the asset class government bonds and again has shown an increase in comparison with last year. It should be noted that the number of pension funds that have policies that exclude government bonds that are readily available increased decreased, although the standards in this benchmark also increased in this edition. The number of pension funds that incorporated ESG-criteria into the investment decision has shown a relative large increase. Last year 14 pension funds integrated ESG-criteria and this year 25 pension funds. And also positive selection has increased from 1 pension fund last year to 5 pension funds this year.

Real estate

Due to the new methodology and new questions, it is difficult to compare the results with past results. Still, also in the asset class improvements can be seen. The number of pension funds considering ESG in their direct real estate investments has risen from 21 in 2012 to 27 in this edition.

Alternative investments

Also in this asset class new questions were added which makes it difficult to compare the results with last year. It however seems that the scores at this asset class remained fairly stable. In this asset class there is still room for improvement. The number of funds practicing impact investing decreased slightly from 21 to 19.

4.5 Accountability

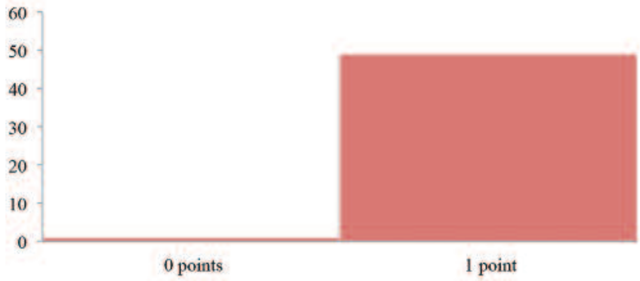
4.5.1. Results

The last component of responsible investing is how the pension funds report on their responsible investment policies and implementation. This is of paramount importance, since participants of pension funds and other stakeholders can only see how responsible the pension fund invests when pension funds are transparent about it.

Accountability and the responsible investment policy

Of the 50 pension funds, 49 (98%) have publicly available information about their responsible investment policy. The information varied from a well-developed policy based on international standards to a brief reference in the annual report of the organization. Last year, approximately the same number pension funds published their policy.

Figure 4.15: Publication of a responsible investment report



List of investments

When a pension fund publishes a list of its investments, it becomes possible for participants and others to see what kind of investments are done by the fund. This improves the transparency of the fund, because different parties can verify in what companies and countries is invested, and see if the responsible investment policies have been implemented.

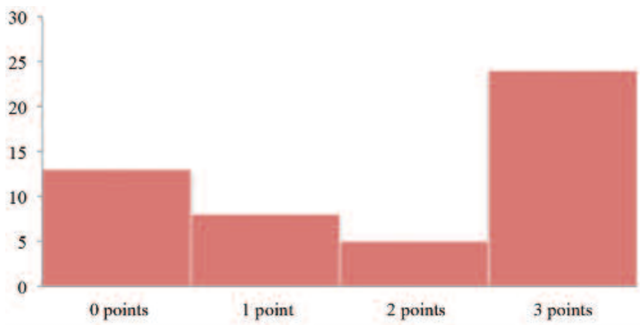
0 points: 27 pension funds (54%) have not published a list of their investments
1 point: 2 pension funds (4%) have a list that covers 0-25% of the total investment portfolio
2 points: 4 pension funds (8%) have a list that covers 25-50% of the total investment portfolio.
3 points: 4 pension funds (8%) have a list that covers 50-75% % of the total investment portfolio.
4 points: 13 pension funds (26%) have a list that covers 75-100% of the total investment portfolio.

Accountability on responsible investment instruments

The level of reporting on the responsible investment implementation instruments is, similar to the past year, less developed than the policy itself.

- **Exclusion:** 47 pension funds publicly report about exclusion. 13 describe their exclusion policy and 34 also publish a list with excluded countries and companies. This is approximately similar to last year.
- **ESG-integration:** This year, 26 funds explained their methodology for ESG-integration.
- **Positive selection:** 3 pension funds describe their positive selection methodology, whereas last year only one fund did.
- **Engagement:** 37 pension funds provide information on their engagement activities, of which 24 explain their engagement policy, the undertaken engagement activities and concrete results.

Figure 4.16: Accountability on engagement



- **Voting:** 40 funds provide information on their voting activities, 29 of these also published a detailed voting report. This is the same in comparison to last year's performance.
- **Impact investing:** 15 pension funds detail how they engage in impact investing. This is the same as last year.

Annual report

Stakeholders need to be kept informed on the progress of the pension fund on the development of their responsible investment policy and of the implementation of this policy. Therefore pension funds should yearly publish a report to inform participants and other stakeholders. This can be a dedicated report as well as a substantial part of the general annual report.

0 points:	27 pension funds (54%) have not published a responsible investment report or have not given substantial attention to this theme in the annual report.
1 point:	23 pension funds (46%) have published a dedicated report or have given substantial attention to this theme in the annual report.

Regarding external verification of the responsible investment report or the part on responsible investment in the annual report:

0 points:	40 pension funds (80%) didn't have any form of verification on their responsible investment policy and implementation.
1 point:	Of 2 pension funds (4%) the reporting was checked by an internal auditor.
2 points:	Of 6 pension funds (12%) some parts of the report were checked by an external auditor.
3 points:	Of 2 pension funds (4%) the entire responsible investment report was audited by an external auditor.

Best practices: **Accountability**

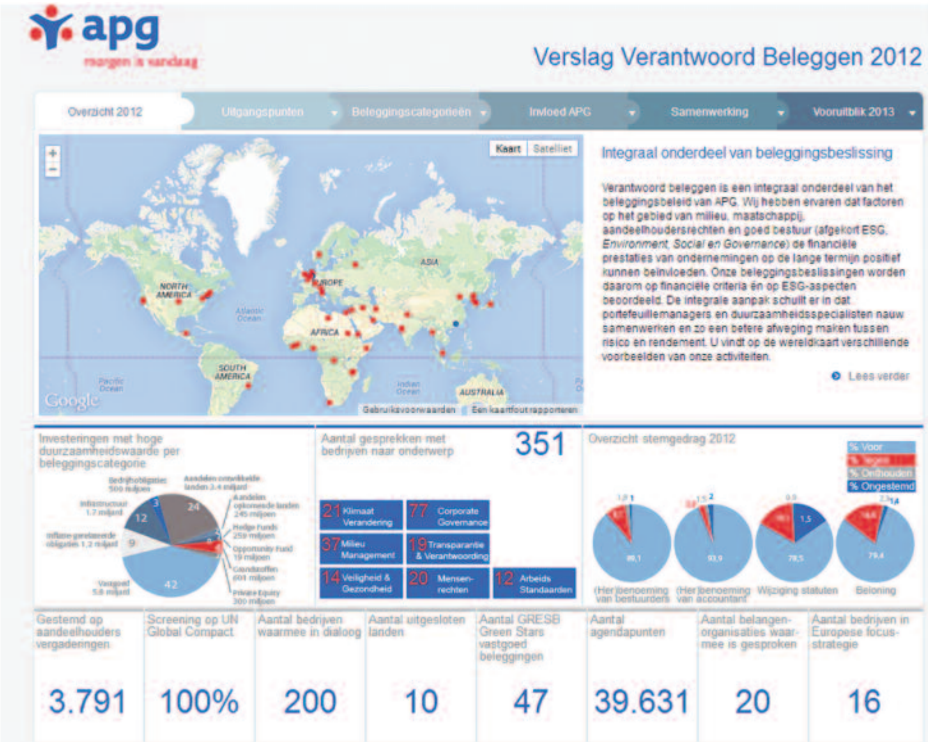
The VBDO sees it as a positive development that the transparency on the responsible investment policy and implementation is improving. There is however a large difference in the quality of reporting. Best practices in the sector are funds who can clearly, and visually explain, their policies and implementation to participants and other stakeholders.

Asset manager **APG** *gives a positive example in visually attractive way explaining how they implement their responsible investment activities. See the figure below and http://www.apgverslagverantwoordbeleggen.nl/*

During the research it also became clear that when information on responsible investment is available, that does not mean that it is easy to find for participants. For many pension funds the information is only possible to find when participants clearly know where to look. The VBDO recommends a clear link on the homepage to a dedicated webpage where all the information on responsible investment can be found. A positive example is ***PNO Media*** *in this respect.*

Another recommendation is to practice external verification on the responsible investment implementation and reporting.

Figure 4.17: Best Practice Reporting on responsible investment (APG, 2013)



4.5.2. Analysis

Just like last year, 49 of the 50 pension funds, report on their responsible investment policy. More than half of the pension funds have not published their list of investment, which is considered to be worrying, since this limits the transparency of the fund. Only one quarter of the pension funds provides (almost) full transparency about their investments.

As regards the different responsible investment instruments more information was published about exclusion, engagement and voting. When a pension fund does not use a specific instrument, no information was found what the considerations were.

Less than half of the pension funds publish an annual responsible investment report, which is considered to be rather limited. Furthermore, there is little verification of the responsible investments reports or responsible investment chapters in the annual reports. Only 16% of the pension funds practise some form of external verification on this topic.

4.6 Overall Results

4.6.1. Analysis of overall results

This year's average scores are shown in table 4.2. Due to an update in the methodology comparisons with last year are hard to make. The methodology will remain the same in the upcoming two years so comparisons can be made again in the upcoming years. However, just like last year the corporate funds on average have lower scores than industry wide funds.

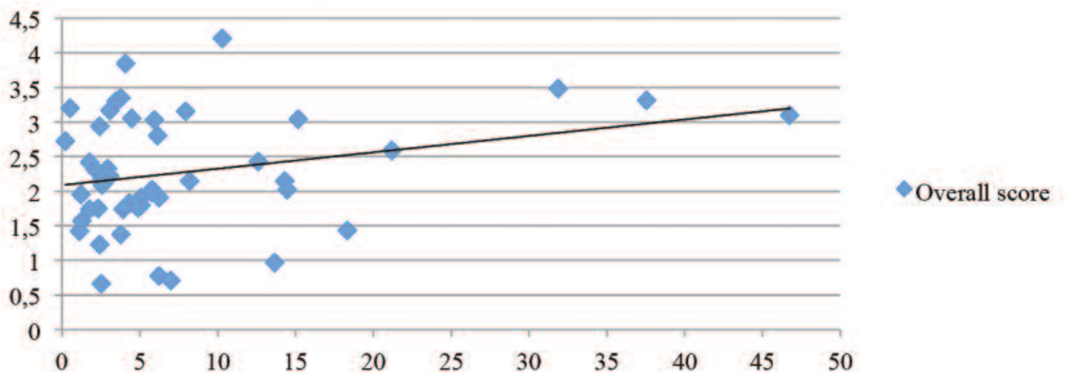
Table 4.2: Average scores

	Overall score	Governance	Policy	Implementation	Accountability
Overall Average Score	2,3	2,2	3,3	1,9	2,7
Average Score Corporate Pension funds	1,8	1,9	2,7	1,4	2,1
Average Score Industry wide funds	2,8	2,5	3,8	2,4	3,3
Average Score Occupational funds	2,1	2,3	3,3	1,6	2,2

	Public Equity	Corporate bonds	Sovereign bonds	Real estate	Alternative investments
Score per asset class	2,3	2,3	1,4	2,2	1,9

When the pension funds are analysed according to size, as shown in Figure 4.18, it can be noticed that the larger pension funds achieve a higher score on average.

Figure 4.18: Score pension funds with less than 100 billion in assets



It should be noted, however, that there are notable examples showing also smaller pension funds can achieve relatively high scores regarding responsible investments. A few examples of these are **Pensioenfonds Productschappen** and **BPF Koopvaardij**. Therefore the size of a pension fund cannot be seen as an impediment to successfully formulating and implementing a responsible investment policy. An important recommendation for the smaller funds is to co-operate more. For example in formulating their responsible investment policies or in the implementation of engagement and voting policies.

Themes in responsible investment

Table 4.3: shows the number of references from different pension funds to certain themes in the responsible investment policy. The majority of the pension funds refer to the themes controversial weapons and themes mentioned in the UN Global Compact. Furthermore, climate change and equal opportunities are important themes for pension funds. The more value-based themes are less popular among pension funds.

Table 4.3: Adoption of themes in the responsible investment policy

	Amount of funds adopting theme in the investment policy
Controversial weapons	50
Human rights	39
Corruption	33
Environment	34
Climate change	23
Equal opportunities	25
Nuclear power	10
Animal testing	7
Intensive farming	6
Alcohol	7
Genetic engineering	3
Fur	4
Tobacco	7
Pornography	4
Gambling	2

4.6.2 Results per pension fund

The overall results of the benchmark are shown in table 4.4, where the different scores and rankings of pension funds are shown.

Table 4.4: Scores and ranking per pension fund.

	2013	2012	Pension fund	Overall score	Governance	Policy	Implementation	Accountability
=	1	1	Pensioenfonds Zorg en Welzijn	4,3	4,7	5,0	3,7	4,7
=	2	2	Bedrijfspensioenfonds voor de Landbouw	4,2	4,7	5,0	3,6	4,8
▲	3	10	Stichting Bedrijfstakpensioenfonds voor de Media PNO	3,9	4,4	4,4	3,2	4,8
=	4	4	ABP	3,8	3,8	4,4	3,6	3,9
▲	5	7	Stichting Pensioenfonds van de Metalektro (PME)	3,5	2,8	5,0	3,3	3,3
✷	6	19	Stichting Bedrijfstakpensioenfonds Zorgverzekeraars	3,3	4,5	3,9	2,6	3,8
▼	7	3	Stichting bedrijfstakpensioenfonds voor de Bouwnijverheid (bpfBOUW)	3,3	2,5	4,4	3,1	3,7
▲	8	15	Stichting Bedrijfspensioenfonds voor de Koopvaardij	3,3	2,3	4,4	3,1	3,8
▲	9	12	Stichting Pensioenfonds Productschappen	3,2	1,3	3,9	3,8	2,8

2013	2012	Pension fund	Overall score	Governance	Policy	Implementation	Accountability
10	6	Pensioenfonds voor de Architecten bureaus	3,2	1,3	4,4	3,2	3,7
11	8	Stichting Pensioenfonds voor de Woningcorporaties	3,2	2,5	3,3	3,4	3,0
12	9	Stichting Pensioenfonds Metaal en Techniek	3,1	1,8	3,9	3,0	3,8
13	38	Stichting Pensioenfonds Unilever Nederland “Progress”	3,1	3,3	4,0	2,5	3,7
14	13	Philips Pensioenfonds	3,0	2,6	4,4	2,9	2,6
15	18	Pensioenfonds Werk en (re)Integratie	3,0	4,0	5,0	2,0	3,2
16	5	SNS REAAL Pensioenfonds	2,9	2,8	4,4	2,7	2,3
17	33	Stichting Pensioenfonds Medisch Specialisten	2,8	4,0	4,5	1,8	2,8
18	23	St. Bedrijfstakpensioenfonds voor de Groenten- en Fruitverwerkende Ind.	2,7	4,0	4,5	1,5	3,2
19	16	Shell Pensioenfonds	2,6	1,8	3,3	2,8	2,1
20	14	Stichting Spoorweg Pensioenfonds	2,4	1,3	3,3	2,1	3,6
21	28	Rabobank Pensioenfonds	2,4	1,5	3,4	2,4	2,3
22	17	Stichting Pensioenfonds Openbaar Vervoer	2,3	1,3	3,3	2,1	3,1
23	21	Stichting Pensioenfonds Wonen	2,3	1,3	3,9	2,0	2,7
24	39	Stichting Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf	2,2	1,5	3,9	1,8	2,6
25	50	Ahold Pensioenfonds	2,2	3,1	4,4	1,0	2,8
26	24	Stichting Pensioenfonds TNO	2,2	2,6	2,9	1,4	3,3
27	34	Stichting Pensioenfonds voor Huisartsen	2,1	2,0	2,9	1,8	2,5
28	25	Stichting Pensioenfonds Grafische Bedrijven	2,1	1,8	3,3	1,8	2,5
29	20	Bpf. voor het Schoonmaak- en Glazenwassersbedrijf	2,1	1,8	2,8	1,7	2,8
30	40	Stichting Pensioenfonds DSM Nederland	2,0	1,8	4,4	1,1	2,5
31	11	Pensioenfonds Vervoer	2,0	1,3	2,8	1,7	3,1
32	31	Stichting Pensioenfonds KPN	2,0	1,3	2,8	2,0	1,8
33	22	Stichting Bedrijfstakpensioenfonds voor de Detailhandel	1,9	1,8	2,2	1,9	2,0
34	27	BPF Schilders	1,9	1,8	3,4	1,2	2,7

	2013	2012	Pension fund	Overall score	Governance	Policy	Implementation	Accountability
▲	35	36	Stichting Pensioenfonds PostNL	1,9	1,6	2,8	1,8	1,8
▼	36	32	Stichting Pensioenfonds APF	1,8	1,8	3,3	1,3	2,0
▼	37	26	Stichting Pensioenfonds UWV	1,8	2,0	2,5	1,4	2,2
▼	38	35	Pensioenfonds Horeca & Catering	1,8	2,3	2,9	0,8	3,0
▲	39	42	Stichting Bedrijfstakpensioenfonds voor de Meubelindustrie en Meubileringsbedrijven	1,7	2,1	1,8	1,1	3,2
▼	40	30	Stichting Pensioenfonds Achmea	1,7	2,8	2,3	1,3	1,3
▼	41	29	Delta Lloyd pensioenfonds	1,7	1,3	2,5	1,1	3,5
▼	42	37	Pensioenfonds Medewerkers Apotheken	1,6	0,8	2,3	1,6	1,7
▼	43	41	Stichting Pensioenfonds ING	1,4	1,5	1,9	0,9	2,5
▲	44	46	Stichting Pensioenfonds Gasunie	1,4	1,8	1,9	0,9	2,1
▼	45	44	Stichting Pensioenfonds IBM Nederland	1,4	1,8	1,9	0,9	1,8
▼	46	43	Stichting Pensioenfonds Fysiotherapeuten	1,2	0,8	2,3	1,0	1,2
▼	47	45	ABN AMRO Pensioenfonds	1,0	1,3	1,4	0,5	1,5
▼	48	47	Pensioenfonds KLM Algemeen	0,8	1,3	1,0	0,5	1,0
▼	49	48	Pensioenfonds KLM Vliegend Personeel	0,7	1,3	1,0	0,3	1,0
▼	50	49	Stichting Heineken Pensioenfonds	0,7	1,3	1,4	0,4	0,2

On an individual note, Pensioenfonds Zorg en Welzijn has received the highest score, similar to last year. The highest increases can be attributed to Ahold Pensioenfonds and Stichting Pensioenfonds Unilever Nederland. Both have risen 25 places in the benchmark. Some new funds made it to the top 10 in this edition. The bottom 10 has remained relatively the same, only trading places.

Chapter 5: Conclusions and recommendations

This section is divided along overall conclusions; the four categories (governance, policy, implementation and accountability), and the conclusions per pension fund. In contrast to chapter four, where a detailed overview per question is shown, in this chapter we focus on the highlights and main conclusions from this years benchmark study.

5.1 Overall conclusions

- Since 2010, the response rate has increased each year, showing both a greater willingness to cooperate and an increasing perception of the importance of public transparency for pension funds.
- This year's top 10 consists of (with the overall score):

2013	Pension fund	Overall score
1	Pensioenfonds Zorg en Welzijn	4,3
2	Bedrijfspensioenfonds voor de Landbouw	4,2
3	Stichting Bedrijfstakpensioenfonds voor de Media PNO	3,9
4	ABP	3,8
5	Stichting Pensioenfonds van de Metalelektro (PME)	3,5
6	Stichting Bedrijfstakpensioenfonds Zorgverzekeraars	3,3
7	Stichting bedrijfstakpensioenfonds voor de Bouwnijverheid (bpfBOUW)	3,3
8	Stichting Bedrijfspensioenfonds voor de Koopvaardij	3,3
9	Stichting Pensioenfonds Productschappen	3,2
10	Pensioenfonds voor de Architecten bureaus	3,2

- Due to methodological changes it is hard to compare this year's results with the results of previous editions. However, on several fronts improvements can be seen regarding the responsible investment practices of Dutch pension funds.
- An analysis has been made of the size of pension funds related to their score. As in earlier years, the larger pension funds score slightly better, which has been the case since the first edition of the benchmark. It should be noted that there are notable examples showing also smaller pension funds can achieve relatively high scores regarding responsible investments. A few examples of these are Pensioenfonds Productschappen and BPF Koopvaardij. Therefore the size of a pension fund cannot be seen as an impediment to successfully formulating and implementing a responsible investment policy.

  Recommendation:
  - Small pension funds can learn from their high ranking peers how to successfully formulate and implement a responsible investment policy and should co-operate more on this topic.

5.1 Governance

- Regarding diversity of the pension funds boards only gender has been investigated. As for the 50 largest pension funds, 86% of the board is male. Over the last years this percentage has not shown any increase. This low level of diversity within the pension fund boards raises questions such as whether the participants are properly represented and if enough attention is being paid to stimulating diversity in background, expertise and opinions in board discussions.
- It is positive to note that responsible investment is being discussed in most pension fund boards. However, the

frequency and depth of the discussion differs amongst pension funds. The VBDO states that the board should have a steering role regarding responsible investment instead of only following the advices of the fiduciary manager.
- Only 40% of the pension funds uses external advice, besides their fiduciary manager, for their responsible investment practices.
- It is matter for concern that only 22% of the pension funds boards directly consult their participants and other stakeholders on the responsible investment policy. Specifically the preferences of the participants and the knowledge NGO's have on specific issues can enrich the responsible investment policy and implementation. It is however positive that some pension funds are leading the way and have best practices that can be fairly easily implemented by other pension funds, for example surveying their participants or organising round tables on ethical dilemmas such as investments in tobacco.

Recommendations:
- Pension funds should raise the diversity in their boards.
- The VBDO recommends pension funds to make sure that enough expertise on responsible investment is present in the board. For example by selecting board members with specific expertise on this topic or using external advisors in addition to the fiduciary manager.
- The board can take a more proactive role and set clear targets for the fiduciary manager to constantly improve the responsible investment policy and implementation.
- The board can consult their participants more frequently on the topic of responsible investment and enter into dialogue with NGOs.

5.3 Policy
- Almost all pension funds have a responsible investment policy. Over the years there has been a steady improvement regarding the quality of the responsible investment policy. An important note is that there is still room for improvement regarding the explanation of how the policies are put into practice and the coverage over all asset classes.
- 68% of the pension funds have included some sort of targets in their responsible investment policy by which the responsible investment policy can be continuously improved and monitored.

Recommendations:
- Clear goals should be mentioned in the responsible investment policy so that the policy and implementation can be evaluated thoroughly.

5.4 Implementation
- The new law that bans the use of investments for the production of cluster ammunition has a significant effect on the policies of pension funds. 98% of the pension funds had a ban on investment in cluster ammunition in place in 2012, against 84% in the previous benchmark study. The VBDO sees this as evidence that government regulation clearly has its effects. Although over the past years, there also has been a growing trend among pension funds to exclude certain investments such as cluster ammunition. Therefore the new law is not as impactful as it appears. The VBDO does not see laws and regulations as a substitute for improvements by the pension sector itself. However, the cluster ammunition law helps to push the laggards among pension funds to improve their policies and implementation.
- The scores of asset classes such as public equity and corporate and government bonds have improved. Especially the active ownership instruments, (engagement and voting) are more and more implemented in the sector and show a steady increase over the years.

- Concerning ESG integration, few pension funds evidenced an implementation of the instruments accounting for a demonstrable and verifiable impact on individual holdings. Since the market seems to move in the direction of ESG integration, the VBDO advises pension funds to integrate ESG criteria into a systematic manner.
- Positive selection as an investment instrument remains relatively underused, and funds seem somewhat reluctant to its implementation. Moreover, there is a lack of transparency and sector-wide understanding on how this instrument could be used in a more structural way and as a structural part of the responsible investment policy. On a sector-wide basis, thus, the funds could work towards developing more experience on how to implement positive selection and develop a comprehensive approach to its structural adaptation in passive as well as active investments.
- This year the methodology was fine-tuned to provide a more detailed view on the developments regarding alternative investments such as hedge funds, private equity and commodities. The results show that the implementation of responsible investment policies regarding these asset classes is still uncharted territory for many pension funds. For example, only 16 pension funds have a (limited) form of responsible investment policy for commodity investments. However, also regarding alternative investment there are positive examples of pioneers showing that responsible investment can be practiced for investments in private equity, hedge funds and commodities. The VBDO recommends pension funds and asset managers to combine their expertise and to jointly develop policies and implement responsible investment into these asset classes.
- Most pension funds use relatively few instruments to implement their responsible investment policy.

Recommendations:

- The VBDO advocates that pension funds should apply the full range of methods at their disposal, from exclusions and ESG integration to voting and engagement. In this way the responsible investment policy will be implemented in an integral way.
- More attention can be given to the implementation of responsible investment in government bonds and alternative investments.

5.5 Accountability

- The increase in accountability and transparency concerning the responsible investment policy of pension funds is one of the most interesting developments. Of the 50 pension funds, 49 report on their responsible investment policy.
- There is still room for improvement. The quality and quantity of the reporting vary. Sometimes the reporting is limited to a few lines. Also the information regarding responsible investment policies is difficult to find for participants and other stakeholders. The information is also quite technical which makes it difficult for non-experts to form an opinion on the responsible investment policy and implementation. However, there are positive examples of pension funds that report in a clear and understandable way and explain responsible investment in an attractive way to all stakeholders.
- As regards the different responsible investment instruments more information was published about exclusion and ESG integration.
- There is little verification of the responsible investments reports or responsible investment chapters in the annual reports. Only 16% of the pension funds practice some form of external verification on this topic.

Recommendations:

- Pension funds should report in a more clear, visual and attractive way on their responsible investment policy so that the information is easy to grasp for participants and other stakeholders.
- It is recommended to use external verification regarding the reporting on responsible investment.

Appendix 1: Overview per pension fund

ABN AMRO Pensioenfonds

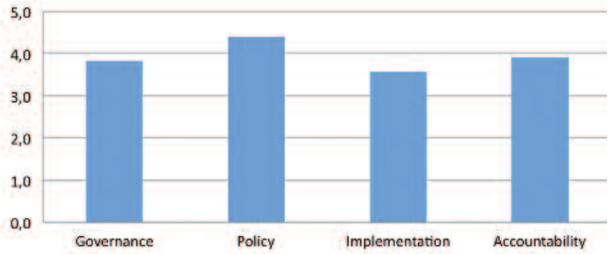
Implementation	
Public listed equity	1,1
Corporate bonds	1,3
Sovereign bonds	0
Real estate	0,8
Alternative Investment	0

overall score 1

ABP

Implementation	
Public listed equity	3,9
Corporate bonds	3,3
Sovereign bonds	0
Real estate	0,8
Alternative Investment	5

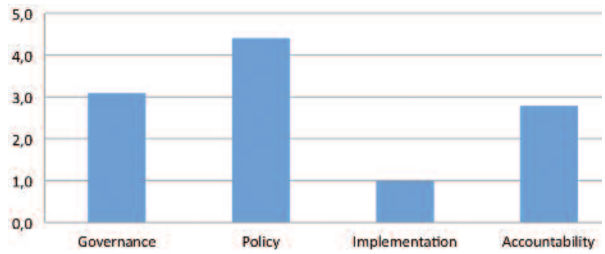
overall score 3,8



Ahold Pensioenfonds

Implementation	
Public listed equity	1,3
Corporate bonds	1
Sovereign bonds	0,6
Real estate	0
Alternative Investment	2,5

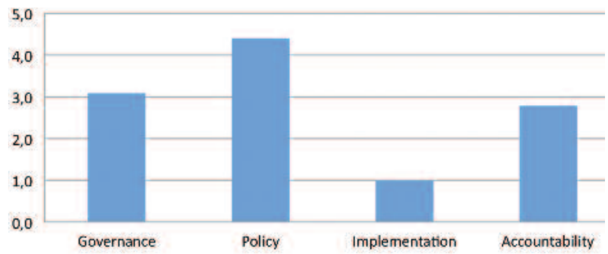
overall score 2,2



Stichting Pensioenfonds APF

Implementation	
Public listed equity	1,4
Corporate bonds	1,7
Sovereign bonds	0,8
Real estate	1,7
Alternative Investment	1,3

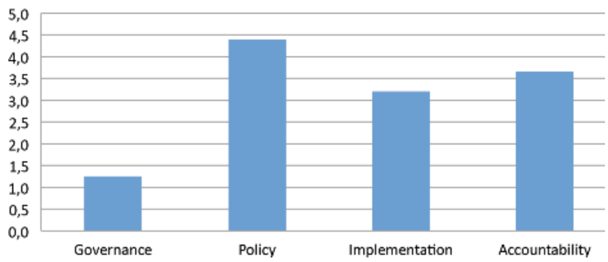
overall score 1,8



Architectenbureaus

Implementation	
Public listed equity	3,1
Corporate bonds	3,1
Sovereign bonds	2,2
Real estate	5
Alternative Investment	3,5

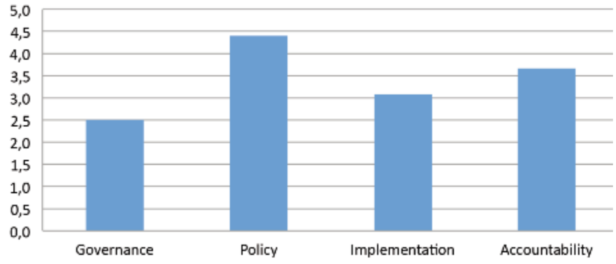
overall score 3,2



Implementation	
Public listed equity	3,6
Corporate bonds	3,3
Sovereign bonds	1,9
Real estate	2,5
Alternative Investment	4,7

overall score 3,3

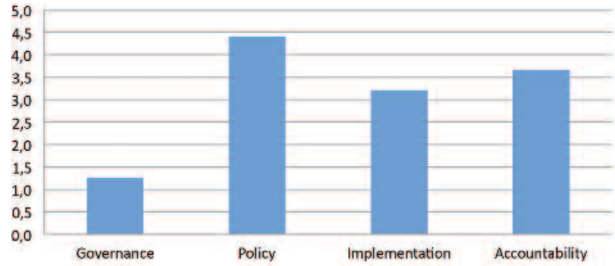
BPF Bouw



Implementation	
Public listed equity	1,8
Corporate bonds	1,9
Sovereign bonds	1,7
Real estate	5
Alternative Investment	1,3

overall score 1,9

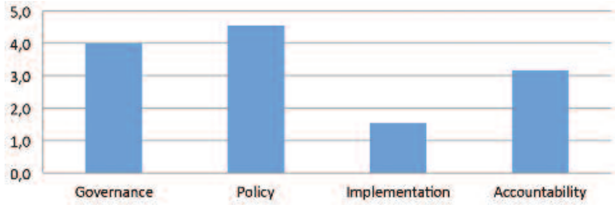
BPF Detailhandel



Implementation	
Public listed equity	2,6
Corporate bonds	2,7
Sovereign bonds	0,6
Real estate	1,7
Alternative Investment	0

overall score 2,7

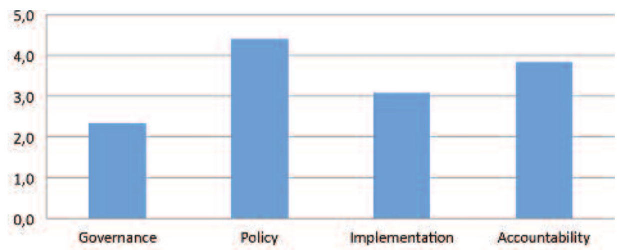
Stichting Bedrijfstakpensioenfonds voor de Groenten- en Fruitverwerkende Industrie



Implementation	
Public listed equity	2,6
Corporate bonds	2,6
Sovereign bonds	3,3
Real estate	4,2
Alternative Investment	2,5

overall score 3,3

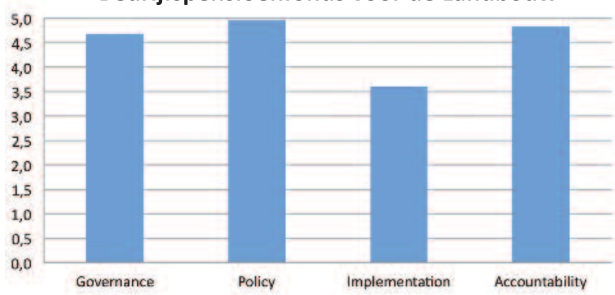
Stichting Bedrijfspensioenfonds voor de Koopvaardij



Implementation	
Public listed equity	3,1
Corporate bonds	3,3
Sovereign bonds	2,9
Real estate	4,2
Alternative Investment	2,8

overall score 4,2

Bedrijfspensioenfonds voor de Landbouw



Implementation	
Public listed equity	1,6
Corporate bonds	2,3
Sovereign bonds	1,9
Real estate	1,3
Alternative Investment	1,3

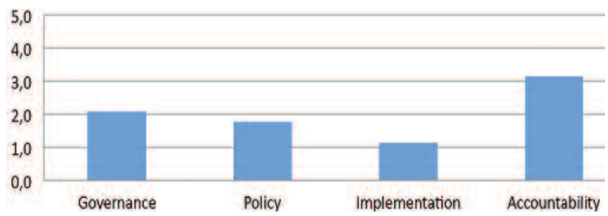
overall score 2,2

Stichting Bedrijfstakpensioenfonds voor het levensmiddelenbedrijf

Implementation	
Public listed equity	1,8
Corporate bonds	1,9
Sovereign bonds	0
Real estate	3,3
Alternative Investment	0,0

overall score 1,7

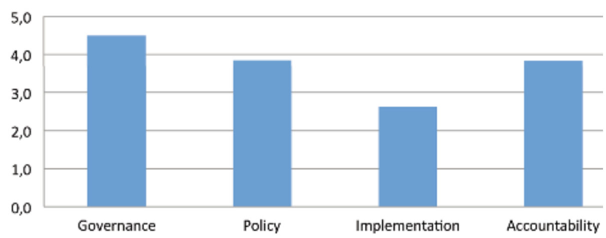
Stichting Bedrijfstakpensioenfonds voor de Meubelindustrie en Meubileringsbedrijven



Implementation	
Public listed equity	2,8
Corporate bonds	2,9
Sovereign bonds	2,2
Real estate	2,5
Alternative Investment	3,3

overall score 3,3

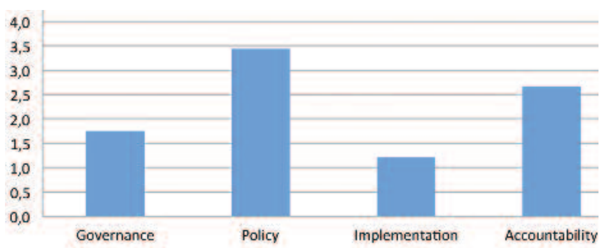
Stichting Bedrijfstakpensioenfonds Zorgverzekeraars



Implementation	
Public listed equity	2,2
Corporate bonds	2,5
Sovereign bonds	0
Real estate	1,3
Alternative Investment	0,6

overall score 1,9

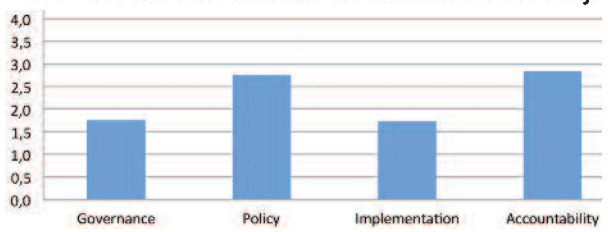
BPF Schilders



Implementation	
Public listed equity	2,0
Corporate bonds	1,9
Sovereign bonds	0,8
Real estate	5
Alternative Investment	1,9

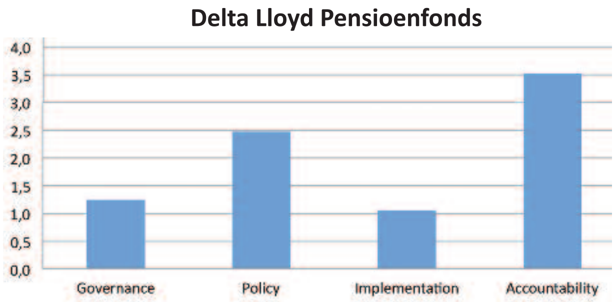
overall score 2,1

BPF voor het Schoonmaak- en Glazenwassersbedrijf



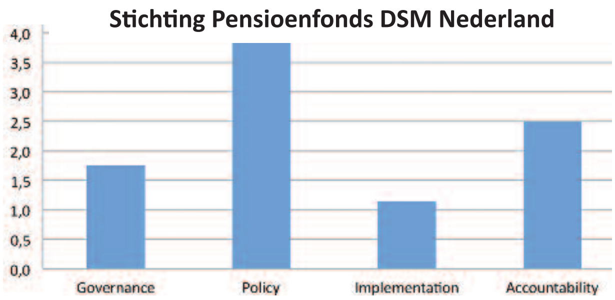
Implementation	
Public listed equity	2,3
Corporate bonds	1,7
Sovereign bonds	0,8
Real estate	1,7
Alternative Investment	0,0

overall score 1,7



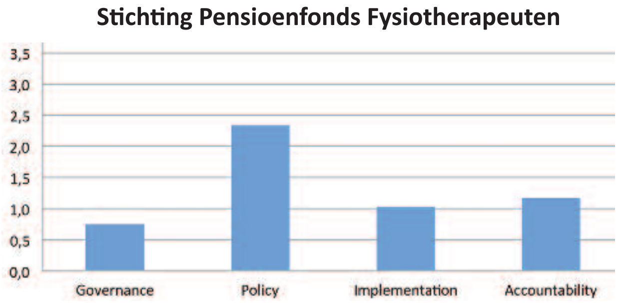
Implementation	
Public listed equity	1,5
Corporate bonds	1,3
Sovereign bonds	0,8
Real estate	1,3
Alternative Investment	1,7

overall score 2,0



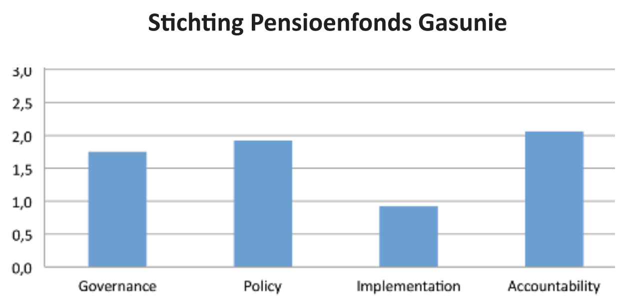
Implementation	
Public listed equity	1,2
Corporate bonds	0,6
Sovereign bonds	0,8
Real estate	1,7
Alternative Investment	1,0

overall score 1,2



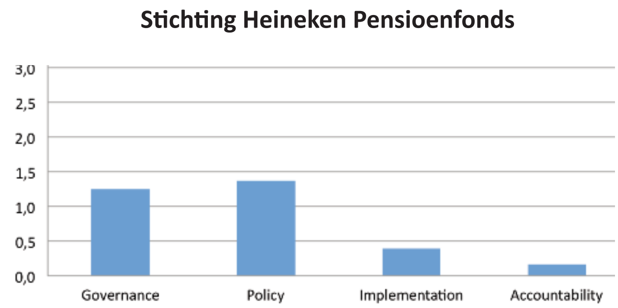
Implementation	
Public listed equity	1,5
Corporate bonds	1,4
Sovereign bonds	0,6
Real estate	2,5
Alternative Investment	0,0

overall score 1,4



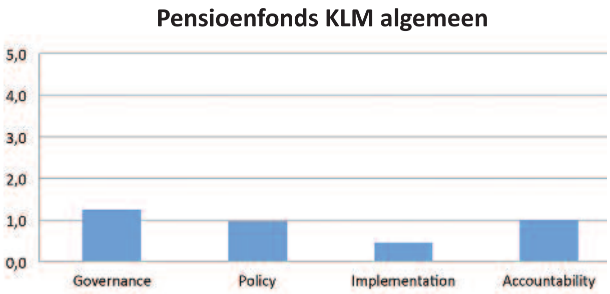
Implementation	
Public listed equity	1,0
Corporate bonds	0
Sovereign bonds	0
Real estate	0
Alternative Investment	0,0

overall score 4,7



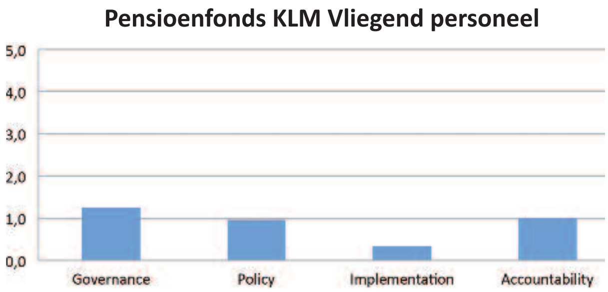
Implementation	
Public listed equity	0,9
Corporate bonds	0,0
Sovereign bonds	0,0
Real estate	0,8
Alternative Investment	0,0

overall score 0,8



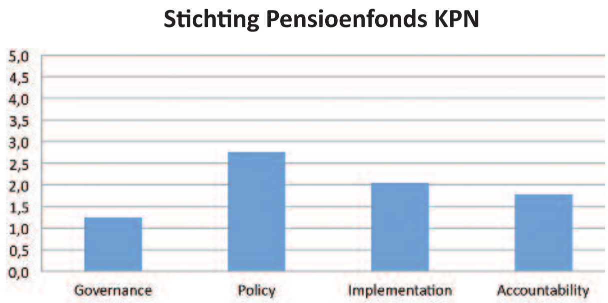
Implementation	
Public listed equity	0,7
Corporate bonds	0
Sovereign bonds	0
Real estate	0,8
Alternative Investment	0,0

overall score 0,7



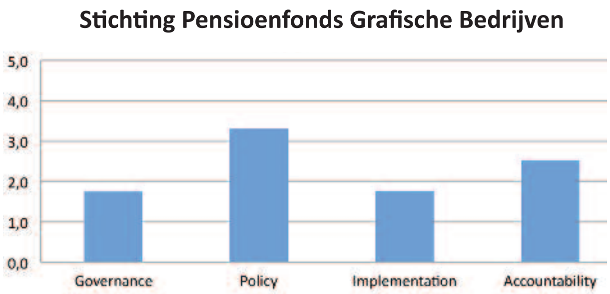
Implementation	
Public listed equity	2,4
Corporate bonds	2,9
Sovereign bonds	1,7
Real estate	0,8
Alternative Investment	0,0

overall score 2,0



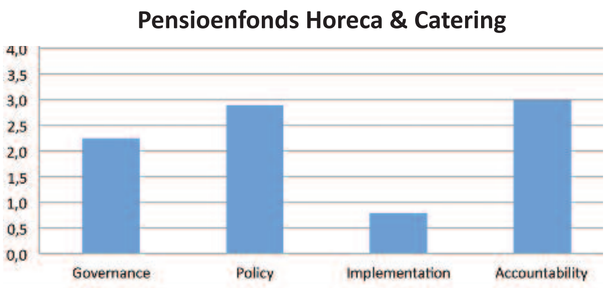
Implementation	
Public listed equity	1,9
Corporate bonds	1,7
Sovereign bonds	0,8
Real estate	1,7
Alternative Investment	3,8

overall score 2,1



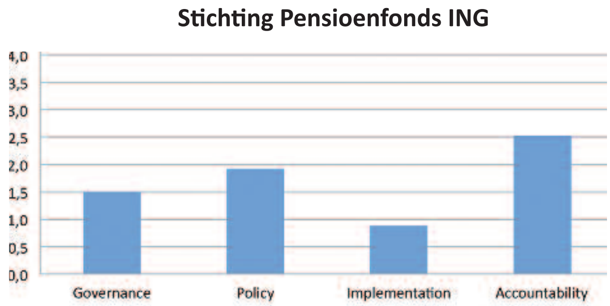
Implementation	
Public listed equity	1,1
Corporate bonds	1,3
Sovereign bonds	0
Real estate	0,8
Alternative Investment	2,5

overall score 1,8



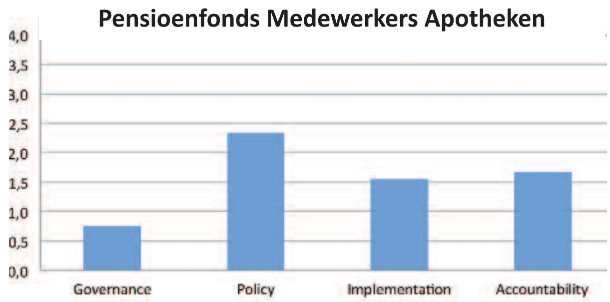
Implementation	
Public listed equity	2,2
Corporate bonds	2,5
Sovereign bonds	0,1
Real estate	1,3
Alternative Investment	0,0

overall score 1,4



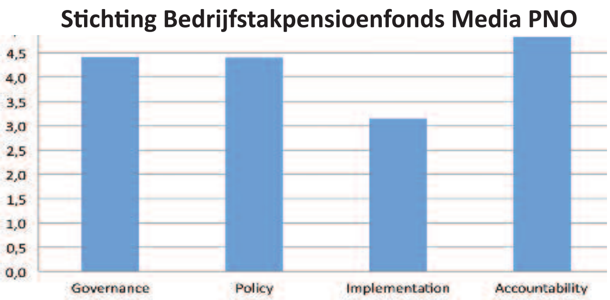
Implementation	
Public listed equity	2,4
Corporate bonds	1,5
Sovereign bonds	0,6
Real estate	1,3
Alternative Investment	1,3

overall score 1,6



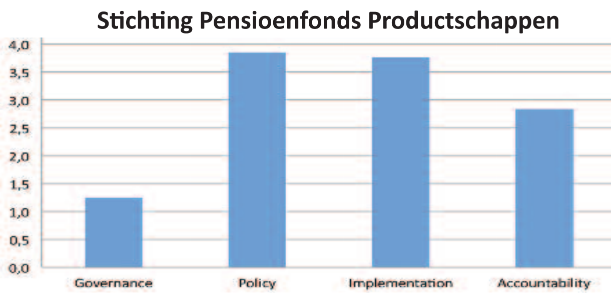
Implementation	
Public listed equity	3,7
Corporate bonds	2,9
Sovereign bonds	2,2
Real estate	3,3
Alternative Investment	4,2

overall score 3,9



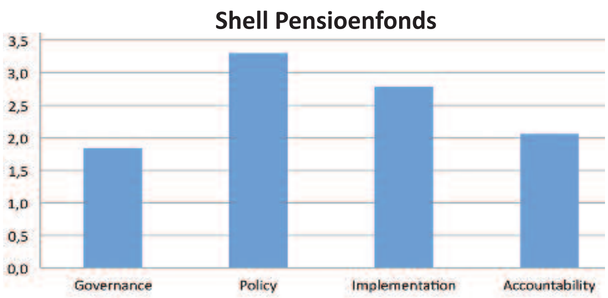
Implementation	
Public listed equity	2,5
Corporate bonds	2,7
Sovereign bonds	5
Real estate	0
Alternative Investment	3,5

overall score 3,2



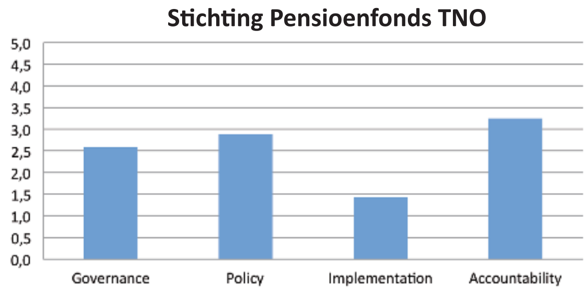
Implementation	
Public listed equity	3,1
Corporate bonds	2,5
Sovereign bonds	2,8
Real estate	2,5
Alternative Investment	2,3

overall score 2,6



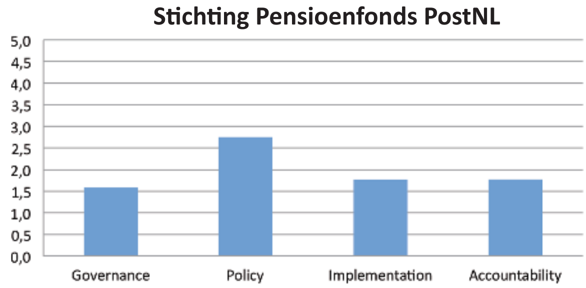
Implementation	
Public listed equity	1,6
Corporate bonds	1,7
Sovereign bonds	2,2
Real estate	2,5
Alternative Investment	0,0

overall score 2,2



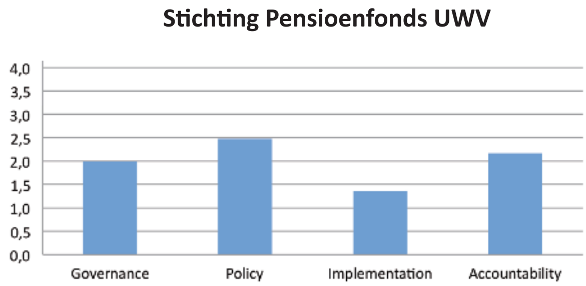
Implementation	
Public listed equity	2,4
Corporate bonds	2,9
Sovereign bonds	1,7
Real estate	0,8
Alternative Investment	0,0

overall score 1,9



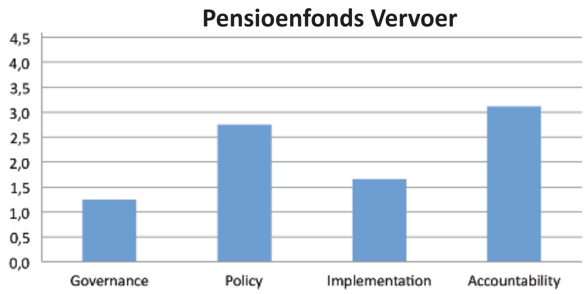
Implementation	
Public listed equity	1,8
Corporate bonds	2,1
Sovereign bonds	0,8
Real estate	2,5
Alternative Investment	3,3

overall score 1,9



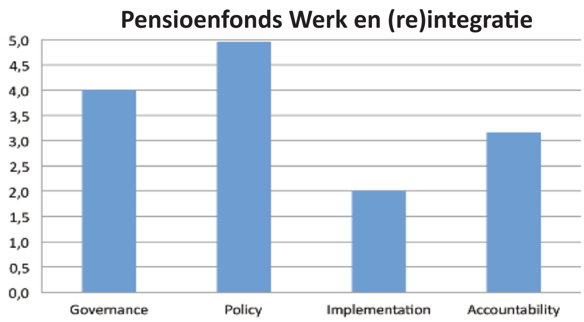
Implementation	
Public listed equity	2,2
Corporate bonds	2,9
Sovereign bonds	0,8
Real estate	0,8
Alternative Investment	0,8

overall score 2,0



Implementation	
Public listed equity	2,6
Corporate bonds	2,7
Sovereign bonds	0,8
Real estate	1,7
Alternative Investment	3,3

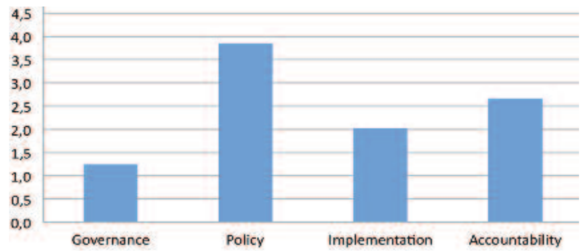
overall score 3,0



Implementation	
Public listed equity	2,5
Corporate bonds	2,5
Sovereign bonds	0,8
Real estate	4,2
Alternative Investment	1,0

overall score 2,3

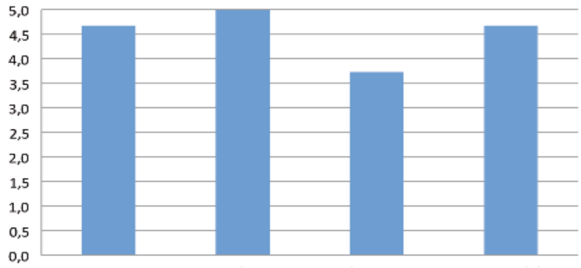
Stichting Pensioenfonds Wonen



Implementation	
Public listed equity	3,9
Corporate bonds	3,1
Sovereign bonds	2,2
Real estate	5,0
Alternative Investment	5,0

overall score 4,3

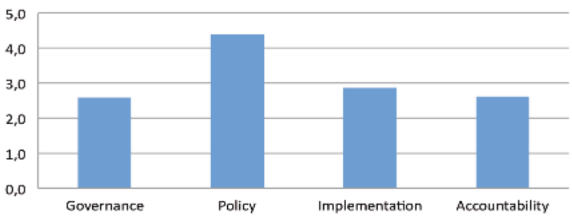
Pensioenfonds Zorg en Welzijn



Implementation	
Public listed equity	3,3
Corporate bonds	2,3
Sovereign bonds	2,8
Real estate	4,2
Alternative Investment	0,0

overall score 3,0

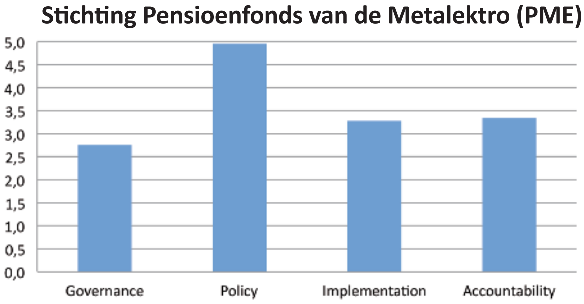
Philips Pensioenfonds



Implementation	
Public listed equity	2,1
Corporate bonds	2,7
Sovereign bonds	3,3
Real estate	5,0
Alternative Investment	4,4

overall score 3,5

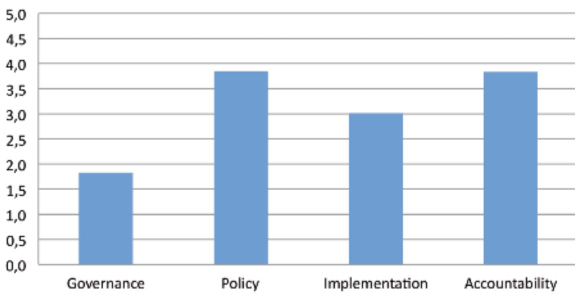
Stichting Pensioenfonds van de Metalektro (PME)



Implementation	
Public listed equity	3,1
Corporate bonds	2,5
Sovereign bonds	2,8
Real estate	2,5
Alternative Investment	2,3

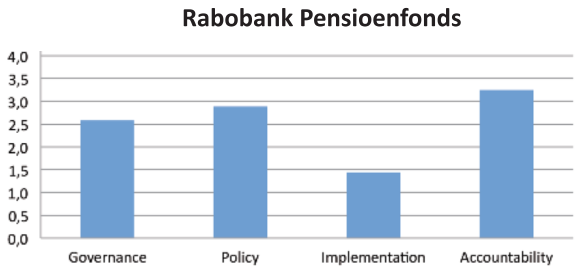
overall score 2,6

Stichting Pensioenfonds Metaal en Techniek



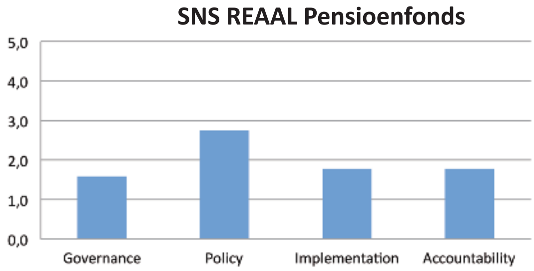
Implementation	
Public listed equity	2,9
Corporate bonds	3,3
Sovereign bonds	1,1
Real estate	3,3
Alternative Investment	3,1

overall score 2,4



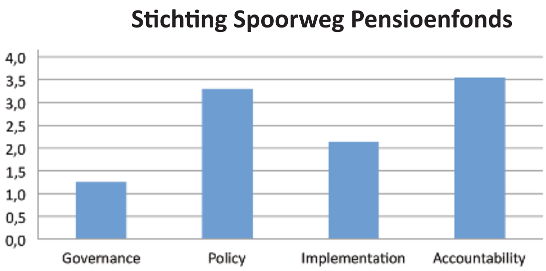
Implementation	
Public listed equity	2,9
Corporate bonds	3,8
Sovereign bonds	2,2
Real estate	0,0
Alternative Investment	5,0

overall score 2,9



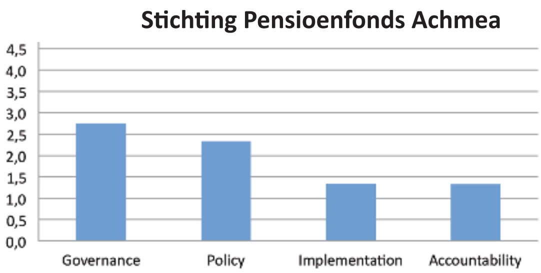
Implementation	
Public listed equity	3,1
Corporate bonds	2,5
Sovereign bonds	1,0
Real estate	1,7
Alternative Investment	2,5

overall score 2,4



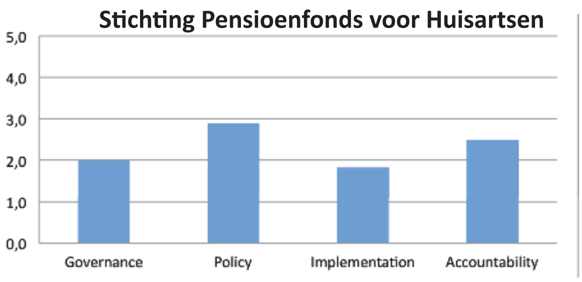
Implementation	
Public listed equity	2,4
Corporate bonds	2,7
Sovereign bonds	0,0
Real estate	0,0
Alternative Investment	1,7

overall score 1,7



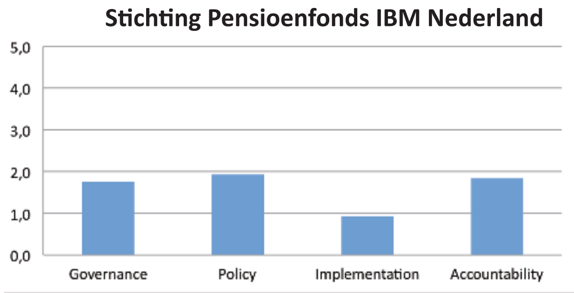
Implementation	
Public listed equity	2,5
Corporate bonds	2,5
Sovereign bonds	0,0
Real estate	1,7
Alternative Investment	1,7

overall score 2,1



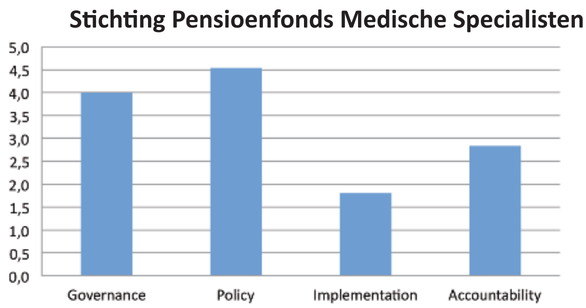
Implementation	
Public listed equity	1,8
Corporate bonds	2,3
Sovereign bonds	0,6
Real estate	0,0
Alternative Investment	0,0

overall score 1,4



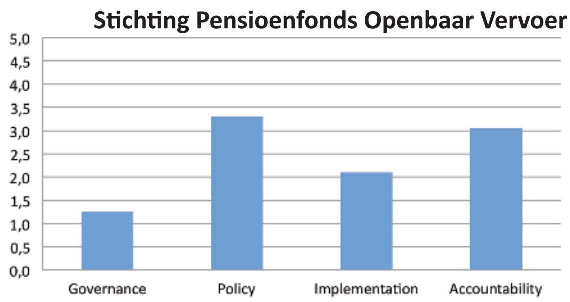
Implementation	
Public listed equity	2,5
Corporate bonds	2,9
Sovereign bonds	0,0
Real estate	1,3
Alternative Investment	0,0

overall score 2,8



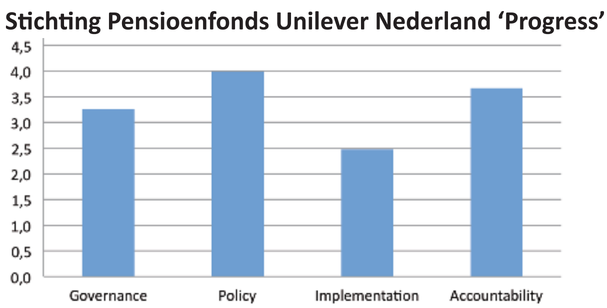
Implementation	
Public listed equity	2,9
Corporate bonds	2,5
Sovereign bonds	1,4
Real estate	1,7
Alternative Investment	2,5

overall score 2,3



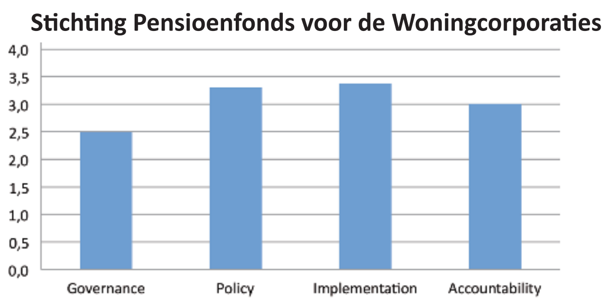
Implementation	
Public listed equity	2,6
Corporate bonds	3,4
Sovereign bonds	3,3
Real estate	3,8
Alternative Investment	1,7

overall score 3,1



Implementation	
Public listed equity	3,3
Corporate bonds	3,3
Sovereign bonds	1,9
Real estate	3,8
Alternative Investment	4,5

overall score 3,2



Appendix 2 Responsible investment strategies & asset classes

Responsible investment strategies

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

- **Exclusion**

  Some products and processes or behaviour of some companies are at such odds with international agreements and treaties that they should be excluded from the investment portfolio. Merely taking general 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.

  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 of January 2013 the legal ban of investments in cluster munition came into force in the Netherlands. In the opinion of the VBDO responsible investments should be a practice which goes beyond only following legal obligation. Therefore the standards on exclusion will be raised accordingly in the benchmark of 2014. From then on, only using more than two criteria for exclusion will lead to a score on the related questions.

  An exclusion policy can at least be applied to publicly listed equity, corporate bonds and government bonds.

- **ESG-integration**

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

  The VBDO defines ESG-integration as the process by which ESG-criteria are incorporated into the investment process. This involves more than screening the portfolios against exclusion criteria but does not necessarily mean that an investor selects the best-in-class companies. ESG-integration can go one step further by identifying and weighing ESG-criteria, which may have a significant impact on the risk-return profile of a portfolio. Therefore, the VBDO distinguishes between investors making ESG-information available to the portfolio manager on the one hand and investors systematically incorporating ESG-criteria into each investment decision on the other hand. The latter is rated higher because this truly meets the idea behind ESG-integration.

  Integration of ESG-criteria in the investment selection can be applied to all the selected asset classes in this research. Regarding publicly listed equity and bonds, the assessment in this benchmark takes into account both the extent and the volume of ESG-integration.

- **Positive selection**

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

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

- **Voting**

  Pension funds and insurance companies can actively exert influence on companies in which they invest by voting during shareholder meetings. Many pension funds have 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.

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

- **Engagement**

  Pension funds can actively exert influence on companies in which investments are made by entering into dialogue with them. If 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 shareholder meeting, monitor and report positive changes in corporate social and environmental management receive higher scores.

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

- **Impact investing**

  Impact investing implies active investments that are made in companies or projects which are leaders in the field in terms of sustainability or clearly offer added value for sustainable development. Examples are investments in sustainable energy sources, innovative clean technology, cheap medicine against tropical diseases, microcredit and sustainable forestry. Although such initiatives can yield considerable profits, they are not considered for regular financing because investment return time horizon is considered by banks to be too long. Institutional investors, with their longer time horizons, are very well equipped to make such investments, enabling them at the same time to fulfil their social responsibility.

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

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 crucially for emerging markets. In many sectors economic development show that these countries are already responding to the above mentioned challenges (think of, for example, the leading role in solar power of China). Nevertheless, extracting the relevant ESG data on emerging market companies can require a large amount of research.[1]

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

- **Corporate (including covered) bonds**

  For corporate bonds responsible investment activities can be much the same 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 pension funds “it will be months, even years, before responsible investment in bonds reaches the level it has in equities”, but it does not mean it is not possible at all. This also counts for engagement, which can be done at the time of issuance. [2]

- **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, selection of fund managers based on experience with and 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 [3]:

  - 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.
  - 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.
  - 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.

Appendix 3 Questionnaire

Category 1: Governance (16,6%)

Besides the role of the asset manager, there is an important responsibility for the board regarding the responsible investment policy. Does the board for example evaluate responsible investment performance, discuss RI issues and evaluate the mandate the asset manager has on this issue?

Board responsibility: Frequency

How frequent has the responsible investment policy been discussed last year?

- Responsible investment has not been discussed in the board. (0/2)
- The responsible investment policy has been discussed at least yearly in the board. (1/2)
- Responsible investment has been a regular agenda item at each board meeting. (2/2)

Board responsibility: Information

The board has a key role in evaluating the responsible investment policy and the role of the asset managers in the implementation. It is important that the board has sufficient and also independent information to carry out this role. From which source does the board use information to shape and evaluate the responsible investment policy and its implementation?

- Responsible investment has not been discussed in board. (0/2)
- The board uses solely the information provided by the asset manager. (1/2)
- The board also uses external information and advice (such as consultants and NGO's) to verify and evaluate responsible investment policy and implementation, besides the information provided by the asset manager. (2/2)

Sustainability targets for asset managers

Setting targets on responsible investment enables the board to successfully improve, evaluate and shape the responsible investment policy. Is the asset manager given sustainability targets to improve the responsible investment policy and implementation?

- No. (0/3)
- Yes, these sustainability targets are qualitative. (1/3)
- Yes, these sustainability targets are quantitative (eg. improvement of number of engagement meetings or percentage of portfolio screened). (2/3)
- Yes, these targets are quantitative and also measure actual impact corporate social and environmental policies. (3/3)

Sustainable remuneration of asset managers

To actively steer and evaluate the responsible investment policy and implementation it is important that this topic and therefore sustainability targets have a proper place in the remuneration. Is the (variable) remuneration of the asset manager dependent on sustainability targets?

- No. (0/1)
- Yes, the (variable) remuneration is also dependent on targets on responsible investment and sustainability. (1/1)

Note: *When the pension fund did not have a remuneration policy and could therefore also not have a sustainable remuneration policy, points could still be awarded when the board had clear control over the efforts of the fiduciary/asset manager regarding responsible investment.*

Communication with participants

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 has to be aware of economic developments, but also has to be aware of the preferences of their stakeholders, such as participants, and developments regarding sustainability in general. Seeking constructive dialogue with for example participants or NGOs on how the pension fund can assume its responsibilities is therefore viewed positively. How does the pension fund communicate with their participants, pensioners and society in general?

- No communication. (0/4)
- Pension fund informs participants about responsible investment policy using the website, newsletters and/or information packages. (1/4)
- Pension fund consults the participants' council in the formulation and adaptation of the responsible investment policy. (2/4)
- Pension fund surveys and/or consults the participants (directly) about the responsible investment policy. (3/4)
- Besides with participants, the pension fund also consults with society in general (such as NGO's) about the formulation and/or adaption of the responsible investment policy. (4/4)

Best Practices governance

Are there any best-practices regarding the governance of RI in your fund you would like to mention (no points, but processed in report)?

Category 2: Responsible investment policy (16,6%)

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

Policy content

VBDO selected the widely accepted themes from the UN Global Compact (human rights, labour standards, the environment and anti-corruption), as a basis for assessing the content of the policies. This means that the policy should explain which themes are important to the investor and form the basis for its investment decisions, but does not necessarily have to refer to the Global Compact itself.

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

Policy volume

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

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

Policy performance indicators

The responsible investment policy should not be a static policy document and therefore indicators should be included which enable the evaluation and improvement of the responsible investment policy. Clear key performance indicators should be part of the responsible investment policy.

- No goals mentioned. (0/3)
- Yes, qualitative key performance indicators have been mentioned concerning the output of the responsible investment policy. (1/3)
- Yes, quantitative key performance indicators have been mentioned concerning the output of the responsible investment policy. (2/3)
- Yes, these key performance indicators are quantitative and also measure actual impact corporate social and environmental policies. (3/3)

- Themes that have been included in the responsible investment policy

Indicate which themes have been included in the responsible investment policy. If yes, please mention if this theme is excluded from investments. No points can be received for this question, but aggregated results will be used in the research report.

	Is the theme included in the responsible investment policy?	Is this theme excluded from investments?
Alcohol	Yes / No	Yes / No
Animal testing	Yes / No	Yes / No
Climate change	Yes / No	Yes / No
Controversial weapons	Yes / No	Yes / No
Corruption	Yes / No	Yes / No
Environment	Yes / No	Yes / No
Equal opportunities	Yes / No	Yes / No
Fur	Yes / No	Yes / No
Gambling	Yes / No	Yes / No
Genetic engineering	Yes / No	Yes / No
Human rights	Yes / No	Yes / No
Intensive farming	Yes / No	Yes / No
Labour rights (ILO conventions)	Yes / No	Yes / No
Nuclear power	Yes / No	Yes / No
Pornography	Yes / No	Yes / No
Tobacco	Yes / No	Yes / No
Other, please specify	Yes / No	Yes / No

- **Best practices 'Responsible Investment Policy'**

Are there any best-practices regarding the responsible investment policy in your fund you would like to mention (no points, but processed in report)

Category 3: Implementation (50%)

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

For each asset class a number of assessment issues, based on the instruments, is identified. If an investor does not invest in a particular asset class, it is not necessary to have detailed policies and implementation procedures, and as a result, these scores will not be taken into account in the final score.

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

Asset class: Publicly listed equities

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

- Exclusion policy
  Exclusion is identifying specific, preferably multiple, ESG-criteria for exclusion of companies from the investment universe. Investors can demonstrate their use of exclusion by providing a list of excluded companies, preferably based on multiple criteria. How is exclusion practiced in your fund?
- No. (0/2)
- Yes, companies are demonstrably excluded based on 1 criterion. (1/2)
- Yes, companies are demonstrably excluded based on multiple criteria. (2/2)

Note: *a criterion is defined by the VBDO as a specific theme such as controversial weapons, human rights or exclusion due to failed engagement.*

ESG integration

- ESG integration (extent)
  ESG-integration is the process by which ESG- criteria are incorporated into the investment process. In practice this ranges from making ESG-information available for fund managers to systematically incorporating ESG-criteria into each investment decision (being passive or active), which is rated highest in this methodology.
  - No. (0/3)
  - ESG-information is used in evaluation of investments in equity (eg. asset managers required to be PRI signatory). (1/3)
  - ESG-information is systematically and demonstrably part of the equity selection process (eg. by using onepagers) (or in the composition of the ESG-index). (2/3)
  - ESG-information is systematically and demonstrably part of the equity investment selection process and has a systematic, ongoing and verifiable impact on individual holdings. (3/3)

ESG integration (volume)

As this strategy may be applied to part of the portfolio, the volume of implementation is also taken into account. Please take your active as well as your passive investments into account when choosing your answer. The two scores for ESG-integration are multiplied and end up as one score.

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

Positive selection

Positive selection is choosing the best performing organisation out of a group of corresponding organisations (sector, industry, or class) with the use of ESG-criteria. The extent to which positive selection is implemented in a portfolio differs amongst investors and is generally low (not more than 15%). This assessment issue is therefore corrected after data collection to ensure it distinguishes innovators from laggards. Please consider your passive as well as your active investments in public equities in calculating your percentage.

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

Engagement

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

- No. (0/3)
- Yes, engages or participates in engagement activities on ESG-criteria issues. (1/3)
- Yes, demonstrably engages or participates in engagement activities on ESG-criteria and reports on activities (vague reporting, no names named). (2/3)
- Yes, demonstrably engages or participates in engagement activities on ESG-criteria and shows demonstrable results over 2012 (evidence of positive changes in corporate policies regarding ESG-topics/company excluded). (3/3)

Voting

Voting (extent)

Voting is exerting influence on companies by voting during shareholder meetings and by introducing or supporting resolutions about sustainability and corporate social responsibility (CSR). Both the extent and volume of the voting policy are taken in to account. Highest points are accredited to investors that also publicly initiate and/ or support shareholder resolutions on CSR.

- No. (0/3)
- Yes, demonstrably votes at annual shareholder meetings of companies in portfolio. (1/3)
- Yes, demonstrably votes at annual shareholder meetings of companies in portfolio, paying explicit positive attention to ESG issues. (2/3)
- Yes, demonstrably votes at annual shareholder meetings of companies in portfolio, paying explicit attention to ESG issues and publicly initiates and/or supports shareholder resolutions promoting CSR. (3/3)

Voting (volume)

As this strategy may be applied to part of the portfolio, the volume of implementation is also taken into account. The two scores for volume and extent are multiplied and end up as one score. Please consider your active as well as your passive public equity portfolio in calculating the percentage.

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

Impact investing

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

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

Asset class: **Corporate (including covered) bonds**

Exclusion

Exclusion is identifying specific, preferably multiple, ESG-criteria for exclusion of companies from the investment universe. Investors can demonstrate their use of exclusion by providing a list of excluded companies, preferably based on multiple criteria. Controversial weapons count as one point, and other criteria such as violation of human right or unsuccessful engagement can each provide one more point.

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

ESG-integration

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

ESG integration (extent)

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

- No. (0/3)
- ESG-information is used in evaluation of investments in corporate bonds (eg. asset managers required to be PRI signatory). (1/3)
- ESG-information is systematically and demonstrably part of the corporate bond selection process (eg. by using onepagers) (or in the composition of the ESG-index). (2/3)
- ESG-information is systematically and demonstrably part of the corporate bond investment selection process and has a systematic, ongoing and verifiable impact on individual holdings. (3/3)

ESG integration (volume)

As this strategy may be applied to part of the portfolio, the volume of implementation is also taken into account. The two scores for ESG-integration are multiplied and end up as one score. Please consider your passive as well as your active investments in calculating your percentage.

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

Positive selection

Positive selection is choosing the best performing organisation out of a group of corresponding organisations (sector, industry, or class) with the use of ESG-criteria. The extent to which positive selection is implemented in a portfolio differs amongst investors and is generally low (not more than 15%). This assessment issue is therefore corrected after data collection to ensure it distinguishes innovators from laggards. Please consider your passive as well as your active investments in corporate bonds in calculating your percentage.

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

Engagement

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

- No. (0/3)
- Yes, engages or participates in engagement activities on ESG-criteria issues. (1/3)
- Yes, demonstrably engages or participates in engagement activities on ESG-criteria and reports on activities (vague reporting, no names named). (2/3)
- Yes, demonstrably engages or participates in engagement activities on ESG-criteria and shows demonstrable results over 2012 (evidence of positive changes in corporate policies regarding ESG-topics/company excluded). (3/3)

Asset class: **Government bonds / Sovereign bonds**

Exclusion policy

Exclusion is identifying specific ESG-criteria for exclusion of countries from the investable universe. Investors can demonstrate their use of exclusion by providing a list of excluded countries.

- No. (0/2)
- Yes, countries are demonstrably excluded, but it is unlikely that it is commonly traded. (1/2)
- Yes, countries are demonstrably excluded, including readily available government bonds. (2/2)

ESG-integration

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

ESG-integration (extent)

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

- No. (0/3)
- ESG-information is used in evaluation of investments in government bonds (eg. asset managers required to be PRI signatory). (1/3)
- ESG-information is systematically and demonstrably part of the government bond selection process (eg. by using onepagers) (or in the composition of the ESG-index). (2/3)
- ESG-information is systematically and demonstrably part of the government bond investment selection process and has a systematic, ongoing and verifiable impact on individual holdings. (3/3)

ESG-integration (volume)

As this strategy may be applied to part of the portfolio, the volume of implementation is also taken into account. The two scores for ESG-integration are multiplied and end up as one score. Please consider your passive as well as your active investments in calculating your percentage.

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

Positive selection

Positive selection is choosing the best performing organisation out of a group of corresponding organisations (sector, industry, or class) with the use of ESG-criteria. The extent to which positive selection is implemented in a portfolio differs amongst investors and is generally low (not more than 15%). This assessment issue is therefore corrected after data collection to ensure it distinguishes innovators from laggards. Please consider your passive as well as your active investments in government bonds in calculating your percentage.

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

Asset class: **Real estate**

Direct real estate - ES(G)-criteria

The use of ESG-criteria ranges from making ESG-information available for fund managers to systematically incorporating ESG-criteria into each investment decision for the selection of real estate objects. Additionally, ESG-criteria could be used for the maintenance of real estate objects by taking active steps to reduce CO2 emissions, energy usage and waste production.

- Not applicable. (N/A)
- No. (0/2)
- Yes, investor demonstrably considers ES(G) issues in selection/development of new real estate objects or in the maintenance of real estate objects. (1/2)
- Yes, investor demonstrably considers ES(G) issues in selection/development of new real estate objects and in the maintenance of real estate objects. (2/2)

Indirect real estate - selection & evaluation

For indirect real estate investments an investor could consider ES(G) issues during its selection and evaluation of fund managers.

- No. (0/2)
- Yes, the pension fund demonstrably considers ES(G) issues in selection and evaluation of real estate fund managers/publicly listed real estate companies. (1/2)
- Yes, the pension fund demonstrably considers ES(G) issues in selection and evaluation of real estate fund managers/publicly listed real estate companies and selects only most sustainable real estate funds/publicly listed real estate companies. (2/2)

Indirect real estate - engagement

The investor enters into dialogue with the real estate fund manager to improve its ESG-performance.

- No. (0/2)
- Yes, the pension fund demonstrably engages with real estate fund managers on ESG-criteria. (1/2)
- Yes, the pension fund demonstrably engages with real estate fund managers on ESG-criteria and shows demonstrable results over 2012. (2/2)

Asset class: **alternative investments**

Private equity

Despite private equity's controversial reputation, the VBDO believes that the private equity business model is perfectly suited to act as an enabler in the transition towards a more sustainable society. Does the pension fund use ESG-criteria and/or international standards in this field in the selection and evaluation of the private equity house? Impact investments are not included in this question.

- Not applicable. (N/A)
- No. (0/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of some of the private equity investments. (1/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of all of the private equity investments. (2/2)

Hedge funds

Does the pension fund use ESG-criteria and/or international standards in this field in the selection and evaluation of the hedge funds? Impact investments are not included in this question.

- Not applicable. (N/A)
- No. (0/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of some of the investments in hedge funds. (1/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of all of the investments in hedge funds. (2/2)

Commodities

Does the pension fund use ESG-criteria and/or international standards in the selection and evaluation of their commodities investments? Impact investments are not included in this question.

- Not applicable. (N/A)
- No. (0/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of some of the investments in commodities. (1/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of all of the investments in commodities. (2/2)

Other alternative investments

Does the pension fund use ESG-criteria and/or international standards in this field in the selection and evaluation of other alternative investments? Impact investments are not included in this question.

- Not applicable. (N/A)
- No. (0/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of some of the investments in other alternative investments. (1/2)
- Yes, investor demonstrably considers ES(G) issues in selection/evaluation of all of the investments in other alternative investments. (2/2)

Category 4: Accountability (16,6%)

Consumers and citizens have a right to information on companies' and organizations' involvement in society so that it can be taken into account when making decisions. Institutional investors such as pension funds must offer insight into the basis and criteria of their responsible investment policy as well as the applied instruments and results.

Responsible investment policy

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

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

List of investments

There should be a publicly available overview of the investments made.

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

Implementation

Exclusion

How does the pension fund report on exclusion policy and excluded companies and/or countries?

- No information concerning exclusion policy. (0/2)
- Exclusion policy is explained. (1/2)
- Exclusion policy is explained and list with excluded countries and companies and reason for exclusion is available. (2/2)

ESG-integration

How does the pension fund report on ESG-integration?

- Methodology for ESG-integration is not explained. (0/1)
- Methodology for ESG-integration is explained. (1/1)

Positive selection

How does the pension fund report on positive selection.

- Methodology for positive selection is not explained. (0/1)
- Methodology for positive selection is explained. (1/1)

Engagement

How does the pension fund report on engagement?

- No reporting on engagement. (0/3)
- Engagement policy has been published. (1/3)
- Engagement policy is explained, general overview of activities is available. (2/3)
- The engagement policy, the undertaken engagement activities and concrete results are reported. (3/3)

Voting

How does the pension fund report on the voting policy and implementation?

- No policy can be found. (0/2)
- Voting activity overview report can be found. (1/2)
- Detailed voting activity report is available. (2/2)

Impact investing

How does the pension fund report on impact investing?

- No reporting on impact investing. (0/2)
- Impact investment strategy is explained. (1/2)
- Impact investment strategy is explained, an overview of impact investments is given. (2/2)

Responsible investment report

Publication

Stakeholders need to be kept informed on the progress of the pension fund on the development of their responsible investment policy and of the implementation of this policy. Therefore pension funds should yearly publish a report to inform participants and other stakeholders. Does the pension fund publish a yearly responsible investment report?

- No. (0/1)
- Yes, in 2012 a report has been published. (1/1)

Note: *the VBDO has also awarded points on this question when the general annual report clearly and extensively explained the responsible investment policy and the progress made regarding implementation.*

(External) verification

When a responsible investment report has been verified by a, preferably independent, auditor, the information within the responsible investment report becomes more reliable for the different stakeholders. Has the responsible investment report been verified by an (independent and external) auditor?

- No. (0/0)
- Yes, the report has been audited, by an internal auditor. (1/3)
- Yes, parts of the responsible investment report have been audited by an external auditor. (2/3)
- Yes, the entire responsible investment report has been audited by an external auditor. (3/3)

Best practices 'Accountability Responsible Investment'

Are there any best-practices regarding the accountability of the responsible investment policy in your fund you would like to mention (no points, but processed in report)

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