PDN
Pensioenfonds DSM Nederland

Brochure

Socially Responsible Investing and Corporate Governance

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This brochure is about Socially Responsible Investment (SRI) and Corporate Governance. By ‘SRI’, we mean investments based on considerations about environmental policy, social policy, ethics, and the quality of corporate governance of companies, and/or the influence of companies. Corporate Governance is about the principles of good corporate governance and the procedures and policy to be followed in this respect at the enterprises and companies in which PDN invests.
Both SRI and Corporate Governance influence the way in which PDN invests its pension funds. Through a fundamental analysis of annual reports, broker research, ESG-related research (via Sustainalytics), and other areas, PDN obtains a picture of the financial and non-financial performance and risks of the enterprises, including the European companies, in which it invests.

PDN considers that it has a social responsibility and has therefore developed a policy relating to socially responsible investing. In this policy, we do not lose sight of the fact that when investing pension monies, we must make sufficient returns now and in the future if we are to continue to be able to pay out the agreed pensions. We believe that socially responsible investment can be achieved without a deterioration in the return/risk profile.

In addition, at the end of 2018, PDN and other pension funds signed the Covenant on International Socially Responsible Investment by Pension Funds. The signatories of this Covenant have opted for an approach that takes the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights as the basis for identifying, prioritizing, and addressing Environmental, Social, and Governance (ESG) risks. As part of the Covenant, they also cooperate with non-governmental organizations, labor unions, and government.

PDN's SRI policy is based on the pillars of exclusion, target investments, transparency, Engagement, Corporate Governance, voting policy, ESG integration, and carbon footprint reduction.

Exclusion

PDN excludes some companies or countries from investment. The basis for excluding companies and countries is that they engage in activities that the United Nations, the European Union, or the Dutch government deem

unacceptable. The United Nations has recorded what it considers unacceptable in this connection in its 'Ten principles of the UN Global Compact'.
These principles are derived from four international treaties and declarations. This concerns:

- The Universal Declaration of Human Rights;
- The ILO Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention against Corruption

The ten principles that flow from this are:

Human Rights

Principle 1: Companies should support and respect the protection of internationally proclaimed human rights.
Principle 2: They should ensure that they do not become complicit in human rights violations.

Labor Law

Principle 3: Companies must recognize labor union rights as well as the right to collective bargaining.
Principle 4: All forms of forced labor are prohibited.
Principle 5: Child labor must be abolished.
Principle 6: Discrimination in respect of employment and occupation must be eliminated.

Environment

Principle 7: Companies must support a precautionary approach to environmental impact.
Principle 8: They must take initiatives to advance environmental responsibility.
Principle 9: They should promote the development and dissemination of environmentally friendly technologies.

Fighting Corruption

Principle 10: Companies must combat all forms of corruption, including extortion and bribery.

As well as excluding companies that do not comply with the ten principles of the UN Global Compact, PDN also excludes companies that are producers or major suppliers of controversial weapons. PDN does not invest in the producers or major suppliers of producers of the following controversial weapons.

- Landmines
- Biological weapons
- Chemical weapons
- Depleted uranium ammunition
- Nuclear weapons
- White phosphorus bombs

PDN also does not invest in state bonds of countries that are sanctioned by the United Nations or the European Union. For the most part, these sanctions relate to human rights and weapons issues.

We use the services of Sustainalytics to decide which companies and countries to exclude from investments. Sustainalytics conducts investigations for PDN (and other investors) regarding the companies and countries in which the fund should not invest if it wishes to take the ten principles of the UN Global Compact into account.

Target investments

With target investments (Impact investments) PDN is investing in investment opportunities that can help resolve social and environmental problems, such as poverty in developing countries or climate change. Investment opportunities that can also help solve societal and environmental problems are very important to PDN. We aim to design part of our investment portfolio with investments that can be designated as impact investments. We have been linking a small part of our invested assets to the UN's Sustainable Development Goals since 2020. PDN classifies the impact investments when a clear societal contribution is made to the UN's seventeen Sustainable Development Goals (SDGs).

Currently, PDN shapes its impact investing in two ways: through funds and through individual securities. Examples of funds are: infrastructure or healthcare real estate investment funds such as the Glennmoment infrastructure fund. This fund invests in sustainable energy and also aims to use this to increase the share of renewable energy in the global energy mix (SDG 7).

Or the Northern Horizon healthcare real estate fund, which works for safe and affordable accommodation and makes basic services accessible (SDG 11).

Another example of an impact investment fund in which PDN invests is Actiam Financial Inclusion fund, which aims to provide micro-financing to small enterprises in developing countries (SDG 1).

The seventeen goals:

Transparency

A third part of PDN's policy for socially responsible investing is that the fund is transparent about where it invests its money, which voting policy it introduces in the context of corporate governance (see chapter on Corporate Governance – voting policy), and provides an explanation in the form of a sustainability report.
Our website includes the names of all companies in which we invest. Click **here** for an overview of PDN investments.
In our sustainability policy and in our annual sustainability report, we explain which policy we are introducing with respect to socially responsibility investing and provide information on its implementation.

Engagement

Engagement is about entering into a dialogue with companies that do not comply with social norms and values. It therefore goes beyond the voting policy at shareholder meetings.
Our objective here is to encourage companies

to effect positive developments in the field of social issues and sustainability. A process of intensive dialogue is started 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.
Given the intensity involved in entering into dialogue with many dozens of companies on various subjects and the economies of scale that can be achieved, BMO has been appointed as an external engagement provider for this purpose.

Corporate Governance – voting policy

Good corporate governance is about transparent and efficient supervision of a company's Board. This requires a balanced distribution of influence between the Board, the Supervisory Board, and the Annual General Meeting of shareholders.
The basic principle is that the Board and the Supervisory Board are accountable for their corporate policy and the monitoring exercised by the Supervisory Board. Shareholders should then be able to influence policy and policy monitoring.

By making our voice heard at shareholder meetings, we can influence the policy and quality of the boards of those companies in which we hold shares. This can ultimately have a positive effect on the value of shares and reduce investment risks. Each share in a company gives the holder of that share the right to vote at shareholder meetings of that company. Matters on which votes can be cast include the adoption of the financial statements, profit-sharing, authority to repurchase or issue shares, the appointment of Board members and Supervisory Board members, and the remuneration policy.

PDN invests in a great many companies, and it is not always possible to have someone attend every meeting of shareholders on our behalf. As we still want to vote, we do this remotely (proxy voting). We rely on the services of Institutional Shareholder Services (ISS), in exercising our voting rights. This is a renowned institute in this area.
The Dutch Corporate Governance Code (‘Code Tabaksblat’) came into effect on January 1, 2004. The fund subscribes to the Dutch Corporate Governance Code and actively uses this code when exercising its voting rights.
We restrict ourselves to exercising our voting rights on Dutch shares. The focus on Dutch shares, in which the scope of the voting policy is restricted to a certain number of companies, enables the voting recommendations to be assessed in more depth. This provides more insight into the risks and opportunities. Moreover, a limited voting policy scope makes it is easier to recognize a company’s sustainable and social developments and direction in time and to call for accountability or redirection of the company via the voting policy at an early stage.

The fund is also deeply rooted in Dutch society and is therefore closely involved in developments in the Dutch business community. We have a good knowledge of the Dutch market in which we invest and we are also aware of the prevailing dynamics. A more balanced interpretation can then be given to active shareholdership than can be given to a globally distributed voting policy in which there is less feeling for market developments and local values and norms. It is also a better match for the societal call for more personal responsibility that voting behavior at shareholder meetings is determined with deeper insight.

More information on our voting policy can be found **here** (English version of the 'Europe Summary Proxy Voting Guidelines').

To see how PDN voted, click **here**.

ESG Integration (sustainability) and carbon footprint reduction

With the exception of the above-mentioned pillars, PDN takes another important factor into account in its socially responsible investment policy. That is sustainability.

We consider the so-called ESG factors when investing.
Companies that impact the environment too much or do not handle certain social factors in an acceptable way (such as employees and other stakeholders in the company) are not an ESG investment according to PDN. PDN is convinced that such companies have no basis for existence in the future and are therefore not good investments for the fund.
A minimum level of ESG integration is required to guarantee the company's long-term existence.
Companies that take ESG factors seriously also create opportunities for themselves. Sustainability increases profits if companies produce energy or environmentally-aware products. This creates a win-win situation, reducing both environmental impact and ensuring that shareholders can expect good returns.

For more information please refer to the annual sustainability report and the sustainability policy on the website under the heading sustainability.

Contact

If you have any questions about your pension, please visit our website: **pdnpensioen.nl**
or contact our Pension Desk:
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