Benchmark Responsible Investment by Pension Funds in the Netherlands 2015

Bridging the Gap

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Foreword

For the ninth year in a row the VBDO presents its extensive benchmark study 'Sustainable Investing by Pension Funds in the Netherlands'. 98% of the 50 largest pension funds in the Netherlands participated in this survey. I want to take the opportunity to thank these pension fund and their asset managers for their participation.

A very special development is that the Italian Forum for Sustainable Finance (our sister organisation FFS), has now launched a benchmark to measure the performance on responsible investment of Italian pension funds, based on our methodology. As the expectation is that other sister organisations will join this initiative, this will provide us the opportunity to draw comparisons between European pension funds.

This benchmark provides pension funds and their participants insight into the level of responsible investment by examining their governance, policies, implementation of responsible investment instruments and reporting. This year we also include the vision of experts, stakeholders and politicians on the role of pension funds in sustainable development.

This places the results of the benchmark in a wider context and confirms the responsibility of pension funds on this topic.

The overall results show a stagnating score compared to last year. Frontrunners took new innovative steps, but co-operation between pension funds is needed to keep the sector moving ahead on responsible investment. Other stakeholders, such as Labour Unions, NGOs and the Dutch Central Bank, have an important role to play in fostering and supporting this cooperation.

On October 29th, 2015 we will present the first copy of this report to Edith Maat, Head of Policy and Deputy Director of the Dutch Pension Federation.

I would like to thank Oxfam Novib, as without their support and dedication, this report would not have been possible. And last, but not least, I hope the conclusions and insights of this report inspire the readers to take action to progress to even better investment practices.

Giuseppe van der Helm
Executive Director VBDO

Executive Summary

This is the ninth annual edition of the VBDO Benchmark on 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 on the responsible investment policies of pension funds is of great importance because of the large assets under their management, in total more than €1 trillion. We believe all stakeholders of Dutch pension funds should be able to determine whether their funds are invested in a sustainable and responsible way.

Are investments made in accordance with the values of the participants? Are investments screened on environmental and social criteria to minimize (financial) risks? Do investments contribute to sustainable economic development? This report seeks to answer these questions.

The top three in this year's responsible investment ranking of the largest 50 pension funds consists of the same pension funds as last year. The 2015 ranking is led by PFZW, closely followed by Landbouw and ABP. These frontrunners continue to progress on responsible investment. Examples include developing long term goals for sustainable investing and integrating sector-specific sustainability scenarios.

- ***Front-runners continue to take steps forward in responsible investing***
  A few pension funds have taken new steps in addressing sustainability themes in innovative and positive ways. These pension funds develop long-term oriented policy frameworks, think strategically about sustainability scenarios such as climate change and apply new forms of active ownership.
- ***Overall responsible investment practice leveling off***
  The total score of all pension funds does not show an improvement.
- ***Size of pension fund not wholly determinant of responsible investment score***
  The largest pension funds regarding assets under management have scored highest. Even though larger pension funds have more means to implement responsible investment strategies, many smaller and medium-size pension funds are also taking their responsibilities.
- ***Limited cooperation and consultation***
  Often pension funds and their asset-managers are working quite isolated from other pension funds on their responsible investment strategies. Furthermore, the consultation and co-operation with participants, governmental organization such as AFM and DNB, or societal organization such as labour unions and other NGOs is still limited.

The benchmark covers four focus areas: governance, policy, implementation and accountability.

Governance

- Responsible investment is not a regular agenda item for all the pension fund boards. 48% of the funds discuss the topic at least twice a year.
- A third of the pension funds has no targets for their asset manager, leaving a substantial degree of policy formulation and implementation up to the asset managers.
- Gender representation in pension fund boards remains unbalanced. The large majority of pension funds have male dominated boards. This raises the question whether the participants are properly represented.
- The participants' council is the most common way to consult participants directly about the responsible investment policy. Broader consultation, with the entire participants base or with other relevant stakeholders such as experts and NGO's, is not yet common practice.

Policy

- The coverage of responsible investment policies has continued to rise in the past years. Today, the majority of the responsible investment policies apply to the pension funds' entire portfolio.
- Almost all of these policies refer to international guidelines. Most common policy themes include corporate remuneration, human and labour rights.
- 4% of pension funds set long-term sustainability goals in the investment policy. Setting such targets is sometimes done by the fiduciary manager or the responsible investment service providers (e.g. regarding engagement), undermining broader ownership of responsible investment within pension funds.

Overall conclusions

RANKING 2015		2014	NAME OF PENSION FUND	OVERALL SCORE	GOVERNANCE	POLICY	IMPLEMENTATION	ACCOUNTABILITY
					SCORES PER CATEGORY			
1	=	1	Pensioenfonds Zorg en Welzijn	**4,4**	5,0	5,0	3,8	5,0
2	▼	1	Bedrijfstakpensioenfonds voor de Landbouw	**4,2**	5,0	3,5	3,8	5,0
3	=	3	Algemeen Burgelijk Pensioenfonds	**4,1**	5,0	4,5	3,6	4,5
4	▲	7	Pensioenfonds SNS Reaal	**4,0**	4,8	5,0	3,5	3,9
5	▲	11	St. Pensioenfonds voor de Woningcorporaties	**3,8**	4,5	4,5	3,5	3,5
6	=	6	Bedrijfstakpensioenfonds voor de Bouwnijverheid	**3,8**	4,5	4,5	3,4	3,5
7	▲	9	Spoorwegpensioenfonds	**3,6**	4,3	4,0	3,1	4,2
8	▲	14	St. Pensioenfonds Openbaar Vervoer	**3,6**	4,5	4,0	2,9	4,2
9	▲	13	Ahold Pensioenfonds	**3,5**	4,8	4,0	3,1	2,7
10	▲	16	Bedrijfstakpensioenfonds Zorgverzekeraars	**3,3**	3,5	4,0	2,8	3,6
11	▼	4	Bedrijfstakpensioenfonds voor de Media	**3,2**	2,8	3,0	2,8	4,7
12	▼	5	Pensioenfonds Progress (Unilever)	**3,1**	4,0	3,0	2,8	3,1
13	▼	10	Pensioenfonds Metaal en Techniek	**3,1**	4,0	2,5	2,8	3,4
14	▼	8	Pensioenfonds van de Metalektro	**3,0**	4,0	3,0	2,7	2,8
15	▼	12	Pensioenfonds Architectenbureaus	**3,0**	2,3	3,5	3,0	3,1
16	▲	21	Rabobank Pensioenfonds	**2,9**	2,8	2,7	2,8	3,2
17	▲	18	Pensioenfonds Werk en (re)Integratie	**2,8**	4,5	3,0	2,2	2,5
18	▼	17	Philips Pensioenfonds	**2,7**	3,3	2,2	2,7	2,9
19	▼	15	Bedrijfstakpensioenfonds Koopvaardij	**2,7**	3,3	2,5	2,7	2,4
20	▼	19	St. Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf	**2,7**	2,3	2,7	2,5	3,5
21	▼	20	St. Pensioenfonds Medisch Specialisten	**2,5**	4,8	1,8	1,9	2,9
22	✳	34	Pensioenfonds Vervoer	**2,4**	2,8	2,5	2,1	3,0
23	▲	25	Bedrijfstakpensioenfonds Schilders	**2,4**	1,8	2,0	2,4	3,2
24	✳	41	Heineken Pensioenfonds	**2,3**	3,8	2,2	1,8	2,7
25	▲	26	Delta Lloyd Pensioenfonds	**2,3**	3,8	2,0	1,8	2,7
26	▼	24	Pensioenfonds Achmea	**2,3**	2,8	3,5	1,8	2,1
27	▲	28	Bedrijfstakpensioenfonds v/h Schoonmaak- en Glazenwassersbedrijf	**2,3**	2,8	2,0	2,2	2,2
28	▲	36	St. Pensioenfonds UWV	**2,2**	2,8	3,2	1,8	2,0
29	▼	23	St. Pensioenfonds Wonen	**2,1**	2,3	1,7	2,2	2,2
30	▼	22	Pensioenfonds Detailhandel	**2,1**	3,3	2,0	1,6	2,5
31	✳	42	Pensioenfonds Horeca en Catering	**2,1**	3,0	2,0	2,0	1,7
32	▼	29	St. Pensioenfonds APF (Akzo Nobel)	**2,1**	2,5	2,0	1,8	2,6
33	▼	32	St. Pensioenfonds KPN	**2,0**	1,8	1,7	2,0	2,4
34	▼	30	St. Pensioenfonds Huisartsen	**2,0**	1,8	2,0	1,9	2,2
35	▼	27	Pensioenfonds DSM Nederland	**1,9**	2,3	2,0	1,4	3,1
36	▲	44	Pensioenfonds ING	**1,8**	1,3	1,2	1,8	3,3
37	▲	38	St. Shell Pensioenfonds	**1,8**	1,8	2,7	1,6	1,3
38	▼	31	St. Pensioenfonds voor Fysiotherapeuten	**1,7**	1,3	1,4	1,9	2,0
39	=	39	St. Pensioenfonds TNO	**1,7**	2,3	1,4	1,4	2,3
40	▼	37	St. Pensioenfonds PostNL	**1,7**	1,8	1,7	1,5	2,2
41	▼	33	Pensioenfonds voor de Grafische Bedrijven	**1,7**	2,0	1,7	1,3	2,5
42	▲	43	Pensioenfonds Medewerkers Apotheken	**1,7**	2,0	2,0	1,3	2,1
43	▼	35	St. Bpf. voor de Meubelindustrie/Meubileringsbedrijven	**1,6**	2,3	2,8	1,0	1,5
44	▼	40	St. Pensioenfonds Gasunie	**1,3**	1,3	0,8	1,3	1,7
45	=	45	St. Pensioenfonds IBM Nederland	**1,1**	1,3	1,2	0,7	1,9
46	=	46	ABN AMRO Pensioenfonds	**1,1**	2,5	0,8	0,6	1,4
47	=	47	Pensioenfonds KLM Cabine	**0,8**	1,3	0,9	0,5	1,1
48	=	48	Pensioenfonds KLM Algemeen	**0,8**	1,3	0,9	0,5	1,1
49		New	St. Pensioenfonds Hoogovens*	**0,6**	0,8	0,6	0,3	1,5
50	▼	49	Pensioenfonds KLM Vliegend Personeel	**0,2**	0,5	0,0	0,3	0,0

* based on publicly available data alone.

✳ 10 of meer plaatsen gestegen
✳ 10 of meer plaatsen gezakt

Implementation

- Basic ESG-integration has become mainstream with 94% of pension funds applying at least some ESG criteria in the evaluation of equity investments. More substantial and sophisticated ESG-integration with proven impact on holdings is only applied by a small percentage of pension funds.
- Active ownership activities such as voting and engagement are being outsourced to professional third parties. Results showed that not all voting and engagement is directed at fostering sustainable business practices.
- Additionally, qualitative analysis shows that there is a diversification of engagement practices, including company dialogues, sector-wide engagement and engagement of legislators.
- There is no unified way in which pension funds are attempting to mitigate the risks of securities lending.
- Impact investing, as an investment strategy with explicit intention to generate positive impact alongside return, was increasingly employed by pension funds. The actual measurement of the generated impact is lagging behind, with only half of impact investors actively measuring the effects.

Accountability

- All pension funds report on parts of their responsible investment policy and practices.
- Half of pension funds actively inform their participants, for example through newsletters or social media, about responsible investment.
- In the last decade, transparency has changed fundamentally due to an increase in societal and regulatory requirements. In response, the quality of reporting is more frequently audited professionally.

Our recommendations

Cooperation

Cooperation and consultation between pension funds appears to be limited. This hampers progress in responsible investment practices. Pension funds should seek cooperation and knowledge sharing to stimulate development.

Responsibility for responsible investment

Recent years show rapid evolvement in the services offered by active ownership service providers and fiduciary managers. A wide range of the pension funds' activities is outsourced to these third parties. While the growing attention for responsible investment is positive, it is important that the pension fund remains the owner of the responsible investment policy and determines its focus. Pension funds should have a steering role in the implementation process. Last, but not least, pension funds can further emphasize sustainable business practices through their active ownership activities.

Participants' consultation

Participants save part of their current income through pension funds to enable a good retirement income. As participants constitute the origin and destination of the wealth accumulated, they should be consulted. Pension funds can use various communication tools more actively, both for consultation and to comprehensively inform participants about responsible investment. Consultation should include, but not be limited to, the participants council.

Long-term focus

Good pension management and sustainable development require long-term objectives. Pension funds should therefore formulate a policy and related goals that encompass such a long term horizon. These long-term policy frameworks enable pension funds to respond to sustainability challenges from a return perspective as well as assist in fulfilling the societal responsibilities of pension funds.

Guidance by legislators and regulators

Pension funds are legally required to report on their responsible investment practices. At this moment it is still unclear what this legal requirements precisely stipulates and whether these requirements are actually met. Furthermore, some of the public information of pension funds can still be communicated in more detail. The VBDO recommends the government, the Dutch Central Bank (DNB) and the Authority for the Financial Markets (AFM) to provide more guidance and to take a more pro-active stance on this topic. They should also provide a cooperative platform to discuss and act upon systemic risks such as climate change.

Samenvatting

Voor u ligt de negende jaarlijkse editie van de VBDO Benchmark Duurzaam Beleggen door Pensioenfondsen. Dit rapport, gepubliceerd door de Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO), biedt een gedetailleerd overzicht van de huidige status en trends van de Nederlandse pensioenfondsen met betrekking tot verantwoord beleggen.

Onderzoek naar het verantwoord beleggingsbeleid van pensioenfondsen is van groot belang vanwege de grote activa onder hun beheer. Het gaat in totaal om meer dan €1 triljoen. Wij vinden dat alle stakeholders van Nederlandse pensioenfondsen inzicht zouden moeten krijgen in of hun pensioengeld op verantwoorde en duurzame wijze wordt geïnvesteerd.

Worden beleggingen gedaan in lijn met de waarden van de deelnemers? Worden de investeringen gecontroleerd op milieu en sociale criteria waardoor (financiële) risico's kunnen worden geminimaliseerd? Leveren de investeringen een toegevoegde waarde aan duurzame economische ontwikkeling? Dit rapport zoekt antwoord op deze vragen.

De top 3 van de 50 grootste pensioenfondsen is hetzelfde als vorige jaar. In 2015 staat PFZW bovenaan, gevolgd door Landbouw op de tweede en ABP op de derde plaats.

- ***Deze voorlopers blijven zich ontwikkelen op het gebied van verantwoord en duurzaam beleggen***
  Voorbeelden hiervan zijn het ontwikkelen van lange-termijn doelstellingen voor duurzaam investeren en het integreren van sector specifieke duurzaamheids-scenario's.
- ***Gemiddelde score gestagneerd***
  Over het algemeen is de score van verantwoord beleggen niet gestegen ten opzichte van het jaar hiervoor. Deze stagnerende score kan gedeeltelijk verklaard worden door de verbetering van de vragenlijst in het licht van nieuwe ontwikkelingen op dit gebied.
- ***Grootte pensioenfonds niet enige factor in score***
  Grotere pensioenfondsen presteren over het algemeen beter, maar gezien er ook kleinere pensioenfondsen aan de top staan, is de grootte van het fonds niet de enige bepalende factor voor een goede score. Grotere pensioenfondsen hebben de mogelijkheid om het goede voorbeeld te geven en om kleinere pensioenfondsen te assisteren in het vergroten van hun capaciteit.
- ***Samenwerking en raadpleging beperkt***
  Pensioenfondsen en hun vermogensbeheerders werken vaak los van andere pensioenfondsen aan verantwoord beleggen. Daarnaast is er nog beperkte samenwerking met en raadpleging van deelnemers, maatschappelijke organisaties en overheidsinstellingen zoals DNB en AFM.

De benchmark richt zich op 4 categorieën:

Governance

- Verantwoord investeren is niet voor alle pensioenfonds besturen een standaard agendapunt.
- Een derde van de pensioenfondsen heeft geen doelen gesteld voor hun asset managers met betrekking tot duurzaam investeren.
- De diversiteit in het bestuur van pensioenfondsen blijft laag. De grote meerderheid van de bestuursleden is man. Dit roept de vraag op of deelnemers wel goed vertegenwoordigd worden.
- De deelnemersraad blijft het meest gebruikte middel voor directe consultatie van deelnemers over het verantwoord beleggingsbeleid. Bredere consulatie van het gehele deelnemersbestand of relevante stakeholders als experts en NGO's, is nog niet gangbaar.

Beleid

- De reikwijdte van beleid voor verantwoord beleggen is blijven groeien in de afgelopen jaren. Vandaag de dag hebben de meeste pensioenfondsen een beleid dat van toepassing is op de gehele beleggingsportefeuille.
- Bijna alle beleidsdocumenten refereren naar internationale richtlijnen. De meest voorkomende beleids-thema's zijn beloningsbeleid, mensenrechten en arbeidsrechten.
- Een paar pensioenfondsen hebben lange-termijn duurzaamheidsdoelen met betrekking tot hun verantwoord beleggingsbeleid. Het stellen van dergelijke doelen wordt soms gedaan door de fiduciair manager of door de verantwoord beleggingsdienstverlener (bijvoorbeeld met betrekking tot engagement). Hiermee kan het bredere eigenaarschap van verantwoord beleggen van pensioenfondsen worden ondermijnd.

Implementatie

- Een basisvorm van ESG-integratie is gemeengoed geworden bij de pensioenfondsen. De overgrote meerderheid past in ieder geval een deel van de ESG-criteria toe in de evaluatie van investeringen in aandelen. Meer uitgebreide en diepgaandere ESG-integratie met een aantoonbare impact op gedane investeringen wordt slechts toegepast door een klein percentage van de pensioenfondsen.
- Actieve aandeelhouderschaps-activiteiten zoals stemmen en de dialoog voeren met bedrijven, worden in toenemende mate uitbesteed aan professionele externe bedrijven. Resultaten laten zien dat niet alle uitgebrachte stemmen en gevoerde dialogen erop gericht zijn duurzame bedrijfsactiviteiten te bevorderen.
- Daarnaast laat kwalitatieve analyse zien dat er een diversificatie is van engagement. Hieronder vallen bedrijfsdialogen, sector-brede engagement en engagement van beleidsmakers.
- Pensioenfondsen gebruiken verschillende methoden om risico's van 'securities lending' te verminderen.
- Impact investeren, als een investeringsstrategie met als expliciet doel om positieve impact te creëren naast rendement, werd in toenemende mate toegepast door pensioenfondsen. De daadwerkelijke meting van de gegenereerde impact loopt echter achter. Slechts de helft van de impact investeerders meet de effecten van deze investeringen.

Verantwoording

- Alle pensioenfondsen rapporteren over delen van hun verantwoord investeringsbeleid en hun activiteiten.
- De helft van de pensioenfondsen informeert hun deelnemers actief over verantwoord beleggen. Bijvoorbeeld door middel van nieuwsbrieven of sociale media.
- In de laatste jaren zijn pensioenfondsen steeds transparanter geworden door een toename in maatschappelijke en wettelijke vereisten. De inhoud van de rapportages wordt dan ook vaker door professionele partijen gecontroleerd.

Onze aanbevelingen

Samenwerking

Pensioenfondsen lijken elkaar nog weinig te adviseren en samen te werken. Dit houdt ontwikkeling van verantwoorde investeringsparktijken tegen. Pensioenfondsen zouden moeten samenwerken en hun kennis moeten delen om ontwikkeling te stimuleren.

Verantwoordelijkheid voor duurzaam beleggen

De afgelopen jaren laten een snelle groei zien in de aangeboden diensten door bijvoorbeeld dienstverleners op het gebied van verantwoord beleggen en door fiduciaire managers. Een groot gedeelte van de activiteiten van de pensioenfondsen wordt uitbesteed aan deze partijen. Hoewel de groeiende aandacht voor verantwoord beleggen positief is, is het wel belangrijk dat pensioenfondsen verantwoordelijk blijven voor het verantwoord beleggingsbeleid en de focus van het beleid bepalen. Pensioenfondsen zouden daarnaast een sturende rol moeten hebben in de implementatie van het beleid. Ook zou er bij actieve aandeelhouderschap-activiteiten meer nadruk kunnen liggen op het stimuleren van maatschappelijk verantwoorde bedrijfsvoering.

Raadpleging deelnemers

Deelnemers sparen een deel van hun inkomen via pensioenfondsen om een goed inkomen te hebben wanneer zij met pensioen gaan. Gezien deelnemers de bron en de bestemming zijn van het vermogen van pensioenfondsen, zouden zij geraadpleegd moeten worden. Pensioenfondsen kunnen gebruik gaan maken van verschillende communicatiemiddelen, zowel voor raadpleging als voor het informeren van deelnemers over duurzaam beleggen.

Lange-termijn focus

Gedegen pensioenmanagement en duurzame ontwikkeling vragen om een lange-termijn focus. Pensioenfondsen zouden het beleid en gerelateerde doelen moeten formuleren op basis van een lange-termijn visie. Deze lange-termijn beleidsraamwerken kunnen pensioenfondsen helpen om te reageren op de duurzaamheids-uitdagingen vanuit een rendementsoogpunt, en als basis dienen om te voldoen aan hun maatschappelijke verantwoordelijkheden.

Bijdrage door wetgevers en toezichthouders

Pensioenfondsen zijn wettelijk verplicht om te rapporteren over hun verantwoord beleggingsactiviteiten. Op dit moment is het nog onduidelijk wat deze wettelijke eis precies inhoudt en of aan deze eisen voldaan wordt. Verder kan een deel van de publieke informatie van pensioenfondsen in meer detail gecommuniceerd worden. De VBDO raadt de overheid, De Nederlandsche Bank (DNB) en de Autoriteit Financiële Markten (AFM) aan om pensioenfondsen beter te begeleiden en om een meer pro-actieve houding aan te nemen op dit gebied. Deze partijen zouden ook een platform kunnen bieden waar gediscussieerd kan worden over systematische risico's zoals klimaatverandering.

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Chapter 1
Introduction

1.1 Background

This is the ninth annual edition of the VBDO Benchmark Responsible Investment by Pension Funds in the Netherlands. It is published by the Dutch Association of Investors for Sustainable Development (VBDO). Profundo, a research consultancy, performed an external consistency check on the results. The benchmark study presents developments on the way the Dutch pension funds formulate, implement and report on their responsible investment policy.

1.2 Objectives

The objective of this report is to provide pension funds and their participants insight into the current status of responsible investment among the 50 largest Dutch pension funds. This comparative study offers pension funds an impartial instrument to assess how their policies and practices regarding responsible investment compare to those of their peers.

A study into the responsible investment policies of pension funds remains of great importance considering the large sums invested, totaling more than €1 trillion as covered by this study. The present study gives all stakeholders insight into the Dutch pension funds as to whether and how the money is invested in a sustainable way.

1.3 Approach and methodology

This benchmark and the scoring are composed on the basis of an iterative process. The VBDO sends a questionnaire that is filled in by the pension funds. VBDO, in co-operation with Profundo which verifies these results. This year a response rate of 98% was achieved. Pension funds that do not respond are scored on the basis of publicly available information.

The pension funds are assessed and scored on the following themes:

Governance

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

Policy

Policy 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? In this ninth benchmark questions on 'strategic asset allocation' and 'long-term policy goals' have been added to this category.

Implementation

Implementation considers the actual implementation of the responsible investment policy. What are the methods used and are they effective and thoroughly implemented throughout all asset-classes? The included asset classes are: public listed equity; corporate bonds; government bonds; real estate and alternative investments. In this edition a question on 'securities lending' has been added to this category.

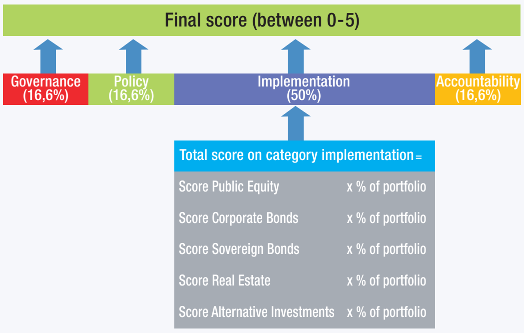
Accountability

This category investigates how communication on responsible investment takes place. Do pension funds describe their investment policy and do they report the results on all asset classes? Do all stakeholder have access to this information?

This year's report highlights a special form of communication: active transparency on responsible investment. Which investigates the use of the various (modern) communication tools to reach out to participants on the topic of responsible investment.

The overall score is calculated on the basis of the score in each category and their weighing factors as shown in figure 1.1.

Figure 1.1: General overview of the scoring model



1.4 Respons rate and changes

With a solid response rate of 98%, we are proud to offer this thorough assessment and to provide both a general and a detailed overview of the current status and trends in Dutch pension funds regarding responsible investment.

In this ninth benchmark questions on 'securities lending' and 'strategic asset allocation' have been added. A thorough review of the given answer as well as the addition of new questions do affect the methodology, however no fundamental changes were made compared to last year, thereby allowing for comparison. The methodology applied in this study has been described in the appendix.

1.5 Content

Chapter 2 starts with editorials of leading thinkers and experts in the fields of sustainable finance and/or pension funds. They share their perspectives on the role of pension funds and the place that investments have in furthering sustainable development.

Chapter 3 highlights the overall results of the benchmark. It also provides a breakdown of the scores. The final chapter presents concluding remarks and recommendations based on this year's findings.

Chapter 2
Perspectives on responsible investment

Dutch pension funds, with a total of more than 1 trillion euros of assets, can have a large impact on society. We have asked several leading thinkers, experts and stakeholders to reflect on a set of questions regarding pension funds and responsible investment. Below are their contributions:

Farahnaz Karimi was a politician for Groenlinks (Green-left Dutch party). Since 2008 she is executive director of Oxfam Novib.

Pension funds can and should contribute to a socially just and sustainable world.

Finance is at the heart of all decisive processes in the world, be it inclusive economic development, basic social services including education and health, preservation of natural resources, humanitarian aid on the one hand, or armed conflict, pollution, land grabbing and growing inequality on the other hand. Pension funds also have a central role. Therefore, they have to be accountable for how they are operating, not only when it comes to level of their coverage, indexing, internal solidarity, involvement of participants, but also regarding the nature of the enterprises they invest in.

Despite some good examples of growing commitment of a limited number of pension funds to adopt more stringent policies regarding the social en environmental impact of their investment, most resources are invested without taking these impacts into consideration. No matter how big or small the fund, this is a responsibility they have to assume, which they cannot leave to the asset managers to organize.

Pension funds should be held to account (by their participants and government alike) and challenged when their actions or policies are aggravating problems and be recognized positively where they look for constructive solutions and play a front runner role in building an accountable, sustainable and inclusive financial sector, contributing to investments in viable pro poor services, products and markets, and creating opportunities for people living in poverty. Pension funds should promote sustainable investments that benefit their participants (once they are about to receive their pensions) as well as future generations. Because of the huge size of investments of Dutch pension funds, they can play a role as an important 'force for good' through their investments on a global level.

Pension funds should expect companies to whom they provide capital, as well as their suppliers, to comply with widely supported international standards and initiatives. For instance, pension funds can use their investments in food and beverage companies and commodities like palm oil, timber, to actively promote a world where everyone has enough to eat; as at present, nearly one in eight people on earth go to bed hungry. They can commit to 'zero tolerance on land grabs and deforestation' and enforce sustainable supply chains in, for example, the cocoa and coffee sectors, to effectively prevent child labour and discrimination, and to promote living wages for farmers. The funds should not invest in controversial arms production and companies selling arms to regimes which are responsible for human rights abuses. They could address climate change by shifting their investments from fossil fuels to sustainable energy, by promotion of climate adaptation and by supporting more energy-efficient housing and real estate.

[i] http://www.scp.nl/Publicaties/Alle_publicaties/Publicaties_2015/Pensioenen_solidariteit_en_keuzevrijheid ...

The pension funds are not alone on this journey. The majority of their participants also share this principled commitment: a SCP report [1] shows that 60% of the participants want to have a voice in how their money is being invested. Pension funds could involve their members more actively in their investment decisions. Considering the CSR risks that the financial sector faces, the Dutch Government is inviting the pension funds to develop (together with the government and civil society, through a multi-stakeholder dialogue) and sign a CSR Covenant in which government and pension funds can work together in creating a common ground and a level playing field for a transparent, responsible pension sector by mid 2016.

Accross the globe there are national sustainable investment fora similar to the VBDO. In Italy our sister organization is called **Forum per la Finanza Sostenibile.** This year they have executed a pension fund benchmark for the first time and hereby share some of their views:

Forum per la Finanza Sostenibile

According to you, what is the role of pension funds in sustainable development?

Pension funds play a crucial role in developing a more sustainable economic system. On the one hand, they can contribute to foster those businesses with positive impact on society and environment; on the other hand, pension funds can encourage not sustainable companies to introduce ESG policies, taking action through engagement and divestment.

Are pension funds taking sufficient action on this theme currently?

Dutch pension funds are certainly among the most active on the themes related to sustainable development; however, it is important to spread sustainable and responsible investments by pension funds across Europe, even in those countries where such approaches are still minority.

How should participants engage their pension funds on this topic? What is the role of the participant?

Participants are the owners of funds, therefore they should ask for transparent information on the way their money is used. They could engage both individually (for example, asking questions to their consultants) and collectively, organizing public conferences on pension funds' investment policies, also collecting participants' views on how these policies should be.

What should pension funds avoid to invest in?

Pension funds should avoid to invest in companies or States with highly controversial behaviors (for instance, in such areas as human rights, environment, corruption).

What should pension funds actively search to finance?

They should finance those private and public actors that ensures positive impact for society and environment, besides financial returns. Moreover, pension funds should search to finance also those small-medium players that contribute to the local development.

What would you recommend pension funds concerning responsible investment?

I recommend pension funds to implement a broader and more comprehensive understanding of "fiduciary duty", including concerns not only regarding future income of participants, but also the social and natural environment they will live in.

Where does the responsibility of pension funds start and end concerning sustainable development?

Pension funds' responsibility refers to the way participants' money is managed. Pension funds' investment decisions can orient the economic development towards more sustainable approaches. Through Sri strategies, pension funds can also influence invested companies' behavior; nevertheless, they cannot be hold responsible for the latter, which should implement sustainability oriented actions independently from pension funds' pressures.

Gijs van Dijk is an executive board member of FNV, the largest Dutch labor union. They engage with government and employers to improve a range of labor conditions such as wage, safety and social security.

What you think is the role of pension funds in sustainable development?

Sustainable development is related to the longer term. Issues such as the energy transition are not solved in a flash but require a multi-year plan. Due the long term, with which they work, pension funds are ideally suited to invest in these long-term developments - a current new participant of 20 years old still receives a pension in 70 years time.

Do you think that pension funds currently are doing enough on this topic?

The annual ranking of the VBDO shows that there are leaders and laggards. The leaders show what is possible in this field and these are not only the largest pension funds. The laggards are going to have to step it up. The leaders can hereby serve as source of inspiration. I personally - as portfolio holder regarding pensions within FNV - am glad to see that the industry-wide pension funds, in which we are represented administratively, perform better than the corporate pension funds.

What should participants do to engage with their pension fund on this topic? What do you think of the role of participants?

I would like to turn the question around: What should funds do to improve the conversation with the participants? Because the responsibility to engage with your stakeholders is primarily a board responsibility. The guide that the VBDO developed earlier this year, offers excellent tools to enhance this conversation. And we will certainly use it. My impression is that our members in any case would like to influence the investment policy of their pension funds.

Where should pension funds invest in?

Because of their long-term perspective, pension funds could play an important role in major global developments such as the energy transition and climate change. Sometimes it seems that politicians cannot or will not take the appropriate measures, because their horizon does not reach beyond the next election.
It also appears from scientific research that especially 'best in class' investments in the long run establish a better risk/return ratio. So pension funds should invest primarily in companies that lead in matters such as good governance, transparency and good employment.

Where should pension funds not invest in?

It cannot be the case that pension funds that manage wealth for employees, invest these funds in companies that do not properly deal with their staff. Violators of the ILO conventions should be banned. But the FNV as a broad social movement obviously also has an eye for human rights, so companies or countries that do not respect human rights should be banned as well.

What would you recommend pension funds in the field of responsible investment?

The issue of socially responsible investment deserves a prominent place in boardrooms. It should be in your genes to include it in all policy decisions. In particular connect to your participants.

Where begins and where ends the responsibility of a pension fund in the area of sustainable development?

Responsibility starts with the obligation you have to your participants and company/companies of your fund, to manage their money in an exemplary manner. And that responsibility never ends, because you will persistently be faced with societal developments.

Jan Vos is a Dutch politican that joined the Dutch labor party (PvdA) in 2012. In his work there is a clear focus on economy and sustainable energy.

According to you, what is the role of pension funds in sustainable development?

Pension funds can play a crucial role in fostering sustainable development. A noteworthy example of this is the recent turnaround by ABP which committed itself to drastic reductions of CO_2-emissions. A broader trend towards fostering sustainable development can be witnessed in the Netherlands since 2007, when pension funds were allocating a mere 1% to sustainable investments. Currently, close to ten years later, this target is around 30%.

The increased demand from pension funds for responsible investment practices is causing impact. This demand is felt by for example private equity houses, which are starting to adapt their investment strategies.

Divestments regarding fossil fuels by pension funds are effectuating change, amongst others it can be said to have contributed to the recent decision of Shell to stop their drilling expedition in the Arctic. Fossil fuel divestment is crucial, from both reputational risks and the limitations of the planet. Pension funds play a vital role in this broad divestment.

Are pension funds taking sufficient action on this theme currently?

The major asset managers and pension funds are taking fascinating and praiseworthy steps forward. The efforts by PGGM, APG and NN are internationally acclaimed. A precedent for the other pension funds and asset managers.

How should participants engage their pension funds on this topic? What is the role of the participant?

Participants are currently represented in the boards and in the participant councils. There is a persistent trend of one part of participants advocating for more responsible investments while the other part demands a focus on return.

Additionally the introduction of elements of choice for individual participants is not the solution as it foregoes the current cost effectiveness and professionalism stemming from the collective approach.

What should pension funds avoid to invest in or actively search to finance?

Economic and societal changes can unfold quickly. An example is the changing mobility landscape. Recently China, in their major cities, started to move to full electric bikes. Also, in many parts of Africa prices for renewable energy are already lower than fossil based energy, paving the way for market forces to push for transition. Another example is the telecommunication revolution that changed so much in Africa, leapfrogging development.

People inherently consider current facts as a given, this is the same regarding the climate. Innovations, market forces and a changing regulatory landscape can drastically and quickly cause a paradigm shift. Pension funds should as best as possible anticipate and adapt to this by spreading their investments and reduce risks in their portfolio's.

What would you recommend pension funds concerning responsible investment?

Pension funds should cooperate internationally regarding responsible investment. Institutional investors are more conscious on their societal role and should thus lead, other investors will follow suit.

Jointly the institutional investors can compel companies to adopt more sustainable business practices. Front runners can actually benefit from their early lead as well.

Where does the responsibility of pension funds start and end concerning sustainable development?

The responsibility of pension funds concerning sustainable investment ends at the primary goal of generating and safeguarding retirement pensions. It begins at the just and flourishing world in which to receive one's pension.

Beth Richtman is investment Manager at the California Public Employees' Retirement System (CalPERS). CalPERS is seen as one of the most active pension funds un the field of responsible investment.

According to you, what is the role of pension funds in sustainable development?

Pension funds' role should be to help foster an attractive and sustainable long-term investment context. Pension funds have long-term obligations stretching out over many decades. Pension funds have a need for a sustainable economy, environment and society; these provide an investment context that will enable pension funds to achieve the sustainable returns required by their obligations to beneficiaries.

Ways pension funds can foster a sustainable economy/investment context include 1.) investing in companies and managers that operate in sustainable ways, 2.) being active owners and identifying and engaging with companies and managers that are not operating in sustainable ways to promote changes in such organizations and 3.) advocating for policies that enable and incentivize business models and practices that contribute to a sustainable economy.

Are pension funds taking sufficient action on this theme currently?

There is much progress happening, but there is much more that can and will happen as the sustainable investment community evolves and matures. In fact, CalPERS titled our most recent sustainability report Towards Sustainable Investment & Operations: Making Progress.

Sustainable investment is immense, complex and uncharted. There are often structural reasons, and in some cases legal reasons, why funds around the world are not able to move quickly in this territory. A lack of appropriate staffing, training, quality third party tools, reporting and transparency, along with a disproportionate emphasis on short-term incentives, are just some of the speed bumps funds encounter. Size can be an issue as well. For example, CalPERS is invested in more than 10,000 companies. Pension funds of our size need quality tools and external resources to effectively integrate sustainable investment considerations into our investment processes. Some of these resources exist, but many more are needed for comprehensive analyses to be done on the numerous investments most pension funds have under management.

There remain many unanswered questions among the myriad topics and subtopics within sustainability and about how to quantify certain sustainable investment risks and opportunities that may emerge slowly over time. CalPERS was the first North American fund to sign on to the Montreal Pledge, through which funds commit to analyze and disclose their carbon footprints. As we work on our carbon footprint, we recognize that there are unanswered questions such as: a.) should a global economy based on a 2° C temperature rise, which is the policy goal CalPERS and other funds are advocating for, be the benchmark for a carbon footprint? If so, how do you create a 2° C benchmark? And b.) is a snapshot of any particular year's carbon emissions really meaningful? It does not tell the story of R&D investments to limit future years' emissions, and it also does not describe the physical climate risk of assets in the portfolio. The point is: the field of sustainable investment is filled with questions.

Fortunately, pioneers are willing to try to answer the sustainability questions. Informal peer networks of investors and organizations like Ceres, PRI and SASB are thoughtfully approaching the tough topics and building maps and signposts to help funds navigate unanswered questions and achieve their sustainable investment goals. Things are evolving quickly in this space, and more definition and best practices seem to be emerging across the asset classes every year. For instance, in September 2015, CalPERS joined with seven other funds across the world to launch GRESB-Infrastructure, a new global sustainability performance benchmarking tool for infrastructure assets. As more standards are established, investors will have an easier time assessing sustainability performance of prospective and existing assets, monitoring progress and engaging with their operators, managers and boards.

How should participants engage their pension funds on this topic? What is the role of the participant?

How participants engage will depend on their particular pension fund. For example, at CalPERS our Board meetings include time for public comments. This provides beneficiaries interested in sustainability the opportunity to voice their views. Regardless of how participants in engage, one thing is clear- it is important that beneficiaries do engage. They should let trustees know sustainability matters to them and hold their funds accountable for working toward a sustainable future for their funds.

What should pension funds avoid to invest in?

CalPERS believes in the importance of having a seat at the table and that engagement with companies, and not divestment, is the first call of action and the most effective way to communicate sustainability concerns to the companies in our portfolio. Because CalPERS is so large, approximately $300 billion, we are a universal owner. Through being an active universal owner, voting our proxies and engaging with companies, we hope to push the market to provide the long-term sustainable investment context we require to achieve the returns we need to meet our long-term obligations.

That said, pension funds making active investment decisions should review prospective assets for sustainable investment considerations, including potential climate change legislation. Where material risks are identified, investors should assess whether the risks can be mitigated and/or are adequately priced. From a sustainability perspective, an investor may have more of an impact by improving the situation of an asset with weak sustainable investment characteristics than buying an asset that is already at the top of the sustainability pyramid, and priced accordingly.

What should pension funds actively search to finance?

Pension funds need to invest in assets that are economically attractive and meet that funds' return and risk thresholds. CalPERS helped develop and is a signatory to the 2014 Pocantico Statement which states that CalPERS would commit to identify and evaluate investment opportunities in climate-resilient infrastructure (including assets that contribute to mitigation of greenhouse gas emissions, reduce the vulnerability of affected communities and enhance adaptive capacity) that:

1. Fit within an existing asset class in our portfolio;
2. Have risk and return characteristics that are competitive with other opportunities then available in that asset class; and
3. Satisfy our portfolio objectives and constraints.

This statement, though focused on infrastructure, imparts an important concept- pension funds should look for sustainable investment opportunities, but not accept lower risk adjusted returns for them. Pension funds should, and CalPERS does, advocate for policies, such as a price on carbon, that would make more sustainable investments more attractive than unsustainable ones. If the right policies, with strong incentives for sustainability are put in place, pension funds will not need to actively search to finance sustainable investments, as such investments will just become the obvious, mainstream attractive investment opportunities and capital will flow toward them.

What would you recommend pension funds concerning responsible investment?

1. Developing an overarching framework that imparts a fund's philosophy on responsible investment is an important step. CalPERS Investment Beliefs, which form the framework for the strategic management of the CalPERS portfolio, stress the importance of the environment and human capital for long-term sustainable value creation, and the need for us to consider risks such as climate change and natural resource scarcity as

we make our investment decisions.
(https://www.calpers.ca.gov/docs/forms-publications/calpers-beliefs.pdf).

2. Setting well thought out expectations for internal and external managers regarding sustainable investment practices brings clarity and facilitates action in investment processes. Many investment professionals currently investing at pension funds and at privately managed funds were trained many years before sustainable investment curricula were developed. Letting them know what is expected of them during the asset selection, contracting, monitoring, management facets of an investment's lifecycle is useful, and providing them with training to meet such expectations is imperative.

In May 2015, CalPERS began piloting a set of asset class specific Manager Expectations on sustainable investment practices for investment selection, contracting and monitoring & management. Framed by CalPERS Investment Beliefs, these practices integrate sustainable investment considerations throughout the lifecycle of investments. Importantly, representatives from each asset class worked on developing their own asset class' set of expectations. Through a collaborative development process, the expectations were constructed with relevance to the particular nuances and strategies of each respective asset class, and each asset class has ownership of its own practices.

3. Develop a Cross-Asset Class Team focused on sustainable investment. This team can provide a forum where investment professionals are educated on sustainable investment, best practices are shared and sustainable investment topics are debated. Creating a group of investment professionals that have knowledge of sustainable investment, while also having investment responsibilities, enables quicker assimilation of sustainable investment thinking across asset classes and into investment decision making.

Where does the responsibility of pension funds start and end concerning sustainable development?

Responsibility depends on where a pension fund is located and what the policies in place allow, encourage or prohibit. In September 2015, CalPERS partnered with the United Nations Environment Programme to release a report, "Financial Reform, Institutional Investors and Sustainable Development" that proposes policy reform as a critical element in aligning institutional investors with sustainable development. The report cites seven critical policy objectives that hold strong potential: aligning institutional investment system design with sustainability; removing policy barriers; stimulating demand for investment that integrates sustainability; strengthening asset owner governance and capabilities; lengthening investment horizons; aligning incentives along the investment chain; and ensuring investor accountability.

This said, at CalPERS, we consider it our responsibility to be active owners: to exercise the rights we have as shareholders, vote our proxies and engage with companies and asset managers about concerns we have regarding the sustainability of their business practices.

Pension funds require a sustainable environment, society and economy to achieve the returns they need to meet their long-term obligations. They have a responsibility to have a coherent approach to meet these obligations. Sustainability is a fundamental part of this approach and therefore should be embedded throughout a fund's investment practices.

Bert Scholtens is a professor at the faculty of economics and business at the University of Groningen. His expertise includes linking the societal and ethical with the financial sector.

What role do pension funds play regarding sustainable development?

As every other organization, it is key pension funds realize their operations and investment decisions impact society and, hence, sustainable development. By investing in financial markets, they legitimize the operations of firms and organizations that have originated the financial assets they have in their portfolios. Their direct impact on financing economic activity is limited as they mainly are involved in trading assets. As to advancing sustainable development, although there is no widely accepted definition, there are several practical guidelines funds may engage with, such as the UN's Millennium Development Goals. Given the business of pension funds, it is adamant they realize that pensioners to be will want to live in a society that is worthwhile. However, the impact of individual actions of funds to this extent seems limited and responsible investment seems subject to problems other quasi-collective goods are facing.

Are pension funds paying sufficient attention to responsible investment?

Many Dutch funds have picked up the suggestion from the Frijns - 2010 report and several have become signatory to the UN sponsored Principles for Responsible Investing. Many are making progress. However, the funds seem to lag behind in identifying objectives regarding responsible investing and in ways to report their performance in this respect.

What role for fund participants?

Pension funds cannot do without the views of their participants, this regards both their financial and their responsibility strategy. However, in both instances, pension funds take a somewhat paternalistic stance. Further, it appears that so far mainly hobby horses and interest groups impact a fund's operations regarding responsible investing. Both pensioners and people paying premium have shown little interest in responsible / irresponsible investing. An issue that has to be pointed out it that it is highly unlikely to expect the participants will be able to arrive at some consensus about fund strategy. This does not need to be problematic: Funds should realize responsibility communication might help them create more commitment from participants.

Where should funds invest in?

It would be great if funds would arrive at a mechanism that reveals the preferences of the participants. The decision where (not) to invest should be driven by the responsibility strategy of the fund. Without such a strategy, it is not clear how their investments will achieve sustainable development. Next to investing, funds should also realize they can use their voice to change course of companies or countries. Keeping track of the impact is crucial for the assessment of fund performance.

Where shouldn't funds invest in?

Given that a responsibility strategy has been set in place, funds should avoid investments that endanger achieving the objectives of such a strategy.

What would you recommend the funds?

It is important to arrive at a strategy that is being supported by the participants. Funds will need to make clear what is the financial impact of such a strategy – i.e. the impact regarding fund risk and return- as well as the effects regarding sustainable development. Hence, the funds need to explicitly report the social, environmental, and financial risks and returns of their operations and how these relate to the fund's overall strategy.

Chapter 3
Results

This chapter presents the overall results of the study, together with the ranking and scores of all the pension funds studied. Results for the themes of governance, policy, implementation and accountability are analysed for 2015. The results are complemented with best practices that highlight practical examples. The appendix describes the methodology of the research.

3.1 Overall scores

Table 3.1 below shows the top 10 of pension funds in this years' benchmark.

Table 3.1 Scores and ranking per pension fund

RANKING 2015		2014	NAME OF PENSION FUND	OVERALL SCORE	GOVERNANCE	POLICY	IMPLEMENTATION	ACCOUNTABILITY
					SCORES PER CATEGORY			
1	=	1	Pensioenfonds Zorg en Welzijn	**4,4**	5,0	5,0	3,8	5,0
2	▼	1	Bedrijfstakpensioenfonds voor de Landbouw	**4,2**	5,0	3,5	3,8	5,0
3	=	3	Algemeen Burgelijk Pensioenfonds	**4,1**	5,0	4,5	3,6	4,5
4	▲	7	Pensioenfonds SNS Reaal	**4,0**	4,8	5,0	3,5	3,9
5	▲	11	St. Pensioenfonds voor de Woningcorporaties	**3,8**	4,5	4,5	3,5	3,5
6	=	6	Bedrijfstakpensioenfonds voor de Bouwnijverheid	**3,8**	4,5	4,5	3,4	3,5
7	▲	9	Spoorwegpensioenfonds	**3,6**	4,3	4,0	3,1	4,2
8	▲	14	St. Pensioenfonds Openbaar Vervoer	**3,6**	4,5	4,0	2,9	4,2
9	▲	13	Ahold Pensioenfonds	**3,5**	4,8	4,0	3,1	2,7
10	▲	16	Bedrijfstakpensioenfonds Zorgverzekeraars	**3,3**	3,5	4,0	2,8	3,6

After having to share the first place last year, PFZW has been able to reclaim its sole position as leader of the ranking. With 4.4 out of 5 point PFZW has been awarded the highest score for 3 of the 4 categories (governance, policy and transparency).

Second place comes the pension fund Landbouw (for agricultural workers) with 4,2 out of 5.

Third place comes the pension fund for government employees ABP with a respectable 4,1 out of 5 points.

PFZW is not the only pension fund that has made progress in its score. Several pension funds have significantly improved their responsible investment practices. Pension funds that made large steps forward include Heineken Pensioenfonds (increase of 0.7 points) and Pensioenfonds Horeca and Catering (increase of 0.5 points). Unfortunately, the overall scores of a number of other pension funds have dropped.

The total average score has also decreased slightly compared to last year (2.4 this year compared to 2.6 last year). This is partly attributable to additions to the questionnaire and more thorough reviewing of the given answers by pension funds. In the review phase additional information was requested to get better insight in the processes.

Types of pension funds

Table 3.2 presents the results for the various types of pension funds and the different responsible investment themes examined in the benchmark. Industry wide funds have the highest overall score and score best on all individual themes. In section 3.3.3 the results for different responsible investment themes are examined in greater detail.

Table 3.2 Type of fund and themes

	2015	2014
OVERALL AVERAGE SCORE	**2,4**	**2,6**
CORPORATE PENSION FUNDS	1,9	2,1
INDUSTRY WIDE PENSION FUNDS	2,9	3,0
OCCUPATIONAL PENSION FUNDS	2,1	2,4
GOVERANCE		
Overall average score	2,9	2,8
CORPORATE PENSION FUNDS	2,4	2,4
INDUSTRY WIDE PENSION FUNDS	3,4	3,2
OCCUPATIONAL PENSION FUNDS	2,6	2,3
POLICY		
Overall average score	2,5	3,3
CORPORATE PENSION FUNDS	2,0	2,9
INDUSTRY WIDE PENSION FUNDS	3,0	3,8
OCCUPATIONAL PENSION FUNDS	1,7	3,1
IMPLEMENTATION		
Overall average score	2,1	2,1
CORPORATE PENSION FUNDS	1,6	1,6
INDUSTRY WIDE PENSION FUNDS	2,6	2,5
OCCUPATIONAL PENSION FUNDS	1,9	2,2
ACCOUNTABILITY		
Overall average score	2,7	2,9
CORPORATE PENSION FUNDS	2,2	2,2
INDUSTRY WIDE PENSION FUNDS	3,2	3,6
OCCUPATIONAL PENSION FUNDS	2,4	2,7

The tables below show the overall scores divided by the amount of assets under management and introduce the top 3 in the ranking for these categories. Pension funds with fewer assets under management often have fewer internal resources and are generally expected to perform less with regard to responsible investment. Results show that for 2015 the largest pension funds have the highest overall score, followed by the smaller pension funds. The medium-sized pension funds received the lowest scores. These results indicate that the size of the pension fund cannot be seen as the determining factor for good sustainability practices.

3.2 Scores per Category

To obtain better insight into the underlying factors that determine the overall results a breakdown per researched category will be described in the following paragraphs.

Table 3.3: Aggregate scores for large, medium and small sized pension funds

ASSETS UNDER MANAGEMENT	OVERALL SCORE
Less then 5 billion	2,3
5 to 10 billion	2,0
10 billion or more	2,9

Table 3.4: Top 3 scoring small pension funds

RANKING	OVERALL SCORE
1 SNS Reaal	4,0
2 SPOV	3,6
3 Ahold	3,5

Table 3.5: Top 3 scoring medium pension funds

RANKING	OVERALL SCORE
1 PNO Media	3,2
2 Unilever	3,1
3 PWRI	3,8

Table 3.6: Top 3 scoring large pension funds

RANKING	OVERALL SCORE
1 PFZW	4,4
2 Landbouw	4,2
3 ABP	4,1

3.2.1 Governance

Governance refers to the role and responsibility of the board with regard to the responsible investment policy. Important indicators for good governance of responsible investment policy are the frequency of discussions at the board level, sufficient knowledge of the board, clear guidance of the asset manager and insight into the preferences of participants.

The overall score of 2.9 for governance corresponds with the score of 2014. It is however still an improvement of the score of 2.2 in 2013 (the year in which the category was introduced). Although the overall score remained unchanged, some individual pension funds made significant progress. SPMS improved from 3,7 (2014) to 4,8 (2015).

The three best scoring funds in the total ranking have all achieved the maximum score for governance (PFZW, Landbouw and ABP). With a score of 4.8 PF SNS Reaal, Ahold and SPMS score very high as well. When we further analyse the average score of 2.8, what emerges is that while serious efforts have been made, there is still significant room for improvement. The following sections will highlight several considerable developments.

Sustainability expertise of the board

The benchmark results show a slight increase in the pension funds that, alongside information from the asset manager, also use external information for the verification and evaluation of the responsible investment policy. The number of pension funds that take information provided by external consultants and NGOs into account has increased incrementally from 40% in 2013 to compared to 44% in 2015. External consultants in this context refer to independent advisors and do not include SRI service providers.

Best Practice:
sustainability on the board agenda

The board of pension funds are often time-constrained which leads to the risk that responsible investment is not properly addressed. Several pension funds have built in warrants to make sure responsible investment has its place on the agenda of the board:

- The best-practice of PNO Media is to hire and external reviewer for the responsible investment policy. This responsible investment advisor is 100% independent and challenges the board as well as the asset-manager.
- Shell Pension funds warrants board ownership of the responsible investment policy by having two Board members act as focal point for ESG related topics who also determine the ESG agenda for the board.
- Spoorwegpensioenfonds has organized a workshop for the board with a specific focus on ESG. During this day the board was informed about the ESG policy was offered and possible ways for improvement. The board was able to review the policy and set goals for the coming year. The day enabled a fruitful discussion between the board and the asset manager.

Sustainability evaluation of employees

In the previous benchmark edition a question was added on sustainability targets for employees. The question provides insight in the role of sustainability in the evaluation and, if applicable, variable remuneration of individual employees and subdepartments. The results indicate that less then half (44%) of the pension funds set sustainability targets for employees or departments that are used in evaluation or remuneration.

Diversity

In 2015 the percentage of female board members remained unchanged. Only 16% of the board members were female while 44% of the pension funds' participants are female. For the participants council the average of female members is slightly higher (19%). These results raise the question whether the participants are properly represented in the governance structure of the pension funds.

As in previous years, the results for diversity were not taken into account for the scoring of the benchmark.

[1] Reference: http://www.pfzw.nl/Documents/Over-ons/verantwoord-beleggen/Verantwoord%20Beleggen%20Jaarverslag%202013.pdf

[2] Appendix 2 further explains the methodology used.

Consultation

Except for one, every pension fund consulted at least their participant council on the formulation or adaptation of the responsible investment policy. Additional consultation of the whole participant base or relevant NGO's was done by a total of 24 pension funds. This is a slight improvement compared to last year.

3.2.2 Policy

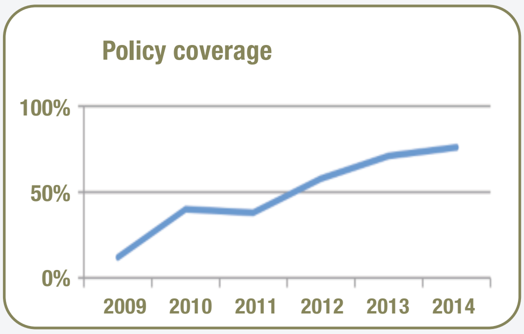
An effective responsible investment policy requires that it describes in detail how important sustainability themes are addressed. Preferably the policy applies to the total portfolio and is publicly available. To ensure continued improvement of the policy it should also include clear key performance indicators (KPIs).

The overall average score for policy in 2015 was 2.5 out of 5. This is a significant decrease compared to 2014 (3.3). This is largely due to the additions of the questions in this category. One question was added and two other questions were slightly altered. The revisionsare in line with with recent developments and enables frontrunners to be recognized for their efforts. Only 2 pension funds achieved the maximum score for this category (PFZW and Pension fund SNS Reaal). The difference between the runners up was the long term orientation of the sustainable targets that the pension funds set for their responsible investment policy. Another aspect of the policy that distinguished the front runners was the implementation of strategic asset allocation.

The coverage of policy

A large majority of pension funds (76%) have adopted a policy that applies to at least 75% of the total investment portfolio. This number corresponds with the steady increase that was observed in previous years. The figure below shows the coverage percentages of subsequent years.

Graph 3.1: The aggregated percentage of assets under management subject to the responsible investment policies of pension funds.



Evaluating policy performance

The implementation of responsible investment policies is complex and often outsourced to third-party asset managers. Clear key performance indicators in policy documents (KPIs) can enable evaluation and improvement of the responsible investment policy. For this edition of the benchmark questions were asked about both the targets and the time horizon of the KPIs. Currently 16 pension funds have developed KPI's to evaluate and adapt their responsible investment practice. 8 pension funds developed KPIs that also measure actual impact of the investments on society or corporations.

The long-term orientation of the responsible investment policies was investigated for the first time. The policy KPI's of 16 pension funds had a time span of up to 5 years, while 2 pension funds formulated policy KPI's of longer than 5 years ahead.

Best practice: **evaluating policy performance**

After the Global Financial Crisis, PFZW´s board wanted to think afresh about its investment principles: "What if we could start investing from scratch?". This question led to an 18-month process in which the board took the helm to redesign the PFZW Investment Framework from the outside in. Questions that had arisen from the GFC ranged from: "is the efficient market paradigm still relevant to us" to "what should be our role as a large fiduciary capital owner in society" and "do we really need all the complex investments we have and can we be in control of them?". The key question of the project was formulated as follows: "How can we invest in a way (1) suited to the financial ambition of the plan

(2) in which sustainability is fully integrated, and (3) that is intelligible and controllable?" The board interviewed more than 30 external experts, peers and consultants on sub-topics of the three major questions, including people like Roger Urwin, Keith Ambachtsheer and Antti Ilmanen. Also, "contrarian thinkers" were asked on stage to reflect very explicitly on what PFZW should keep doing, change, or stop doing altogether. In a number of stages all the outcomes of this process were reduced to a 12 page document, The Investment Framework, in which 16 high level investment principles are formulated.

Topical:
Strategic asset allocation

Responsible investment is often still limited to exclusions and ESG-integration on company or project level. This makes it difficult to incorporate sustainability trends on a more strategic level. Examples of these trends are resource scarcity, the transition to renewable energy and climate change. These trends will, however, have an impact on almost the entire investment portfolio of investors. An example of a study in relation to climate change and its impact is the Mercer study "investing in a time of climate change".[2]

Significant progress has been made with regards to strategic asset allocation. The topic was introduced in the previous benchmark edition. Last year only 4 pension funds took strategic ESG information into account, this year the number increased to 13 funds.

Still, incorporating these trends in investment management in the more strategic investment choices, such as asset and sector allocation, is in its pioneering phase. An interesting initiative in this field is the investigation of APG of its exposure to fossil fuels and related risks. The pension funds ABP, BPF Bouw and SPW, serviced by APG, have also published their carbon footprint. Besides enabling the discussion with participants on this topic, this is also an important first step in determining what would be logical decisions in sector and asset allocation in terms of risk.

Policy themes

While some responsible policies are still quite broad, other pension funds have included specific themes in their responsible investment policy. The table below illustrates the inclusion of current sustainability issues and trends in responsible investment policies. Because many pension funds fill in the questionnaire in collaboration with the asset managers or ESG-service providers, the numbers can include policy documents provided by these third parties. The depth and extent of the inclusion of these themes is not investigated and the results are not taken into account in the score.

Table 3.7: Inclusion of themes in the responsible investment policy

Themes	Included in the responsible investment policy	
Human rights	**45**	**(75%)**
Labour rights (ILO conventions)	**45**	**(75%)**
Renumeration corporate sector	**40**	**(66,7%)**
Climate change	**34**	**(56,7%)**
Resource depletion	**24**	**(40%)**
Conflict minerals	**24**	**(40%)**
Renewable energy	**22**	**(36,7%)**
Land grabbing	**21**	**(35%)**
Investing in the Dutch economy	**20**	**(33,3%)**
Natural capital	**19**	**(31,7%)**
Carbon bubble	**18**	**(30%)**
Responsible tax policy	**15**	**(25%)**
Food security	**11**	**(18,3%)**

[2] (http://www.mercer.com/services/investments/investment-opportunities/responsible-investment/investing-in-a-time-of-climate-change-report-2015.html).

Best practice:
pension funds and asset-managers focus on climate change

As table 3.7 highlights climate change is often referred to in responsible investment policies. Pension funds and other institutional investors are increasingly active on this theme. A growing number of reports warn on the impact climate change can have on society and therefore also return. It is positive to see that pension funds and asset managers translate their concerns in a pro-active stance. During the UN Climate Summit in New York, APG and over 300 other asset managers signed a commitment to search seriously for low CO_2 emission investments, to the extent that they are appropriate to our role as a pension investor. APG's CIO announced that the investment organisation will double its investments in sustainable energy production within three years compared with the start of 2014, when it held about a billion euro's of such investments. APG also signed the Montreal Carbon Pledge at the end of the UN Climate Summit in 2014.

3.2.3 Implementation

The implementation score demonstrates how well the responsible investment strategy is actually implemented and is therefore valued strongly in this study. Thus, the actual implementation of the responsible investment practices makes up 50% of the total score in the benchmark.[3] Implementation is analysed by looking at asset classes and by looking at responsible investment strategies.

This section of the benchmark will first analyse the overall implementation results and then zoom in on the responsible investment instruments for the three major asset classes: public equity, corporate and government bonds. Lastly responsible investments in real estate and alternative investments is covered.

Overall implementation results

The overall implementation score remained equal to last year with 2.1. With 3,8 points BPF Landbouw and PFZW share first place in implementation. ABP ranks third with 3,6 points. Of the other pension funds Horeca en Catering increased most from 1.6 (2014) to 2.0 (2015).

Results for the responsible investment strategies

The VBDO distinguishes 6 different responsible investment strategies.

Exclusion

ESG-integration

Positive Selection

Engagement

Voting

Impact Investing

Exclusion

Exclusion is a relatively basic responsible investment strategy. It makes clear what kind of investments pension funds choose not to make. This can either be done on legal grounds, from a reputational standpoint or from an ethical or sustainable perspective. Although exclusion is a relatively basic strategy, it does require a vision on some controversial issues in our society. Ideally this vision reflects the opinions of participants.

Since the legal ban on investments in cluster munitions came into force in 2013, all pension funds exclude investments involving such munitions. However, minor exposures to cluster munitions remain through passive investment products or other indirect investments. These investments are allowed under the current legislation. This year 34 pension funds (68%) excluded companies based on multiple criteria aside from cluster munitions. This score is almost the same as the previous year (2013: 67%). There is an increase from 6% to 12% of the pension funds that exclude companies only based on legal constraints; e.g. regarding cluster munitions.

The instrument of exclusion appears to become applied more for government bonds. An increase from 36 to 44 pension funds (88%) has excluded some government bonds on the basis of sustainability criteria. The UN and EU sanction lists are a common ground for establishing the exclusion list. 12 pension funds go beyond these sanction lists regarding government bond exclusion.

[3] Appendix further explains the methodology used.

ESG-integration

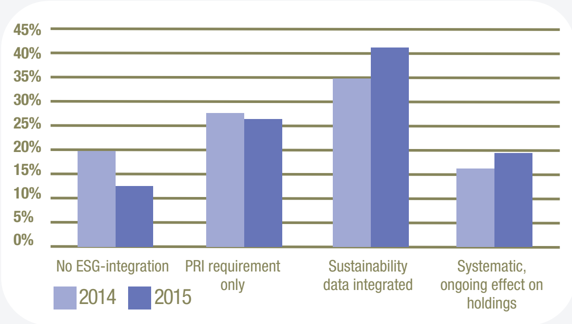
ESG-integration refers to the process by which ESG criteria are incorporated in the investment decision. Research for European investment strategies shows that in 3 years' time the amount of assets under management for which ESG-integration was used increased by 65,4% to €5,2 trillion in 2013.[4] Asset managers mainly use ESG-integration because it improves their investment decision process, can have a material impact on investment returns and because clients ask for it.

The benchmark study distinguishes three levels of ESG-integration:

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

As can be seen in graph 3.2, there is a notable increase in ESG-integration across the various asset classes. Particularly the number of pension funds that does not integrate any form of ESG-information has declined substantially.

Graph 3.2: Recorded changes in ESG-integration amongst Dutch pension funds for public equity, corporate and government bonds together. A further breakdown of these results is available at the VBDO upon request.



For equity investment ESG-integration can be considered mainstream as a total of 94% on the pension funds use ESG-integration at least in some form in the equity investment decisions. This is a solid increase from the 84% last year. Of the pension funds that use ESG-integration for equities, 31 funds (62%) have done so in a structured manner (e.g. by composing an ESG-index). For 10 of these pension funds (20%) ESG-integration has ongoing and systematic effects on individual holdings. Similar figures and trends can be seen for ESG-integration in corporate bond investments.

Regarding the investments in government bonds there are two main subclasses; developed market and emerging market bonds. According to most pension funds ESG-integration in emerging markets is more material than for developed market bonds. The latter is considered more "ESG-proof" by some pension funds. Despite this there are front runners that do research and actually incorporate ESG-criteria in the selection of developed market bonds as well.

This year a rise from 73% to 78% was recorded of pension funds using some form of ESG-integration regarding government bonds. Furthermore, a total of 12 pension funds (24%) incorporate ESG-criteria in a systematic and ongoing manner in their investments in government bonds resulting in demonstrable effects on individual holdings.

There was no noticeable increase of the percentage of the government bonds portfolio's that were subject to ESG-integration. Equity and corporate bond coverage was 68% and government bond coverage was 55%.

[4] Eurosif 2014,'European SRI study'. 18

Positive Selection

Positive selection is about choosing the best performing organisation out of a group of corresponding organisations, based on ESG-criteria. Nearly all of the pension funds examined (90%) do not make use of positive selection. There was 1 pension fund that reported investing between 25% and 50% of its public equity portfolio using positive selection, and 1 over 50%. Positive selection regarding corporate or government bonds is equally uncommon.

Active and passive investment strategies

Passive investment strategies are increasing slightly. Last year 38% of total assets was invested using passive products, such as an ESG-index. This has risen to 41% this year. Passive investments do not exclude the application of responsible investment strategies. A common approach is the composition of an ESG-index, whereby for example a segment of companies is excluded based on ESG-performance. Passive investments also allow for active ownership practices in the form of proxy voting and for example an engagement overlay.

Topical: *Quantitative models, investing and ESG*

Increasingly there is the practice of econometric models structuring investment decisions through the composition of indices that are not based on the traditional market capitalizations of companies, but on alternative factors such as momentum, value or even low-carbon businesses. These quant or smart beta strategies, as they are called, are used by a pioneering few to incorporate ESG-criteria.

For example, based on research showing a relationship between the sustainability score and investment risks, APG has developed a quant sustainability score. This is a model that allocates a sustainability and governance score to companies. The score is used in the investment process for internally-managed quantitative equity portfolios.

Engagement

As owners of the companies they invest in, pension funds can actively influence the policies of these companies. A total of 42 pension funds (84%) is actively engaging with companies. 39 of them engage substantially on sustainability themes: governance, social and environmental.

14 pension funds apply some form of evaluation of the engagement process, but do not take further steps based on the results of the engagement (28%). 28 pension funds, around 56% of those that engage, do take further steps to follow up on the engagement. Pension funds also engage companies that are listed in the bonds portfolio, although this practice is less common.

Topical: *Engagement*

Engagement can be done to optimise long-term value, manage reputational risk and as activist engagement. Effective engagement requires thorough preparation. It is important to monitor and increase the effectiveness of engagement and to prevent it from becoming a box-ticking exercise. In particular considering the fact that engagement is often outsourced to specialised parties. To assist shaping an engagement policy the VBDO has released the report “Good Engagement” in 2014.

Regarding Dutch pension funds engagement occurs in various forms. There is focused engagement by an asset owner on a few core companies. And engagement overlays by external parties such as offered by F&C, Hermes EOS, GES and Robeco. Some pension funds, such as ABP, do collective engagement, joining with several asset owners to augment eachothers strengths.

Asset manager PGGM demonstrates that, besides engagement on companies, engagement with legislators and regulators is a possibility. Engaging with managers of for example an investment fund is also gaining ground, tracking their ESG-integration and stimulating progress.

Sector wide engagement has been done by PWRI, the pension fund for disabled workers in the Netherlands. They have conducted an engagement project with Dutch companies on their actions to offer suitable employment to people with a disability.

Voting

Together pension funds hold a strong position in the companies they invest in. By voting they can influence and steer corporate policies. Therefore, incorporating sustainability in their voting policies can stimulate corporate sustainability, and also give a voice to the preferences of pension funds and their participants.

To be effective a clearly defined voting policy is required, explicitly emphasising social and environmental issues. There are 49 pension funds (98%) that demonstrably vote on (a part of) their public equity holdings. Out of this total, 39 do so while paying explicit attention to ESG-issues, and 19 publicly initiated and/or supported shareholder resolutions promoting CSR. These figures are slightly lower than the previous year. The majority of the pension funds (78%) voted on 75%-100% of their equity portfolio.

Topical: *Securities lending*

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

The lender of the securities is unable to use the voting rights of the securities over the loan period thereby diminishing the possibility to practice active ownership or to sell the securities, e.g. in case of a controversy within the company. Having a clear recall policy, including ESG related provisions, can be used by pension funds to improve their responsible lending practices. A total of 14 pension funds currently has measures in place that integrate responsible investment elements into securities lending"

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

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

Impact investing

Impact investors choose specific social and environmental issues and search for investments in companies or projects that contribute to improvements to this issue and thus create value for society. A well-balanced investment mix should use between 2% and 5% of its investments portfolio for impact investing. Impact investing in public equity is not very common, only 10% of pension funds are recorded making these investments.

Investments in green or social bonds, which direct invested capital towards business activity that also generates positive societal results, are more common. 17 pension funds invested in these bonds (34%). This is a sharp increase compared to last year, when 13 pension funds were found to be investing in green or social bonds. This year just over half (53%) actually measure and evaluate the positive impact generated by these investments.

Topical: *Impact Investing*

The term Impact investing was first introduced in 2007 by the Rockerfeller Foundations in the U.S. In recent years, impact investing gained significant attention from policy makers and investors. In particular in the EU impact investing has grown rapidly. Within the EU the Netherlands is one of the leading impact investment markets. The rise of impact investment has also created confusion about the definition of and approaches to impact investing. The VBDO views impact investing as a strategy that can be applied to all asset classes. Impact investments are investments in (social) enterprises or projects to tackle specific sustainability challenges and create added value for society. Many definitions also include that impact investment can be distinguished by the explicit intention to generate positive societal impact and the measurement of the actual impact. However, the findings of the questionnaire highlight that these elements are by many pension funds not seen as a core characteristic of impact investment.

PFZW has set itself the goal to invest 12% of its assets in companies and projects that have a positive impact in sustainability. Under the umbrella of ‘investing in solutions’ investments are made in the focus areas of climate change, water scarcity, healthcare and food security. PFZW considers it important to measure the social impact of the investments in solutions, because it enables to monitor whether, in practice, these investments really contribute to solutions for a better world. For each investment in solutions a fact sheet is developed. In 2014, the impact of all investments in solutions was measured.

Impact investments can also be focussed on creating impact on the Dutch society. Trough the Nederlandse Investeringsinstelling (NIII) investments are made with the aim to improve SME-lending. PMT and PGB, among others, have played a significant role in de founding of the NII and in 2015 the first investments were made .

In the beginning of 2016 the VBDO will present a report that gives insight in the impact investing market for Dutch institutional investors and will contribute to the mainstreaming of impact investment.

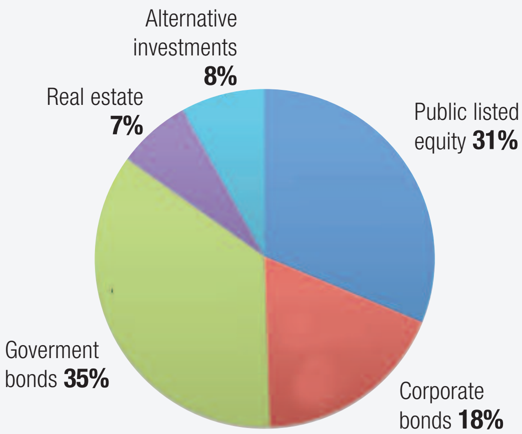
Implementation for Real Estate and Alternatives

Table 3.8 gives the scores per asset class and the weight that these asset classes have in the pension funds' allocation. This section gives a general breakdown of the implementation results for the remaining asset classes; real estate and alternatives. For real estate, we considered ESG-integration and engagement. For alternative investments, ESG-integration and impact investing were taken into account.

Table 3.8: Scores per asset class

Scores per asset class	2015	2014
PUBLIC EQUITY	2,3	2,5
CORPORATE BONDS	2,2	2,1
GOVERNMENT BONDS	1,7	1,4
REAL ESTATE	3,0	3,2
ALTERNATIVE INVESTMENTS	2,2	2,3

Graph 3.3: Allocations per asset class



Real estate

Responsible investing in indirect real estate was measured by degree of integration of ESG-issues in the selection, evaluation and engagement of real estate managers.

Regarding these indirect real estate investments, 39 pension funds (92%) incorporated ESG-criteria into the selection of real estate managers or publicly listed real estate companies.

Of these 39 pension funds, 12 pension funds (31%) selected the most sustainable ones. Engaging the real estate managers or companies on the basis of ESG-criteria was done by 24 pension funds, of which 10 could show demonstrable results of the engagements. 19 pension funds did not engage their real estate managers regarding ESG.

Alternative investments

Alternative investments comprise different types of investing strategies including private equity, hedge funds, commodities and infrastructure investments.

- **Private equity:** 30 pension funds (84%) have some form of responsible investment policy in place regarding at least parts of their private equity investments (26 in 2014). 19 funds (53%) had such a policy covering all their private equity investments.
- **Hedge Funds:** 10 pension funds (53%) have some form of responsible investment policy and implementation regarding their investments in hedge funds (10 in 2014). 6 funds (35%) had this cover all of their hedge fund investments.
- **Commodities:** 13 pension funds (48%) have some form of responsible investment policy and implementation regarding their investments in commodities (16 in 2014). 9 funds (33%) had this cover all of their commodity investments.
- **Impact Investments:** 23 pension funds (46%) recorded impact investments in alternatives; examples are investing in renewable energy infrastructure, microfinance vehicles or venture capital investments in innovative private equity. 13 (57%) of these pension funds investing for impact actually measured the generated impact.

3.2.4 Accountability

Accountable pension funds are transparent about their responsible investment policy and about the investments they make on behalf of their participants. They also report on the implementation of the various responsible strategies and on the respective results. Usually pension funds produce responsible investment reports or a separate chapter in the general annual report. Ideally, an external auditor verifies the report. Accountable pension funds are not only transparent in a passive way, but also in an active way.

The overall score of accountability has decreased slightly this year from 2.9 to 2.7. The addition of a question on active transparency by pension funds explains largely explains of this decrease. There have been small improvements on accountability by some funds. The pension funds which have improved the most on accountability are Heineken increasing from 1.7 (2014) to 2.7 (2015), APF increasing from 1.8 (2014) to 2.6 (2015) and ING increasing from 2.5 (2014) to 3.3 (2015). PFZW and Landbouw scored highest on accountability with 5 out of 5 followed by PNO media scoring 4.7 out of 5.

There have also been improvements on specific elements of accountability. First of all, improvements have been made on reporting on exclusion. A total of 33 pension funds explain their exclusion policy, publish a list of excluded companies and countries and also provide the reason for exclusion. This is five more than last year.

Another improvement has been reporting on engagement. 40 pension funds are reporting about their engagement policy. Of these 40 funds not all report on the undertaken engagement activities and results. More than half (26), however, does. This is four more than last year.

Almost all pension funds (46) provide at least a general overview of their voting activities and 35 pension funds provide even a detailed overview. Ideally voting reports should include an overview as well as a detailed description of the casted votes. Regularly we came across reports that did one of these options. As not all voting by pension funds necessarily concerns the promotion of CSR with companies, detailed overviews of voting behaviour will be highly valuable for participants to understand whether the pension fund in question is integrating ESG in to their active ownership.

An improvement can be observed in the auditing of the responsible investment report. Last year only 13 responsible investment reports from pension funds were audited by an internal or external auditor. This year this number has grown to 18 pension funds.

This year a new question about active transparency has been added. Active transparency concerns all the activities that reach out to participants instead of only reporting on a website which not all participants will read. The results show that not all pension funds are actively reaching out to their participants regarding their responsible investment efforts, with 27 pension funds scoring 0 points on this topic. 15 pension funds use one active communication tool and 8 pension funds use 2 or more communication tools to be transparent in an active way.

Best practice: **actively informing participants**

Active transparency is regarded as the next step in informing and reaching out to participants and other stakeholders. This goes further than just information on the website about responsible investment, which is regarded as passive transparency. Actively informing stakeholders about the responsible investment policy and implementation can contribute to full accountability. Several pension funds have made significant progress in this area. They actively communicate though different tools that include newsletters, presentations and social media.

Pension fund PMT, for example, uses a dedicated YouTube channel to inform participants about responsible investment. In short animated movies questions are answered in clear language. Topics include responsible investment and labour rights, responsible investments and financial return and responsible supply chains[5].

Pension fund ABP uses Twitter to provide information on various topics. An example includes an info graphic with information on the environmental footprint of the real estate portfolio. The short twitter messages often provide links to more detailed information on the website[6].

Responsible investment was also raised by ABP during the fourteen participants' meetings that ABP organised in different towns in the first half of 2014. Members of the Board of Trustees explained how the policy was implemented the criteria applied and discussed the related dilemmas with those present. Over 1,200 participant and pensioners attended the meetings.

Communication tools such as newsletters, Youtube channels and Twitter are not merely valuable for communicating to participants but can also serve as a platform where participants can ask questions and provide input. This will allow improved engagement of participants and other stakeholders.

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[5] https://www.youtube.com/user/pensioenfondspmt

[6] https://twitter.com/abppensioen

Chapter 4
Conclusions and recommendations

Overall conclusions

Front-runners continue to take steps forward in responsible investing

The better performing pension funds have taken new steps in addressing sustainability themes in innovative and positive ways. These pension funds develop long-term oriented policy frameworks, think strategically about sustainability scenarios such as climate change and apply new forms of active ownership. Some are making explicit commitments to sustainability challenges and to integrate them in their financial risk frameworks.

Overall responsible investment practice leveling off

The progress of front-runners cannot be observed for the sector as a whole. In the responsible investment practice the total score of all pension funds did not show an improvement. However there are individual pension funds that are moving forward as well as pension funds that are starting to lag behind.

Size of pension fund not wholly determinant of responsible investment score

The largest pension funds regarding assets under management have scored highest, however the smaller pension funds are outpacing the medium sized funds. Even though larger pension funds have more means to implement responsible investment strategies, smaller and medium-sized pension funds also take their responsibility.

Cooperation and consultation limited

Often pension funds and their asset-managers are working quite isolated from others on their responsible investment strategies. Furthermore, the consultation and co-operation with participants, governmental organization such as AFM and DNB, or societal organization such as labour unions and NGOs is still limited.

Recommendations

- Co-operation is needed to take the next step in the field of responsible investment. The VBDO recommends the pension fund sector to work together to share knowledge and to build capacity in especially smaller pension funds. The front-runners can assist the other pension funds in improving their responsible investment practices.
- New laws on responsible investment have been passed, concerning both the investment ban on cluster munitions and reporting requirements on responsible investment. Also questions arise on the risks for the financial systems of topics such as climate change and the carbon bubble. Still the government, AFM and DNB are not very active on these topics. The VBDO urges these organizations to take a more pro-active stance and to work jointly with the pension fund sector and NGOs, in particular to provide guidance to the sector. Also from societal organization such as labour unions a pro-active role is needed to stimulate knowledge sharing among board members.

Governance

Responsible investment is not yet a regular board item

Responsible investment should be an integral part of the pension funds operations and thus discussed frequently by the board. In contrast with this just 46% of pension fund boards actually discussed responsible investment at least twice a year.

Pension funds should act as principal to the fiduciary manager

Pension fund boards should take ownership of the formulation and implementation of the responsible investment policies. A third of pension funds did not set any responsible investment targets for the asset managers. Two third did set targets, of which 22% set targets that were aimed at measuring the impact on companies and society.

Stakeholder consultation commonly through participant councils

Participant councils are still the major road taken to stakeholder consultation regarding the adaptation or formulation of the responsible investment policy. 38% of pension funds consulted only their participants council on responsible investment. An increasing number of pension funds (14 in 2014 to 23 this year) use comprehensive NGO consultation and/or consult the whole participants base.

Gender representation in pension fund boards remains unbalanced

In three consecutive years no notable changes in the gender composition of pension fund boards have emerged. Currently 84% of board members is male, while only 56% of the participants is male

Recommendations

- Pension funds should increase the consultation of their participants (not only participants councils) and other stakeholders such as NGO's.
- Pension funds should increase the diversity of their board to strengthen the legitimacy of their decisions.
- Pension fund boards should play an active role in developing the responsible investment strategy and steer fiduciairy managers in the implementation process.

Policy

The scope of responsible investment policies is increasing over the years.

Since 2009 there has been an uninterrupted trend of increasing the scope of the responsible investment policies of pension funds to cover the different asset classes. Having a responsible investment policy that only concerns public equity has become a rarity. Having a responsible investment policy for government bonds, real estate and private equity has become mainstream. Even regarding hedge funds and commodities pension funds are developing methods to implement responsible investment. In total 76% of all investments was covered by responsible investment policies.

Widespread policy on corporate remuneration, human and labour rights

The most common topics covered by the responsible investment policies of pension funds were on the themes corporate renumeration, labour rights and human rights. Uncommon were policies concerning food security, the carbon bubble and responsible tax policies of companies.

Strategic asset allocation regarding sustainable scenario's is gaining ground

Incorporating sustainability trends on a strategic level, going beyond individual company analysis, is done by a quarter of pension funds. Analysis of the potential risks of the carbon bubble and other global warming related scenarios is most common.

Long-term oriented sustainability targets remain scarce

Although long-term orientation is inherent in pension fund management, responsible investment policies of most pension funds do not yet reflect this. Only 4% of the pension funds have responsible investment targets with a time horizon longer than 5 years from now. 28% of pension funds have targets up till 5 years.

Recommendations

- Pension funds can learn from their front-running peers on how they can increase the long term orientation of their responsible investment policies.
- The increasing scope of responsible investment policies regarding the different asset classes is a positive trend. Policy formulation regarding a few asset classes appears to be lagging. Further research or even sector cooperation on the integration of ESG within private equity, hedge fund and commodities is advised.
- Both good pension management and sustainable development are long term objectives. It is highly recommended that pension funds formulate policy frameworks that encompass the longer time horizon that is appropriate. These frameworks can also assist in guiding the activities of the asset managers in line with the pension funds' needs.

Implementation

Exclusions regarding government bonds on the rise.
Pension funds show an increasing tendency to exclude government bonds from poor performing states from their investments. 44 pension funds have implemented this strategy for government bonds, compared to 36 funds last year. The UN and EU sanctions list are common grounds for excluding government bonds. There is a small trend towards public company exclusion merely on legal compliance, such as the ban on cluster munitions.

ESG-integration is mainstream, depth can be improved
A fifth of pension funds apply a sophisticated and thorough form of ESG-integration with ongoing impact on individual holdings. Over 94% of pension funds apply at least a basic level of ESG-integration into their investment decisions, such as requiring the asset manager to sign the UNPRI, regarding public equity. 90% does so with corporate bonds and 78% of pension funds also basically integrates ESG into their government bond investments. These developments emphasize the materiality of integrating sustainability in investment practices and the basic forms of the instrument can be labeled mainstream. The extent of this integration varies widely and depth of integration should be increased further in the coming years, both from a risk-adjusted return perspective as well as in stimulating sustainable business practices.

Sustainability themed engagement on the rise, but risk of box-ticking
An increasing majority of pension funds enters into dialogue with public companies. For 78% of the pension funds engagement covers governance, social and environmental themes. Increasingly active ownership activities are outsourced to professional third parties. Furthermore, half of the engaging pension funds do not take further steps based on the results of the engagement process, thereby leaving the impact of engagement inconclusive.

Diversification of engagement
Answers from pension funds show a diversification of the practice of engagement. Collective engagement with several asset owners together are happening. Also engagement on legislators rather than companies are innovations in this area.

Voting by pension funds could further emphasize sustainability
Voting on held shares remains common amongst pension funds, often executed by third parties through proxy voting. Explicit focus on corporate social responsibility is not as widespread. 62% of pension funds is not used to supporting or initiating shareholder resolutions that promote sustainable business activity.

Various approaches to mitigate risks of securities lending
Pension funds show that there is not yet a single approach to securities lending. While some pension funds steer away from the act of loaning shares to third parties altogether, others are documenting precisely under what conditions it can occur. The majority of pension funds has formulated a policy regarding the potential risks associated with securities lending.

Pension funds are allocating more capital to impact investments
A sharp increase is recorded in the capital that pension funds are allocating towards investments that are meant to generate

positive societal or environmental impact. The development of investments in green bonds is substantial with 17 pension funds (34%) investing in these bonds. It is however surprising to see that the actual measurement of the generated impact, an important feature of impact investments, is practiced by only 50% of impact investing pension funds.

Recommendations

- Pension funds should take more ownership of their voting and engagement practices and integrate them in their responsible investment policy to allow for optimal impact. In addition it is important to link engagement and voting to other instruments of responsible investment such as exclusion and ESG-integration.
- Alertness is advised by the VBDO in outsourcing active ownership to ensure that the services are in line with the policy of the pension fund and generate the desired outcomes.
- It is positive to see that impact investment is on the rise. However, to properly practice impact investment impact measurement is also needed. The VBDO will publish a report that provides guidance on this topic in 2016.
- This benchmark did not check if the legal ban on the exclusion of cluster-ammunition is also properly implemented by pension funds. At the moment there are no compliance reports available on that topic. The VBDO advises the government to take a more pro-active stance on this topic.

Accountability

Increased reporting on exclusions

Increasingly pension funds make public in which companies they do not invest in. In particular the reasons for exclusions are made public more often, indicating that pension funds take the responsibility to explain what business activity they reject.

Reporting on active ownership activities

An increasing share of pension funds are reporting on their dialogues with companies as well as their casted votes during shareholder meetings. A positive step forward that is likely the results of the professionalization of active ownership services, including reporting, by third parties. Concrete results and topics are not always elaborated, this remains an area for improvement.

Half of pension funds actively inform their participants on their investment practices

The new question on active transparency showed that just less than half of the pension funds are pro-actively reaching out to participants about their responsible investment practices. the most common. The VBDO regards it as a positive start that many pension funds are already making these efforts to explain their actions to participants.

External auditing of responsible investment reports not mainstream

Actually verifying the stated responsible investment activities of pension funds by external, independent auditors is still far from mainstream. A third of the pension funds had (parts of) the responsible investment report verified by an internal or external auditor. These audits can function as a seal of trust for pension funds' efforts on transparency.

Recommendations

- The VBDO recommends pension funds to more actively use various communication tools to reach out and engage participants on responsible investment.
- Pension funds are legally required to report on their responsible investment practices. At this moment it is still unclear what these legal requirements precisely stipulates and if these requirements are met. The VBDO recommends the government and the Dutch Central Bank (DNB) to provide guidance and to take a more pro-active stance on this topic.

Appendix 1: Methodology

This appendix elaborates on the used methodology. The first part of the appendix describes the research objectives, the research process and the adaptations compared to the methodology of last year. The second part of the appendix gives a detailed clarification of the scoring model.

1. Research

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 largest Dutch pension funds. It provides participants a means for engagement with their pension fund and pension fund boards an impartial instrument to assess their responsible investment policy and the implementation. Furthermore, this is an independent benchmark for pension funds and asset managers to compare themselves with their peers.

Research period

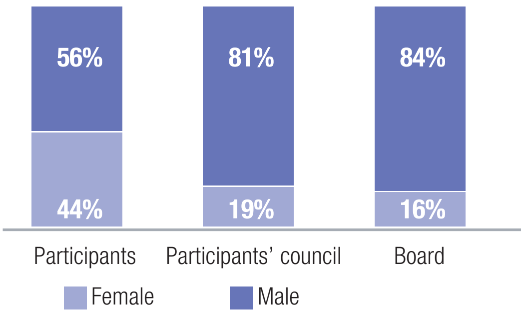
The period to which this research applies is 2014. The different general figures, such as the asset allocation, are of the end of 2014. The information about the implementation of responsible investment instruments was ultimo the first half of 2015.

Research group

For this edition of the benchmark, the 50 largest pension funds regarding assets under management were surveyed, which is one more than in 2014. Except for Hoogovens Pension Fund, the list of researched pension funds is the same as in the 2014 study.

Of the 50 pension funds, 23 are corporate, 24 are industry-wide and 3 are occupational. The combined assets under management (AuM) of the covered pension funds are €1,033 billion. The largest pension fund had €343.8 billion in AuM, whilst the smallest had € 1.4 billion in AuM.

The total number of participants covered by the pension funds is 14.3 million people, comprising the active and non-contributing participants and pensioners. Of the participants an average of 55% is male and 45% is female. When looking at the board of the pension funds, on average 84% were male and 16% were female. Also the participants' councils see a low level of diversity with 81% of the members being male. The diversity of the board and participants' council improved slightly compared to last year.



The research indicates that 60% of pension assets are managed actively and 40% passively. Compared to last year more assets are being managed passively. 39 pension funds indicated that they have appointed a fiduciary manager, 9 have not. The remaining pension funds did not answer this question. Last year 33 pension funds indicated that they appointed a fiduciary manager.

Pension funds have on average 31% of their assets in public listed equity, 18% in corporate bonds, 35% in government bonds, 7% in real estate and 8% in alternative investments (not including cash and other asset classes not covered by the benchmark).

Research process

The research process has not changed fundamentally compared with previous years. The questionnaire was built up in excel and sent to the pension funds. After completion, the excel automatically provides a profile and score. After receiving the filled-in questionnaire together with the necessary evidence to support the claims, it was matched with publicly available information (that consists of annual reports and websites). The VBDO reviewed the profile and sent the reviewed profile back with potential additional questions and requests for evidence. On the basis of the reply the VBDO assigned the final scores to the pension funds for all assessment issues. 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.

Advisory panel

Every year we discuss the process and the methodology used with a group of pension funds, asset-managers and experts. This is also done this year and several points were raised on how to make improvements. Although the individual members did not agree on all topics with each other, the main issues and opinions are described here:

- Use of third party execution, e.g. investment decisions or SRI overlays, should not be valued less than internal management as long as the outsourcing is done properly.
- Active investments are by some seen as more sustainable than passive investments.
- Quantity of engagement conversations does not illustrate the depth. Questions should be formulated in a manner that distinguishes this.
- ESG-integration and positive selection are seen as overlapping questions. Current questionnaire prohibits, according to some, achieving maximum points. VBDO has decided, for comparison sake, that the two instruments are assessed similarly as before for this years' benchmark.
- The ranking list doesn't account for the size of the pension fund. The VBDO has split some of the results along the lines of size of pension assets.

The VBDO takes suggestions into account and would like to thank the participants for their efforts to improve the benchmark.

Adaptations to the methodology

In this ninth edition of the benchmark the methodology is mostly the same as last year. The VBDO has maintained this methodology for three years to be able to compare the results over a fixed period. Before the start of the next edition a large methodological review is planned. However, some new developments have been taken into account. There are five questions added and one alteration has been made to an existing question. The new questions are:

- Questions on key performance indicators have been included in the benchmark before. This year an additional question was added that takes into account performance indicators that have a longer time horizon, so that these can be an integral part of a long-term strategy or vision on sustainability issues.
- Securities lending is the act of loaning a security to an investor or firm. The lender is unable to use the voting rights of the securities over the loan period. Securities lending is considered to diminish the possibility to practice active ownership. A question has been added on how the pension fund is incorporating sustainability issues in securities lending. No points can be received for this question, but aggregated results will be used in the research report.
- Actively informing participants and other stakeholders on the responsible investment policy and outcome is regarded as the next step for full accountability. A question has been added to determine on how participants are actively informed about the responsible investment policy and outcome through one or more than one communication tool.
- A question regarding the engagement process has been added. This question refers to the evaluation of the engagement process and the measurement of progress. It also investigates whether further steps are taken based on results of the initial engagement process.
- Also for impact investing a question has been added. If the pension fund engages in impact investing, what is the process for these investments? Investments ought to be demonstrably made in enterprises or projects with the explicit intention to tackle specific sustainability issues and the social and environmental impact of these investments should be measured and monitored.

The alteration to the existing question is:

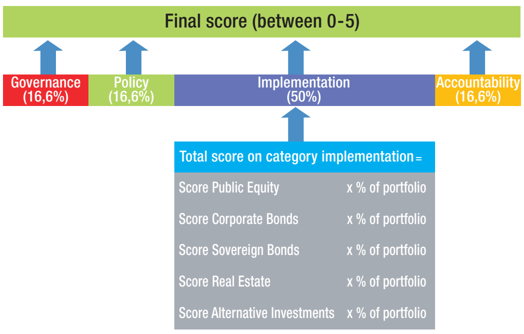
- The application of sustainability and strategic sector allocation. This gives an idea of the use of ESG-information on a more strategic level. Last year the results of this question were not rated, this year this question has been included in the scoring model.

2. 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 VBDO benchmark studies 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 weighting percentage for implementation is 50% because especially this category determines the final output and quality of the responsible investment practices of a pension fund. The final score for implementation is determined by multiplying the score of each asset class by the percentage of the portfolio invested in this asset class.

- **Governance** **(16.6%)**
- **Policy** **(16.6%)**
- **Implementation** **(50.0%)**
- **Accountability** **(16.6%)**

Figure 4.1: General overview of the scoring model



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