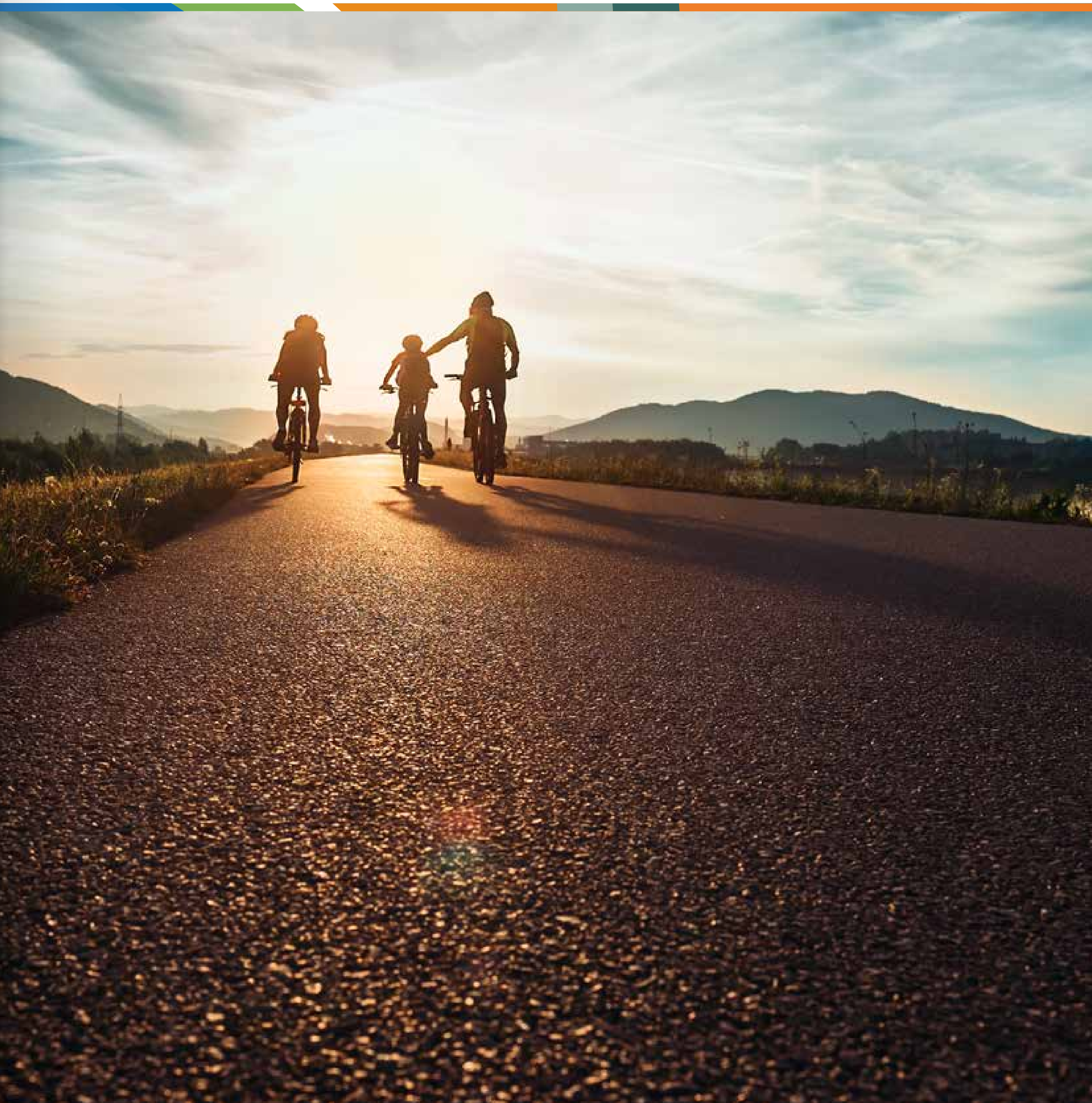
Benchmark on Responsible Investment by Pension Funds in the Netherlands 2024

The journey towards a sustainable world



Benchmark on Responsible Investment by Pension Funds in the Netherlands 2024

The journey towards a sustainable world

Project lead
Sara Heinsbroek

Project Team
Chris Bil | Maarten Busch | Vidya Sahay | Rutger Sibma

With contributions from
Jacqueline Duiker | Emiek Heemstra | Florine Kits van Heijningen

More information
Sara Heinsbroek, Project Manager
Sustainability & Responsible Investment
sara.heinsbroek@vbdo.nl | +31 (0) 30 234 00 31

Utrecht, The Netherlands
November 2024

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

Table of contents

About VBDO

The Dutch Association of Investors for Sustainable Development (VBDO) is a not-for-profit multi-stakeholder organisation. Our mission is to make capital markets more sustainable. VBDO believes a more sustainable and responsible capital market leads to a healthier and more just world. As an independent association, we are a passionate driver, motivator and knowledge leader for responsible investment and have been helping to anchor sustainability in companies since 1995. VBDO helps organisations to make choices that look beyond financial gain alone and consider environmental, social and governance (ESG) factors. Members include insurance companies, banks, pension funds, asset managers, NGOs, consultancies, trade unions, and individual investors. VBDO is the Dutch member of the international network of sustainable investment forums. VBDO's activities target both the financial sector (investors) and the real economy (investees) and can be summarised as follows:

ENGAGEMENT

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

THOUGHT LEADERSHIP

At VBDO, we are committed to continuous learning and growth. We constantly work on subject and leadership development, particularly focusing on innovative themes for the financial sector.

VBDO connects stakeholders, such as pension funds, insurers, banks, asset managers, companies and NGOs, to develop and share knowledge about sustainable investment or entrepreneurship. Together, we organise webinars and seminars, publish research and theme studies, and share our knowledge and viewpoints in the media.

BENCHMARKS

Benchmarks are an effective instrument to drive sustainability improvements by harnessing the competitive forces of the market. They create a race to the top by providing comparative insight and identifying frontrunners, thus stimulating sector-wide learning and sharing of good practices. VBDO has extensive experience in developing and conducting benchmarking studies. VBDO conducts several annual benchmarking exercises, for example, since 2010 on responsible investment by Dutch pensions funds, and since 2009 on responsible investment by Dutch insurance companies.

This has proven to be an effective tool in raising awareness of responsible investment and stimulating the sustainability performance of pension funds and insurance companies. VBDO is one of the founding partners of the Corporate Human Rights Benchmark, which ranks the 500 largest companies worldwide on their human rights performance and makes the information publicly available in order to drive improvements. VBDO's most recent Tax Transparency Benchmark ranks 78 Dutch and 25 EU stock-listed companies according to the transparency of their responsible tax policy and its implementation.

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

Preface

2024 was a year filled with sustainability-related developments, making for an interesting chapter in VBDO's 29-year-long and ongoing sustainability journey. The same can be said for pension funds in the Netherlands. Navigating the new Pension Act (Wet toekomst pensioenen, Wtp) has been a challenge; pension funds' investing practices have come under fire from (inter)national politics; and finally, VBDO has rolled out the Benchmark on Responsible Investment "2.0". Whoever said the pension sector is boring?

Over the past 19 years that we have been benchmarking the responsible investment practices of pension funds, the scope of responsible investing has grown massively. The efforts of pension funds to become more sustainable over the past decades are admirable and the increased depth and specificity of the responsible investment (RI) policies of pension funds has not gone unnoticed. For example, in 2013 we asked whether the board discussed sustainability at least once a year. Now, sustainability is on the agenda for practically every board meeting. Between 2013 and 2023, we continuously raised the bar with increasingly detailed questions on a wide range of topics. This was reflected in the steadily improving performance of the participating pension funds. The field of RI has grown significantly in scope, with pension funds now incorporating a more diverse range of topics into their policies and related activities, such as biodiversity, human rights, and responsible tax practices.

The efforts of pension funds to become more sustainable over the past decades are admirable and the increased depth and specificity of the responsible investment (RI) policies of pension funds has not gone unnoticed.

This upward trend, combined with calls for a raised standard from participating pension funds and our own desire to continuously push forward, led to our decision to overhaul the benchmark methodology. One of our key priorities was to ensure that the new methodology would be more flexible, allowing for the diverse policies and topics implemented by pension funds to shine and making it suitable for the different types and sizes of pension funds in our research's scope. The revised methodology provides a more nuanced view of how RI has been implemented by the participating pension funds.

I'd like to personally express my gratitude to all the pension funds and asset managers who have trusted in us over the past 19 years. The development of the new methodology would not have been possible without the input from all of you at all stages of the revision and research cycle. I would also like to express my gratitude to Federatie Nederlandse Vakbeweging (FNV) and our members, whose support has made this benchmark possible. We still have a long journey ahead of us, but we hope that our benchmark and the accompanying report give you the tools to travel the roads ahead!

Angélique Laskewitz
Executive Director of VBDO

Introduction

VBDO has researched the current status and developments relating to the responsible investment practices of the 50 largest Dutch pension funds. They were assessed based on how they formulate, implement, safeguard, and report on their responsible investment practices. Together, they have €1.44 trillion in assets under management (AuM). The report roughly covers the period Q1 2023 – Q1 2024.

STATEMENT OF PURPOSE

Pension funds possess a unique and powerful opportunity to drive fundamental change towards sustainability through their investment strategies and portfolios. We hope this study sparks discussion about responsible investment and how it can be effectively implemented. Through this study, we aim to encourage the financial sector (and pension funds in particular) to leverage their influence and seize the opportunity to go beyond regulatory requirements. By embracing innovative approaches, facilitating transitions, and fostering real-world impact, they can play a critical role in shaping a sustainable future.

BRIEF EXPLANATION OF THE METHODOLOGY

For almost three decades, the VBDO benchmark study focused on bringing about sector-wide improvements to responsible investment practices. Starting this year, the core aim of the benchmark research has shifted to realising a sustainable world using investment. To facilitate this, the benchmark has undergone a structural revision to better align with recent developments in RI, as it had outgrown its original framework. Given the significant growth of RI over the years, updating the benchmark was a natural next step. We've restructured it into four categories (Governance, Strategic Asset Allocation (SAA), Portfolio, and Individual Investments), guided by the motto: "Put your money where your mouth is."

Pension funds have been given an overall score between 0 and 5, with 5 being the highest achievable score. It should be noted that a score of 5 does not mean that a pension fund is the 'most sustainable' or that no further improvements can be made. Rather, it indicates how well a pension fund has performed on the criteria that have been set in the current questionnaire. The overall score given to a pension fund reflects how well that pension fund has scored across the four categories. The categories are weighted differently. Governance and Strategic Asset Allocation each account for 20%, Portfolio for 50% and Individual Investments for 10% (see figure 1). The difference in weighting is based in part on the number of questions included in each category, with Portfolio making up the majority of the questionnaire. Individual Investments has been assigned a lower weight as it is different in nature to the other three categories: it functions as a reflection and consistency check of the respondents' answers to the previous three categories. As this is the first year the new methodology is in place, we have elected to only show the top three performers for each size category. Finally, a note on the data provided in this report: the response rate for this year is 94%. Non-respondents have been left out of the data analysis. All data derived from the research is thus based on a sample of 47 pension funds. For a comprehensive overview of the methodology and research process, please see Appendix I.

Figure 1 | **Overview of scoring model**

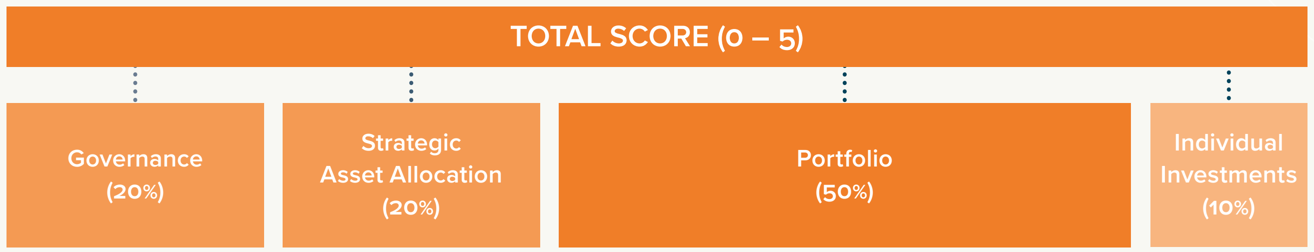
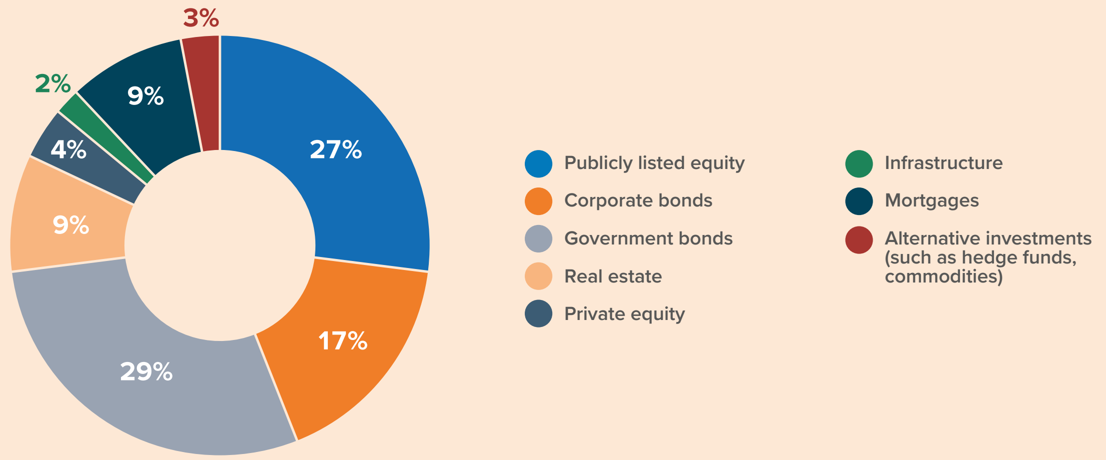


Figure 2 | **Average asset allocation***



*Assets out of scope, such as cash, currency, and interest swaps, have not been included in this chart and the underlying calculations.

Table 1 | **Leaders by size 2024**

Ranking 2024	Name of pension fund
Large pension funds (> 30 billion AuM)	
1	PME
2	bpfBOUW
3	PMT
Medium – large pension funds (10 - 30 billion AuM)	
1	Pensioenfonds Detailhandel
2	Pensioenfonds Rail & OV
3	SPW
Medium pension funds (5 - 10 billion AuM)	
1	Ahold Delhaize Pensioen
2	Pensioenfonds Achmea
3	Bpf Schoonmaak
Small pension funds (< 5 billion AuM)	
1	Pensioenfonds TNO
2	Stichting Pensioenfonds voor Fysiotherapeuten
3	Stichting Bedrijfspensioenfonds voor het Bakkersbedrijf

Key findings

Slight improvement in board gender diversity
On average, the board composition was one third women, two thirds men. 51% of participating pension funds reported that less than a third of their board was female.

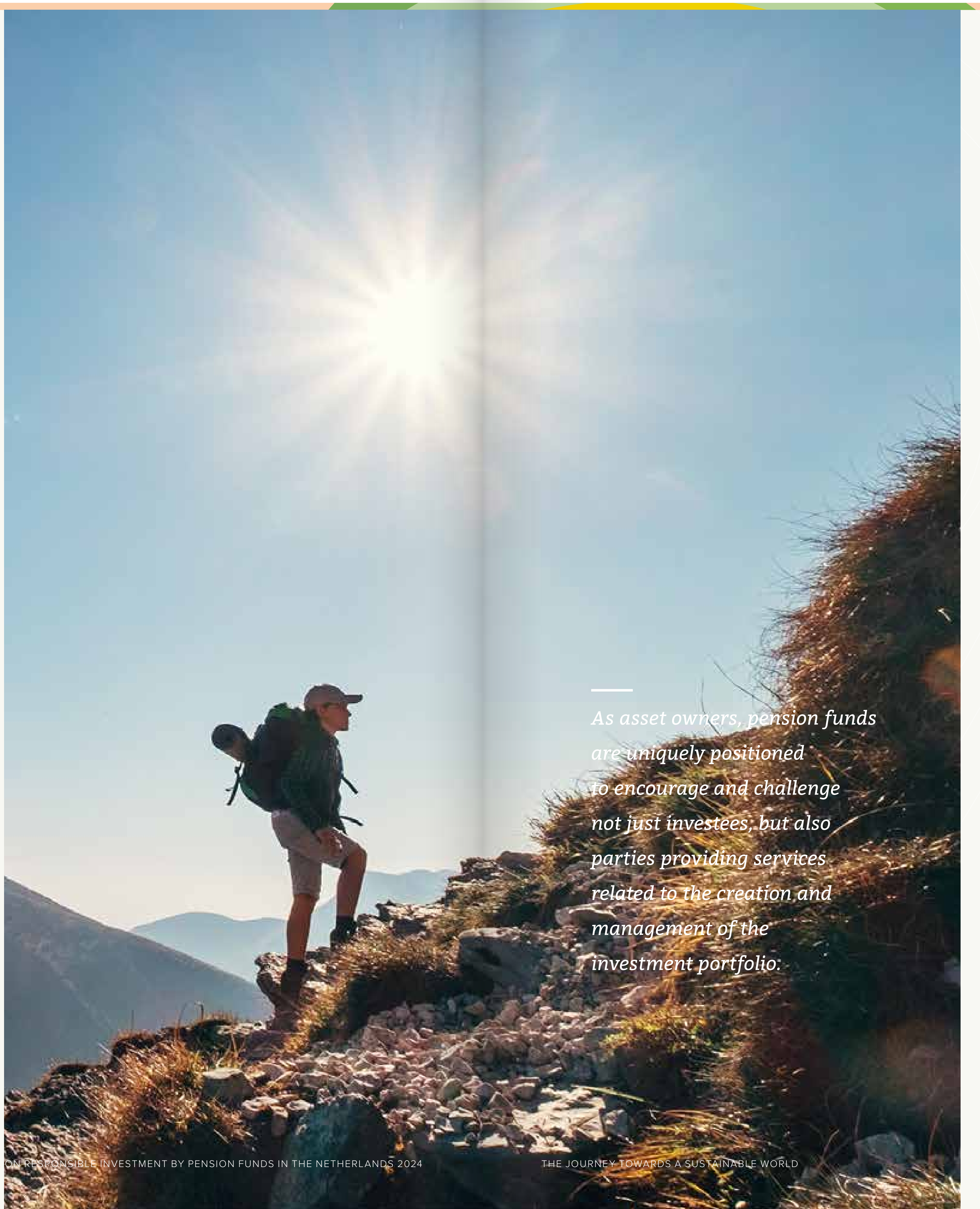
Variety of activity on biodiversity
Three quarters (83%) of participating pension funds have included biodiversity in their own RI policy. The importance placed on biodiversity is also reflected in the active ownership activities: all (100%) have shown that corporate engagement on biodiversity and/or related topics such as deforestation takes place, while 74% could demonstrate that they incorporate biodiversity in their voting decisions.

Focus on corporate investments
Although sovereign bonds are the largest asset class (29%, closely followed by publicly listed equity at 27%), pension funds tend to focus the use of their RI instruments on corporate investments, with the exception of impact investing.

Pension fund size less important when determining the relative position
As shown in table 1, this year shows a levelled playing field in terms of average ranking. This shows a pension fund's size is less important as a determining factor for its position in the ranking when using the new methodology.

Table 2 | **Average ranking position of pension funds by size**

	2023	2024
Large pension funds (> 30 billion AuM)	6	13
Medium – large pension funds (10 - 30 billion AuM)	22	21
Medium pension funds (5 - 10 billion AuM)	26	27
Small pension funds (< 5 billion AuM)	34	30



Recommendations

Embed a broad approach to diversity
Work on developing an inclusive work environment and appreciation of diversity in all its facets. Try a top-down approach: leadership can help to guide and foster the right culture in which all voices are actively involved in both decision making and day-to-day practice. For example, goals for diverse board composition, including several diversity elements such as gender, background, disability etc., can encourage accountability and continuous attention to the topic. Regular evaluations and monitoring of the board's diversity and inclusion efforts will help the organisation to identify improvement areas, counteract tokenism, and adapt strategies accordingly.

Keep updating and refining policies and activities on biodiversity
Biodiversity is multifaceted and complex. As such, pension funds need to collaborate with peers and knowledge partners to keep abreast of new developments and to address challenges through policy and (active ownership) activities. As an asset owner, pension funds can encourage data- and service providers and other parties in the sector to keep working on understanding and incorporating biodiversity, either individually or as a collective.

Explore dialogues beyond the corporate portfolio
As asset owners, pension funds are uniquely positioned to encourage and challenge not just investees, but also parties providing services related to the creation and management of the investment portfolio. As such, initiating dialogues not only with relevant sovereign entities and policymakers but also with service providers, asset managers, and fund managers can further encourage the implementation of sustainable practices, especially when done as a collective.

Viewpoint

How to revise a benchmark

Jacqueline Duiker, Senior Manager of Sustainability & Responsible Investment at VBDO – In this year's edition, the Benchmark on Responsible Investment by Pension Funds has undergone a significant transformation. At the forefront of this shift is Jacqueline Duiker. In this interview, she shares key insights into the rationale behind the revised approach.

What was the reason behind revising the methodology for the Benchmark on Responsible Investment?

During the almost 20 years we have conducted the Benchmark on Responsible Investment (hereafter: the benchmark), much has changed in the field of sustainable investment, both in awareness and in practice. Now, increased transparency on ESG is required and ESG risk has even become part of the supervisory framework for the financial sector. Consequently, participating pension funds indicated they were ready for a rigorously updated benchmark methodology.

Moreover, if we look at the causes and effects of climate change, the state of human rights in business, and the ongoing loss of biodiversity, we – as a society – stay far behind in achieving what is needed for a thriving society and the commitments to international agreements. If we continue to fail to bend the curve on these issues, this poses severe risks to investors and an unimaginably high cost to society at large. It is a clear signal that we all need to step up to the plate to prevent this from happening. The role of VBDO is to drive change in the sector with challenging benchmarks.

How does the new methodology better capture the RI practices of the pension fund sector?

The main purpose of this revised benchmark is to stimulate reflection and provoke discussion within the pension funds on how they can step up to the plate. We aim to heighten the sustainability ambition and simultaneously diminish the amount of work for the pension funds. For this reason, the new methodology goes beyond requirements made by regulators and supervisors.

In addition, the revised benchmark is less of a 'check-the-box exercise' and more of a basis for discussion on how a pension fund can contribute to real-world sustainability with its investments and whether the decision-making on this is consistent throughout the investment process. Space has been intentionally carved out to leave room for innovative approaches and qualitative assessment. As such, the benchmark research is much better suited as an instrument for discussion, both within the organisation and with external stakeholders.

Another important difference is that the score is no longer weighted according to the allocation of the assets under management. Currently, the questionnaire focuses on public markets.

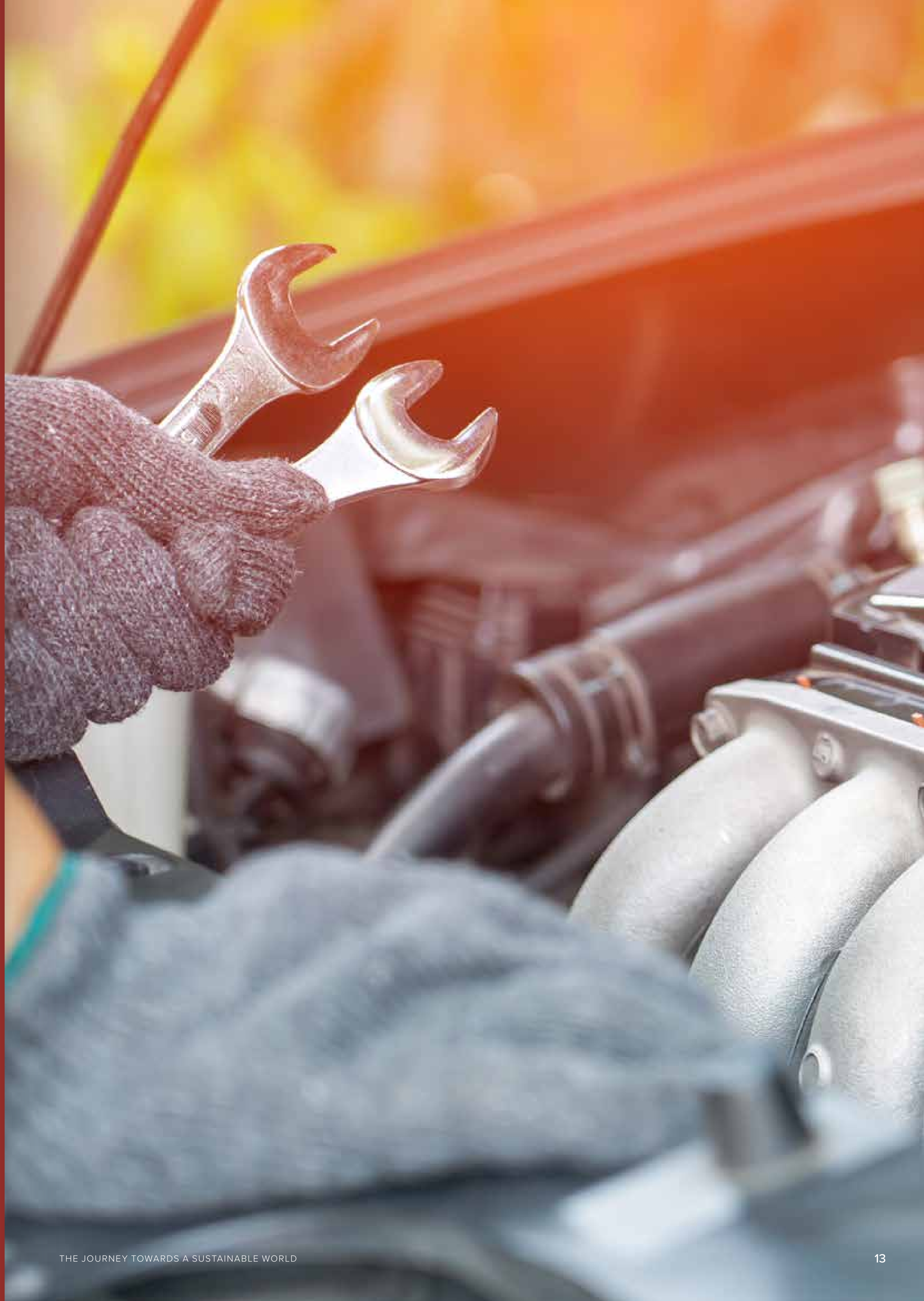
Who has been involved in defining the new methodology and how have they contributed?

We spent a lot of time discussing the structure of the new benchmark with various stakeholders and internally as the VBDO team. The expertise of the various team members has been utilised to develop the different components. Consulted parties included pension funds, insurance companies, and asset managers, as well as industry experts and academics. Together, we aimed to determine how to grasp the benchmark's ambition: realising a sustainable world through investment.

Based on their input and comments, we drafted a questionnaire which was tested by several pension funds and insurance companies. In addition, we organised two sector-wide consultation sessions, where we presented the guiding principles and structure of the new benchmark. Finally, we sent the draft questionnaire to all participating pension funds. During all these phases, we received feedback and processed it in the questionnaire that underlies the benchmark.

What do you hope the new benchmark will lead to?

We hope to stimulate discussion on sustainability and sustainable investment within the boardroom of the asset owners, in this case the pension funds. It is a fundamental discussion involving fiduciary duty, representing the interest of participants, and formulating a well-informed vision on sustainability. Our questions can be used as the basis for a meaningful conversation with internal and external stakeholders. To encourage the thinking on how current approaches lead to sustainability and stimulate action on the development of new approaches and the bringing down of barriers to do so. After all, as people only thrive in liveable conditions on a liveable planet, the same applies to investments.



1. Results per category

1.1 Governance | Good governance is essential for the successful implementation of any policy. It relies on several key factors, including a strong knowledge of responsible investment and sustainability at the board level, regular discussions on responsible investment, and consultations about the RI policy and related practices. Additionally, clear guidance from a diverse board to asset managers on setting goals and measuring outcomes, is crucial for achieving success.

RESULTS 2024 | The average score for Governance is 3.1, with a range of 1.7 to 4.9.

DISCUSSION POINTS ON GOVERNANCE

- **How is an inclusive work environment ensured? Which voices should be included in order to optimise the board's composition?**
- **How can it be ensured that dialogues between the pension fund and stakeholders contribute to the formulation and execution of an effective RI policy and RI activities? Which voices should be added to the conversation?**

NEW THIS YEAR

The Governance category focuses on the grounding of RI and sustainability in the organisation. This includes the leadership and knowledge of the board and consultation with relevant parties, such as the participants and NGOs, to ensure continuous development and updating of the pension fund's RI policy and activities, as well as its awareness and treatment of sustainability and RI-related topics. One of the new additions is a question dedicated to the incorporation of sustainability in the investment beliefs and its internal (board) diversity policy.

ANCHORING SUSTAINABILITY THROUGH GOVERNANCE

Sustainability, ESG, and responsible investment are definitely not unfamiliar to the boardroom: All pension funds discuss RI, related activities, and results at length during board meetings (100%). As previously noted, pension funds are asked how sustainability has been incorporated into the investment beliefs; 94% of pension funds include sustainability beyond an ESG-risk mitigation level.

DIFFERENT FACETS OF BOARD DIVERSITY

Last year, we reported that while almost all pension fund boards had at least one female member in 2022 (98%), 61% of pension funds had boards that were more than two thirds male. This year, this number has gone down to 49%. The number of boards consisting of more women than men has stayed the same (4%).
Of course, board diversity has more dimensions than gender alone. Diversity can offer significant benefits to organisations by enhancing creativity, promoting more balanced decision-making, and reducing tunnel vision[1].

The Dutch Pension Fund Code (Code Pensioenfondsen) sets a quota of one woman and one person below the age of 40 to promote board diversity, which is a great start. We asked the participating pension funds which diversity elements have been incorporated in their diversity policy (open question, self-reported). Of the 27 pension funds that responded, 97% included gender and age. An easy way to broaden the scope of the diversity policy is to include other facets, such as cultural background, disability, socioeconomic status, race, religious and spiritual beliefs, and work experience. Around half of the respondents to this question are doing so already: 56% included experience and competence, 41% cultural background.

In the Dutch pension system, it is even more important that participants feel represented so that they can develop trust in the funds, as participation is not a choice but compulsory[2]. Diverse governing boards often have a deeper understanding of their participants' needs, which can help to ensure that participants feel that their voices are heard. Potential miscommunication within the board originating from these different viewpoints can be addressed by valuing and integrating diverse perspectives[3]. Generally, three reasons for striving for diversity can be distinguished: 1) to reduce discrimination and help to ensure that everyone is treated fairly, 2) better representation (of participants), and 3) to learn from and innovate by listening to different perspectives. It is therefore optimal to consider diversity by incorporating these reasons[4] and listening to different viewpoints.

Why is the Governance category important?
Jacqueline Duiker, Senior Manager of Sustainability & Responsible Investment, VBDO:

Good governance is key to grounding sustainability at the heart of the pension fund. Consistent alignment of ambitions and sufficient knowledge are crucial to underpin the execution and implementation of the investment process, ranging from investment beliefs to investment policies to portfolio management, and to the assessment of results.

Having a set quota for the minimum number or percentage of certain groups on the board, is an example of a pension fund endeavouring to recruit more diverse candidates. Having a recruitment team that's knowledgeable about diversity enables the organisation to prevent unconscious bias in its hiring process. A quota can be a good way to make a workplace more diverse, however, preventing tokenism is key. By "tokenism", we mean hiring a person to fulfil the quota, instead of hiring them because of their qualifications. Tokenism does not improve the appreciation of diversity[5].

Having a diverse workforce is only meaningful and effective if it is facilitated by an inclusive workplace[6]. This has three aspects: a fair personnel policy (resulting from reason 1 and 2 previously mentioned), a work culture that embraces all cultures and identities, and inclusion in decision-making. The last two can be achieved by developing policies based on the third reason, learning from diverse voices, which contributes to an inclusive working environment[7].

[1] Bear et al., 2010; Bell et al., 2011; Ely & Thomas, 2001; Kearney et al., 2009; Lückerath-Rovers, 2009
[2] Shi et. al, 2017.
[3] Nishii, 2013; Shore et al., 2011.
[4] Ashikali, Fontein, 2022.
[5] Moss Kanter, 1977; Ng & Burke, 2005; Shi et al., 2017.
[6] Shore et al., 2011; Nishii, 2013.
[7] Schölmerich et al., 2016; Nishii et al., 2018.

Viewpoint

Strength through collaboration

Piet Rietman, Treasurer of the Dutch labour union FNV and responsible for FNV's pension funds – VBDO spoke with Piet Rietman about sustainability developments related to pension fund investing.

Why is sustainability in relation to pension funds important to FNV?
In a nutshell, sustainability is important to the union because it's important to our members. We represent a constituency who increasingly find sustainability important. Formerly, many pension fund participants were mainly considering harmful activities: not wanting their pension money to be invested in things they oppose, e.g. tobacco or cluster munitions. Today, participants are also outspoken about what they do want to invest in. At FNV, we find our members also like investments contributing to sustainable solutions. This shift is influencing pension fund investment preferences. Additionally, there's a new movement where people are joining unions specifically to influence pension fund policies. For example, we have young members who are passionate about climate change united in FNV's climate network and some of them want to become part of the sustainable voice in their pension funds by joining the accountability bodies. Recently, we had an event with over 300 attendees, most of them being relatively young, who want pension funds to adopt more sustainability measures.

Pension funds are evolving from a somewhat dull sector to one that actually engages people on a broader scale. Consequently, sustainability is becoming a more prominent topic within the union. And looking more closely at our union, one of the key qualities of it is the fact that we have individuals working for us who are knowledgeable on social and human rights. This knowledge can be put to use to inform colleagues, mobilise other stakeholders, and engage in discussions. This type of engagement yields valuable information for decision-makers.

How is the DNA of FNV reflected in the boardrooms of pension funds?
Through the dedication of our pension fund board members, of course. Where they seek broad support to include our DNA in all decisions. It is something they already do, but there is also room for improvement here. It's one thing to exclude investments in oil and gas companies, but it's another thing to further positive impact through investments in solutions and transitions towards a sustainable society. This is definitely where unions can play a role. A just transition is completely in line with what we stand for and where our expertise lies. FNV employs some 1,800 people, many of whom are knowledgeable about labour rights in the Netherlands and abroad.

In the coming years, we intend to focus more on the impact side of our investments, and specifically also on social and labour rights issues. We seek to work together with our sister organisations, also in an international context. I am sure we are all familiar with examples of poor working conditions, like those at e.g. Amazon or Tesla. In such cases, divestment for labour right controversies may seem obvious. But what do the employees at these companies actually want? Take Amazon for example, where there are numerous questionable practices. However, if you'd ask the employees via the American unions, these employees likely want the company to continue to exist but with improved working conditions. Therefore, in the first place we regard such labour-related controversies as an engagement topic, not a divestment one.

What does a sustainable pension fund look like?
A sustainable pension fund doesn't just focus on financial returns with a few exclusions. It is much more a tool in the hands of the employees which can drive social change within a company. Pension funds can contribute to a more sustainable world by structuring their investment strategies to make a tangible impact on society along the lines of environmental, social and governance (ESG) topics.

With their expertise, unions can constructively bring expertise on labour rights to the table in the conversation on investments. In a collaborative structure, this can be even more effective. For instance, in global union meetings, companies such as Amazon are put on the agenda. Pension funds manage significant amounts of money and indeed have an influence, but also a responsibility to use that influence in a conscious way.

Despite increased attention for sustainability in investment, the inconvenient truth is that society is not becoming more sustainable: CO2 emissions are still increasing, deforestation is ongoing and inequality is growing. What do you believe is necessary to turn the tide, and what role could or should FNV play in this?
In terms of social impact, one problem is that we don't always have a clear picture of all the issues worldwide. Social initiatives with impact often remain on a small scale. Recently, for example, we were presented with an investment opportunity through the international union network from a cooperative of workers in Italy who took over a bicycle factory. It's wonderfully idealistic and admirable, but it is also incidental. To truly achieve a sustainable world, we need to make changes structurally.

To begin with, I believe we need to have a meaningful dialogue with our members and the pension fund participants. People are often asked for their opinions through surveys with black and white questions. Yet, this does not always reflect the underlying dilemmas and consequences. Here, FNV can play a role by informing pension fund participants, many of whom are also FNV members, and contributing to more nuanced discussions. Pension fund board members should always act in the best interests of the participants. So, it is crucial that people are well-informed and interact more extensively with their pension fund management. There is a need for a fundamental shift where FNV, along with other international unions, can and should make a difference to drive change to ensure a just society for all of us.

1.2 Strategic Asset Allocation | Strategic Asset Allocation (SAA) plays a fundamental role in shaping the portfolio construction and long-term investment strategies of pension funds. Integrating sustainability developments into the SAA process and asset-liability management (ALM) modelling is becoming increasingly important for meaningful analysis. This section focuses on factors such as dialogue with service providers on the incorporation of sustainability into their methodologies, and the type of assumptions and views used in modelling.

RESULTS 2024 | The average score for Strategic Asset Allocation is 2.8, with a range of 1.3 to 5.0.

DISCUSSION POINTS ON STRATEGIC ASSET ALLOCATION

- **Which macro-economic, forward-looking views can you take into account to strengthen the SAA process?**
- **How can you promote sustainable practices in the SAA process?**
- **Which societal transitions should be taken into account during the modelling stage?**
- **What are the consequences of the methodology used for the output of the SAA process? What does this mean for the scenarios presented to the pension fund?**

NEW THIS YEAR

The Strategic Asset Allocation category is a new addition to the methodology. As SAA and ALM are essential for portfolio construction, it is vital that sustainability and related scenarios and forward-looking views have been incorporated in the process. The pension fund needs to have an understanding of how scenarios are constructed and what transition pathways or damage functions are, or are not, modelled in baseline or stress-testing scenarios.

INCLUDING SUSTAINABILITY FROM THE START

Although pension funds do not need to have the expertise needed for SAA and ALM modelling in house, they do need to be able to understand the methodologies used and what the consequences are for related output. Additionally, pension funds can challenge relevant providers to be explicit about the assumptions and views in their modelling and assess to what extent these reflect actual societal- and sustainability-related developments. This is helpful for the interpretation of the results of the analysis and in the construction of more resilient portfolios. 42% of pension funds actively engage with relevant service providers about the incorporation of sustainability topics.

Why did we include the SAA category?
Jacqueline Duiker, Senior Manager of Sustainability & Responsible Investment, VBDO:

In the SAA category, the boundaries for actual investment are determined based on macro-economic developments and financial investment beliefs. We believe ESG risks and sustainability should also be part of these analyses. For example, with respect to scenario analysis, we believe pension funds should be aware of the assumptions, transition pathways, and physical damage functions that are (and more importantly that are not) included. This is important to interpret the results of these analyses and for the portfolio construction decision making based on them.

Viewpoint

Positive change requires cooperation

Paulien Schuurman, Specialist in Governance and Behaviour at DNB, Michelle Ummels, Supervisory Specialist of Pension Fund Supervision at DNB – In this interview, we highlight the journey that De Nederlandsche Bank (DNB) has undertaken in the field of sustainability. Michelle Ummels, who has worked for nearly seven years as Supervisory Specialist in Pension Fund Supervision with a focus on sustainability, and Paulien Schuurman, Specialist in Governance and Behaviour at DNB since 2016, share their insights. Both experts are closely involved in the project team dedicated to integrating sustainability into supervision. They discuss the steps DNB has taken, the challenges encountered along the way, and their vision for the future embedding of sustainability within supervision.

Why does the DNB focus on sustainability, and how does this translate into its supervision of Dutch pension funds?

For DNB, sustainability is a strategic priority because it recognises the impact sustainability risks – such as climate change and nature degradation – can have on the financial system and individual institutions. Managing sustainability risks contributes to a resilient financial system. This approach aligns with DNB's mission to safeguard financial and price stability and support sustainable prosperity for the Netherlands.

As a prudential supervisor, DNB has integrated sustainability risks into its supervisory framework, since sustainability risks can be sources of financial risks for financial institutions. In the supervision of Dutch pension funds, DNB focuses on how sustainability risks are managed. Pension funds are required to incorporate sustainability considerations into their core processes, such as the risk management process (which starts by identifying the risks) and to mitigate any material sustainability risks (for instance, losses due to capital destruction, business disruption, legal claims, or reputational damage), as outlined in Article 18b, paragraph 2(h) of the FTK Decree. This legislation also requires pension funds to develop methodologies to detect and assess these risks. Beyond detection, they must actively measure, monitor, manage, and report on these risks as part of their risk management framework. Additionally, they must formalise and implement policies detailing how these risks are managed within their overall strategy. This obligation emphasises the need for comprehensive risk management practices that integrate ESG factors. In order to provide pension funds with guidance, DNB has published the Guide for managing climate and environmental risks[8], with concrete examples and good practices of how pension funds can identify and manage these risks.

Sustainability is a relatively new and rapidly evolving theme in the financial sector. Can you describe the developments DNB has experienced in this area?

Sustainability has been a topic for DNB since 2013, when it was first highlighted in our supervisory policy. Since then, we have invested significantly in understanding and managing sustainability risks within the financial sector. Our approach began with mapping these risks, analysing both their exposure and transmission across institutions. Key reports, such as *Waterproof*[9] (2017), *Indebted to Nature*[10] (2020, in collaboration with PBL), *Balancing Sustainability*[11] (2021), and *Real Estate and Climate Transition Risk*[12] (2022), have helped illustrate the financial sector's vulnerability to environmental changes.

These studies have also demonstrated the impact of sustainability risks on financial stability. For instance, flooding risks could cause losses of €20-60 billion in the Netherlands, affecting financial institutions directly. Additionally, Dutch institutions have €510 billion in investments globally in companies reliant on ecosystem services, such as pollination, which could disrupt financial stability if compromised.

Since 2023, we have begun implementing concrete tools to integrate sustainability risks into our supervisory framework and processes, treating these risks not as standalone factors but as sources of traditional prudential risk categories such as market and governance risks. This approach underscores the need for long-term sustainability risk management within financial institutions, as the sector shifts from viewing sustainability as solely a societal concern to a strategic and financial imperative. This then fosters a resilient, future-proof financial sector that supports the broader economy and society.

What is DNB's vision of a sustainable financial sector?

A financial sector that is resilient to sustainability risks has adequately managed these risks: financial institutions understand which risks are material for them, how these risks can affect them, and their liabilities towards their clients, participants, or policyholders. These financial institutions have policies and practices in place to mitigate any risks that go beyond their risk tolerance. They have incorporated sustainability risks and considerations in their business model and strategy, and in their governance and risk management processes.

To what extent does 'real' (positive) impact form part of DNB's focus, or is the focus mainly on managing portfolio risks?

DNB approaches sustainability from a risk perspective, with an emphasis on managing sustainability risks in the financial sector. Central to this is a materiality analysis that provides insight into which sustainability risks are material for institutions. This analysis, combined with input from stakeholders and the context in which pension funds operate, forms an important basis for the choices pension funds make. Our supervision focuses on whether financial institutions, such as pension funds, adequately identify these sustainability risks and incorporate them into their action plans, contributing to long-term financial stability.

> *Positive change requires cooperation between different actors – including governments, the financial sector, and supervisors – as each have their own role in the financial ecosystem.*

At the same time, DNB acknowledges that many institutions strive for positive impact alongside managing risks. It is up to the institutions themselves to give substance to this. As a prudential supervisor, we are however mindful that financial institutions should act in accordance with their own sustainability policies and commitments, since not delivering on their own commitments can be a source of reputational risk.

With the growing focus on sustainability, what do you believe is essential to accelerate positive change? And in what ways can DNB support and contribute to this progress?

Positive change requires cooperation between different actors – including governments, the financial sector, and supervisors – as each have their own role in the financial ecosystem. There are already many positive initiatives emerging from the financial and public sectors, which are strengthened by evolving legislation and regulations.

Some initiatives that DNB engages in to contribute to the greening of the financial system are the Dutch Sustainable Finance Platform, in which we cooperate with the financial sector, public sector, and supervisory authorities on initiatives to promote sustainability; the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), comprising over 140 central banks and supervisors that cooperate and share knowledge; and the International Sustainability Standards Board (ISSB), which aims to develop standards for sustainability disclosures.

In its role as supervisor, DNB's focus is on financial institutions complying with their regulatory requirements on managing sustainability risks. This includes providing guidance and engaging in dialogue to promote awareness among the financial sector. For example, we will in the near future publish new good practices on how to manage climate and environmental risks. In addition, in 2025 we will also test whether pension funds' have performed sustainability risk analyses in line with regulatory requirements. Ultimately, the goal is a financial sector that is resilient to sustainability risks, serving the interests of both the sector and society as a whole.

[8] www.dnb.nl/media/ep1p04h5/klimaat-en-milieurisico-s-sectoren-uk.pdf
[9] www.dnb.nl/media/r40dgfap/waterproof-an-exploration-of-climate-related-risks-for-the-dutch-financial-sector.pdf
[10] www.dnb.nl/en/general-news/news-2020/indebted-to-nature/
[11] www.dnb.nl/media/1lkjwpao/web_report_balancing-sustainability.pdf
[12] www.dnb.nl/publicaties/publicaties-onderzoek/occasional-study/nr-2-2022-real-estate-and-climate-transition-risk-a-financial-stability-perspective/

How can pension funds make a difference through their portfolio?
Jacqueline Duiker, Senior Manager of Sustainability & Responsible Investment, VBDO:

The portfolio encompasses the investment policy and its implementation. It has always been and still is the core focus of the benchmark. We look for specificity and a high level of ambition, accompanied by a wide area of investment strategies for four sustainability themes: climate change, biodiversity, a social theme, and a free theme determined by each pension fund based on their own focus topics. In doing so, we aim to move beyond generic approaches towards specific approaches with defined intended changes in the real world.

VBDO

1.3 Portfolio | The portfolio offers crucial insights into the pension fund's sustainability ambitions and gives a clearer picture of how the fund's RI policy is being incorporated into investment decisions. An investment portfolio encompasses a large group of asset classes. This benchmark's research is focused on public markets, namely publicly listed equity, corporate bonds, and SSA bonds. By looking at important elements such as active ownership and other specific RI instruments, a clearer understanding of how sustainability is integrated into the pension fund's investment practices can be achieved. This section explores how different sustainability themes are addressed within the portfolios of pension funds by focusing on four key themes: climate change, biodiversity, social, and a 'free' theme selected by each pension fund on an individual basis

RESULTS 2024 | The average score for Portfolio is 3.2, with a range of 2.1 to 4.0.

DISCUSSION POINTS ON PORTFOLIO

- **Which sustainability topics would the pension fund like to bring to the attention of policymakers in its role as a bondholder? How can this best be achieved?**
- **Which knowledge partners can provide support in understanding and addressing complex sustainability topics? What instruments are at the pension fund's disposal?**
- **Which themes could be better implemented in the pension fund's portfolio using the RI instruments available?**

NEW THIS YEAR

In this category, various sustainability themes and how they are addressed by RI instruments take centre stage. The questions are divided into general policy (for example on exclusion, ESG-integration, voting, and impact investing), a deep dive into four sustainability themes, and finally public reporting. Two of the themes are provided by VBDO, namely climate change and biodiversity. The

Figure 3 | **>5% allocated to green bonds**

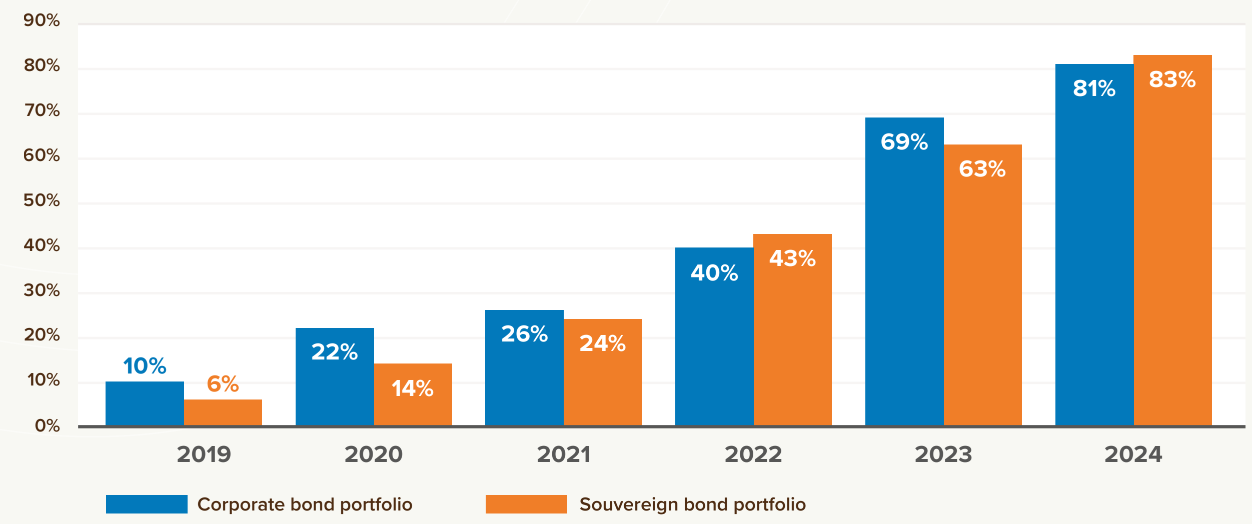
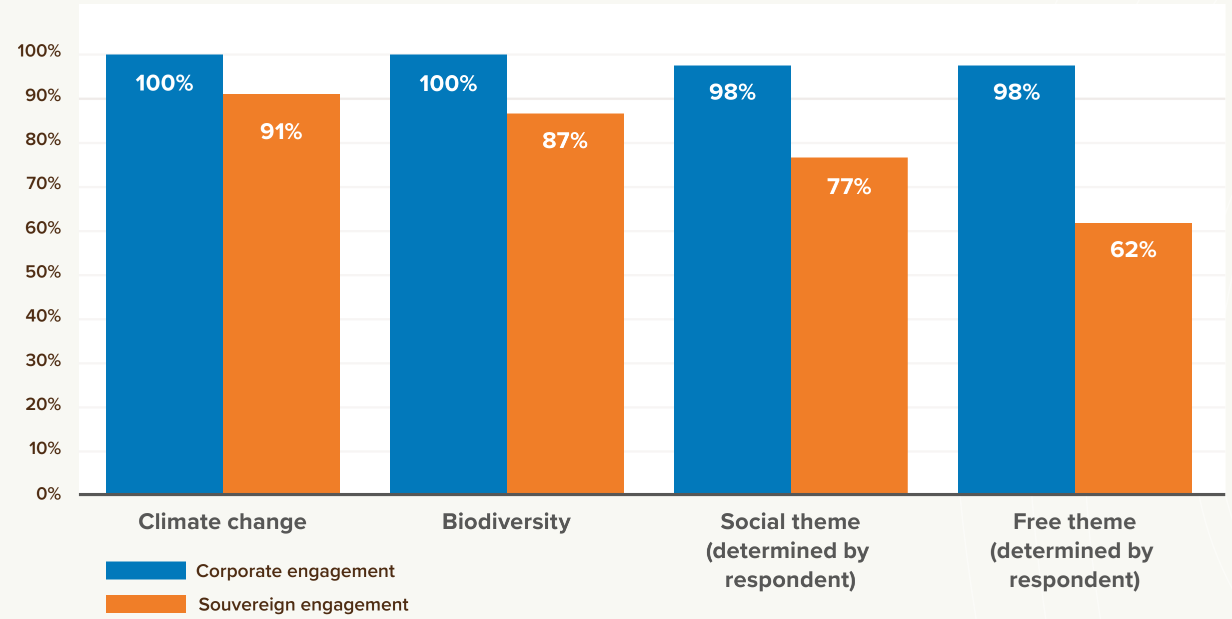


Figure 4 | **Examples of engagement provided**



Interestingly, despite the often-mentioned delicacy and complexity of the practice, engagement dialogue for the sovereign portfolio does take place to a relatively high degree (see figure 4). This can be facilitated by a collective initiative such as the Investors Policy Dialogue on Deforestation (IPDD) initiative but is executed by engagement providers, asset managers, and fund managers as well. This shows there are various avenues for dialogue that can be utilised by pension funds.

Figure 5 | **Selected social themes**

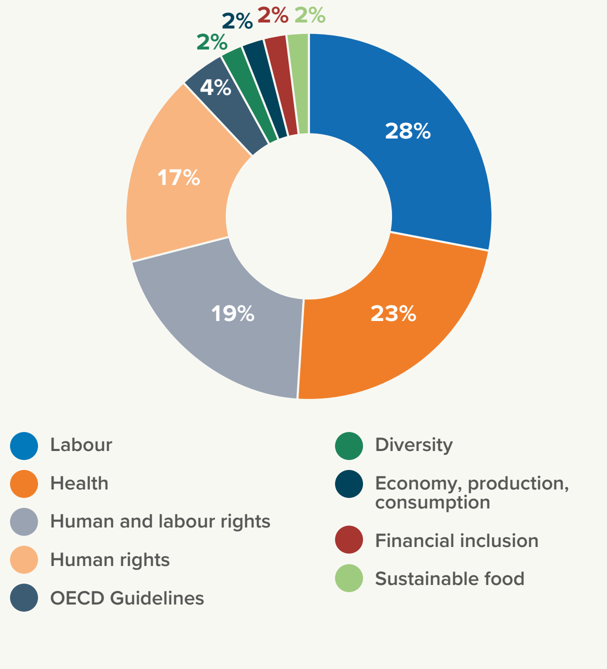
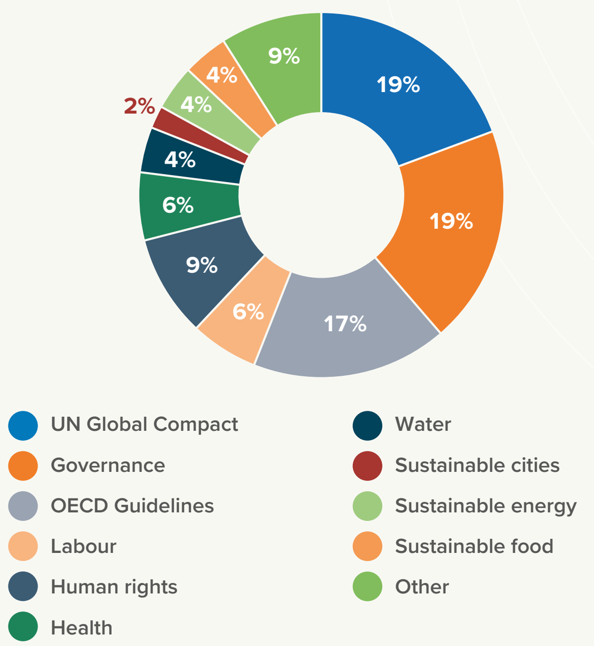


Figure 6 | **Selected free themes**



participating pension funds were invited to select a social theme and another "free" theme from their RI policy for the remaining two themes. The questions look at the general ambition for the concerning theme captured in relevant policies by the asset owner and how it has been incorporated into active ownership activities (engagement and voting). For the accountability section, the way in which pension funds publicly report on sustainability ambitions, dilemmas, and results is taken into account.

The most common topics chosen for the social theme were labour rights, human rights, and health (see figure 5). Pension funds often selected social topics for the free theme as well (see figure 6).

PORTFOLIO: GENERAL REMARKS

Performance varies across topics and instruments. Allocation to green and social bonds continues to increase (see figure 3). Overall, the exclusion and inclusion criteria for investments in publicly listed equity and corporate bonds are stricter than those for sovereign investments.

PORTFOLIO: BIODIVERSITY DEEP DIVE

As humans, we rely on nature through the benefits provided by ecosystem services, such as the pollination of crops, water filtration, and soil fertility. In addition to their inherent value, these services generate significant social and economic benefits[13]. However, human activities are the primary drivers of biodiversity loss, which threatens the stability of these ecosystem services[14]. Given our dependence on ecosystems, this decline not only has environmental consequences, but also poses systemic risks to our society and economy. Logically, biodiversity loss is now recognised as a critical issue for the financial sector[15]. The potential future impact of biodiversity loss represents a significant threat to investors' portfolios. Although there is a lack of comprehensive data on some biodiversity topics, this should not delay necessary actions to address biodiversity-related risks.

The relationship between the financial sector and biodiversity is bidirectional: biodiversity decline impacts investee companies' operations, supply chains, and long-term profitability, while financial institutions influence biodiversity through their investment and lending practices[16]. For instance, investments can contribute to deforestation, leading to habitat loss and biodiversity decline. Consequently, deforestation can impact the investor's portfolio by diminishing the long-term value of their investments. This dynamic is captured by the concept of double materiality, encompassing both financial and environmental impacts. From a risk perspective, this means biodiversity loss can create stranded assets, reduce investment returns, and increase regulatory and reputational risks for investors.

The interdependence of the financial market and biodiversity calls for an adequate and effective approach to mitigate risks and promote sustainable finance. In response, the European Union has established comprehensive reporting standards and regulatory frameworks aimed at integrating biodiversity considerations into business activities and financial decision-making[17]. These regulations, such as the Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD), the Nature Restoration Law, and the EU Deforestation Regulation (EUDR), ensure that financial institutions not only assess their exposure to biodiversity-related risks but also contribute positively to the preservation of natural capital. Standards and other tools can support pension funds to set meaningful targets, strengthen policy implementation, and ensure compliance with reporting standards. Examples of tools for reporting or impact measuring for biodiversity are Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE), GRI 304, Kunming-Montreal Global-Biodiversity Framework, OnePlanet Business for Biodiversity (OP2B), Partnership for Biodiversity Accounting Financials (PBAF), Science Based Targets for Nature (SBTN), and Taskforce on Nature-related Financial Disclosures (TNFD)[18] .

The importance of biodiversity is recognised by pension funds: 83% have explicitly included biodiversity in their own RI policy. In addition, active ownership takes place at a high rate, with the majority of participants showing the incorporation of biodiversity and related topics in corporate engagement (100%) and voting behaviour (94%). Notably, a high rate of sovereign engagement was reported as well, mostly through collective initiatives (87%).

[13] www.ipbes.net/global-assessment
[14] www.ipbes.net/models-drivers-biodiversity-ecosystem-change
[15] www.weforum.org/publications/global-risks-report-2024/
[16] www.wwf.nl/globalassets/pdf/rapporten/nature-is-next---wwf--deloitte.pdf
[17] www.consilium.europa.eu/en/policies/biodiversity/
[18] For more information, see for example the 2023 VBDO theme study 'Unraveling Biodiversity' https://www.vbdo.nl/en/2023/10/by-no-means-all-dutch-investors-are-paying-attention-to-biodiversity/

Viewpoint

A healthy return in a liveable world

Eric Huizing, Executive Board Member and Chairman of the Investment Committee at Ahold Delhaize Pensioen – VBDO spoke with Eric Huizing about the integration of sustainability through impact investment.

Why is sustainability important for Ahold Delhaize Pensioen?

Sustainability is important for us because we believe that sustainable investing helps to realise a healthy return in a liveable world. At the same time, focusing solely on sustainability without generating attractive financial returns is also not in the best interest of our participants. We encourage companies to achieve both solid financial results and to treat their employees, environment, and governance responsibly.

Moreover, sustainability is firmly integrated into our mission, vision, and strategy, as evidenced by our decision to allocate 5% of our portfolio to impact investments. We are part of a corporate pension fund connected to companies such as Albert Heijn, which are actively engaged in sustainability efforts. Therefore, we align our policies as closely as possible with the sustainable ambitions of the company, which for example led to the expansion of our engagement practices in 2023.

As a pension fund, we take the interests of our various stakeholders into account, including the employer, employees, and participants. However, expectations of the participants vary: some do not want sustainability to come at the expense of returns, while others are willing to accept a slightly lower return if it contributes to a better world. This requires careful consideration and clear communication with all our stakeholders.

To achieve that, we actively engage in dialogue with our participants. This can be challenging due to the high proportion of younger employees in the companies, for whom retirement seems distant. Although their interest in the pension world is limited, they often care a great deal about sustainability and circularity. We invite them for discussions to share their thoughts and concerns, which we incorporate into our policies wherever possible. This translates to our goal to achieve a healthy return in a healthy world, where sustainability is not just a buzzword but a fundamental part of our strategy.

What have you done so far to create a positive impact on the world, for example, in terms of sustainable food production and healthy nutrition?

In 2023, we decided to allocate 5% of our total portfolio to impact investments. This decision followed a lengthy process, with our ambition being approved in July 2023. The remaining 95% of our portfolio must adhere to the principle of “do no harm,” whilst the impact investments are specifically focused on “doing good” (creating a positive impact). To achieve this, we collaborate with our fiduciary manager Achmea IM to develop concrete impact investments in private markets such as private equity, private debt, forestry and farmland, and infrastructure. Alongside this, we develop clear and communicable measurement points in cooperation with the potential impact managers. We are flexible and willing to learn from the impact investment market, with the option to adjust the size of our impact portfolio depending on whether the results meet our expectations.

We see our new impact investment programme as a step forward because it offers more measurable results. This allows us to establish a more direct link between our investments and the positive impact we aim to achieve. Currently, we are focused on defining clear metrics and parameters to measure our impact, and – just as importantly – communicating these results transparently to participants and other stakeholders. Ensuring that our achievements are communicated effectively is crucial, as it demonstrates our real-world impact.

Overall, our vision is focused on achieving a healthy return in a healthy and liveable world for our participants, with collaboration, a practical approach, and boldness at the core.

In addition, we have been engaging with companies on themes like access to healthy food, biodiversity, CO_2 reduction, water usage, the circular economy, labour rights, and climate. As a relatively small investor, this often happens through collective collaborations such as Nature Action 100 and Climate Action 100+. Additionally, we cooperate with Achmea IM and pension funds in the Dutch Engagement Network that have participants with similar interests. While the results of engagement are sometimes difficult to measure, we believe it contributes to positive changes within companies.

What is your vision for a sustainable future, for example, in terms of sustainable food production and healthy nutrition? What are the challenges, and where do you see your strengths?

We have a clear vision for sustainability, focusing on themes like climate and healthy nutrition, which are closely linked to the food retail sector in which our employer and participants operate. These themes align with three Sustainable Development Goals (SDGs): SDG 3 (Good Health and Well-being), SDG 12 (Responsible Consumption and Production), and SDG 13 (Climate Action). We have further developed these themes into sub-themes, which we use in the selection of impact managers, in our engagement programme, and in our voting decisions.

Our biggest challenge lies in finding the right managers and investment opportunities in what is still a relatively new market for impact investing. The selection process is complex, and we need to be diligent in identifying the right parties that perform well both financially and sustainably. Communication also plays a critical role: it is challenging to convey the sustainable impact clearly and convincingly to our participants and stakeholders.

Another challenge is that impact investments often have higher initial costs. However, we strongly believe in long-term value creation. So, invest now, perhaps at a slightly higher cost, and reap the rewards in the long term. Although we are a relatively small pension fund, we see ourselves as flexible, decisive, and entrepreneurial. We have a clear mission and vision, set out in our investment beliefs. And we are willing to take steps that allow us to quickly respond to new opportunities and collaborate with various parties.

Furthermore, we engage in dialogues with NGOs like Milieudefensie, Greenpeace, and Urgenda. We view these dialogues as valuable learning moments, where we share insights and receive constructive criticism that helps us further refine our vision, policies, and practices.

Overall, our vision is focused on achieving a healthy return in a healthy and liveable world for our participants, with collaboration, a practical approach, and boldness at the core.

Photo: Raychel Sanner

What is the purpose of the Individual Investments category?
Jacqueline Duiker, Senior Manager of Sustainability & Responsible Investment, VBDO:

We look for consistency throughout the investment process: from strategy to portfolio construction and management level, and finally on the level of individual investment decisions. This category can be particularly helpful to stimulate discussion within the board and with the rest of the organisation and its stakeholders on how their beliefs and policies match with individual investments.

VBDO

1.4 Individual Investments | This section encourages reflection on how sustainability ambitions are aligned with investment decisions. It gives insights into the investment choices of pension funds across asset classes in both public and private markets, looking for alignment with their RI policies and sustainability goals.

RESULTS 2024 I The average score for Individual Investments is 3.6, with a range of 1.6 to 5.0.

DISCUSSION POINTS ON INDIVIDUAL INVESTMENTS

- **How aware of the actual content of your investment portfolio are you? Is this aligned with your sustainability ambition?**
- **What is the impact of your investment portfolio in the world? Would changes in the portfolio result in real world changes as well?**

NEW THIS YEAR

The Individual Investments category is different from the previous three categories as it serves as a consistency check as well as a moment of reflection. By looking at specific corporate and sovereign entities provided by VBDO, this category underscores how investment decisions align with the pension fund's sustainability beliefs and RI-related policies. For the private markets section, pension funds can select an investment from their own portfolio, highlighting best practices. Due to the highly confidential nature of this information, specific results have not been included in our reporting on this category.

CONSISTENCY AND REFLECTION

When policies have been formalised and strategies have been laid out, it all comes down to the shaping of the investment portfolio and why it ends up looking the way it does. In short, are pension funds putting their money where their mouth is? By looking at specific companies and sovereign issuers, participating pension funds are offered the opportunity to reflect on whether they actually agree with the investments included in the portfolio, whether these are consistent with their vision on and ambition for sustainability, and whether the RI policy has the intended effect.

This year, the three corporate entities were selected from the consumer staples, infrastructure, and technology sectors. The three sovereign entities comprise one developed market and two emerging markets entities. For private markets, pension funds were asked whether they were invested in infrastructure, private equity or real estate, and to provide a relevant example if applicable.

Viewpoint

Sustainable investment is the most important long-term investment opportunity

Johan Langerak, Branch General Manager of Candriam for the Netherlands – VBDO spoke with Johan Langerak about Candriam's evolving sustainability journey. Candriam (which stands for "Conviction AND Responsibility In Asset Management") is a global multi-specialist asset manager with over €149 billion in assets under management.

Candriam is celebrating its 25 years of existence. What does your sustainability journey look like? How did it all start and how have you changed over the years?
Candriam launched our first sustainability strategy in 1996, and created our in-house ESG research team in 2005. In 2006, we were one of the founding signatories of the UN Principles for Responsible Investment (PRI) and we were also selected to be part of the PRI 2020 Leaders' Group for Climate. Many more developments continued in the following years. In 2021, we set the objective of becoming net zero across our activities by 2050, in line with the Paris Agreement goals. In 2021, we joined the Net Zero Asset Managers Initiative, and in 2022, we launched our Private Debt Impact fund. In the meantime, our ESG Investments & Research team continued to grow; we have over 25 experts covering analysis, engagement, and voting today. The team has been instrumental in developing our proprietary ESG Analysis and Rating Framework, as well as our Sovereign Sustainability Report, which ranks global countries with a dedicated ESG score.

We are committed to contributing positively to society. For example, we aim to educate the broader financial community and beyond on ESG issues. In 2017, we launched our Candriam Academy, the first free-access accredited training platform on sustainable investing, which allows anyone to gain knowledge in sustainable and responsible investing. Today, the Academy boasts more than 15,000 members in 91 countries. As a sustainable and responsible investor, engagement and stewardship activities are integral and indivisible components of our investment process. From voting at AGMs and having regular and constructive dialogues with our investee companies to leading and collaborating on industry-wide initiatives and setting our own policies, we strive to make a difference and invest for tomorrow. Another example of contributing positively to society is our VBDO membership, through which we aim to contribute to sustainable development. In addition, we share our knowledge and expertise via seminars and events such as our annual Dutch ESG masterclass and our annual Dutch Candriam Sustainable Investment Conference in Amsterdam.

To reiterate, as an asset manager with sustainable investing at its core, Candriam has offered innovative and diversified investment solutions across many asset classes, including fixed income, equities, absolute return, asset allocation, and illiquid assets, for more than 25 years.

What does Candriam's vision of a sustainable financial system look like and what would be the key changes required to reach or move towards that vision?
We believe that sustainable investment is the most important long-term investment opportunity. Over the last few years, the industry and market environment has experienced significant changes, including rapid technological advancements, changing macro conditions and market volatility as a result of geopolitical challenges, and, of course, the significant impact of the global pandemic. The market has evolved significantly, driven by a growing awareness of the ESG factors that influence long-term financial performance, as well as regulation. Indeed, increased oversight and regulation has enhanced the credibility of ESG. We also think that Europe is expected to remain the largest source of ESG assets.

Sustainable investing remains an opportunity for the asset management sector despite the short-term turbulences. It is widely accepted that integrating material ESG elements into traditional financial analysis logically improves the long-term risk-adjusted return for investors. The fundamental economics, driven by market forces and the financial and human costs of inaction, ensure that ESG considerations remain a priority.

How does Candriam see the role of asset managers evolving in the next decade in terms of driving the sustainability agenda, both in terms of financial markets and broader societal impact?
As a responsible asset manager, we play an important role in shaping the future for the better. One way we can do this is through our engagement and voting activities, not only related to the companies we invest in, but more broadly for sovereigns and governments. Another one is through research and in-depth analysis, ensuring we have an accurate and holistic view of any companies we invest in, be it from their business activity perspective, or their stakeholders' activities. Here, having a forward-looking view is essential too; we need to be aware of how a company or sovereign will be able to adapt to future changes and regulation, for instance when it comes to supporting the green transition and working towards the Paris Agreement.

Sustainable investing remains an opportunity for the asset management sector despite the short-term turbulences.

At Candriam, we firmly believe that responsible investment is a key driver of social, economic, and environmental progress. Being socially involved is another essential component that we think makes a huge difference in driving positive change and promoting a more sustainable future for all. We do this, for example, through our Candriam Institute for Sustainable Development. More broadly, we also believe that regulation and further enhancement of ESG reporting will have a critical role in shaping our sector and clients' investment decisions. As asset managers, we need to be part of these debates – participating in relevant collaborations, be it with peers or regulatory bodies – and lead new initiatives, to ensure that we continue to take the right steps to grow our industry for the better and with our clients' interests at the forefront.

Standards and regulations

To some extent, reporting on responsible investment is encouraged by voluntary codes, guidelines, and standards. However, mandatory legislation and current national and international developments indicate that disclosure standards are likely to become stricter and a legal requirement. Current legislation and guidelines include:

- The New Pensions Act (Wet Toekomst Pensioenen) entered into force on 1 July 2023. Pension funds are required to transfer to the new system by 1 January 2028 at the latest. It is a significant piece of pension reform legislation intended to modernise the Dutch pension system. The reform is intended to make the system more flexible, sustainable, and adaptable to changing economic and demographic conditions.

- The International Responsible Business Conduct (IRBC) Agreement for Pension Funds (Convenant Internationaal Maatschappelijk Verantwoord Beleggen Pensioenfondsen, IMVB Convenant) was a commitment made by Dutch pension funds to incorporate responsible investment principles in their investment practices. The objective of the agreement was for the signatory parties to prevent, mitigate, and remediate the negative social and environmental consequences of their investments.

The agreement formally ended on 31 December 2022. Participating parties, such as the Dutch Federation of Pension Funds (Pensioenfederatie) decided to continue cooperating through stakeholder dialogues and theme groups. However, the participants no longer have to make an official commitment.

- The EU Sustainable Finance Taxonomy (Regulation (EU) 2020/852) for climate change mitigation and adaptation standardises the criteria for determining whether an economic activity can be considered sustainable. Institutional investors are required to disclose how and to what extent they use the criteria for environmentally sustainable economic activities to determine the environmental sustainability of their investments.
- The Sustainable Finance Disclosure Regulation (SFDR) requires financial market participants and financial advisers to disclose certain sustainability information, including adverse impacts on sustainability. Both asset managers and pension funds are financial market participants that provide financial services to end investors. Therefore, they have to adhere to the SFDR's articles, which should help to ensure the transparency of sustainability claims. Pension funds should provide:
  - Transparency of sustainability risks in precontractual information (Articles 3 & 6), and transparency of the remuneration policy concerning the integration of sustainability risks (Article 5);
  - Transparency of any adverse effects on sustainability relating to investment decisions, at entity level (Article 4);
  - How a product fulfils sustainable objectives (Article 9 and characteristics of Article 8). Articles 8 and 9 are designed to classify the sustainability impact disclosure of financial products. Article 9 focuses on financial products that have a sustainable impact as an objective. Article 8 focuses on financial products that promote ecological or social aspects. Article 6 focuses on financial products that are not promoted as being sustainable. Pension funds need to determine which article applies to their investments. The classifications should not be seen as a sustainability benchmark because the articles do not guarantee the sustainability impact of the investment. The only goal of the SFDR is to ensure sustainable impact claims made by financial institutions are valid.

On January 1 2023, the SFDR level II was introduced, which provides more detailed and standardised rules and technical requirements. Compared to SFDR level I, this regulation aims to improve the quality, transparency, and comparability of ESG-related information in financial products.

- The European Institutions for Occupational Retirement Provision (IORP II) Directive requires that pension funds assess the ESG risks of their investments following a specific set of criteria, and that ESG risks acquire an equal level of attention compared to operational, liquidity, and asset risks.
- The Task Force on Climate-related Financial Disclosures (TCFD) guidelines recommend that reporting on material climate risks is integrated into companies' ordinary financial reporting. The TCFD divides its recommendations into governance, strategy, risk management, and metrics and targets.
- The Taskforce on Nature-related Financial Disclosures (TNFD) guidelines advocate for the incorporation of nature-related risks and opportunities into companies' regular financial reporting. Similar to the TCFD, the TNFD structures its recommendations around four key areas: governance, strategy, risk management, and metrics and targets.
- The Global Reporting Initiative (GRI) helps companies and other organisations to report on their sustainability efforts. It provides guidelines for disclosing information about environmental, social, and economic impacts, such as biodiversity (GRI 304). The GRI Standards are globally used sustainability reporting standards. Reporting in line with the standards helps stakeholders to understand how the company is addressing its responsibilities in these areas. GRI's framework promotes transparency and accountability in sustainability practices.

Appendix I - Methodology

The VBDO Benchmark on Responsible Investment by Pension Funds in the Netherlands compares the 50 largest pension funds in the Netherlands. The participating pension funds and VBDO share a common goal – to enrich how responsible investing is considered and implemented by pension funds.

The pension fund benchmark research has been conducted from 2006 onwards. Over the years, significant changes to its methodology have been made periodically. In 2024, the latest completely revised version has come into effect. Due to the rigorous nature of the revision, the current benchmark ranking and outcomes are not directly comparable to editions from before 2024.

VBDO strives to ensure that the scoring methodology is as objective and data driven as possible by employing various measures, thereby providing an unbiased evaluation of the performances of pension funds. However, we acknowledge that, like all qualitative assessments, a degree of subjectivity inevitably creeps into the process. This is a natural part of evaluating complex, multifaceted issues. By transparently recognising this balance between objectivity and subjectivity, we aim to provide a fair and comprehensive analysis. We invite constructive and critical feedback to continuously enhance our assessment methods.

GUIDING PRINCIPLES

With the benchmark research, VBDO aims to do three things: encourage collaboration, inspire reflection, and instigate change. The core principle of the methodology is that pension funds use their capital to realise sustainability, and subsequently a sustainable world and society. This means not just incorporating societal needs into the investment strategy, process, and activities, but also enshrining societal needs in the investment beliefs and all further levels of the investment process. The questionnaire has been developed to stimulate discussion on the pension fund's vision, ambition, and practices regarding sustainable investing.

In addition to the core principle, several guiding principles have been used during the questionnaire development. Mainly, connecting the needs of the real world with investing (real world impact), focusing on the ownership of the asset owner, and consistency between the pension fund's sustainability ambition, its portfolio construction, and its use of active ownership ("walk the talk" principle).

THE VBDO RESPONSIBLE INVESTMENT BENCHMARK SET-UP

The questionnaire is composed of four categories: Governance, Strategic Asset Allocation, Portfolio, and Individual Investments. These categories act as interlocking layers, with each category diving deeper into the pension fund's responsible investment process, strategy, and activities.

I. Governance I A pension fund needs to decide on its vision on responsible investment and a sustainable world, guided by the board. Accordingly, questions are included on the board's involvement and its expertise, as well as on the grounding of sustainability in the pension fund's investment beliefs and overall organisation.

II. Strategic Asset Allocation I Strategic asset allocation (SAA) determines a pension fund's portfolio construction. To properly include sustainability and related scenarios and forward-looking views on a strategy level, attention should be paid to the methodology behind the scenarios and models.

III. Portfolio I By looking at the RI policy and its different elements, such as active ownership, a general sense of the pension fund's sustainability ambitions can be gained. Following questions on policy and RI instruments, a more detailed look is taken into four different sustainability themes and how these are treated in the RI policy and active ownership activities. Two of the four themes are provided by VBDO, namely "climate change" and "biodiversity" The pension fund is asked to provide its own social theme and a free choice theme. Prerequisite for the latter two themes is explicit inclusion in the pension fund's (responsible) investment policy.

IV. Individual Investments I TVBDO expects to see the elements covered in the previous categories come together in (the motivation for) individual investment decisions. This section is intended to increase the pension fund's understanding of how successfully its RI policy and beliefs are being integrated into investment decisions. It also promotes reflection and discussion about sustainability in general, the fund's sustainability ambitions, and the impact of the organisations invested in. In short, it helps to reveal how the answers from the first four categories are consistent with investment decisions. Several corporate and sovereign investment examples are provided by VBDO. These are the same for each participant. Participants are asked to explain their motivations behind the (potential) investment decision based on their investment beliefs and relevant policies. Furthermore, participants are asked to provide one example each for the asset classes infrastructure, private equity, and real estate from their own private assets portfolio.

UNDERLYING PRESUMPTIONS

The benchmark methodology relies on several presumptions:

I. The benchmark study is impartial.
II. The scope of the benchmark is determined by selecting the 50 largest pension funds active in the Netherlands in terms of assets under management (AuM), based on figures provided by the Dutch Central Bank. Removal from the research scope can occur for different reasons, e.g. mergers or a significant reduction in assets under management.
III. The assets included in this benchmark are those of the participating Dutch pension funds, irrespective of where these are being managed.
IV. The benchmark study considers policies and activities of the asset owner (the pension fund). Policies and activities of other parties, such as asset managers, are not taken into consideration unless a valid reason for doing so can be provided or if specifically allowed by the methodology. This differs per question.
V. This benchmark focuses on listed categories (publicly listed equity, corporate bonds, and government bonds). For the Individual Investments category, private assets are included through investments in infrastructure, private equity, and real estate. Other assets, such as cash, commodities, currency overlays, hedge funds, and interest swaps are not included in this benchmark study.
VI. The benchmark's study's research scope generally runs from Q1 of the previous year until Q1 of the year in which the benchmark study takes place to better reflect recent changes implemented by the participating pension funds. As 2024 is a transition year, this study's scope is the entirety of 2023 and Q1 of 2024.
VII. The study is dependent on the input and documentation provided by the participating pension funds as well as publicly available information. It is therefore presumed that the data provided is accurate, after which the information is checked against the standards and requirements set in the questionnaire.

THE VBDO RESPONSIBLE INVESTMENT BENCHMARK PROCESS

The yearly benchmarking cycle consists of two elements: the research and consultation process and the assessment process. Both are collaborative efforts by VBDO and the participating pension funds.

The research and consultation process takes place before and after the assessment stage. If needed, consultation with external experts from and adjacent to the financial sector, such as academics, takes place. A yearly (preferably face-to-face) consultation with participating pension funds takes place before the start of the assessment process. Central to this consultation are alterations to the methodology proposed by VBDO and suggestions for adjustment from the participating pension funds. If needed, changes are made before the assessment phase takes place. After the conclusion of the assessment phase, the concerning year's benchmark results and feedback provided by participants are evaluated. Outcomes from this evaluation are then taken into consideration for possible methodology adjustments and the consultation rounds.

Figure 7 | **Benchmark cycle**

The assessment process consists of four phases. The questionnaire is sent out to participating pension funds. After the questionnaire has been filled out, VBDO assesses the arguments and documentation provided for each question. VBDO's findings are then sent to the pension funds for review. Any remarks and additional documentation provided by the pension funds is then assessed by VBDO, after which the final assessment is shared with the participants. In effect, participating pension funds have two opportunities for feedback.

See also figure 7 for a schematic overview of the benchmark cycle.

Star ranking

VBDO uses a star rating based on a 0 – 5 star range in addition to a 1 – 50 ranking in numbers. The star rating is based on each pension fund's total score and on the scores the pension fund achieves in the individual categories: Governance, Strategic Asset Allocation, Portfolio, and Individual Investments. The minimum standards might be expanded in the future. The following scores and minimum standards determine the number of stars awarded:

★★★★★
5 STARS
A score of at least 4.5 on all categories (Governance, Strategic Asset Allocation, Portfolio, and Individual Investments)

★★★★
4 STARS
A total score of at least 4.0
A score of at least 3.5 on all categories

★★★
3 STARS
A total score of 3.5 up to and including 3.9;
a score of at least 2.5 on all categories

★★
2 STARS
A total score of 2.5 up to and including 3.4;
a score of at least 2.0 on all categories

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

☆
0 STARS
A total score below 1.5

Appendix II - Pension funds in scope

ABN AMRO Pensioenfonds
ABP
Ahold Delhaize Pensioen
Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf
bpfBOUW
Bpf Koopvaardij
Bpf MITT
Bpf Schilders
Bpf Schoonmaak
BPL Pensioen*
Heineken Pensioenfonds
Oak Pensioen
Pensioenfonds Achmea
Pensioenfonds APF
Pensioenfonds Architectenbureaus
Pensioenfonds Delta Lloyd
Pensioenfonds Detailhandel
Pensioenfonds DSM Nederland
Pensioenfonds Hoogovens*
Pensioenfonds Horeca & Catering
Pensioenfonds ING
Pensioenfonds KPN
Pensioenfonds Medewerkers Apotheken
Pensioenfonds PNO Media
Pensioenfonds PostNL
Pensioenfonds Rail & Openbaar Vervoer
Pensioenfonds UWV
Pensioenfonds Vervoer
Pensioenfonds VLEP
PFZW
Philips Pensioenfonds
PME
PMT
PWRI
Rabobank Pensioenfonds
SBZ Pensioen
SPMS
SPW
Stichting Algemeen Pensioenfonds KLM
Stichting Algemeen Pensioenfonds Unilever Nederland kring 'Progress'
Stichting Bedrijfspensioenfonds voor het Bakkersbedrijf
Stichting Pensioenfonds Huisartsen
Stichting Pensioenfonds IBM Nederland*
Stichting Pensioenfonds KLM-Cabinepersoneel
Stichting Pensioenfonds PGB
Stichting Pensioenfonds SNS REAAL
Stichting Pensioenfonds TNO
Stichting Pensioenfonds Vliegend Personeel KLM
Stichting Pensioenfonds voor Fysiotherapeuten
Stichting Shell Pensioenfonds

*non-respondent

Appendix III - Bibliography

Adams, R. B., & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. Journal of Financial Economics, 94(2), 291–309. https://doi.org/10.1016/j.jfineco.2008.10.007

Ashikali, Tanachia, Fontein, Floortje (2022). Diversiteit en inclusie in pensioenfonds-besturen. Netspar Industry Series, Design Paper 212. www.netspar.nl/wp-content/uploads/P20220715_Netspar-Design-Paper-212_WEB.pdf#page=10.30

Bear, S., Rahman, N., & Post, C. (2010). The Impact of Board Diversity and Gender Composition on Corporate Social Responsibility and Firm Reputation. Journal of Business Ethics, 97(2), 207–221. https://doi.org/10.1007/s10551-010-0505-2

Bell, S. T., Villado, A. J., Lukasik, M. A., Belau, L., & Briggs, A. L. (2011). Getting Specific about Demographic Diversity Variable and Team Performance Relationships: A Meta-Analysis. Journal of Management, 37(3), 709-743. https://doi.org/10.1177/0149206310365001

Ely, R. J., & Thomas, D. A. (2001). Cultural diversity at work: The effects of diversity perspectives on work group processes and outcomes. Administrative science quarterly, 46(2), 229-273.

Kearney, E., Gebert, D., & Voelpel, S. C. (2009). When and How Diversity Benefits Teams: The Importance of Team Members' Need for Cognition. Academy of Management Journal, 52(3), 581–598. https://doi.org/10.5465/AMJ.2009.41331431

Lückerath-Rovers, M. (2009). Female Directors on Corporate Boards Provide Legitimacy to a Company: A Resource Dependency Perspective. Management Online Review, 1-13.

Moss Kanter, R. M. (1977). Men and women of the corporation. In M. J. Handel (Ed.), The sociology of organizations: Classic, contemporary, and critical readings, 381–396. SAGE.

Ng, E. S., & Burke, R. J. (2005). Person–organization fit and the war for talent: does diversity management make a difference? The International Journal of Human Resource Management, 16(7), 1195-1210.

Nishii, L. H. (2013). The benefits of climate for inclusion for gender-diverse groups. Academy of Management journal, 56(6), 1754-1774.

Schölmerich, F., Schermuly, C. C., & Deller, J. (2016). How leaders' diversity beliefs alter the impact of faultlines on team functioning. Small Group Research, 47(2), 177-206.

Shi, L., Swinkels, L., & Van der Lecq, F. (2017). Board diversity and self-regulation in Dutch pension funds. Equality, Diversity and Inclusion: An International Journal, 29(5), 111-127.

Shore, L. M., Randel, A. E., Chung, B. G., Dean, M. A., Holcombe Ehrhart, K., & Singh, G. (2011). Inclusion and Diversity in Work Groups: A Review and Model for Future Research. Journal of Management, 37(4), 1262–1289. https://doi.org/10.1177/0149206310385943

Vereniging van Beleggers voor
Duurzame Ontwikkeling (VBDO)
Pieterstraat 11, 3512 JT Utrecht
+31 (0) 30 234 00 31 | info@vbdo.nl

Dutch Association of Investors for
Sustainable Development (VBDO)
Please email us at info@vbdo.nl if
you would like to receive regular
updates from VBDO. Follow VBDO
on Twitter at http://twitter.com/VBDO