Product information on the website for financial products that promote ecological or social characteristics

a) Summary

The pension scheme of Stichting Pensioenfonds DSM Nederland (PDN) is classified as an article 8 product according to SFDR, which means that it promotes ecological and social sustainability characteristics.

PDN aims to use its investments for long-term social and other value creation, as well as to offer a good pension to all members, now and in the future. A pension that enables them to enjoy their retirement in a livable world.

PDN actively identifies and mitigates sustainability risks. We do this in various ways. First of all, we exclude certain investments. We also engage with company management as an active shareholder on ESG factors and vote at shareholder meetings. PDN utilizes impact investing in the investment portfolio to further integrate sustainability within the investing process.

PDN uses various data sources and methodologies to promote ecological and social sustainability characteristics and implement the above-mentioned activities. These data sources and methodologies enable us to implement our activities, and monitor and report on them. Data sources used by PDN are Morningstar, Sustainalytics, ISS, and Columbia Threadneedle Investments (CTI).

Information from data sources is used to assess companies and countries when selecting investments (integration), to start a dialogue with companies (engagement), to vote at shareholder meetings (voting), or to exclude companies or countries (exclusion). The information is also used to monitor the existing portfolio. The used data sources are based on quantitative and qualitative assessment methodologies or a combination of the two.

Inevitably, the data sources used also have limitations. For example, a patented scoring methodology may have limited comparability with other scoring methodologies. In addition, some underlying data are regularly supplied via company self-assessment and have not always been validated by an independent party.

Integration and exclusion methods form an integral part of the investment and selection process. PDN also verifies that its asset managers consider sustainability issues in their investment decision-making process.

b) No Sustainable Investment Objective

This financial product promotes ecological or social characteristics but does not have a sustainable investment objective as defined in SFDR legislation.

c) The Financial Product's Ecological or Social Characteristics

PDN considers sustainability to be a major aspect of the investment philosophy and an integral component of its investment principles. PDN aims to use its investments for long-term social and other value creation. To realize this, PDN is promoting the following ecological and social characteristics:

1. Realizing Positive Impact on its Environment:

Based on the United Nation's development goals (the United Nations Sustainable Development Goals, or SDGs). PDN focuses on four SDGs as priority areas:

- Good health and well-being (SDG 3)
- Affordable and clean energy (SDG 7)
- Responsible consumption and production (SDG 12)
- Climate action (SDG 13)

PDN aims to invest at least 2.5% above the benchmark in impact bonds. This target refers to an aggregated target set for the state and corporate bond investment categories.

2. Using ESG Factors:

In managing and evaluating investments.

3. Mitigating Climate Change and Carbon Reduction:

By measuring the carbon intensity of the shares and government bond investment portfolio and having a carbon reduction target of 55% by 2030 compared with the 2016 benchmark for the shares, investment grade credit, and high yield US investment categories,
and a reduction of the net zero target (100% reduction) by 2050. Using ESG Integration, impact investing, engagement, voting, and exclusion as instruments, PDN is committed to making a positive contribution to the climate theme.

4. Exclusion Based on the Ten Principles of the United Nations Global Compact:

Companies that conduct themselves in a manner not compatible with the UN Global Compact's Ten Principles are excluded from investment.

5. Exclusion of Socially Controversial Activities:

PDN does not want to be involved in financing countries or companies that develop inappropriate activities. This includes companies involved in the production of tobacco, companies that obtain 5% or more of their turnover from coal or tar sand mining and companies involved in the production of controversial weapons such as cluster bombs, land mines, chemical and biological weapons, depleted uranium ammunition, white phosphorus bombs, and nuclear weapons. PDN also does not invest in suppliers of products that are vital to the production of the aforementioned controversial weapons (key suppliers). Countries that do not adhere to international treaties or that are under UN, EU, or Dutch government sanctions are also excluded from investment. In most cases, the sanctions relate to human rights, arms proliferation, and democratic rights.

d) Investment Strategy

PDN's sustainability policy aims for long-term social and other value creation. In adopting long-term value creation as a leading principle, sustainability and sustainability risks are integrated in all investment categories via several pillars:

- ESG Integration
- Impact Investing
- Engagement
- Voting policy
- Exclusion
- Transparency

With the PDN instruments (ESG integration (incl. carbon reduction objective), impact investing, engagement, voting, and exclusions) PDN is supporting the Paris Climate Agreement ambition to limit global warming to below 2°C compared with pre-industrial levels and is making every effort to achieve an even lower temperature rise of 1.5°C.

ESG Integration

Where possible, PDN manages and evaluates investments according to ESG factors. The way in which societal issues in the form of ESG aspects are embedded in the investment decisions differs for each investment category and mandate. PDN endorses the ESG due diligence steps in accordance with OECD guidelines. PDN expects its fiduciary managers, ESG service providers, asset managers, and companies in which PDN invests to act in accordance with the OECD guidelines for multinational companies and the UN's Guiding Principles on Business and Human Rights, and to report on this. PDN also expects its fiduciary manager and asset managers to have a sustainability risks policy.

PDN uses various instruments from its sustainability policy to minimize its investment portfolio's negative impact on the climate theme and to maximize the positive impact. PDN does this partly by aiming to achieve a carbon reduction of 55% by 2030 compared with the 2016 benchmark and carbon data for the shares, investment grade credit, and high yield US investment categories, and a reduction of net zero (100% reduction) by 2050.

This reduction target is based on WACI scope 1 and scope 2 data. PDN signed the Montréal Pledge that commits PDN to formulating and reporting on its carbon footprint policy.

Impact Investing

PDN utilizes impact investing in the investment portfolio to further integrate sustainability within the investing process. As part of this and where possible, PDN aligns with the focus on SDGs 3, 7, 12, and 13 to guarantee depth and focus within the sustainability policy.

PDN currently shapes its impact investing in two ways: Through funds and through individual securities, such as impact bonds. Examples of funds include infrastructure, real estate, and micro-financing investment funds.

PDN's target within the infrastructure and unlisted real estate investment categories is that all new investments within these categories must make a positive contribution to at least one of the four focus SDGs (3, 7, 12, and 13).

Impact bonds are bonds issued by companies and semi-governmental or governmental bodies to finance social and sustainability projects. These bonds can focus for example on projects that reduce the negative consequences of climate change. Investment in impact bonds is a way to make a positive contribution to climate-related projects and offers an option to make a positive contribution to the climate theme. PDN aims to invest at least 2.5% above the benchmark in impact bonds. This target refers to an aggregated target set for the state and corporate bond investment categories. Setting and pursuing a concrete target for allocating investments to impact bonds ensures that, as a pension fund, PDN is making a clear statement to its stakeholders and asset managers with respect to PDN's aims and what it expects from its asset managers.

Engagement

Engagement involves dialogue with the boards of investee companies. Engagement is used to make agreements with companies on plans, goals, or ambitions including with respect to the climate theme. A climate theme example is an aim to encourage the company to commit to the Paris Climate Agreement and to draw up concrete plans to achieve that commitment.

CTI conducts engagement with companies in the share and corporate bond portfolios on behalf of PDN. PDN participates actively in a collective engagement program. Collective engagement involves conducting engagement on behalf of multiple investors. This increases the engagement influence and increases the likelihood of achieving the desired results. The engagement program in particular aims to achieve a positive effect on SDGs 3, 7, 12, and 13.

If the engagement process with a company results in a 'poor' rating from engagement provider CTI for three consecutive years and the engagement concerns one of PDN's focus SDGs: SDG 3, 7, 12 or 13, PDN expects the sale of the interests in these companies to be seriously considered. The following issues are important in this regard:

- Companies will be excluded under this policy starting from the first quarter of 2025.
- The Board may decide to deviate from this rule in special situations, for instance, if a company needs more time to make changes, or following acquisitions, board changes or strategic changes.
- Investments in a company can be resumed once the company obtains an 'adequate' or good' rating. PDN can only decide to deviate from this in special circumstances.

Targets that CTI has set for companies are based on their own engagement experiences as well as on the best practice standards formulated in this context by initiatives and industry associations.

There are several steps in CTI's engagement processes with companies with respect to combating climate change and reducing carbon emissions. The first step is for companies to recognize the problem and report their scope 1 and 2 carbon emissions. The second step is to formulate emission objectives and the concrete steps to reduce carbon emissions. The third step is to integrate climate risks in the strategy and report on scope 3 emissions. The final step is aligning the carbon reduction objectives with the Paris Climate Agreement.

PDN aims for at least 50% of the total engagements in a year to have reached a milestone and at least 25% of total engagements to have a focus on SDGs 3, 7, 12, and 13.

Voting

In publicly traded companies, exercising voting rights combined with engagement is an influential way to highlight the importance of key issues such as climate action. For cost and capacity considerations, we vote remotely via proxy voting. We rely on the services of CTI in exercising our voting rights.

For instance, the instrument is used to shape the carbon reduction policy. The submission of resolutions is another option. This enables carbon reduction plans, goals, or ambitions compiled by voting members to be submitted for a vote.

Collective proxy voting involves multiple parties joining the same voting program. This reinforces the influence that shareholders can have with their voting rights. One of CTI's goals in implementing its voting policy is to reduce corporate carbon emissions by 55% by 2030 and achieve net zero emissions by 2050. This ambition is in line with PDN's carbon reduction target (55% reduction by 2030 and net zero by 2050 for shares, investment grade credits, and high yield US).

CTI also votes against motions originating from the management of companies that are considered to be climate laggards in the most emitting industries. Climate laggards are identified according to several minimum standards, including publishing the carbon footprint, formulating a carbon reduction target with a defined timeline, and reporting climate risks in line with the Taskforce for Climate-Related Financial Disclosures (TCFD) or the Carbon Disclosure Project (CDP).

Exclusion

PDN's investment policy produces an investment portfolio that reflects its standards and values. PDN excludes companies and countries based on the risk of negative impact and conflict with PDN's own norms and values.

PDN's exclusion policy applies to PDN's segregated mandates within the investment categories of shares, listed real estate, corporate bonds, and state bonds.

PDN uses the following criteria for companies:

- 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.

On the basis of these criteria, PDN excludes the following companies:

- Tobacco producers.
- Companies that derive at least 5% of their turnover from coal or tar sand mining.
- Companies involved in the production of controversial weapons such as cluster bombs, land mines, chemical and biological weapons, depleted uranium ammunition, white phosphorus bombs, and nuclear weapons.
- Suppliers of products that are vital to the production of the aforementioned controversial weapons (key suppliers).

Additionally, companies that conduct themselves in a manner not compatible with the UN Global Compact's Ten Principles are excluded from investment.

The Ten Principles of the UN Global Compact are derived from the following four international treaties and declarations:

1. The Universal Declaration of Human Rights.
2. The ILO Declaration on Fundamental Principles and Rights at Work.
3. The Rio Declaration on Environment and Development.
4. The United Nations Convention against Corruption.

The Ten Principles are sub-divided into four main themes. These main themes are human rights, labor law, environment, and fighting corruption.
Countries that do not adhere to international treaties or that are under UN, EU, or Dutch government sanctions are also excluded from investment. In most cases, the sanctions relate to human rights, arms proliferation, and democratic rights.

PDN uses the screening and research capacities of Morningstar Sustainalytics. Morningstar Sustainalytics engages in worldwide research into social issues and analyzes investment portfolios for their sustainability. Prior to any investment, this is checked against PDN's exclusion list. The investment portfolio is also reviewed each quarter to determine whether all the preceding quarter's investments complied with PDN's exclusion criteria.

Transparency

PDN publishes an annual sustainability report to ensure transparency about the sustainability policy and its implementation. In this report, PDN indicates how it handled sustainability in that year and which results it has achieved with respect to sustainability. PDN also reports in accordance with the PRI reporting cycle.

In the context of transparency about where PDN invests, PDN publishes an annual overview of the total investment portfolio on its website. It also reports on its engagement activities and the Vote Summary Report at shareholder meetings on its website. The PDN Magazine and the website also regularly feature items on PDN's sustainability policy. Every year, PDN cooperates in the VBDO benchmark research.

e) Share of Investments

PDN promotes environmental and social characteristics without pursuing an SRI objective as defined in SFDR legislation. PDN has no minimum allocation for sustainable investments as defined by SFDR or investments in environmentally sustainable activities as defined by the Taxonomy Regulation.

Most of PDN's investments are aligned with ecological and/or social characteristics. These investments relate to shares (including listed real estate), corporate bonds, state bonds, non-listed real estate, infrastructure, mortgages, and gold. Other investments are not aligned to these characteristics and are invested in derivatives and liquid assets. There are no ecological or social minimum safeguards for this.

f) Monitoring Ecological or Social Characteristics

PDN uses the following sustainability indicators to monitor how ecological and social characteristics are met:

Realizing Positive Impact on its Environment:

1. A target percentage of investments in impact bonds for the state and corporate bond investment categories. The KPI is an aggregate target allocation for impact bonds of 2.5% above the benchmark for the state and corporate bond investment categories.
2. The number of investments in the entire portfolio that contribute to realizing one of the 17 Sustainable Development Goals.
3. The number of milestones achieved with engagements as formulated by CTI in a year as a percentage of the total number of companies with which engagement has taken place in that year. Additionally, PDN measures the number of engagements with a focus on SDGs 3, 7, 12, and 13.
    a. At least 50% of the total number of engagements in a year have reached a milestone.
    b. At least 25 per cent of the total number of engagements focus on SDGs 3, 7, 12, and 13.
4. PDN votes worldwide at shareholder meetings of the listed companies in which it invests in accordance with its Corporate Governance and voting policy and provides transparency in this regard. As KPI it applies: CTI has voted on behalf of PDN at 100% of shareholder meetings and proposals on which it could vote.

Mitigating Climate Change and Carbon Reduction:

5. Reduction objective based on the carbon intensity for the share, investment grade credit, and high yield US investment categories: 55% as of 2030 - 100% (net zero) as of 2050.

Exclusion of Companies:

6. Assets invested in excluded individual companies at year-end, excluding fund investments.

    PDN excludes companies that:

    a. Demonstrate conduct incompatible with the UN Global Compact's Ten Principles;
    b. Are active in tobacco production;
    c. Derive at least 5% of their turnover from coal or tar sand mining;
    d. Are involved in the production of controversial weapons such as cluster bombs, land mines, chemical and biological weapons, depleted uranium ammunition, white phosphorus bombs, and nuclear weapons;

e. Are suppliers of products that are vital to the production of the aforementioned controversial weapons (key suppliers);

f. Are under UN, EU, or Dutch government sanctions.

Exclusion of Countries:

7. Assets invested in excluded countries at year-end, excluding fund investments.

   PDN excludes countries that:

   a. Do not adhere to international treaties or that are under UN, EU, or Dutch government sanctions. In most cases, the sanctions relate to human rights, arms proliferation, and democratic rights.

g) Methodologies

The previous sections introduced PDN's promoted characteristics and associated sustainability indicators. This section further discusses the methodologies used to monitor progress of the promoted characteristics.

Realizing Positive Impact on its Environment:

1. Percentage of investments in impact bonds for the state and corporate bond investment categories. labels a bond as a "green bond," "social bond," or "sustainability-linked bond" when the issuer clearly states that the proceeds of the loan will be used entirely for green, social/societal, or sustainable/environmental-related activities, according to a definition accepted by the market.
2. The percentage of impact investments in the portfolio, this being the number of investments in the portfolio that contribute to realizing one of the 17 Sustainable Development Goals. For this monitoring PDN uses the processes of its fiduciary manager, DPS.
3. The number of milestones achieved with engagements as formulated by CTI in a year as a percentage of the total number of companies with which engagement has taken place in that year. Additionally, the fund measures the number of engagements with a focus on SDGs 3, 7, 12, and 13. The engagement policy is implemented by CTI. PDN participates in a CTI collective engagement program together with other institutional clients; the Responsible Engagement Overlay program. This program was created specifically for institutional investors.
4. The number of shareholder meetings and proposals on which CTI has voted on behalf of PDN as a percentage of the total number of shareholder meetings and proposals on which could be voted in that year. PDN uses CTI's services to implement its voting policy. CTI produces regular reports on the implementation of this policy. DPS, PDN's fiduciary manager, monitors and evaluates CTI's activities. PDN reports on its website on the number of votes cast at shareholder meetings.

Mitigating Climate Change and Carbon Reduction:

5. The weighted average carbon intensity as an amount emitted (in tons) per million of revenue generated in the share and corporate bond investment categories. The Weighted Average Carbon Intensity (WACI) scope 1 and 2 emissions are used as a measure within the shares, listed real estate, investment grade credit, and high yield US investment categories. PDN calculates the carbon intensity in accordance with TCFD recommendations.

Exclusion of Companies:

6. PDN monitors the ratio of turnover and/or electricity generation from thermal coal, tar sand oil, and/or shale energy based on a 25% limit of companies' annual turnover. PDN also monitors turnover in the coal industry. When this limit is reached, companies are in principle added to the exclusion list. This analysis is conducted by Morningstar Sustainalytics.

Exclusion of Countries:

7. PDN monitors the countries that do not adhere to international treaties or that are under UN, EU, or Dutch government sanctions. This analysis is conducted by Morningstar Sustainalytics.

h) Data Sources and Processing

The Pension scheme uses external data as input for the sustainable investment processes. The preference is for standardized data, where possible. We receive data including from the following sources:

Bloomberg

- Information on the percentage of impact bonds in the corporate and state bond portfolio.

Morningstar Sustainalytics

- Morningstar Sustainalytics provides information on the exclusion of companies, State Owned Entities, and countries.
- Morningstar Sustainalytics provides information on scope 1 and scope 2 carbon emissions of companies in the portfolio.

AFM/Pension Federation

- AFM/Pension Federation's cluster munitions list.

National and international sanction lists

- In the context of excluding countries and companies under sanctions, the publicly available EU, NL, and UN sanctions lists are consulted.

- Under the engagement policy, CTI provides data on the implemented engagement policy, total engagements, and successful engagement on milestones.
- Under the voting policy, CTI provides data on the voting policy implemented, the number of shareholder meetings at which it voted, and the number of proposals voted on in a year.

i) Methodologies and Data Limitations

PDN uses information supplied by ESG data providers. Although various sources are used to ensure that environmental and social characteristics are applied to the pension scheme, there are limitations to the methodologies and the data sources.

The scoring methodology of ESG data providers such as Morningstar Sustainalytics and engagement providers such as CTI is based on a patented methodology. A difference in methodology between the various ESG providers and engagement providers can lead to different outcomes. For instance, the ESG qualification that ESG data providers issue about companies and countries may differ among the various ESG data providers. The ESG ratings issued by ESG data providers are therefore of limited comparability. The focus of one engagement program can also be different than that of another engagement provider.

Data from companies and countries on which ESG data providers rely for their ESG rating may also be based on public sources. Due to transparency requirements for larger companies, there is generally more public information available than on smaller companies.

Information can also be based on input from companies themselves. The qualification of this information is therefore subjective in certain respects. In other cases, the information is not validated by an independent party. Bloomberg's indicators for Green Bonds, Social Bonds, and Sustainability Linked Bonds are not required to be audited by an external auditor.

PDN can only apply and implement its exclusion policy to PDN's segregated mandates and not with respect to the investment funds in which PDN invests. This means that investment funds may hold investments that are on the exclusion list.

j) Due Diligence

Sustainability criteria form part of the selection criteria for investments. This means that PDN considers sustainability as well as financial aspects when assessing investments or investment service providers.

The above-mentioned methods of exclusion, integration, and engagement form an integral part of PDN's investment and selection process. In addition to PDN endorsing the ESG due diligence steps in accordance with OECD guidelines, PDN also expects its fiduciary managers, ESG service providers, asset managers, and companies in which PDN invests to act in accordance with the OECD guidelines for multinational companies and the UN's Guiding Principles on Business and Human Rights, and to report on this. PDN also expects its fiduciary manager and asset managers to have a sustainability risks policy.

k) Engagement Policy

PDN wants its investment portfolio to have as much positive impact as possible and preferably as little negative impact on the world as possible. Influencing companies to change their behavior through engagement combined with voting is one of the most effective ways to achieve this.

The engagement instrument enables agreements to be made with companies about plans, objectives, or ambitions. Engagement is also used to start a series of intensive dialogues with companies whose practices are not in line with the UN Global Compact's principles and where potential or actual negative impact has been identified. An engagement process can be labeled as a proactive or reactive engagement process.

Proactive engagement involves a thematic effort to simultaneously encourage multiple companies (often across the entire sector) to make further improvements. Reactive engagement is initiated after significant misconduct by a company comes to light.

PDN has an active engagement program focused on both proactive and reactive engagement with the aim of encouraging companies to make a positive contribution to the field of social issues and social sustainability issues. PDN has four objectives with respect to engagement based on negative impact:

- The negative impact must stop;
- The company must remediate and/or redress any injured parties;
- The company must take sufficient measures to prevent future incidents;
- The company must be transparent about the measures taken.

For PDN's engagement policy, please visit the PDN website. Click here for PDN's Sustainability policy.

l) Designated Reference Benchmark

There is no comprehensive reference benchmark at the level of the pension scheme to determine whether this is aligned with the environmental and/or social characteristics it promotes. This means that this category does not apply.