

Responsible investing at ABN AMRO Pensioenfond

Version 2019

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1. Introduction

ABN AMRO Pensioenfond (AAPF) has formulated the following definition, vision and objectives for responsible investing.

1. Definition:
 - *Responsible investment means investing making explicit allowance for financial, social, governance and environmental factors.*
2. Vision:
 - *The primary objective of AAPF is to arrange for a robust and reliable pension for its members in the long term. Our vision is that responsible investment contributes to this long-term objective and that the integration of responsible investment into our investment policy forms part of our fiduciary responsibility.*
3. Objectives:
 1. *Responsible investment must be implemented in a manner that does not impair the risk-return profile of the investments of AAPF.*
 2. *By investing responsibly, AAPF contributes to a sustainable world worth living in. This approach serves to create the requisite conditions for the social acceptance of the pension fund, both now and in the future.*

The above definition, vision and objectives are expressed in basic principles underpinning the responsible investment policy and activities of AAPF.

2. Basic principles

The basic principles set out below are based on the pension fund's responsible investment vision and objective and its latitude to operate within the prevailing legal and regulatory frameworks.

AAPF adheres to the following basic principles for responsible investment:

1. *Responsible investment forms part of the fiduciary responsibility of AAPF.*
2. *In view of the nature of its obligations as an owner of capital, AAPF will be guided by a long-term perspective. Environmental, social and governance (ESG) aspects form an integral part of this long-term perspective.*
3. *AAPF has formalised its responsible investment policy for all parts of the investment portfolio.*
4. *AAPF has determined that responsible investing is an evolving field and that the effects of the policy are not always measurable. Our intention is to give responsible investments the benefit of the doubt if they can reasonably be expected to make a risk-return contribution comparable to that of a conventional investment already in portfolio and that they are in line with the investment beliefs of AAPF.*
5. *AAPF will not conduct investment transactions that are banned under international law or are incompatible with international treaties signed by the Netherlands. In addition, AAPF has the ambition not to make investments that promote punishable conduct or are in any way related to violations of human rights or fundamental freedoms.*
6. *Cooperation with other institutional investors can enhance the result of these efforts, as long as there is no question of acting in concert. By working together, AAPF can use its resources more effectively and leverage its influence.*

AAPF is accountable to its stakeholders for proper compliance with the main aspects of its responsible investment policy.

3. Scope of instruments

Investors have various instruments to pursue and achieve the responsible investment vision, objectives and basic principles. This section provides an overview of the instruments that AAPF uses in its investment portfolio:

1. AAPF applies an exclusion policy to all asset classes excluding Dutch mortgage loans;
2. AAPF applies a voting policy in respect of equities, both in developed and emerging markets;
3. AAPF pursues an engagement policy for equities and corporate bonds;
4. AAPF applies ESG integration to equity portfolios;
5. AAPF measures the carbon footprint of equity investments.

In addition, the Board of AAPF decided in 2018 to implement a specific benchmark in 2019 with ESG factors for the corporate bond portfolio. In addition, further research is being conducted into measuring the carbon footprint of the corporate bond portfolio. Finally, the possibility of ESG integration in respect of government in matching mandates and emerging market bonds will be examined in 2019. Table 1 provides an overview of the current strategies and asset classes.

Portfolio	Exclusion	Voting	Engagement	ESG Integration	Carbon measurement*
Matching portfolio					
Matching mandates	Yes	n/a	-	-	-
Money market mandates	Yes	n/a	-	-	-
Return portfolio					
Developed market equities	Yes	Yes	Yes	Yes	Yes
Emerging market equities	Yes	Yes	Yes	Yes	Yes
Corporate bonds	Yes	n/a	Yes	Yes*	-
Emerging market bonds	Yes	n/a	-	-	-
Insurance-linked securities	Yes	n/a	-	-	-
Dutch mortgage loans	-	n/a	-	-	-

Table 1: Current application of responsible investment policy

* These responsible investment aspects are implemented in 2019.

Alongside the use of instruments within the investment portfolio, AAPF has signed the Principles for Responsible Investment (PRI). These principles constitute an initiative by a United Nations-supported network of international investors. AAPF is also a member of Eumedion, an organisation dedicated to the promotion of good corporate governance and sustainability. In 2018, the pension fund signed the International Corporate Social Responsibility Covenant for the pension sector.

In addition, the pension fund implements policy with a view to complying with new responsible investing rules. Examples of such new rules are:

- the IORP II Directive that took effect on 13 January 2019;
- the EU action plan on sustainable finance; and
- the EU Shareholder Rights Directive II.

4. Exclusion policy

The aim of the exclusion policy is to ensure that AAPF does not invest in companies that are guilty of certain controversial conduct or activities. Conduct or activities are treated as controversial by the pension fund if they meet one of the following conditions:

- a. The conduct or activities conflict with national or international laws and regulations (signed by the Dutch state);
- b. A large part of Dutch society strongly disapproves of the conduct.

a. National/international laws and regulations

AAPF takes international treaties as its guideline for the exclusion of investments. Although not directly applicable to investments of pension funds, these treaties offer parameters for determining which activities are nationally or internationally perceived as unacceptable. Relevant treaties relate to conduct (e.g. the use of child labour) or activities (e.g. the production of anti-personnel mines).

As providers of capital, pension funds bear responsibility for the conduct and activities of the companies they invest in.

b. Social acceptability

Some controversial conduct or activities are not prohibited by law, but meet with widespread social

disapproval. In 2007, for instance, a TV broadcast by Zembla (a Dutch current affairs programme) sparked a public debate about cluster bombs. This debate made it clear that broad sections of Dutch society opposed this type of weapon. The Convention on Cluster Munitions, which imposes a comprehensive ban on cluster bombs, took effect on 1 August 2010. The Dutch Consumer Association also carries out regular surveys to measure the prevailing opinion in society. Voluntary codes of conduct or opinions of specific population groups are not taken into account in the exclusion policy.

In 2019, AAPF will conduct a survey among members of the pension fund about the policies it pursues. AAPF will make allowance for the outcome of this survey in adopting new policies.

Exclusion criteria

The AAPF criteria for the exclusion of businesses are based on the UN Global Compact principles. These principles provide businesses with a framework for defining their policy on responsible investment. The UN Global Compact principles centre on human rights, labour law, the environment and anti-corruption. The ten principles are:

1. Businesses should support and respect the protection of internationally proclaimed human rights.
2. Businesses must make sure that they are not complicit in human rights abuses.
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. The elimination of all forms of forced and compulsory labour.
5. The effective abolition of child labour;
6. The elimination of discrimination in respect of employment and occupation.
7. Businesses should support a precautionary approach to environmental challenges.
8. Undertake initiatives to promote greater environmental responsibility.
9. Encourage the development and diffusion of environmentally friendly technologies.
10. Businesses should work against corruption in all its forms, including extortion and bribery.

Businesses that fail to adhere to the above principles are placed on an exclusion list. Alongside the exclusion policy for businesses, AAPF also adheres to an exclusion list for countries. The country exclusion list is based on the EU and UN sanction lists (sanctions against governments) and is applied to government bonds.

5. Voting policy

Voting at shareholder meetings is aligned with both AAPF responsible investment objectives: contribute to the risk-return profile of businesses and promote the social acceptance of AAPF. Research often demonstrates a positive correlation between good corporate governance and financial performance¹. In addition, exercising voting rights is seen as a social responsibility of institutional investors².

Definition and adoption of voting policy

The Board annually adopts the AAPF voting policy on the basis of the guidelines of Glass Lewis, a prominent consultancy on voting policy. The Glass Lewis guidelines are based on generally accepted governance standards. For details on AAPF's voting policy, see our website www.abnamropensioenfonds.nl.

6. Engagement policy

Pursuing an engagement policy is in line with the vision and objectives of AAPF, the reason being that engagement allows AAPF to make an active contribution to the improvement of corporate ESG policies. The engagement policy is applied to the equity portfolios and corporate bonds. AAPF's engagement policy takes the following forms:

- In-depth engagement with businesses incurring significant ESG risks;
- Engagement based on projects/themes;
- Engagement in response to controversies/incidents and violations of the UN Global Compact.

¹ See "Corporate Governance and Equity Prices: Are Results Robust to Industry Adjustments?", S. Lewellen & A. Metrick (2010).

² The presence of a clear, transparent voting policy is prescribed by the Dutch Corporate Governance Code, 2009 (Section IV.4).

In-depth engagement

Each year, a list is compiled of the businesses with which AAPF plans to engage in an in-depth and proactive dialogue in the coming year. These businesses are selected on the basis of a thorough process, taking account of ESG scores, qualitative analysis, degree of exposure and the probability of successful engagement.

Engagement projects/themes

Each year, AAPF defines ESG projects and themes that influence groups of businesses within a sector or between sectors. The objectives of these projects are linked, where possible, to the United Nations Sustainable Development Goals. Examples of engagement projects/themes concern palm oil, water risks and emissions management by utility companies.

Reactive engagement

If incidents or abuses occur during the year at businesses in which AAPF invests, an engagement process can be started to initiate remedial action (e.g. diesel scandal).

7. ESG integration

AAPF implements ESG integration in respect of the equity portfolios of both developed and emerging markets. This concerns the integration of ESG factors in the investment process. Customised client-specific ESG benchmarks have been specially developed for AAPF. These are equivalent to the former approach in terms of risk and return characteristics, but include ESG factors and risk factors to produce more accurate ESG scores. In 2018, the Board decided to apply ESG integration to corporate bonds as an asset class as well.

Measuring carbon footprint

In 2018, AAPF also started measuring the carbon footprint of its equity portfolios. In setting the standards by which the carbon footprint is measured, allowance was made for the recommendations of the Task force on Climate-related Financial Disclosures (TCFD) and the Platform Carbon Accounting Financials (PCAF). A target for reducing the carbon footprint of the equity portfolios is expected to be defined in 2019; after this target has been defined, the required actions will be determined. The definition of a target for carbon emissions also marks the integration of this ESG factor. The pension fund will also explore its options for measuring the carbon footprint of the corporate bond portfolios.

Sustainable Development Goals

The Sustainable Development Goals (SDGs) were launched by the United Nations in 2015. They comprise 17 goals and 169 targets that contribute to a better world. By their nature, they can also be regarded as a further transposition of the ESG factors. In 2019, we will look at whether it would be wise to include specific targets in the area of the SDGs in our investment policy.

8. ESG reporting

Since the end of 2018, the pension fund has reported quarterly to the Board about the implementation of the ESG policy. This integrated quarterly report covers:

- the updated exclusion policy for countries and businesses;
- the voting policy pursued for each issue in the past quarter;
- the status of the engagement activities;
- the ESG characteristics of the equity portfolio, broken down by region and sector;
- the carbon footprint of the equity portfolio, expressed in both absolute and relative terms.

In 2019, AAPF will regularly post an ESG report for members on its website, so that the pension fund's stakeholders are always up-to-date on its responsible investment policy.