SRI policy

Socially responsible investment (SRI) is an important topic for pension funds. Stakeholders and the regulator expect that Environmental, Social and Governance (ESG) risks are taken into account and communicated on in the investment process. The fund considers it advisable that the importance and value of ESG be laid down on the administrative level. This safeguards support for ESG in the organisation and prevents external parties from deciding the policy for the pension fund. It is good to realise in this context that the importance of ESG will continue to grow as the result of Dutch and European regulation (the IORP II, for instance) and international and national agreements (PRI and the Covenant on International Socially Responsible Investment for Pension Funds, respectively, for instance).
Actually improving the sustainability of the investment portfolio starts with documenting ESG in the investment policy.

Based on this, specific objectives can then be formulated. It is important here that the following aspects be taken into account.

- Select objectives that are consistent with the convictions of the pension fund participants.
- Select a limited number of objectives (to save on time and costs and keep an overview on the whole).
- Select feasible and measurable objectives (so that they can be implemented and measured in the portfolio).
- Select (internationally) recognised objectives in order to join in with a broader movement.

It is important for the fund to subsequently familiarise itself in depth with the objectives chosen. This is necessary on the one hand in order to define concrete sub-objectives and progress indicators and, on the other hand, it is important in order to give third parties (such as the fund's asset managers) clear frameworks and be able to measure and evaluate their activities in terms of ESG. There are different instruments available which can be used to implement ESG in the investment policy. It is important to approach this from the basis of statutory requirements, risk management and the pension fund's specific wishes and requirements. The following ESG instruments come to mind:

- Negative screening (excluding companies and/or sectors)
- Positive screening (selecting so-called best-in-class companies within sectors or countries)
- ESG integration (including ESG factors integrally in the investment process, alongside return and risk)
- Active shareholdership (engagement with companies and voting)
- Impact investing

Reasoning from the basis of the ESG instruments mentioned above, the fund can indicate how it wants to anchor ESG in its policy towards the future.
Like virtually all Dutch pension funds, the fund wants to adopt a responsible investment policy, in accordance with the provisions of the Pensions Act and Code of the Dutch Pension Funds.

In this policy document, the fund formulates an investment policy describing how it takes Environmental, Social and Governance (ESG) factors into account in the investment policy. In this policy it refers, for example, to the relevant standards, such as the OECD guidelines for

Multinational Enterprises (OECD Guidelines), the UN Global Compact (UNGC), the UN Principles for Responsible Investment (UNPRI), the Sustainable Development Goals (SDGs) or the G20/OECD Corporate Governance Principles.
The policy formulated must be seen in the context of the fund's mission, objectives and risk appetite, the most relevant of which are mentioned in the context of this policy document.

The Mission:
The fund wants to be a sustainable and reliable pension fund for all stakeholders. The fund pursues a solid financial policy to this end and tests whether the agreements are in accordance with legislation and regulations. Important parts of the policy include the supplement policy, representation of all stakeholders, principles of good pension fund governance and sound risk management and communication policy. The fund also pursues a policy in which socially responsible investment plays a clear role.

The objectives of the fund and its investment policy:
The fund contributes actively to maintaining a sustainable pension scheme that enjoys widespread confidence, as well as a good and affordable scheme that remains attractive to all stakeholders, young and old.
The fund invests based on the 'prudent person' idea. This largely corresponds to what the Dutch Central Bank (De Nederlandsche Bank, DNB) calls 'sound investing'. The investments must also satisfy qualitative principles of safety, quality and spread of risks, as well as be socially responsible.
The objective of the investment policy is in line with this: 'in the long term, to realise as high a return as possible, based on the strategic asset allocation with acceptable risk, taking into account the fund's liabilities structure'.
In order to safeguard these objectives, when determining the strategic investment policy, account is taken of the provisions under and pursuant to the Pensions Act, the liabilities structure and the risk appetite determined by the social partners.

The fund's risk appetite:
The fund's risk appetite is reflected in a prioritisation of the various objectives. This is as follows, whereby some objectives are reasonably similar in terms of priority:

1. Realising a pension that maintains purchasing power and realising an envisioned pension result;
2. Minimising the likelihood of reduction measures and the scope of any reduction;
3. Achieving a stable funding ratio and maximising that funding ratio;

The SRI policy is in service to these objectives and the risk appetite and cannot cause any breach thereof.

The OECD guidelines.
The OECD has developed a number of sector-specific guidelines. For pension funds, the 2017 guide 'Responsible business conduct for institutional investors' (hereafter: the guide) is important. The guide fleshes out the OECD guidelines specifically for asset managers and asset owners. It serves to translate the guidelines for enterprises in order to provide tools for institutional investors in implementing the OECD guidelines and/or UNPRIs in investments.

1. **A commitment to the OECD guidelines and UNGPs**.
   The Staples Pension Fund endorses the OECD guidelines for multinational enterprises and the UN Guiding Principles on Business and Human Rights. The fund also uses the OECD guide for institutional investors as a guiding principle. The fund also expects

its external fiduciary manager and asset managers and the companies in which we invest to conduct themselves in accordance with these international standards and to make this publicly known.

2. **The fund aspires to formulate a description of how the fund fleshes out the various ESG due diligence steps in accordance with the OECD guidelines and the UNGPs and anchors these in the outsourcing, monitoring and reporting of External Service Providers.** Steps need to be taken to this end, such as:

a. Embedding of ESG in the relevant policy and management systems
The fund believes that including ESG criteria in the selection of individual investment properties can contribute favourably to mitigating the inherent risks of the portfolio of the fund.
The fund endorses the ESG due diligence steps in accordance with the OECD guide.
The fund aims for long-term (social) value creation via our investments. In its contracts with external service providers, therefore, the fund aims to have the relevant asset manager commit to the OECD guidelines.
The due diligence takes place at both the investee companies in which the external manager invests on the pension fund's behalf and at the external manager to which investing is outsourced. In order to perform this adequately, the external manager includes ESG factors in the investment process and remains informed about, among other things, media and other reports about investee companies concerning breaches/violations of the UN Global Compact. As soon as a gross (and systematic) violation of UNGP is ascertained by the external manager, from which a serious negative impact or risk thereof is confirmed, external managers are expected to mitigate this negative impact through engagement and report on this. The above is initially monitored by the fiduciary manager. The ESG working group, cooperating with the BCC, will assess after the fact the actual and potential negative impact on the investment portfolio and on potential investments.

b. The fund identifies and assesses the actual and potential negative impact on the investment portfolio and on potential investments.
When screening its investment portfolio, actual and potential negative impacts on society and the environment are identified. In this process, the most serious negative impacts are prioritised on the basis of:
• Seriousness
• Scale
• Irreversibility.
The degree of likelihood is also taken into account.
In assessing the actual and potential negative impact identified, the fund includes external stakeholders and experts where relevant, such as the fiduciary management and the external risk manager. An important role is also reserved here for the internal IRM committee.

c. The negative impacts will be prevented and/or mitigated where possible. If companies in its investment portfolio cause or potentially cause a negative impact, the fund uses its influence to prevent and/or mitigate this impact and facilitate remedies and/or redress.
The fund does this by, among other ways, instructing its executives to exert influence through **engagement**
and/or through **voting at shareholder meetings**.

The fleshing out of the engagement and voting policy is carried out by the appointed asset managers.

d. Monitoring of implementation and results

The fund monitors the progress and impact of our ESG policy by receiving a report from its external service providers at least once a year. The fund first of all fleshes out its responsible investment policy by measuring annually whether the asset managers score at least the same, and where possible higher, for ESG. This is a service from the fiduciary manager which assesses the investments against its own ESG yardstick.
Where scores are lagging, the fund requests further information and discusses this with the particular asset manager. The measurement is based on a full screening of the investments at all asset managers who invest for the fund. All these asset managers have signed the UNPRI protocol. This measurement is carried out every year using the same criteria. Where necessary, the fund adjusts course accordingly.
Every year, the fund renders account to its participants and other stakeholders by reporting in its annual report and in periodic reports on its website.

3. **The fund will not invest in companies, countries or sectors that engage in gross violations of the OECD guidelines and UNGPs.**
In this context, the fund adheres at a minimum to the exclusion list as defined in section 21a of the Market Abuse (Financial Supervision Act) Decree 2013. The fund ensures that investment does not go to companies on the published list, which is shared with its asset managers, accompanied by the prohibition against investing in the particular companies. The outsourcing agreement with these asset managers provides for how the particular asset manager will implement this prohibition. The external risk manager monitors this on a daily basis and reports every breach to the fund. When selecting new asset managers, the manager's policy on ESG is included in their investment process.
The fund has not independently developed criteria on the basis of which it includes or excludes companies from the investment universe. For every successive passive investment, investigation takes place into the possibilities of selecting an index which incorporates exclusions based on UNGC and a specific sector policy in the context of boosting sustainability.

4. **The fund uses the opportunities of exerting influence (via its fiduciary management and asset manager) on voting during general shareholder meetings of the investee (listed) companies and corporate credits.**
The voting at shareholder meetings is consistent with the desire to generate good returns in the long term. Research shows that there is a strong positive correlation between good corporate governance and financial performance. The fund mandates the asset managers as to how to vote at the shareholder meetings of investee companies and gives the following instructions as regards the voting right:
    - to promote Corporate Governance in order to ensure that the management and Executive Board fulfil their obligations towards shareholders;
    - to improve transparency and clarify responsibilities;
    - equal treatment of shareholders (including pay).

The fund can also follow the voting policy/voting guidelines of these external service providers. This approach is focused on encouraging long-term value creation at the investee companies. In its annual report, the fund publishes its voting record at the general meetings of these (listed) companies.

In its **engagement approach**, where possible the fund enters dialogue (via its external service providers) with companies where it has identified negative impacts (such as gross violations of human rights), with the following objectives:

- A stop must be put to the negative impact;
- The company must ensure remedy and/or redress for injured parties;
- The company must take adequate measures to prevent future incidents;
- The company must be transparent about the measures taken.

5. **The fund acknowledges (social) value creation in the long term as a leading principle.**
   The fund aims for long-term (social) value creation via its investments. The fund incorporates this leading principle in its policy as follows:
   - selection of asset classes based on real economic activities and underlying value creation;
   - selection of (new) asset managers, investment funds or individual investments based on forward-looking strategies for the long term (not just based on historical yield) and taking into account social value creation (including ESG information in the balance instead of just financial information);
   - mandates/contracts of external service providers with a sufficiently long term; The fund expects its service providers to conduct themselves in accordance with its policy and objectives and to strive for a long-term cooperation in order to realise our objectives together.

6. **The fund expects its service providers to:**
   a) adopt long-term value creation as a guiding principle in their policies and management systems;
   b) identify and prioritise actual and potential negative impacts of activities in the fund's asset classes, taking relevant stakeholders into account in this process;
   c) use and, where necessary and possible, increase its influence to promote the prevention or mitigation of negative impacts of activities in the asset classes;
   d) use and, where necessary and possible, increase its influence to, on the basis of time-bound questions, encourage listed investee companies that cause or contribute to a negative impact to prevent and/or mitigate negative impact and/or to encourage remedies and/or redress in accordance with article *8.2 of the Covenant on International Socially Responsible Investment for Pension Funds*;
   e) if a decision is made to permanently or temporarily reduce or pull investment in companies prioritised on the basis of the seriousness of the negative impact, to have taken into account the potential negative impacts for victims in that case;
   f) render account by monitoring and reporting results to the fund, taking into account the reporting requirements as described in paragraph *5* of the Covenant on International Socially Responsible Investment for Pension Funds;

7. Outsourcing

General

In the fund, the implementation of the (responsible) investment policy of pension funds is outsourced to external service providers. The fund itself remains ultimately responsible for the implementation of the OECD guidelines and the UNGPs in the asset classes. In doing so, the fund complies with the provisions of paragraph 4.1 of the Covenant on International Socially Responsible Investment for Pension Funds, which describes how the responsible investment policy in the fund's asset classes, as well as its implementation thereof, is anchored, in line with the OECD Guidelines and the UNGPs, in contracts with external service providers.

External service providers are defined in the Covenant on International Socially Responsible Investment for Pension Funds as: 'A service provider which has been appointed by the fund and which, acting on the basis of a written agreement, will assume the task of implementing relevant provisions of this Covenant on behalf of the fund'.

The following asset classes are distinguished within the fund:

- Listed equities;
- Loans to governments (government bonds);
- Loans to companies (corporate credit);
- Real estate.

There is a wide variety of outsourcing relationships, contracts and related influencing opportunities in the pension sector, such as

- Segregated mandates;
- Majority share in an investment fund (not applicable in the fund);
- Minority share in an investment fund.

In the fund's policy, it is the fund's intention to properly describe how the fund combines the various elements into a coherent approach, while the contracts with individual service providers must primarily lay down the ESG provisions that the service provider must specifically comply with.

Segregated mandates

Where there are segregated mandates (within a particular asset class), the fund will have the policy set out in the relevant mandate. This policy will in that case satisfy the criteria set out in *paragraph 3.1 (3.1b, 3.1d and 3.1e)* as described in the Covenant on International Socially Responsible Investment for Pension Funds. This includes a description of how long-term value creation is used as a guiding principle *(3.1f)*. In the relevant mandate, the fund will include that its (responsible) investment policy applies.

Minority share

Where the fund has a minority share in an investment fund (within a certain asset class), the fund will, when selecting the investment fund, investigate the extent to which the prospectus satisfies the (responsible) investment policy (the *PRI Manager Selection Guide for Asset Owners* is a useful tool for this). The fund's policy, and the criteria for selecting investment funds, must in that case satisfy the criteria relating to policy and management systems as described above.

Conclusion:
Based on its mission to be a sustainable and reliable pension fund for all stakeholders, the fund wants to link this to its social responsibility to make the investment policy more sustainable in the future.

As stated above, there are different instruments available which can be used to implement ESG in the investment policy. The following ESG instruments come to mind:

- Negative screening (excluding companies and/or sectors)
- Positive screening (selecting so-called best-in-class companies within sectors or countries)
- ESG integration (including ESG factors integrally in the investment process, alongside return and risk)
- Active shareholdership (engagement with companies and voting)
- Impact investing

With the exception of Impact Investing, given the limited resources available to the fund, all of the above instruments can be used (to some extent) to achieve our objectives. In doing so, we will rely on the tools provided to us by the Covenant on International Socially Responsible Investment for Pension Funds.

Below is an overview of the degree of influence the fund has to steer the external asset managers towards a more stringent SRI/ESG policy.

	Negative screening	Positive screening	ESG integration	Active shareholdership	Impact investing
Global equities	3	3	3	2	2
Emerging Market Equities	3	3	2	2	2
High Yield	3	3	2	1	1
Real Estate	3	3	2	2	2
Leveraged Loans	3	3	1	1	1
Emerging Market Debt	3	3	2	1	1
Cash	2	2	2	1	1

Level of influence:
1: little to none 2:
some influence
3: a lot of influence

Annex: the Covenant on International Socially Responsible Investment for Pension Funds