1 Summary for the Steering Committee

This report by the Monitoring Committee of the Dutch Pension Funds Agreement on Responsible Investment (*Convenant Internationaal Maatschappelijk Verantwoord Beleggen Pensioenfondsen*) shows the results of the Baseline Assessment. The purpose of this Baseline Assessment is to determine the extent to which the Participating Pension Funds are complying with the Wide Track agreements at that point. The Monitoring Committee will report its findings to the Steering Committee confidentially, via the SER Secretariat, by means of an annual monitoring report. The Steering Committee uses the monitoring report to inform the delegations about the implementation of the Agreement and, if necessary, to make recommendations for improvement.

1.1 Observations

In the context of the Baseline Assessment, the Monitoring Committee has made observations regarding the following elements:

<u>Observations on Policy</u>

1. Most Participating Pension Funds have formulated and apply an international responsible investment policy. That's a positive development. However, the specifics differ significantly from one fund to another.
2. The policy usually refers to principles and guidelines such as the United Nations Global Compact (UNGC) or the United Nations Principles for Responsible Investment (UN PRI), but the changes that are needed to implement the OECD Guidelines and United Nations Guiding Principles on Business and Human Rights (UNGPs) have not yet been explained in many cases. This does not yet seem clear to pension fund administrators and pension offices.
3. Various Participating Pension Funds report that they have signed the Agreement. However, they have yet to report on how they will implement it.
4. The interpretation of key terms and definitions in the Agreement still varies. There is some confusion about, for example, the meaning of important terms such as long-term value creation and due diligence.
5. Statements on due diligence show that the OECD definition of the due diligence process has not fully sunk in, with confusion seeming to exist with the generic due diligence process in the case of outsourcing, as used by a pension fund.

<u>Observations on Execution, Outsourcing Monitoring and Transparency</u>

6. Many Participating Pension Funds do not have their own explicit policy for the application of their ESG policy by the administrators. Ideally, pension funds draw up a policy and instruct the administrators to implement and to account for it. At present, reference is often made to the generic existing policy of the administrator.
7. The extent to which outsourcing aims to prevent and/or mitigate the negative impact of activities in the investment classes and/or to stimulate the provision of remediation is not yet clear in many cases. The impression is that mitigation/remediation is not yet applied.
8. The degree of transparency in terms of completeness of, access to and timeliness of information varies significantly between Participating Pension Funds. This requires catching up before participants can be expected to be actively involved in formulating responsible investment priorities.
9. In response to the question of how the selection of focus areas in sustainability policy was made (due diligence and/or priorities of members), there was no substantiation with regard to due diligence that the required due diligence process had been followed (as referred to in the OECD's six-step plan).

1.2 Recommendations

On the basis of the observations, the Monitoring Committee has made 13 recommendations for Steering Committee.

<u>As regards policy</u>

1. In the first year of a complex process such as the Dutch Pension Funds Agreement on Responsible Investment ("the Agreement"), it is logical that it is not yet fully clear to all

Participating Pension Funds how they should proceed. The Monitoring Committee therefore recommends that the Parties to the Agreement (where possible in cooperation) include Participating Pension Funds, the administrative offices, administrators, members and other stakeholders in the Agreement process, and offer suitable information and training. It is advisable to start with those subjects where the Monitoring Committee is of the opinion that there is confusion/lack of clarity (e.g. differences in codes and guidelines such as UNGC, UNGPs, UNPRI, OECD guidelines, who develops the tools, etc.). It is likely that differences between the self-assessments and those of the Monitoring Committee will decrease in the future as clarity is created among Participating Pension Funds.

2. It is advisable to make it clear at an early stage in the development of the tools that due diligence in accordance with OECD guidelines is a different matter from that described in DNB's generic outsourcing guidelines. In addition, the idea seems to exist that the SER develops the tools for pension funds; it should be made clear that these are being developed by the working group. Due diligence according to OECD guidelines requires the identification of potential or actual negative impacts of investments on stakeholders, such as employees or local communities. This seems new for investors, who up until now have focused their ESG policy on the possible negative impact on the financial value of investments. This also seems new for the majority of the Participating Pension Funds and their administrators. Nor has a method yet been developed to mitigate or remediate the identified negative impacts of investments; the Agreement provides for this by means of innovation and learning.
3. It is advisable to develop conclusive definitions for important concepts such as long-term value creation and due diligence in order to clarify the concept - with the involvement of the participating Parties such as NGOs and trade unions. So far, the Eumedion definition has been used in the analysis and attention has focused on whether the interests of third parties and relevant Stakeholders have been taken into account. The process of arriving at a conclusive definition can also be of value to all participating Parties.

As regards Outsourcing

4. Be specific about which parts of the Agreement are included in the contracts with the asset manager and/or in the contracts with the external service provider (the administrator or fiduciary). A reference to the standard policy of the administrator exporter is too general.
5. Make a clear distinction between the fund's policy and the policy of the administrator. Ideally, the fund formulates its own policy, compares it with that of the administrator, identifies the differences, and decides whether or not they are acceptable on the basis of policy and own risk attitude, etc.
6. When developing the tools during the Agreement period, focus in particular on how existing contracts can be adapted in order to apply the elements of the Agreement. After all, there will be many more existing contracts than new ones during the Agreement period.
7. Make a distinction in the tools to be developed between how to deal with general fund conditions (if the pension fund participates in an investment fund) and contract conditions (if the pension fund can conclude its own mandate).

Monitoring of Outsourcing

8. In the development of the tools, pay specific attention to the risk identification method for environmental and social impacts for different asset classes.
9. Develop specific tools, e.g. KPIs (Key Performance Indicators), for monitoring and reporting negative environmental and social impacts.
10. Discuss with pension administrators and administrative offices how they can fulfil in practice their leading role and responsibility for the implementation of the OECD guidelines and UNGPs via monitoring and reporting by external service providers.

Reporting and Transparency

11. In the context of transparency regarding future ESG policy/objectives, it is striking that the description is often very brief. As a result, it is not clear what the fund is going to implement

or change. It is recommended that the pension board's choices with regard to ESG policy and the implementation of the OECD Guidelines/UNGPs should be made clear to members.

12. In order to build support among members and to involve them in the choices to be made, a long-term approach to transparent communication and dialogue is required. A start should be made as soon as possible in order to put into effect the arrangements in the Agreement in a timely manner.

Other Agreement obligations

13. Cooperation is needed to increase the level of knowledge of OECD Guidelines/UNGPs among pension fund administrators/administration offices and to avoid confusion regarding commonly used terms. Clear, non-technical definitions that are easily applicable and explicable must therefore be part of the tools to be developed from the outset.