# Information on integration of sustainability risks in codes of conduct and investment decisions

**General**

Stichting Pensioenfonds Staples (The Staples Pension Fund) Staples) has investments amounting to approximately 700 million. Our aim is to realise the best possible return in a responsible manner. Taking account of people, the environment and good governance. Because this is the only way to ensure a good and affordable pension in a sustainable and habitable world.

The Staples Pension Fund believes it is important to take responsibility for the effects of its investments. This starts with proper understanding of the effect of our investments on people, the environment and good governance and the risks involved in our investments. We also believe it is important to inform our participants about this. This is also required of us under national and international legislation, in particular two regulations: the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation.

Risks in the area of sustainability in relation to investments are known as sustainability risks.

**What are the implications of these regulations for the Staples Pension Fund?**

Pension funds formulate procedures for their investments in order to arrive at the right decisions. Under the SFDR, pension funds have to provide information on how relevant sustainability risks for the fund are included in these procedures. And at another level, the SFDR requires the provision of information on how sustainability risks are included in the investment decisions for the pension scheme.
The pensions fund does not make any distinction between how it takes account of sustainability risks on these two levels. The following therefore applies to both levels.

This document lists the sustainability risks for the Staples Pension Fund and how it deals with these risks.

**What are sustainability risks?**

Investing involves risk. Equity prices and interest rates may go up or down. This may for example be caused by sustainability risks. Sustainability risks are events or circumstances relating to environmental, social or governance (ESG) issues that could have a negative effect on the value of an investment. For example, this could involve climate change or pollution (environmental issues), breaches of human rights or product responsibility (social issues), or issues relating to remuneration or corruption (governance issues).

These risks could negatively affect the value of investments, especially in the long term. In its investment policy, the Staples Pension Fund takes specific account of sustainability risks, such as investing in $CO_2$-intensive sectors. Companies in this sector could decline in value due to the risk of climate change. Another example would be investing in a country that

features widespread corruption. This could lead to a negative outcome, as the creditworthiness or investment climate in that country becomes questionable.

**What this means for you:**

The Staples Pension Fund accordingly takes account of such sustainability risks and their effects in its policy. Not only because of national and international regulation, but because this is important for you as a participant or pensioner. If the value of our investments declines, the financial position of our pension fund will decline as well and our funding ratio could fall. This could lead to no allocation of indexation, an increase in the contribution or a reduction of the pensions. Events impacting the environment, society or governance could thus have negative consequences for your pension. Clearly, we want to avoid this.

The key sustainability risks for us and the possible negative effects on our financial return are explained below.

## 1. Environmental sustainability risks

Environmental risks are a major component of sustainability risks. The use of fossil fuels is increasingly being replaced by the use of sustainable energy sources. Investing in companies that use large amounts of fossil fuels with high $CO_2$ emissions that do not move to alternative energy sources in a timely manner can be risky. But businesses may be faced with climate change in different ways, for example extreme drought, scarcity of raw materials or a rise in sea levels. These companies may be closed down for a period or even have to cease production altogether. This could have a negative impact on the financial return from investments in these companies.

Real estate businesses may face rising costs for improving the sustainability of homes and offices. The value of real estate investments may also be negatively affected by increasing legislation and regulation in this area. But offices and homes may also be damaged by extreme weather or rising sea levels. This could also affect the value of investments in real estate.

Environmental risks could also involve governments. Extreme weather may have a negative impact on crucial government services such as the provision of drinking water, infrastructure and flood defences. Agriculture and tourism could also be affected, damaging a country's economy. Environmental risks could therefore negatively affect the financial returns on government bonds and a country's credit rating.

## 2. Social sustainability risks

Businesses and governments may also face social risks, such as complaints of poor working conditions at a company, discrimination, unsafe or unsustainable products and the obstruction of trade unions. Real estate companies may face social risks, if the interests of tenants are ignored or as a result of poor maintenance. If companies do not adequately address this type of social sustainability risk, there is a possibility of reputational damage, and unhappy customers and employees. This can negatively affect equity prices and credit ratings, and therefore the financial returns on these investments.
For governments, important issues include educational levels, health care and income inequality. These factors indeed affect a country's economic growth. Here too, it is the case

that if governments fail to address these issues, this can lead to a negative effect on the financial returns on government bonds and credit ratings.

### 3. Governance sustainability risks

Governance means how an organisation is managed. This area also involves sustainability risks. For example, in relation to a company's remuneration policy, or the number of women in senior positions. What is the structure of supervision, management and monitoring? In other words, is the business properly governed? If this is not the case and poor decisions are made, or a company's image is damaged, this can lead to a worsening of the company's financial position.
The same applies to governments. How is political authority exercised, is the public service corrupt, and does the country have an independent judiciary? If these matters are in good order and there is good governance, this is a plus point for investors. They can then have confidence in the economic stability and development of the country in question. Its government bonds are then in demand. Countries with poor governance are seen as less creditworthy by investors and the valuation of their government bonds can decline. Such a situation involves a governance sustainability risk.

## The implications for the Staples Pension Fund

A sustainability risk is therefore the risk that the value of an investment will decline due to an event or circumstance relating to the environment, society or governance (ESG). We take account of sustainability risks in our investment policy. We believe that this can improve the risk-return profile of our investments. Put another way, we strive to reduce risk by taking account of ESG characteristics in our investment portfolio.

Accurate estimation of the impact of sustainability risks on the expected returns of our investments is difficult in practice. We accordingly make the following assessment. In our estimation, businesses involving higher risk in relation to ESG characteristics will have a significant negative impact on our return. They should thus preferably be avoided. This concerns characteristics such as $CO_2$ intensity or breaches of the UN Global Compact Principles. Or a combination of ESG characteristics with the above-mentioned sustainability risks.

We explain the methodologies and instruments we use to identify ESG characteristics that clarify sustainability risks and include them in our investment decisions. Our aim is to mitigate these risks.
The first requirement for formulating a sound ESG policy and mitigating sustainability risks is sufficient and correct data. We have access to several information sources, such as our own research and information from ESG data providers. We can then apply various instruments to mitigate sustainability risks. We may decide to exclude an investment, meaning that we will no longer invest in a particular company or country. We may on the other hand choose to be an active shareholder. By entering into dialogue with companies and speaking at shareholder meetings, we can encourage businesses to become more sustainable. Another instrument is ESG integration, which takes account of sustainability scores in each investment category. And finally, we consider aspects of sustainability in our selection of our external asset managers: are they able to take account of sustainability risks in their investment strategy?

The ESG policy of the Staples Pension Fund is continually under development, also taking account of the preferences of our participants. We believe it is important to be transparent regarding our policy.

## The Taxonomy Regulation

Under the Taxonomy Regulation, a pension fund must state how it takes account of environmentally sustainable economic activities as defined in this Regulation. The text prescribed by law is:

The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

If you wish to know more about the responsible investment policy of the Staples Pension Fund, click here.