

RESPONSIBLE INVESTMENT BY DUTCH PENSION FUNDS AND PENSION INSURERS

Vereniging van Beleggers voor Duurzame Ontwikkeling
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SUMMARY

Corporate Social Responsibility (CSR) is gaining importance, also in the financial world. Banks, insurance companies and other financial institutions realise much more that they too have a responsibility concerning climate change, biodiversity, trade in weaponry and labour rights. Where and how they invest their capital greatly influences these topics.

Until recently, most of the 728 Dutch pension funds did not pay much attention to these CSR related issues. Mistakenly, pension funds thought that their judiciary duty to operate in the best interest of their participants restricted them in this sense. The Dutch Pension Law does allow responsible investment, as long as it does not lead to an unacceptable risk on investments. However, some tools that can be used to implement responsible investment strategies do not influence the risk profile, while other tools are likely to have a positive rather than a negative effect on the risk profile.

Therefore, a lack of public attention seems more important than supposed judiciary restrictions. In March 2007 this changed after the broadcast of a documentary made by Zembla, which showed that some large pension funds invest in companies that pollute heavily, are involved in child labour or produce controversial weapons like landmines or cluster bombs.

In response to the societal unrest this broadcast caused, many pension funds used the past six months to develop policies on Responsible Investment or strengthen existing policies. The VBDO (Association of Investors for Sustainable Development) in cooperation with Profundo and the Consumentenbond developed a benchmark to be able to compare and evaluate the different activities undertaken by Dutch pension funds. In this research we included the 24 largest pension funds and 6 insurance companies providing pensions.

This research shows that that the Zembla broadcast had a substantial impact. Currently, most of the pension funds included in this research (26 out of 30) are developing policies on Responsible Investment or are strengthening existing policies. Pension funds use a variety of instruments to operationalize their Responsible Investment policies:

- seventeen pension funds have formulated an exclusion policy, fourteen have based this on one or more specific criteria and three on general exclusion criteria. In twelve cases investments in weapon producers are excluded and in addition 5 funds exclude companies for other reasons (like child labour and pollution);
- three pension funds integrate ESG- criteria in the selection of shares;
- twelve pension funds engage with companies they invest in and bring corporate social responsibility to their attention;
- six funds indicate that sustainability influences their voting behaviour at annual general meetings;
- eight pension funds invest a small part of their resources in sustainable energy, clean tech and microfinance.

However, there is only a small number of pension funds that have a thought through combination of different instruments to operationalize their Responsible Investment policy. Another issue that could use some extra attention is the transparency towards participants.

- most pension funds do not provide information on who their investment managers are and whether these are selected based on sustainability criteria;
- just three funds maintain an active dialogue with society;
- only five pension funds publish an overview of the companies they invest in.

The Responsible Investment policies of the 30 pension funds included in this research are judged based on three categories, with a total of nine criteria.

1. Policy;
 - policy.
2. Operationalization;
 - exclusions
 - ESG criteria when selecting shares
 - engagement
 - voting policy
 - sustainable project financing.
3. Accountability;
 - transparency of asset managers
 - dialogue with society
 - transparency of investment policy.

All pension funds have received a score between 1 and 5 on these nine criteria. Unanswered questions received 0 points. The scores of all criteria have been added and weighed and represent an overall score for all pension funds in this research.

The overall score indicates which pension fund has the best overall Responsible Investment policy. Industry-wide pension funds PGGM, PME and ABP had the highest score closely followed by PMT and SNS Reaal, the insurance company with the highest score.

Clearly, in the past six months pension funds have paid more attention to Responsible Investment. The small group of funds that had put serious effort in Responsible Investment before has been stimulated to go even further and implement quicker and more ambitious policies. However, even the frontrunners have several improvements to make: exclusion policies are not balanced, because it often only applies to one investment category (producers of controversial arms); most have not yet sufficiently implemented the integration of ESG criteria when selecting shares; funds could use their voting and engagement much more to push for CSR within stock listed companies; the dialogue with society should be strengthened and transparency, especially regarding asset managers and investments other than shares leaves a lot to be desired.

The much larger group of pension funds that at the beginning of this year hardly paid any attention to Responsible Investment is trying to catch up. They could learn from the experiences of their national and international colleagues. This report presented by VBDO can also help these funds to form a Responsible Investment policy, to choose suitable tools and to be transparent and accountable.

This research ranks thirty large Dutch pension funds based on their Responsible Investment policies using clear criteria. This provides an overview of the current situation, which hopefully stimulates pension funds to increase their efforts towards Responsible Investment. In the coming year these efforts should materialise both for the participants as for the society as a whole.