

PDN's new sustainability ambition

For a good pension in a livable world



For PDN, it's not only important that our members can enjoy a good retirement. We also want them to be able to do that in a world that is livable for everyone. That's why the fund has been tightening its sustainability ambition and sustainability policy this year. What are the most important starting points? How are these taking shape? And will the sustainability policy be at the expense of investment returns? We asked Marlies van Boom, PDN Board member, and Daniëlle Schoonbrood, investment manager and sustainability adviser at DPS for more information.

What are the most important changes?

“Our sustainability policy focuses specifically on three themes: Health and welfare, climate and energy, and raw materials and circularity. We've linked these themes to the United Nation's four sustainable development objectives; the Sustainable Development Goals (SDGs). We're particularly focusing on SDG 3 (good health and welfare), SDG 7 (affordable and sustainable energy), SDG 13 (climate action), and SDG 12 (responsible consumption and production). These SDGs connect with DSM's three focus areas.”

How does PDN shape the focus themes and SDGs?

“We do that using several sustainability instruments: Engagement, Voting and Exclusions, Impact Investing, and ESG Integration and screening.”

Engagement

“PDN uses the so-called engagement approach. Our engagement with a company enables us to exert influence on situations and stimulate positive change. Or we can try to reduce the risks of a negative impact. We are doing this together with other pension funds via our independent engagement partner, BMO, as this helps us increase our impact. The engagement program aims particularly to achieve a positive effect on the above-mentioned four SDGs. We were previously only involved in engagement in European and American shares and European corporate bonds. This year, we're expanding that to shares in Emerging Markets, Pacific Rim, Listed Property, and American corporate bonds. We have also set ourselves two new objectives. For example, we want to reach a predetermined milestone with at least 50 per cent of the total number of engagements in a year. At least 25 per cent of the total number of engagements also focuses on SDGs 3, 7, 12, and 13. We want this to increase our engagement ambition and to use engagement more for the selected SDGs.”

Voting

“Our voting rights as pension fund enable us to exert influence as shareholder on the largest possible scale and specifically on sustainability-related topics on companies' annual agendas. From this year, we're not only adjusting our voting policy on Dutch listed company shares, but on all listed companies in which we invest worldwide.”

Exclusions

“As far as possible within the investment portfolio, PDN excludes companies and countries based on the risk of negative impact and conflict with our own norms and values. We use the following criteria for this:

- The product is by definition harmful to people.
- As investor, PDN cannot change anything here using its engagement and voting policy.
- There are no negative consequences if the product no longer exists.

We already excluded the following companies and countries:

- Companies that produce, sell, or distribute cluster bombs.
- Companies that produce, maintain, or trade in controversial and/or nuclear weapons.
- Companies that are guilty of serious and structural violations of the UN Global Compact Principles.
- Countries that are on a Dutch, European, or UN sanctions list.

This year, we’re expanding our exclusion policy to tobacco producers and companies that obtain 25 per cent or more of their turnover from coal or oil sand extraction.”

Impact Investing

“We are focusing part of our portfolio on investments that could be designated as impact investments: Investment opportunities that also contribute to resolving social and environmental problems.”

ESG integration/screening

“Where possible, PDN manages and evaluates investments according to ESG factors. ESG stands for Environment, Social, and Governance. We expect asset managers and companies in which we invest to have a sustainability policy and to take ESG factors into account. We have even determined a new objective this year of significantly reducing CO₂ emissions, the so-called carbon reduction objective. We also screen the part of the portfolio for different sustainability scores, where this is possible. This enables us to obtain more insight into the sustainability impact and/or improvements we can achieve with our investments.”

PDN is still partly investing in fossil fuels. Why?

“Within the broader fossil fuel industry, many companies are working hard to make the transition to a more sustainable sector that will inflict less harm on future generations. That’s why we have not fully stopped investing in fossil fuels. We are instead committed to using engagement to encourage companies in this sector to phase out their dependence on fossil fuels and move to other, more sustainable sources of energy.”

This tightened ambition is high. How was this realized?

“Several factors were important in determining our new ambition and the accompanying starting points. First of all, PDN is there for members. In member surveys, they indicate that they have certain expectations and preferences with respect to sustainability. We want to meet these. We are also the DSM pension fund; a company that places a high priority on sustainability. It is also our conviction that companies that take sustainability criteria into account can have better long-term risk/return profiles than companies that do not do this. Both in financial as well as social terms. With our policy, we also want to make targeted investments and make a contribution to sustainability worldwide.”

Are there other wishes?

“We always do sustainable investment in conjunction with expected returns, risks, and costs. Our sustainability ambition now lies at the intersection of ‘Follower’ and ‘Pioneer.’ We are constantly moving forward and, when new sustainability decisions are made, we assess whether and how we can further tighten our ambition.”

Do the ambition and approach meet member wishes?

“Yes. They indicated their expectations and preferences in the recent member survey. Themes that emerged included affordable and sustainable energy, health and welfare, sustainable industry, innovation, and resilient infrastructure. We really took this into account when setting the ambition and everything that goes with this.”

A large majority of members wants their pension fund to have a sustainability policy, but not at the expense of the returns. Is this possible?

“Numerous scientific studies have strengthened our conviction that sustainability does not need to be at the expense of return on investments. On the contrary, we can take more wellconsidered investment decisions by incorporating information about people, the environment, and good corporate governance in our policy. “We always consider sustainable investment together with expected returns, risks, and costs.”

What will happen in the coming period to realize the tightened ambition?

“Our ambition has been reviewed and we are taking the first concrete steps, for instance by expanding our voting and engagement policy and by excluding tobacco producers and companies that obtain 25 per cent or more of their turnover from coal or oil sand extraction.’ We will implement the tightened policy further in the coming period. For instance, in 2022, we will start measuring the portfolio against various sustainability scores and SDGs. This gives us better insight into how our investment portfolio is doing and how it contributes to the sustainability policy. We will use this to determine how and with which objectives we can further integrate sustainability in the investment categories. In 2022 we will also introduce the new carbon reduction objective and are investigating which new impact investments we can make. Implementing our tightened ambition and our sustainability policy is an ongoing process. We will continue to inform our members about this.”

Read more about sustainability at PDN? Check out our website, under ‘Downloads’.