Dutch Institutional Investors and Climate Change

Institutional investors are taking action, but are they doing enough to win the race towards net zero?

VBDO

LGIM

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Preface

VBDO first conducted research on climate change with leading Dutch pension funds back in 2016. We found that climate change was only of minor interest to investors. With a view to changing this opinion, we decided to embed questions on climate change mitigation and adaptation in our benchmark on responsible investment. In 2019, we published our first standalone report on how pension funds and insurance companies embed climate change in financial decision making.

Through our ongoing engagement with asset owners and asset managers, it has become clear that almost all asset owners and asset managers now have climate change on their agendas.

COP26 not only highlighted the role that finance can play in addressing climate change, it also shared some of the many initiatives already underway in the financial sector. Aiming for net zero is rapidly becoming a key benchmark for the sector.

Investors' attitudes on this issue have clearly progressed since 2016, but are they doing enough? The International Panel on Climate Change (IPCC) is all too clear about the impacts we can expect to see if the world does not meet its climate targets. –Yet, after a short dip due to COVID lockdowns, real world GHG emissions are still rising. We only have a few years left to prevent dramatic, irreversible effects of climate change – effects that will impact all our lives and our businesses in ways we cannot even begin to imagine. Let's not get to a point where the unimaginable becomes reality. We need to up our game and accelerate to reach carbon neutrality in the real world, by 2050.

At VBDO, we seek to keep the conversation going by growing awareness and sharing insights. Keeping in mind how climate change will affect the world, we are proud to present this report on the 2021 achievements of the Dutch pension and insurance sector regarding climate change, together with highlights from the accompanying webinar with outstanding experts in the field. Only by working together can we make sure that all eyes are on net zero in the real world, in the little time we have left.

I hope you all read this report with interest and draw appropriate conclusions concerning its results.

Angelique Laskewitz,
Executive Director VBDO
Utrecht, January 2022

Introduction

While our economies are beginning to recover from the pandemic, carbon emissions continue to soar. It has become painfully clear that our common long-term goal of net zero emissions by 2050 is currently still licensing unsustainable short-term strategies that protect a ‘business as usual’ attitude. The United Nations reported in September 2021 that the global average temperature will rise 2.7°C by the end of this century, even if all countries meet their promised cuts in emissions[1]. We need robust commitments, with immediate short-term action and investments, to keep warming to no more than 1.5°C. The financial sector plays a critical role in the transition to a net zero carbon economy.

This is the second edition of this study and builds upon the first edition published in 2019. It provides insight into how Dutch institutional investors have developed on the topic of climate change. With the Dutch Financial Sector Climate Commitment and platforms such as the Net-Zero Asset Owner Alliance, there is now much more information and opportunities for collaboration available to help organisations to make meaningful decisions. Aside from climate mitigation strategies (which seek to limit the global temperature rise), we also look at how institutional investors are adapting to the impacts of climate change.

Investors take action on climate change in different ways, including analysing the carbon footprint of investment portfolios, investing in renewable energy, and ensuring that assets are protected from the consequences of climate change. This report provides an overview of climate change–related elements that VBDO believes are crucial for a comprehensive climate strategy and should be included in the responsible investment strategies of institutional investors.

The goal of this study is to assess if and how institutional investors currently consider the main climate change risks and opportunities. It also considers if and how investors adapt their investment portfolios to ensure resilience. The report focuses on the main findings from 2021 and compares these to the findings from our previous study in order to determine how much progress has been made over the last two years.

The results in this report are based on specific climate change–related questions included in the VBDO Responsible Investment Benchmark of 2021. This benchmark was conducted among the largest pension funds (50) and insurance companies (30) in the Netherlands. More details on the methodology used for this research is provided at the end of this report.

VBDO would like to mention that this report is based upon the data of six individual questions that are part of our RI benchmarks and does not provide a full in-depth analysis or performance based results.

You can find out the results of the full Responsible Investment Benchmarks of 2021 by downloading our reports.

SCAN ME

SCAN ME

1 New York Times, article on UN expectations. Link: www.nytimes.com/2021/09/17/climate/climate-change-united-nations.html

Main findings

Climate change is relevant to the financial sector

The reality is that global emissions are still rising. If nations stay on their current path, the average global temperature will increase by at least 3°C. The changing climate is already causing significant challenges and even a 1.5°C rise will result in devasting impacts. The financial sector is exposed to the risks of an abrupt transition to a carbon neutral economy and the physical risks caused by climate change. And so, investors need to engage in various strategies to limit both the financial and the real-world risks of climate change. They are also working to seize the opportunities offered by both solutions for the transition and climate change resilience initiatives.

Climate change is on the financial sector's agenda

This second edition of our Climate Change Report shows that there has been considerable improvement by institutional investors (pension funds and insurance companies). This year, the total average score (on a scale of 0-10) increased to 4.0 compared to a 1.9 in 2019. The leaders from 2019, on the whole, retained their positions in 2021, and increased their average scores. However, there is substantial room for improvement by institutional investors.

Pension funds are ahead of insurance companies

Our findings show that, on average, pension funds outperform insurance companies on their approach to climate change. The total average score of insurance companies increased from 1.9 in 2019 to 2.9 in 2021. The total average score of pension funds increased from 3.4 in 2019 to 4.7 in 2021. Pension funds have not only maintained their lead but also widened the gap.

Larger institutional investors generally perform better on climate change

We found that the size of the assets under management (AuM) of both insurance companies and pension funds correlates with the performance of their climate change approach. That being said, some small investors also perform well. For example, some smaller investors have extensive policies and well-thought-out engagement programmes in place.

The top scorers are, in order:
Athora Netherlands, NN Group, ABP, a.s.r., BpfBouw.

Best scoring pension funds:
ABP, BpfBouw, PME

Best scoring insurance companies:
Athora Netherlands, NN Group, a.s.r.

GOVERNANCE	
Consulting stakeholders	
63% of institutional investors consult their participants or society in general on climate change-related issues.	p. 11

POLICY	
Formulating policy	
94% of the pension funds explicitly mention climate change in their responsible investment policies, compared to only 57% of the insurance companies.	p. 12
Risks, opportunities and resilience	
28% of pension funds and 34% of insurance companies have a specific transition and/or physical risk reduction policy, of which 2% (pension funds), and 7% (insurance companies) address taking action on social-ecological resilience.	p. 12/13

IMPLEMENTATION	
Strategic asset allocation	
63% of the insurance companies and 90% of the pension funds take into account ESG information and/ or climate risks in SAA and/or ALM studies.	p. 18
Active ownership	
52% of insurance companies engage with companies on climate-related issues, compared to 92% of pension funds.	p. 20

ACCOUNTABILITY	
Reporting on climate change	
57% of the insurance companies publicly disclose information on their climate change policies, compared to 94% of the pension funds.	p. 22

Recommendations

Increase oversight and knowledge of climate-related issues

- To ensure a solid understanding of climate-related issues, investors should ensure sufficient oversight at board level, and ensure board members have at least a basic knowledge of concepts such as global warming scenarios and science-based targets.

Climate policies are widely held, but they need to be more ambitious

- Develop a comprehensive RI policy aligned with the Paris Climate Agreement, including science-based net zero targets.
- Determine and communicate a strategy to implement both short- and long-term targets. Explicitly require asset managers to implement these targets in mandates and fund selection, and evaluate climate performance during due-diligence processes.
- Define targets that have a demonstrable effect on the real world. This can be done by, for example, identifying and including specific actions to be taken on mitigating and adapting to climate change in the RI policy; adopting policies for the most material high carbon sectors; and including adaptation strategies to realise social-ecological resilience.

Make use of a range of interrelated instruments

- Include climate-related financial risks in different global-warming scenarios in modelling and allocation studies.
- Measure the CO2 footprint of the portfolio, using (inter)nationally developed standards.
- Use forward-looking CO2-data and incorporate absolute target benchmarks by using net-zero, climate transition or Paris-aligned indices.
- Practise active ownership on adapting to the consequences of climate change.
- Develop a comprehensive engagement strategy which includes a clear escalation strategy. Engage with both heavy-emitting companies and those working to enable the world to transition to net zero, using sectoral pathways that are in line with IEA and IPCC scenarios.
- Exclude sectors that are unable to change.

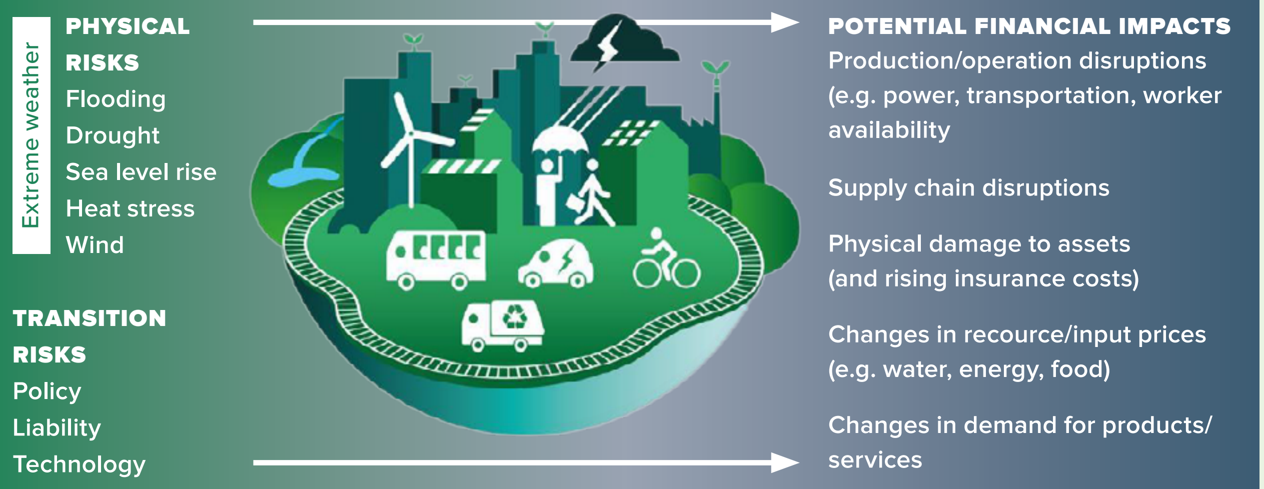
Publicly report on the climate policy and its results

- Disclose results on targets and on the climate performance of portfolios, including net zero and real zero emissions targets, engagement strategies and actions taken to adapt to physical risks and progress towards social-ecological resilience.

1. Climate change and the financial sector

In 2007, the International Panel on Climate Change (IPCC) called the evidence for man-made climate change unequivocal, and scientific consensus has only grown since then.[2] In 2021, 14 years later, the new IPCC report builds upon previous knowledge and provides new estimates of the chances of crossing the average global warming level of 1.5°C by early next decade.[3] The report finds that unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach. At COP26, country delegates, investors, corporations and NGOs/CSOs negotiated about new plans to limit warming to 1.5°C. As the world is headed for a 3°C warming scenario with current Nationally Determined Contributions (NDC), great ambition is needed to avert rapid warming and catastrophic indirect physical effects. The financial sector has a large role to play and needs to step up its game to guide the transition. 2050 targets alone will not get us there. We need short-term action, and we need it now. Every financial institution that is not aligning itself with a 1.5°C (or at least well below 2°C) pathway is neglecting its responsibilities.

Figure 1 | Climate change risks and their potential financial impacts. Source: Shades of Climate Risk, CICERO, 2017



Dealing with climate change

Climate change brings both transition risks and physical risks to the financial sector. 'Transition risks' refer to the uncertainty caused by the adjustment towards a low-carbon and climate-resilient world. These transition risks include market risks such as the depreciation of CO2-intense assets (so-called stranded assets). Other market risks relate to the potential for new climate policies and regulatory or supervisory requirements, such as carbon pricing. Liability risks arise when victims of climate-related hazards hold companies or governments accountable. The third type of transition risk relates to technology, as most business activities will need to move to carbon-free technologies.

[2] IPCC (2007). Climate Change 2007: Synthesis Report. Contribution of Working Groups I, II and III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, Pachauri, R.K and Reisinger, A. (eds.)]. IPCC, Geneva, Switzerland, 104 pp.
[3] IPCC (2021). Climate change widespread, rapid, and intensifying – IPCC (Source: www.ipcc.ch/2021/08/09/ar6-wg1-20210809-pr/)

The ‘physical risks’ caused by climate change are due to real world climate change hazards, such as an increase in extreme weather events. These physical risks have both financial and real world impacts due to, for example, supply chain disruptions, changes in resource prices, and physical damage to assets and regions.

It is beyond doubt that climate change is already affecting the financial sector in many ways and that those effects are likely to increase significantly. However, the financial sector can also play a part in influencing the drivers of climate change and in adapting to the effects of climate change.

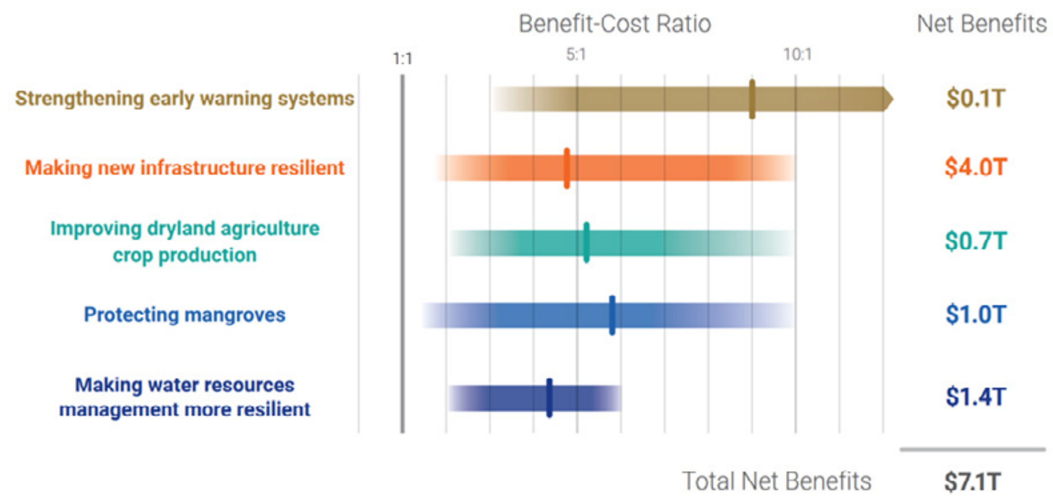
Dealing with climate change is often divided into two approaches: climate change mitigation and climate change adaptation. Mitigation addresses the causes of climate change and focuses on the reduction of greenhouse gases such as CO_2. Adaptation is about adjusting to the physical effects of climate change. Adaptation strategies may differ significantly between financial organisations as each one may face different risks linked to, for example the location and sector of companies in its portfolio.

Financial adaptation strategies may lead to investment portfolios becoming more resilient to the effects of climate change purely by reducing financial exposure (i.e. portfolio resilience) or by ensuring protection of the assets (i.e. asset resilience). Ultimately,

The Net-Zero Asset Owner Alliance (NZAOA) is a coalition of asset owners that have committed to leading the way in driving sustainable economies. The Alliance announced its ambition at the UN Secretary-General’s Climate Summit in New York on September 23rd, 2019. The NZAOA works closely with existing investor climate initiatives such as Climate 100+. The NZAOA Secretariat, consisting of UNEP FI and UNPRI staff, facilitates and coordinates asset owner activities to set ambitious sector-specific targets. Members of the Alliance commit to transitioning their investment portfolios to net zero GHG emissions by 2050 with the aim of seeing a maximum global temperature rise of 1.5°C above pre-industrial temperatures. They also commit to taking into account the best available scientific knowledge, including the findings of the IPCC, and regularly reporting on progress, including establishing intermediate targets every five years in line with Paris Climate Agreement Article 4.9. This commitment must be embedded in a holistic ESG approach, which incorporates (but is not necessarily limited to) climate change, and the approach must emphasise GHG emissions reduction outcomes in the real economy. Members seek to advocate for, and engage on, corporate and industry action, as well as public policies, in order to support the low-carbon transition of economic sectors in line with science and under consideration of associated social impacts. Members make their commitment with the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Climate Agreement are met.
At December 2021, the following organisations have signed up to the NZAOA: Pensioenfonds Detailhandel, Stichting Pensioenfonds IBM Nederland, Stichting Pensioenfonds Medisch Specialisten, Univest, Aegon and Athora Netherlands.

For more information on the NZAOA, please visit: www.unepfi.org/net-zero-alliance

Figure 2 | Return on climate adaptation investments (GCA, 2019).



OPPORTUNITIES FOR INVESTMENT IN ADAPTATION

While avoiding losses is often the motivation for investing in resilience, such motivation may underestimate the potential total benefits to society. Many adaptation actions generate significant additional economic, social and environmental benefits. The Global Center of Adaptation (GCA) remarked in its State and Trends report that climate impacts continued to multiply in 2020, even as funding for climate action adaptation – already vastly short of what is needed – was cut. We need to better manage our scarce water resources, climate-proof our food production and protect our communities from extreme weather events. We need funding to build more livable cities and protect island nations and coastal communities from the impacts of storms, cyclones and hurricanes.

The graph above shows approximate global net benefits of $7.1 trillion to be gained by 2030 if $1.8 trillion was invested globally across five areas from 2020-2030. Not all adaptation actions are investable yet, therefore public and private parties need to work together and start to value the avoided losses and share the benefits.

portfolio and asset resilience can only exist in a viable world, in other words a world that is socially and -ecologically resilient. Thus, ideally, investment decision making will be directed at ensuring the overall viability and resilience of the planet.

This is why we believe it is the fiduciary duty, and in the long-term interest, of the financial sector to aim for real world social-ecological resilience. Of course, this is not only in the interest of investors, but also of governments, companies, science, civil society and individuals.

In this light, it is important to not only focus on the risk and cost side of adapting to climate change, but also take into account the opportunities and benefits. The box on the left provides an example of the approach the Global Center of Adaptation (GCA) has taken to determine the yields of investing in real world adaptation.

2. Results

It is widely accepted that the effects of climate change have a considerable impact on the financial sector. This ranges from financial risks to opportunities for investing in solutions. In order to reach the goals set out by the Paris Climate Agreement, and to keep the increase in global average temperature to 1.5°C or at least well below 2°C above pre-industrial levels, it is crucial that the world transitions to low-carbon food supplies and renewable energy sources.

The 2021 assessment for this report focused on the following actions taken by institutional investors:
- Consulting with experts on climate change
- Level of detail given in the climate change policy
- Research on the effects of climate risks and global warming scenarios on strategic investment decision making
- Active ownership on climate change
- Reporting on climate change

2.1 Governance

2.1 Governance | Good governance is crucial for a successfully implemented policy and relies on several factors, such as sufficient knowledge on responsible investment at board level, insight into the preferences of participants, and clear guidance and oversight from the board to asset managers when it comes to setting targets and measuring results. For the climate results in this chapter, the consultation of stakeholders on climate change by the investors was assessed.

Climate-related consultation

Consulting customers and society on climate-related issues on a regular basis contributes to a solid grounding and understanding of the issue. Moreover, these consultations help build a robust and climate-focused RI policy. Climate change-related consultations can consist of several elements, ranging from the integration of climate-related risks in the RI policy to aligning investments with zero-emission targets and considering social-ecological resilience. VBDO considers consulting on this latter topic to be a valuable next step that investors should take. Consultation with custo-

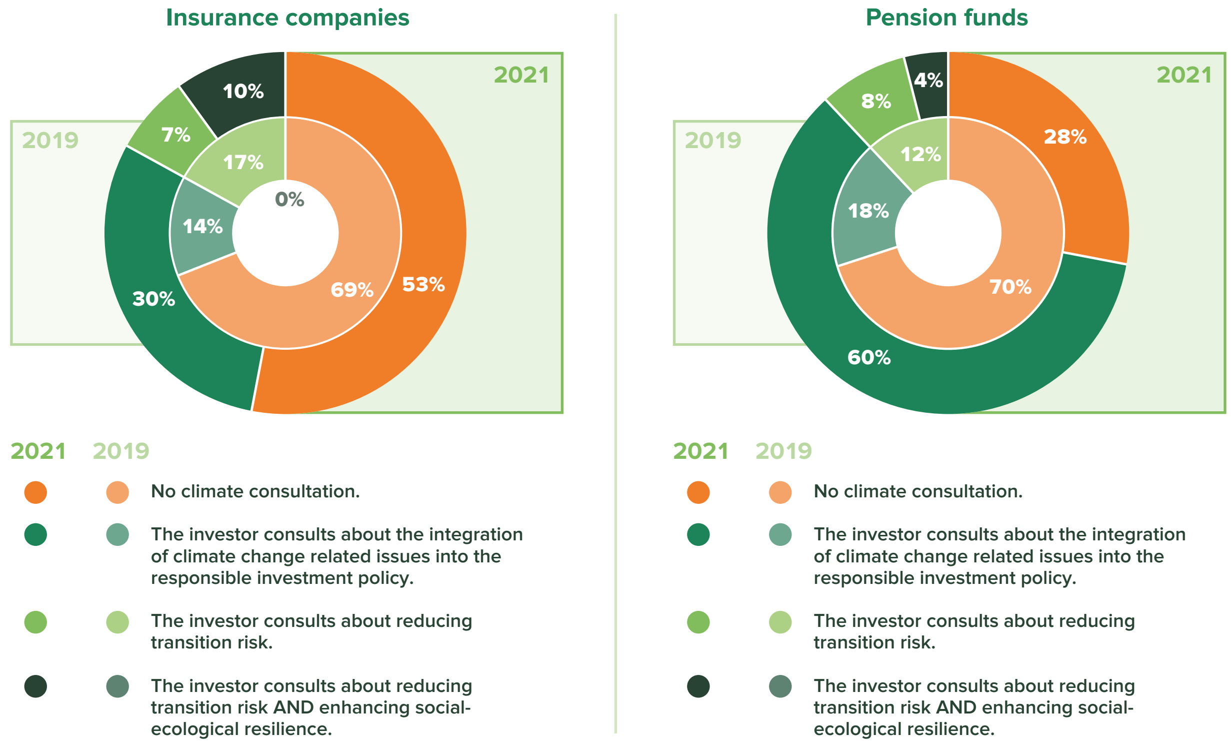
mers, participants and relevant organisations such as expert NGOs can ensure that an insurer or pension fund understands the full extent of risks and opportunities associated with climate change, ranging from those relating o a just transition to those relating to climate mitigation.

Our study indicates that 63% of institutional investors consult customers, participants or society in general on climate-related issues. This is more than double the 2019 figure (30%).

As previously mentioned, several elements can be included in climate change-related consultations. Figure 3 indicates the difference between insurance companies and pension funds on climate change-related consultations and highlights that half of all insurance companies still do not do conduct any climate change–related consultations.

Only a select few institutional investors (6%) consult on detailed climate information, such as social-ecological resilience, besides transition and physical risks.

Figure 3 | **Consultation with customers and society on climate change**



From awareness to expertise

With so many other responsibilities, how does the board stay in control of its RI policy and climate-related actions in particular? **VBDO believes that pension funds and insurance companies need proper governance arrangements to demonstrate that their boards take a leadership role in implementing the RI policy.** When boards and their advisors fully comprehend the concepts and methodologies of, for example, carbon accounting, global warming scenarios, science-based targets and physical climate risk analyses, they can then make better use of financial and non-financial data in their decision making.

In their engagement with asset managers, asset owners need to ensure that practitioners fully understand the complex technical aspects of relevant tools, e.g. carbon accounting for investments and scenario analyses. Asset managers also need a good understanding of a range of complex ESG topics, such as biodiversity, pollution and ecosystems. These are specialised areas, so experts may need to be brought in to support the asset manager.

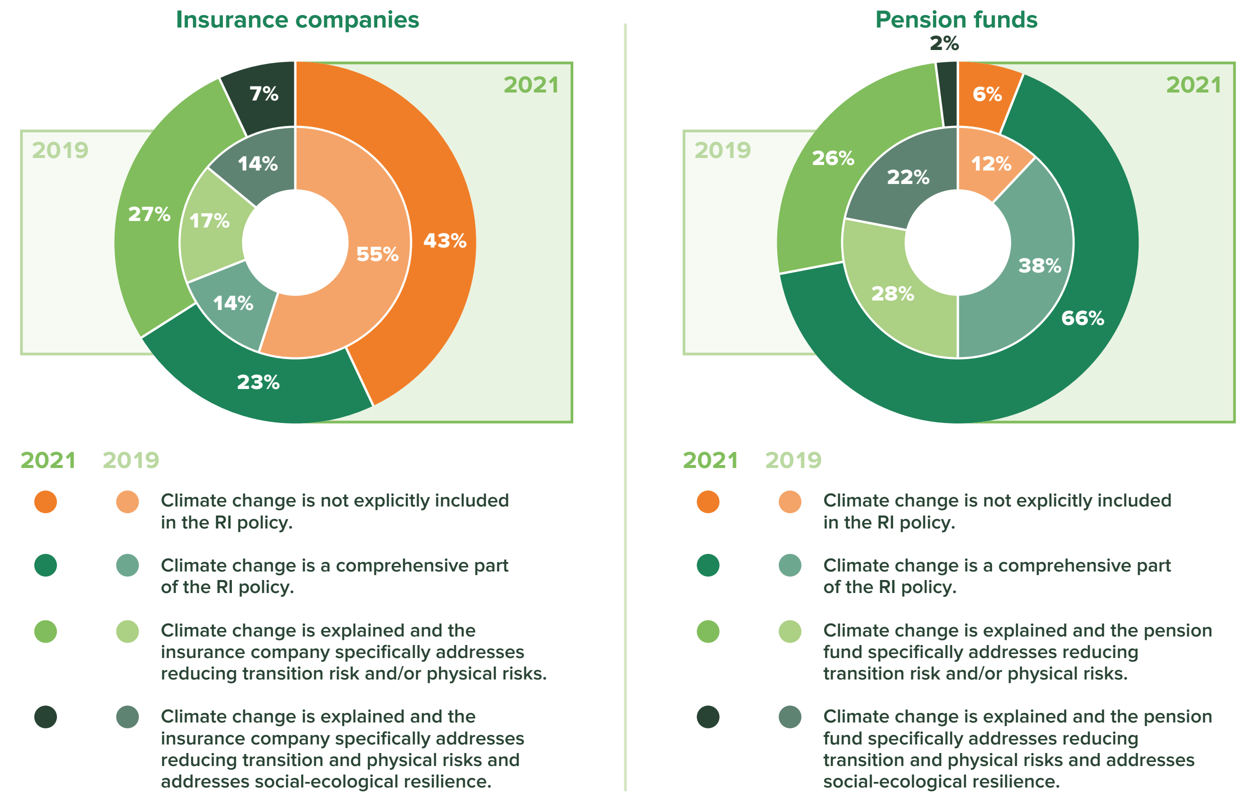
2.2 Policy | This section discusses the incorporation of climate change issues into the responsible investment policy of insurance companies and pension funds. Effective responsible investment policies rely on ambitious and comprehensive frameworks. The investment framework should reflect the values of the investor and its stakeholders. To effectively guide asset managers, the policy should include a long-term vision and measurable targets, e.g. targets aligned with the Paris Climate Agreement.

Climate change integration in the responsible investment policy

The level of integration of climate change in the RI policy indicates to what extent investors address climate change issues in their investment decisions. Currently, there is a considerable difference between insurance companies and pension funds when it comes to the extensiveness of their climate change policies. As described in chapter 1, several different approaches in dealing with climate change can be distinguished in a policy. These approaches range from risk reduction and investment opportunities to various types of climate change adaptation measures (e.g. purely financial, asset based and social-ecological measures). Striving for social-ecological resilience is considered a crucial real world solution to the effects of climate change.

Almost all pension funds (2021: 94%; 2019: 88%) specifically include climate change in their RI policy, compared to 57% (2019: 45%) of insurance companies. Or if you turn this around 20% of the institutional investors included in this study still do not include climate change in their RI policy. Most institutional investors (80%) have at least taken the first step of

Figure 4 | **Climate change in the RI policy**



including climate change in general in their RI policy, e.g. by including carbon footprint measurements.

30% of institutional investors are taking the next step by including one or more detailed and ambitious elements in their policy. These include aligning investments with long-term (2050) and short-term (2025) net zero portfolio emission targets, investing in climate change mitigation, and adapting to the physical (asset) risks of climate change. 4% of these investors also address social-ecological resilience in their RI policy. While this seems a small percentage, it is nevertheless a positive development as none of the institutional investors were taking this step when they were surveyed in 2019.
In conclusion, more needs to be done by investors (especially insurance companies) to incorporate climate change into their RI policies. Specifying the actions (to be) taken to mitigate and adapt to climate change will strengthen the policy.

The next step is to look for solutions to the physical consequences of climate change that will achieve real world social-ecological resilience. Assessing and earmarking investments to achieve social-ecological resilience requires investors to understand how their investments contribute to such solutions and how they can create sustainable value for society and the environment.

Setting ambitious goals

Gradually, we're seeing more pension funds formulating long-term targets and including a clear roadmap for implementation in their RI policies. Insurance companies are lagging behind, however, as over half of them have not included specific goals and targets

Textbox 1 | PENSION FUND PMT ON SETTING LONG-TERM GOALS IN LINE WITH TPI

PMT has developed sector-specific carbon reduction targets to be met by 2030 in line with the Transition Pathway Initiative (TPI). The TPI evaluates and assesses whether companies are prepared for the transition to a low-carbon economy. Assessments are carried out by comparing publicly available data to Paris Climate Agreement commitments. For example, the future carbon performance (e.g. emissions intensity) of companies is estimated and TPI evaluates whether this is in line with national pledges to the Paris Climate Agreement and below 2°C and below 1.5°C pathways. PMT has determined absolute reduction targets on emission intensity per sector in line with the TPI and uses these to assess which companies in carbon-intensive sectors are stepping up to the challenge of the energy transition. The benchmark's data is used in active ownership. This is demonstrated by the decision to support the climate resolution filed by Follow This at Royal Dutch Shell's AGM in 2021 as the **TPI assessed that future carbon emissions of the company are not in line with TPI sectoral targets.**

For more information visit:
www.pmt.nl/over-pmt/nieuws/berichten/pmt-stelt-reductiedoelstellingen-co2-uitstoot-vast
www.transitionpathwayinitiative.org

that will increase the ambition of the RI policy over time. It remains that many institutional investors are still working out their strategy for implementing the Paris Climate Agreement, even though the deadline for the climate commitment from the financial sector is 2022[4].

While we continue to encourage investors not to limit their targets to solely those that focus on climate change, it is the ESG theme that targets are most frequently developed on. **26% of the pension funds and 20% of insurance companies explicitly commit to aligning their portfolios with the net zero target of the Paris Climate Agreement.** Those investors that have a clear strategy are becoming more specific in their intentions; for example, some of them have published sector-specific CO2 emissions reduction targets for their portfolios. These types of targets will allow investors to benchmark companies according to their sectoral transition pathways and to enhance the effectiveness of engagement.

In the following interview, Jan Willem de Vaal from Athora Netherlands and Ruud Hadders from ACTIAM share their experiences of joining the NZAOA and their expectations.

[4] Klimaatakkoord – Commitment van de financiele sector (2019). Source: www.klimaatakkoord.nl/themas/financiering/documenten/publicaties/2019/07/10/commitment-van-de-financiele-sector

Textbox 2 | ATHORA NETHERLANDS ON INCLUDING REAL WORLD IMPACT IN TARGET SETTING

The sustainable investment policy used by Athora Netherlands, developed by its in-house asset manager ACTIAM, has adopted the 'safe and just operating zone'[5] as its guiding concept. ACTIAM has developed science-based indicators that measure real world impact, which are connected to goals and targets. Additionally, ACTIAM utilises innovative methods of data gathering related to real world impact, for example through satellites (via Satelligence) which can assist engagement on deforestation, and bioacoustics which measures biodiversity. Including real world impact in goals and target setting ensures that investors can monitor and assess the impact of their portfolio beyond the financial realm.

[5] Actiam – Sustainable Investment Policy (April 2021), p5. Source: www.actiam.com/49933d/siteassets/4_verantwoord/documenten/en/a-actiam-sustainable-investment-policy.pdf
For more information visit: www.actiam.com/en/sustainable-investments/sustainability-framework

A conversation between VBDO and Athora Netherlands – About joining the Net-Zero Asset Owner Alliance (NZAOA)

Jan Willem de Vaal,
Sustainability Manager
at Athora Netherlands

Ruud Hadders,
Responsible Investment
Officer at ACTIAM

This year, VBDO and WWF have worked to increase awareness of the Net-Zero Asset Owner Alliance (NZAOA) in the Dutch financial sector. Members of the NZAOA commit to transitioning their investment portfolio to net zero GHG-emissions by 2050, with the aim of keeping the global temperature rise to a maximum of 1.5°Cabove pre-industrial levels.

The international coalition, consisting of 62 institutional asset owners with $10 trillion in combined assets under management, presented the net zero commitments of the international financial sector at COP26 in Glasgow.

Several Dutch institutional investors are members of the NZAOA, namely Aegon, Pensioenfonds Detailhandel, Stichting Pensioenfonds IBM Nederland and Univest. Athora Netherlands is in the process of joining the NZAOA. Therefore, VBDO took the opportunity to talk to Jan Willem de Vaal, Sustainability Manager at Athora Netherlands, and Ruud Hadders, Responsible Investment Officer at ACTIAM (Athora Netherlands' in-house asset manager), about their decision.

What considerations contributed to your decision to join the NZAOA?

De Vaal – We committed to contributing to the ambitions of the Dutch Climate Agreement (Klimaatakkoord). The NZAOA makes these ambitions more tangible. The Dutch Climate Agreement and the NZAOA amplify each other, which in turn enhances our ambitions. This is encouraged by Athora Netherlands.

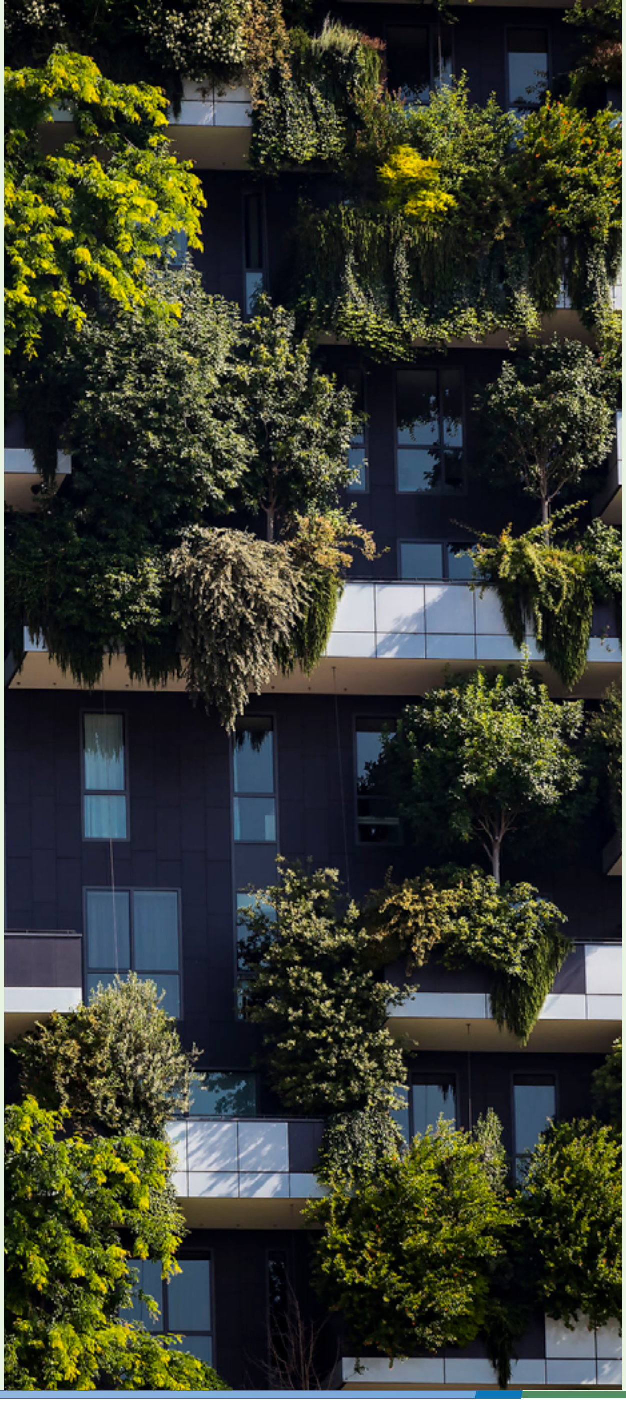
What do you see as possible explanations for the lack of enthusiasm displayed by other Dutch asset owners regarding NZAOA membership?

De Vaal – I think parties might be hesitant to join due to the concrete targets required by the NZAOA and short-term implications for their portfolios.

Hadders – Clients we talk to have made a carefully considered decision [not to join]. They don't want to just sign a commitment but would like for the required ambitions to be assessed [first] and to receive feedback on this. This happens at a different pace for every party.

How will Athora Netherlands and ACTIAM flesh out the net zero targets and commitments and what impact will this have on the investment portfolio?

Hadders – We have included reduction targets with corresponding specific actions per sector spanning a decade in our climate strategy. For the coming



decade, we will try to enforce the energy transition at companies in which we are invested. By selecting the right companies that have transition plans in place, we are working towards a net zero portfolio. We carry out a thorough assessment of these companies and we strongly prefer their net zero targets to be science-based.

What is the determining factor between excluding and not excluding?

Hadders – Our strategy is to keep increasing the ambition of our minimum requirements. Five years ago, it would have been sufficient for an oil company to have ambitions, period, but now they should have a climate strategy at the least. And in three years, they will have to be able to show that they have met reduction targets. Criteria keep getting stricter. The same is true for our engagement: if improvements have not been made after three years of engagement, companies are automatically excluded from our investment universe.
Establishing a clear divide helps us to make clear choices befitting of the overarching strategy working towards net zero. This is also included in our climate strategy for achieving net zero by 2050. We hope to make this even more tangible through the Alliance.

Do Athora Netherlands and ACTIAM have specific expectations of the NZAOA?

Hadders – We are looking forward to discussing ambitious goals and targets and how to accomplish the requirements set by the NZAOA with other Alliance members. We mainly consider this to be an opportunity to share and gain knowledge in different working groups.

Athora Netherlands will be joining the NZAOA but has made the conscious decision not to exclude the fossil industry. What is the thought process behind this decision?

De Vaal – Athora Netherlands and ACTIAM's approach is to take each sector and look at companies which are lagging somewhat behind but do show the capacity to adapt to the energy transition and want to contribute to this as well. Such companies are sorely needed for realising the energy transition. If these companies turn out to progress insufficiently, they will subsequently be excluded from our investment universe.

On the other hand, we identify frontrunners that we absolutely do want to invest in, with the ultimate goal of investing in the necessary transition.

Is there anything you would like to say to Dutch asset owners?

De Vaal – We would like to encourage collaboration. What is important is how we can improve together, both in the Netherlands and internationally. I would like to call on all members and non-members of the NZAOA; we would like to enter into dialogue with all of you so we can learn from each other. This will benefit everyone involved.

REACTION FROM VBDO

VBDO expects pension funds and insurance companies to develop a climate strategy that includes short-, medium- and long-term goals and targets, and that is aligned with the 1.5°C goal set out in the Paris Climate Agreement. The VBDO Benchmark on Responsible Investment by Pension Funds in the Netherlands 2021 shows that four in five pension funds still do not have a fully fleshed out climate strategy. We understand that there is more than one way to accomplish the goals of the Paris Climate Agreement and that collaboration can contribute to a successful climate strategy. In this, the NZAOA has VBDO's full support.

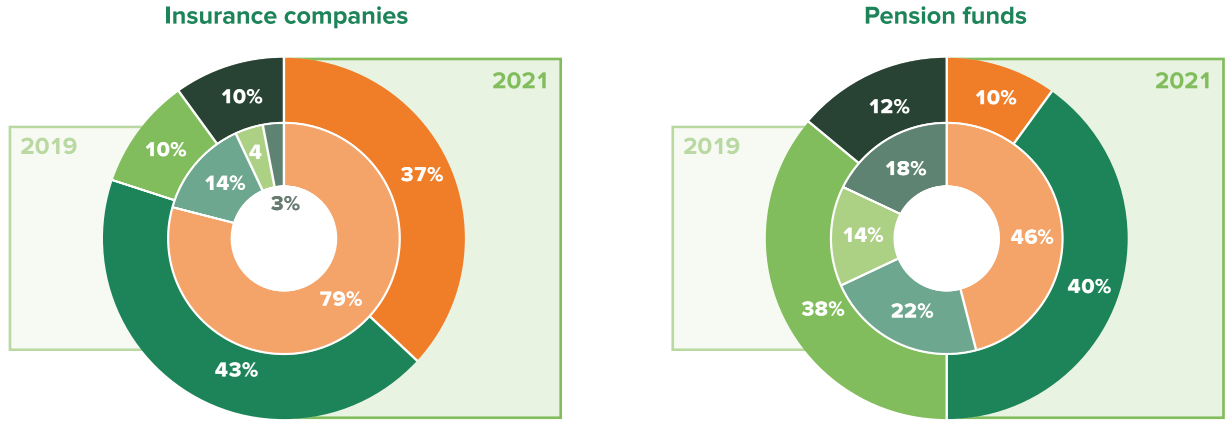
2.3 Implementation | Implementation is the collective term for responsible investment instruments and asset allocation approaches. VBDO has assessed how Dutch institutional investors integrate climate risks into their portfolio strategies and active ownership activities.

The integration of climate risks into portfolio strategies

It is becoming increasingly important for investors to manage climate-related financial risks as these are recognised as being systemic risks. New insights, metrics and investment solutions are being developed continuously to make responsible investing more accessible across all asset classes. However, not all these approaches include the top-down integration of ESG and climate-related risks into asset liability modelling (ALM) and strategic asset allocation (SAA).

The results of this study indicate that the number of institutional investors that take into account ESG or climate information in SAA or ALM has greatly increased from 42% in 2019 to 80% in 2021. This huge increase can be mainly attributed to the percentage of insurance companies taking action on this matter, which has tripled from 21% in 2019 to 63% in 2021. However, it still remains the case that pension funds are further ahead in the process of implementing ESG and climate risk information in SAA and/or ALM. 43% of all the investors surveyed include ESG information and/or climate risk on at least a basic level in SAA and/or ALM studies. **There is a significant increase in the number of institutional investors that**

Figure 4 | **Measuring the effect of ESG risks and climate scenarios on SAA and ALM**



2021 2019

- ESG and climate risk information is not included in SAA or ALM.
- The effect of ESG information on SAA or ALM is investigated.
- Physical and transition climate-related financial risks under different global warming scenarios on SAA or ALM modelling is investigated.
- ESG and climate risk information has demonstrably influenced SAA or ALM decisions.

have analysed how different global warming scenarios (e.g. 1.5/2/3/4°C) will affect the risk/return of their investment portfolio. Again, pension funds are leading the way here. Such global warming scenarios can include a variety of climate change elements that may pose financial risks and which are, therefore, useful and important considerations for investors. These elements can include, for example, information and trends on food security, renewable energy technologies and fossil fuels.
Climate-related risk information has influenced asset allocation or was integrated in ALM modelling at just 10% of the insurance companies and 12% of the pension funds.
It is important that insurance companies increase their understanding of the risks that climate change poses to the financial system. Therefore, it is encouraging that more insurers are now using climate risk models to determine strategic investment decisions.

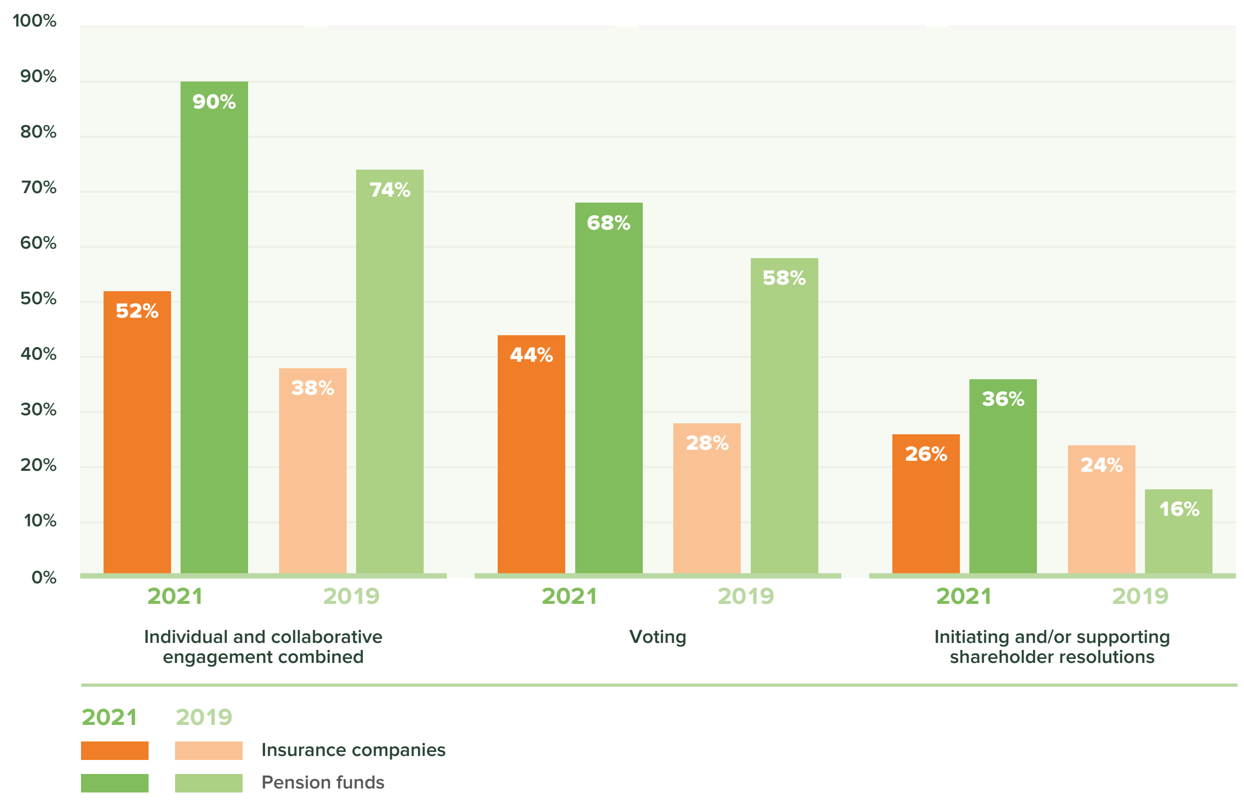
Active ownership

Changing the behaviour and practice of companies through active dialogue and voting is essential in reaching the goals set by the Paris Climate Agreement. VBDO considers two aspects within active ownership: the types of active ownership practised, and whether specific and in-depth climate change topics have been selected.

Compared to 2019, more institutional investors have engaged with companies on climate-related topics. However, there remains a great difference between insurance companies and pension funds with 52% (2019: 38%) of insurance companies voting on or engaging with companies on climate-related issues, compared to 92% (2019: 82%) of pension funds (figure 7).

Figure 6 shows, case-by-case engagement and collective engagement are the most commonly used engagement approaches among institutional investors, with pension funds slightly favouring case-by-case engagement. Voting appears to be more popu-

Figure 6 | **Active ownership on climate change.**

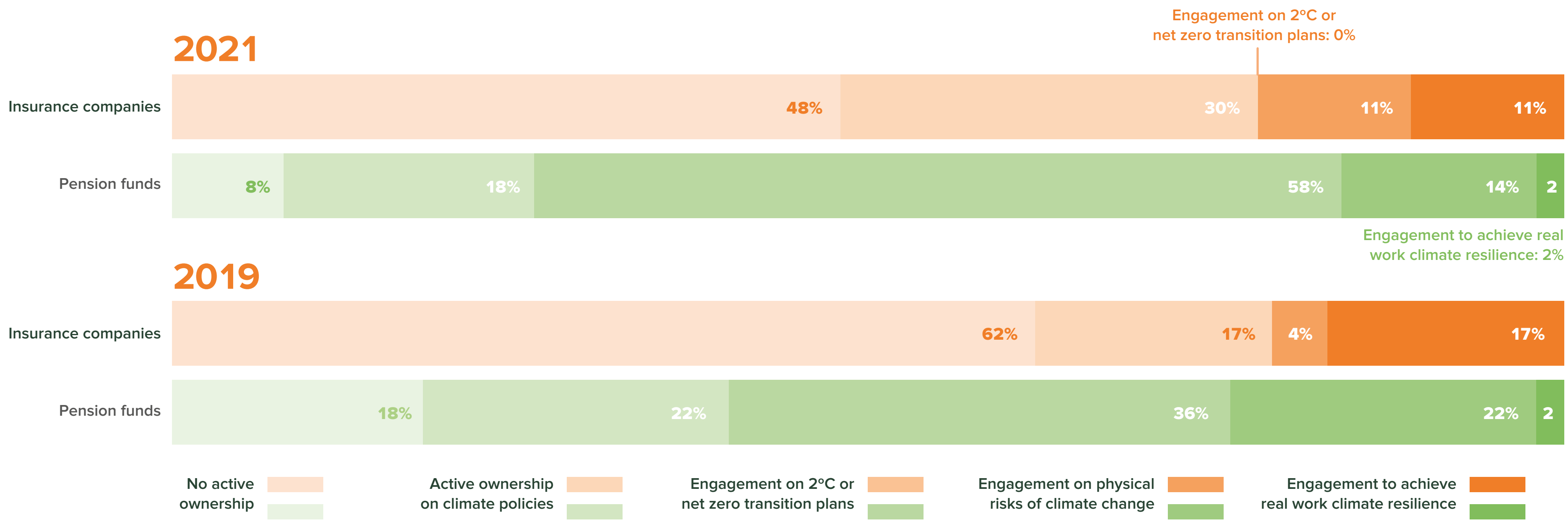


lar among pension funds than insurance companies, and mainly relates to the governance of actions taken on climate change, such as climate-related transparency, remuneration and risk management. The least-used active ownership tool is initiating and/or publicly supporting shareholder resolutions.

VBDO believes it is important that investors not only engage on mitigating the causes of climate change but also practise active ownership on adapting to the consequences. The majority (58%) of the pension funds engage with companies on net zero transition plans. Only 11% of the insurance companies and 14% of pension funds have engaged on or voted on company resilience to the physical risks of climate change (such as deforestation). A further 11% of insurance companies and 2% of pension funds addressed company strategy to ensure social-ecological resilience to climate change.

In the following interview, Yasmine Svan, Senior Sustainability Analyst at Legal & General Investment Management, describes how their net zero commitments are being adhered to in its voting and engagement efforts.

Figure 7 | **Active ownership on climate change.**



Mark van Baal,
Founder of Follow This

Yasmine Svan,
Senior Sustainability Analyst at Legal & General Investment Management

A conversation between VBDO, Mark van Baal, Founder of Follow This, and Yasmine Svan, Senior Sustainability Analyst at LGIM, on how ESG issues and net zero commitments are being adhered to in voting and engagement efforts.

Can you tell us about LGIM's voting policy? How are ESG issues, particularly climate-related criteria, taken into account?

Svan - When it comes to ESG, we have custom voting policies in place for all major markets. We have set expectations around governance – for example, board independence and ethnic and gender diversity. Starting in 2022, in the UK and US markets, we expect board members at the largest companies to include at least one member of an ethnic minority background.
When we look at ESG issues generally, we consider:

- Does this issue have a potential material financial impact on the company?
- Is this a direct impact of their own operations, or one related to their supply chain?
- Is this something that the company can exercise influence over?

Regarding climate change, we take the view that the safest outcome for our clients' assets in the long term is for the planet to align with a 1.5°C trajectory. So, we encourage companies to ensure that they are taking action in line with this trajectory.

We have been voting on climate issues for a number of years, through our Climate Impact Pledge. From 2021, we started applying a climate-related voting policy to the largest companies in what we call 'climate-critical' sectors. For each sector, we established what we consider to be minimum standards. E.g. for a food company, it would be having a deforestation policy; for an oil & gas company, we would expect them to have as a minimum an emissions target covering their own operations, and to disclose the emissions embedded in their sold products.

Other minimum standards that are applicable across sectors include things such as, is there board governance on climate change–related issues; does the company have emissions

reduction targets in place, and can we see the company's emissions going down?

How are E, S and G issues taken into account when voting for or against shareholder resolutions promoting CSR? And what are your escalation tools if companies don't act according to your standards?

Svan - The view that companies who properly manage ESG issues are likely to be more resilient is held at the very top of our organisation, and this view permeates throughout everything that we do. I think our voting record speaks somewhat for itself; we have been recognised in multiple assessments as being one of the larger asset managers most likely to support ESG-related shareholder resolutions. If the resolution is relevant to the company's business, in terms of, for example, relating to the company's own operations and policies or its supply chain, and the issue in question is something the company can control or exercise significant influence over, and if left unaddressed creates a long-term risk, we are likely to support these resolutions.

In terms of escalation strategies, we make use of all the different levers that we have available to us. These can include speaking publicly – going to the media with our concerns – as well as engaging jointly with our peers, voting and selective divestment.

The purpose of this approach is to encourage change by engaging closely with companies in order to improve best practice, but to make clear at the very start of these conversations that if we do not see progress, there are established alternatives available to us to escalate our concerns. This escalation strategy is established in our stewardship policy and is part of our Climate Impact Pledge, our flagship climate-related engagement programme. As part of this programme, we've developed a sector-specific assessment framework to analyse companies' strategic approach, which we apply to the companies we engage with. If following a period of engagement, we don't see any action from the company, we will vote against the Chair and divest the company from select climate- and ESG-linked funds. We can clearly see the impact of this approach: during the course of the engagement programme, four companies that were previously sanctioned have been reinstated into the funds following positive action, and even those not reinstated have made progress.

How do you discuss your voting policy with clients?

Svan - Every year, LGIM hosts annual stakeholder feedback sessions, where we actively seek thoughts from our clients and other stakeholders on our policies and wider approach. They can tell us if there are areas where they think we should go further and faster for example. In addition, regular client meetings provide another avenue for them to provide feedback on our approach. We also use the platform Tumelo, where individual pension savers, for example, can have their say on the different ballot items at company AGMs, and we can see how savers vote and of course take those signals into account.

To date, we are proud of our robust voting record with regards to supporting ESG-related shareholder resolutions, particularly climate-related resolutions, and I think are recognised by our clients as being a progressive investor on these issues.

You voted in favour of the Follow This climate resolution at Shell in 2021. Together with 30% of investors, you sent a strong signal to Shell and the entire oil industry. What was your rationale to vote against the same climate resolution at BP?

Svan - LGIM has engaged with BP on its strategic approach to climate change for several years, including by co-filing a shareholder resolution calling for the company to demonstrate how it is aligning its business to the Paris Climate Agreement, and to align its operational emissions with net zero. This resolution was passed with support from the BP board, and subsequently the company has now strengthened its criteria around capital expenditures – with higher hurdle rates and carbon prices as part of a strategy towards net zero, which includes substantive cuts to production.

We believe the company should be allowed time to implement this strategy. However, we will continue to follow developments closely.

Mark, ABP is divesting from fossil fuels; can we expect Follow This to shift its strategy from the supply side of energy to demand as well?

Van Baal -We leave that to others. The entire energy system needs to be rebuilt in the next 10-20 years. Everyone has to do their part and our focus is the supply side. In order to achieve the Paris Climate Agreement, many things have to be done; deforestation has to be stopped; agriculture has to change; work needs to be done on biodiversity. A crucial part is changing the energy system; in this, it is crucial that on the demand side people are going to drive electric and fly less or fly electric. But it's also extremely necessary that the supply side changes, and that is our focus. We need every tool in the toolbox.

Will there be other oil & gas companies added to your list?

Van Baal - In 2022, there will be at least eight Follow This climate resolutions. It's no secret that we think that Shell, BP and Equinor still need shareholder resolutions. We have proven that every year that we file a shareholder resolution, the company in question takes a new step forward. It is very important that investors are crystal clear to the oil industry that companies need to decrease emissions. They can do that by engaging with companies, voting and voting for resolutions.

2.4 Accountability | Disclosing information on climate change, such as specific policies and performance on related topics, is an important step towards accountability. Concrete and transparent reporting provides stakeholders (and society as a whole) with an insight into an investor's strategy and results regarding responsible investment. There are several levels of disclosure that institutional investors can apply, varying from the alignment of their investments to the Paris Climate Agreement to including criteria for achieving social-ecological resilience.

Reporting on climate change has improved

Our results show that almost all pension funds (94%) disclose information on climate change to their stakeholders, which is a great improvement compared to 2019 (66%). While insurance companies have improved (57% now report on climate change compared to just 27% in 2019), as a group they are still lagging behind pension funds.

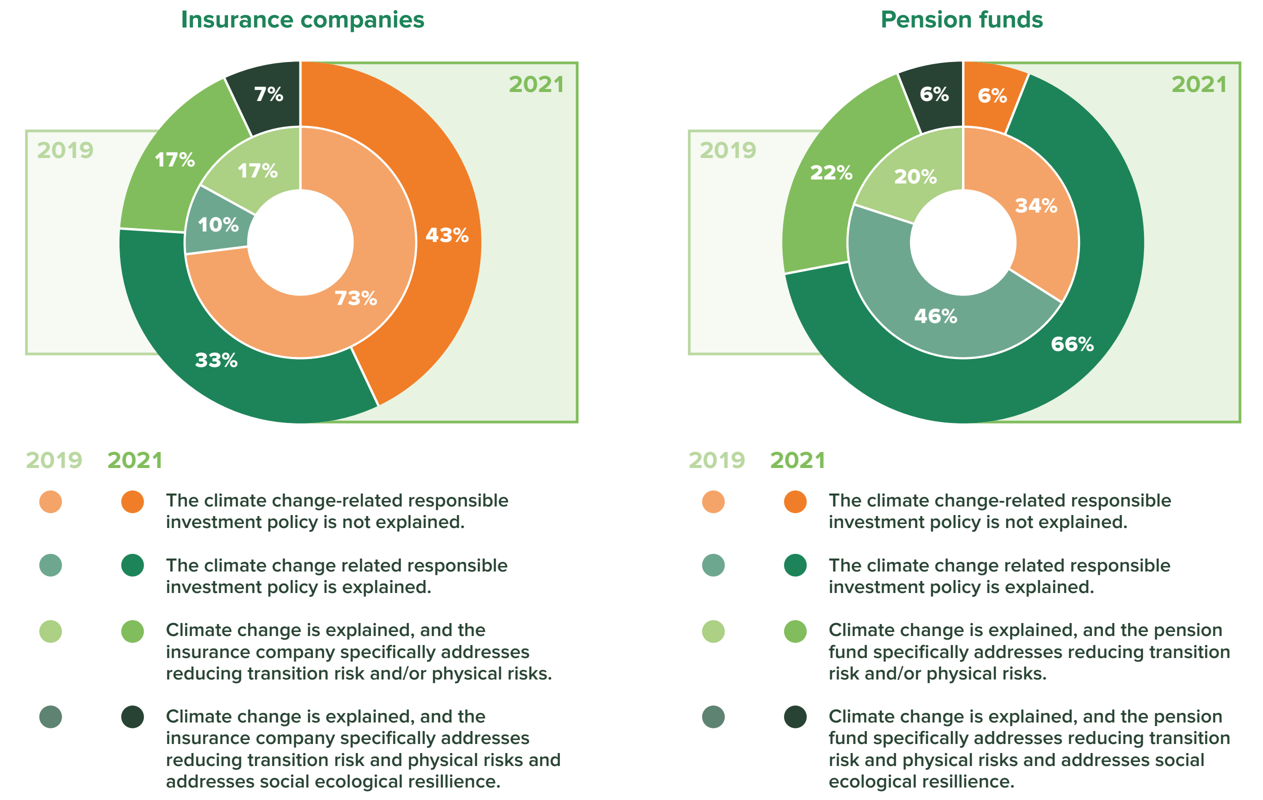
The percentage of investors publicly disclosing performance on climate change activities (including net zero emissions targets, activities taken to adapt to physical risks and measures taken towards social-ecological resilience) remains stable.

In addition, 17% of insurance companies publicly disclose whether their investments are aligned with keeping well below a 2°C rise, 2050 net zero

carbon emission portfolio targets, and/or measures taken to adapt to physical risks of climate change. For pension funds, this percentage is 22%.
It is essential that both types of investors improve their reporting on climate change by showing stakeholders how they align investments with the goals set by the Paris Climate Agreement, how they perform on supporting adaptation to the physical impacts of climate change and how they contribute to climate change mitigation. For guidance on correct climate adaptation disclosure, investors can consult a publication from The Institutional Investors Group on Climate Change (IIGCC)[5].

This year, a notable development has occurred as a select few investors (7% of insurance companies and 6% of pension funds), mentioned that criteria for achieving social-ecological resilience is considered in the investment decision-making process.

Figure 8 | **Reporting on climate change by institutional investors**



[5] For more information, please visit: www.iigcc.org/resource/understanding-physical-climate-risks-and-opportunities-a-guide-for-investors

3. Highlights from *'How can investors make their net zero commitments work'* webinar

Presenters:
Jacqueline Duiker, Senior Manager RI at VBDO
Nick Stansbury, Head of Climate Solutions at Legal & General Investment Management
Maarten Vleeschhouwer, Head of PACTA at 2DII
Robin Schouten, Executive Director Fiduciary Management at Kempen Asset Management
Dr Rory Sullivan, Chief Technical Adviser to the Transition Pathway Initiative
Moderated by **Lucienne de Bakker**, Project Manager RI at VBDO

As the latest IPCC report shows and COP26 highlights, current net zero strategies won't be enough to meet the Paris Climate Agreement. The gap between net zero and real zero is too significant and relies mostly on offsets and unproven technologies as opposed to actual and real reductions. Current corporate net zero strategies are often long term (e.g. 2050) and do not fully reflect the current climate urgency.
In this chapter, we share highlights of a recent webinar 'How can investors make their net zero commitments work' organised by VBDO and in cooperation with LGIM, which includes concrete examples of how investors address this topic and what tools can be used to effectively support net zero claims.

NICK STANSBURY, HEAD OF CLIMATE SOLUTIONS AT LGIM

There are two gaps when we think of net zero:

1) **Between rhetoric and action**
There have been no real world reductions to provide confidence that we are on track. We're staring a ticking clock in the face, with no material improvements. How much time is left on the clock?
The pandemic initially gave us a 7% emission reduction, but since then we've seen it rise again, even above past peaks. We are still not bending the curve. After crunching the numbers, we think we will run out of time between 2029 and 2033. We need a 7% emission reduction – but on a yearly basis.
Markets are currently standing at a crossroads. The right path is investor-friendly, a carefully managed pathway. Significant consequences remain, but they are manageable. The other path is unmanageable, not hedgeable.

2) **Between aspiration and progress**
We need to consider forward-looking scenarios. We think that the world can achieve the Paris-aligned, well-below 2°C scenario. When you absorb all the numbers, it is manageable for investors.
Or, the world will transition in 20 years in a disorderly manner, instead of the 30 years we have now.
What do we need to do? To avoid the worst outcomes, we need to look through the lens of temperature alignment. Not just in third-party models, but in all decisions from the bottom up.

MAARTEN VLEESCHHOUWER,
HEAD OF PACTA AT 2DII

The Paris Agreement Capital Transition Assessment (PACTA) is a free, open-source methodology and tool, which measures financial portfolios' alignment with various climate scenarios consistent with the Paris Climate Agreement.
PACTA compares what needs to happen in climate-relevant sectors in order to minimise global temperature rises, with financial institutions' exposure to companies in these sectors. The climate-relevant sectors currently covered by PACTA are power, coal mining, oil and gas as upstream sectors, auto manufacturing, cement, steel and aviation. It employs a dynamic, forward-looking approach, based on the five-year production plans of companies to which a portfolio is exposed.

How can we make net zero targets have an impact in the real world?

1) **FIs need short-term targets at the sector-level**
   No new coal power after 2021; no new oil and gas after 2021. Not all net zero goals are equal: if you are massively polluting until 2045, then achieving net zero in 2050 won't save us. If we are serious about the financial sector contributing, we need short-term targets and we need them fast. We only have a few years left.

2) **Distinguish divestment versus company improvements**
   As an investor, you could shift your portfolio from a 5°C path to a 2°C path, but if you achieve that through portfolio reallocation there is little to no real world impact. We are performing a lot of research on this issue. We are now seeing situations where, due to being under investor pressure, companies are selling fossil assets but the sold assets are then being exploited more than ever. How is that helping to achieve our goal? It is actually leading to increased emissions.

To pursue real world impact:

- Targets set should be for 2030 and maybe even 2050.
- Distinction must be made between carbon reductions from divestments and from company improvements. This may either require re-baselining or a cap placed on the extent to which reductions from divestments can be claimed.
- Tracking of physical assets and retiring of fossil assets will be crucial.
- Commitments should be made to not finance new coal power stations or new oil and gas fields.

ROBIN SCHOUTEN, EXECUTIVE DIRECTOR FIDUCIARY MANAGEMENT AT KEMPEN ASSET MANAGEMENT

Excluding fossil fuels is not saving the world, but it does de-risk your portfolio. There is a big call from regulators and participants of pension funds to divest. But this is a difficult discussion as the products of these companies will continue to be needed until there is an alternative.

Investors are willing to restructure their assets to be climate aligned, but this is not enough. We need actual solutions to achieve the goals. How? By contributing to SDGs via:

1) Liquid impact investments (SDG investing)
   Measure and adjust to historical SDG contributions (passive management) and integrate SDGs into investment choices (active management). Impact is indirect.

In order to contribute to SDGs in a targeted manner, the benchmark is often (significantly) deviated from.

2) Illiquid investments
Make investments in unlisted companies or projects on a small to medium scale. Impact is then direct. These types of investments contribute to the solution of a concrete problem. **Intentionality and additionality should be central to investment choice. Results should be measured with KPIs that align with the SDGs.**

The following is an example of how liquid and illiquid investments can be combined in a custom index:

1. Exclusion: Fossil companies are excluded if they are involved in specific methods of fossil fuel extraction (e.g. unconventional oil and gas and thermal coal) or thermal coal power production.
2. Best-in-class (leaders): fossil companies are excluded with a low ESG score. The highest scoring companies are selected until 50% of the market cap within this sector has been reached.
3. CO2 reduction filter: Most CO2 intensive companies are excluded from the portfolio.
4. SDG tilts: Over- or underweights (tilts) are applied based on revenue exposure to the selected SDGs.
5. Engagement: An engagement and voting policy is drawn up, which includes how the policy is implemented. Responsibility for implementation is not delegated to the asset manager.

Result: Taking each of the above steps helps to create a portfolio of the most sustainable fossil fuel companies that have the highest chance of transforming in a timely manner and of companies that contribute positively to climate action.

RORY SULLIVAN, CHIEF TECHNICAL ADVISER TO THE TRANSITION PATHWAY INITIATIVE

TPI is an asset owner–led and asset manager–supported initiative that assesses companies' preparedness for the transition to a low-carbon economy.

VBDO

With a focus on high-impact sectors and aligning with key disclosure initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD), TPI:

- Evaluates and tracks the quality of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition [Management Quality].
- **Evaluates how companies' planned or expected future carbon performance compares to international targets and national pledges made as part of the Paris Climate Agreement [Carbon Performance].**
- Makes all of its analysis publicly available.

TPI, supported by its research and data, partners with the Grantham Research Institute on Climate Change and the Environment at the London School of Economics (LSE) and FTSE Russell. Chronos Sustainability provides the data (on commitments, targets, strategy, capital expenditure, governance and performance) that underpins the Climate Action 100+ Net Zero Company Benchmark.

In October 2021, LSE and TPI announced the launch of the Global Transition Centre. **The Centre will provide free and publicly available in-depth data on how 10,000 companies are aligning with a net zero pathway,** significantly scaling existing coverage across global equity markets. The centre, which is due to be opened in early 2022, will also scrutinise corporate and sovereign bond issuers.

TPI's research suggests that net zero is now recognised as a priority for companies in high impact sectors, with an increasing number having made commitments to net zero or to the goals of the Paris Climate Agreement. However, these commitments are not yet fully reflected in corporate strategy or capital expenditure plans. While companies have made long-term commitments, many of these are back-ended, with companies expecting to deliver most of their emissions reductions post 2040, and providing less information on their short- to medium-term targets.

Q&A with panellists

In the last couple of months in the Netherlands, several pension funds have decided to exclude oil and gas. When is enough, enough for the oil and gas industry, and what will happen if the majority of 'sustainable investors' opt out?
Robin – There are ambitious pension funds with short- and long-term targets that don't invest in new fossil projects. Some don't think the fossil sector is able to change. Others think that we need them to transition. This does not mean that you invest in all, but you can be selective and engage. It is up to the board to take a decision here.

Nick – In general, we would take the view that divestment as a blanket tool is likely to be ineffective and not in everyone's best interest. We need to look at climate risk mitigation. Therefore, there is a balance that has to be struck when thinking about social impact through engagement, and addressing those real risks associated with many of these companies. We are prone to those risks if companies do not respond quickly.

How should we include corporate innovation in investment decisions?
Rory – TPI and CA100+ allow us to assess whether innovation is part of corporate strategy and capital expenditure plans, and to see whether and how this is affecting current and future carbon performance.

Nick –We need to prevent looking too much at technological innovation and capex. The timeframe from innovation in the laboratory to meaningful impact and commercial success is 40 to 60 years, past data would suggest.
Even if we halve the time, so that innovation is at play in the 2040s, we still fail.
So, we need to look at this with a certain time frame in mind – and look at a mix of lowering emissions and innovation, not just innovation.

Maarten, in your view, what is investor climate impact? And how can investors make impact claims that are attributable to them?
Maarten – There are a lot of people claiming impact. That is where it gets interesting. Linking investors to climate impact is in many ways an academic question, but it's nevertheless important we keep looking into this topic from a practical view as well. There are a lot of FIs claiming impact and to be honest there is a lot of intentional or unintentional greenwashing. Sometimes regulation is also not that clear. Think of SFDR. Blackrock has something like 80% of its funds classified as Article 8, and they're probably correct, but how is that helping the climate question? It seems more like business as usual. So, we need to keep discussing what we actually mean when we talk about impact. It is incredibly difficult to know what the impact is from investors of companies.

The webinar was sponsored by Legal & General Investment Management. Views expressed by LGIM, Kempen Asset Management, 2DII, and TPI, as at December, 2021.

4. Methodology

This study assesses if and how institutional investors currently consider the various climate change risks and opportunities. The pension funds and insurance companies were assessed on the following topics:

- Consulting with experts on climate change
- Level of detail given in the climate change policy
- Research on the effects of climate risks and global warming
  scenarios on strategic investment decision making
- Active ownership on climate change
- Reporting on climate change

These questions were answered by the investors, and subsequently checked by VBDO for accuracy. All active ownership questions count as one question and all other questions are weighed equally. VBDO has made choices in the comprehensiveness of the list of questions that are combined in the final score. The calculation of the score is a reflection of the topics that the VBDO deems necessary to include in the responsible investment policy. These are not all-encompassing, but create a score and ranking that differentiates investors on what is needed at this point in time to mitigate, adapt, and become part of the solution to climate change. This year, no severe changes have been made compared to the 2019 survey, apart from one additional answer option regarding reporting on climate change.

In this study, 80 institutional investors were asked to fill in the questionnaire and we received 73 respondents (91%). The performance of the other 6 investors was assessed based on publicly disclosed information. The set-up, questions, and scoring of this benchmark have been carefully prepared and assessed with our members and stakeholders during the review round of the general VBDO Responsible Investment Benchmarks.

If you would like to receive more information about the methodology used in this research, please contact VBDO.

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. 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

For more than 25 years, 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

VBDO initiates knowledge building and sharing of ESG-related issues in a pre-competitive market phase. Recent examples of this include: three seminars on climate change related risks for investors; the development of guidelines on taking Natural Capital into account when choosing investments; and organizing round tables about implementing human rights in business and investor practices. Also, we regularly give training on responsible investment both to investors as well as NGOs.

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 has conducted annual benchmarking exercises, for example, since 2007 on responsible investment by Dutch pensions funds, and since 2012 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 Tax Transparency Benchmark ranks 64 listed multinationals 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