Diversity in sustainable investing

Comparing ESG policies of pension funds in the Nordics and Netherlands

- Large differences in ESG policies within and across countries
- Swedish and Danish pension funds divest most from carbon-intense firms
- Controversial weapons and tobacco most excluded categories

Sustainable investing, responsible investing or ESG investing has become an important theme in asset management over the past decade, especially among pension funds in northern Europe. The investment policies of these pension funds typically contain paragraphs on how sustainable investing is put into practice. While most pension funds acknowledge that sustainable investing is important for their stakeholders, the ESG policies they adhere to can vary significantly. The goal of this note is to present an overview of certain aspects of ESG policies in the Nordics and Netherlands. Importantly, this note does not aim to judge which pension funds have good or bad ESG policies. Instead, it is descriptive in nature and can be used by institutional investors to benchmark their ESG policies relative to their international peers. At Robeco and RobecoSAM, we are delighted to translate client-specific ESG needs into tailor-made investment solutions built on existing offerings as well as innovative approaches.

For our assessment of ESG policies, we select the largest pension funds, as measured by assets under management, in Denmark, Finland, Norway, Sweden and the Netherlands.[1] Our sample consists of the ten largest pension funds of each country, provided that they manage at least EUR 1 billion in assets. Appendix A contains the full list of pension funds and, where applicable, their fiduciary managers. Since the largest pension funds represent the largest asset base, they are likely to have more impact on the behavior of firms. Moreover, the largest pension funds have the resources to be thought leaders, so they may also have an impact on the ESG policies of smaller pension funds.

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[1] Data source: Investments and Pensions Europe (September 2019) https://www.ipe.com/reports/top-1000-pension-funds/20767.topic

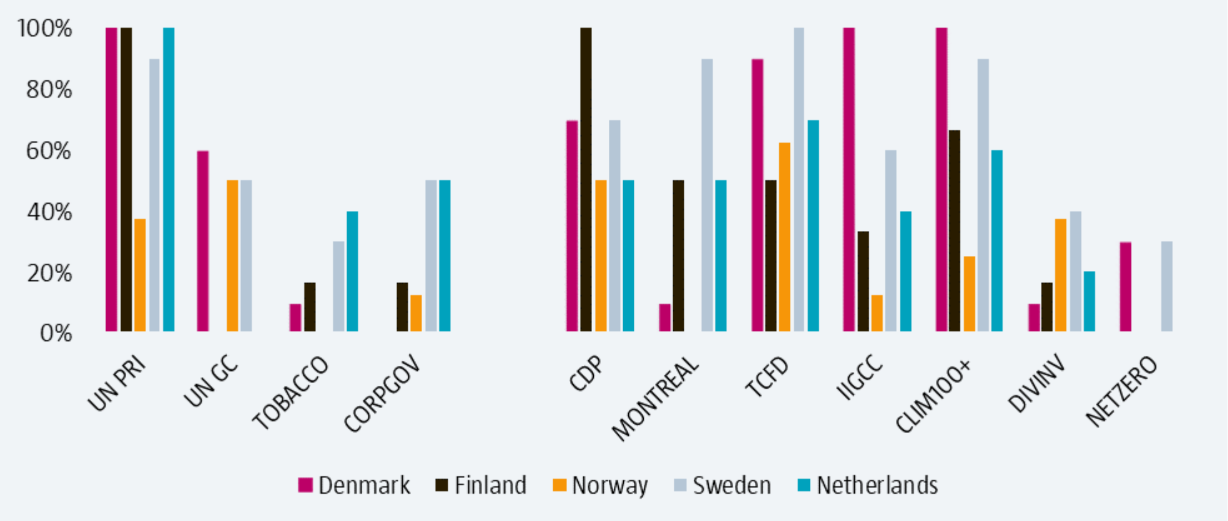
For each of these pension funds, we examine whether they are members of sustainability initiatives. We separate out the initiatives that focus on climate change, as this currently seems to be the most discussed topic among institutional investors, partially driven by new European laws and regulations, such as IORP II and Solvency II. We then proceed to check the exclusion (or divestment) policies of these pension funds. First, we check whether there is a publicly available exclusion policy. Second, we examine which products or behaviors are excluded from the investment universe. Finally, if publicly available, we count the number of firms on the exclusion list. We also compare whether there is a large degree of overlap between these exclusion lists. We collected the data over the period March to August 2020.

Membership of sustainability initiatives

Numerous sustainability initiatives have been established over the past two decades. Why would institutional investors become members or signatories? Amongst other reasons, the possible advantages are to have easy access to knowledge on a specific topic, to join forces to have more impact, and to send a powerful message to stakeholders and companies that investors believe are in need of reform. Possible disadvantages can be the negative exposure that it may generate and the obligations associated with membership.

We select several international initiatives that we have seen mentioned by the pension funds in our sample.[2] This list may not be exhaustive, and is certainly not a judgement about the quality of those included or not included. We mention only the names of these initiatives here; a short description of each can be found in Appendix B. The non-climate-related sustainability initiatives included are: Principles for Responsible Investment, United Nations Global Compact, Tobacco-Free Finance, and the International Corporate Governance Network. The climate-related sustainability initiatives included are: the Carbon Disclosure Project, the Montréal Carbon Pledge, the Task Force on Climate-related Financial Disclosures, the Institutional Investors Group on Climate Change, Climate Action 100+, DivestInvest, and the Net-Zero Asset Owner Alliance.

Figure 1 | Membership of sustainability initiatives by country



Source: Robeco, websites of the sustainability initiatives, websites of pension funds, Mar-Aug 2020. Abbreviations: Principles for Responsible Investment (PRI), United Nations Global Compact (UN GC), Tobacco-Free Finance (TOBACCO), and the International Corporate Governance Network (CORPGOV), Carbon Disclosure Project (CDP), Montréal Carbon Pledge (MONTREAL), Task Force on Climate-related Financial Disclosures (TCFD), Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+ (CLIM100+), DivestInvest (DIVINV), and the Net-Zero Asset Owner Alliance (NETZERO).

We check the websites of these initiatives for the members, signatories or pledgers, and double check with the pension fund websites. Figure 1 shows the percentage of pension funds that belong to each initiative on a country basis. Note that these memberships do not perfectly correlate with actual sustainable investment policies. For example, some pension

[2] This means that national initiatives such as Dansif, Finsif, Norsif, Swesif and VBDO are not part of our overview. While these organisations can be instrumental in promoting good sustainable investing practices, we focus here on initiatives that spark cross-border collaboration on sustainability topics.

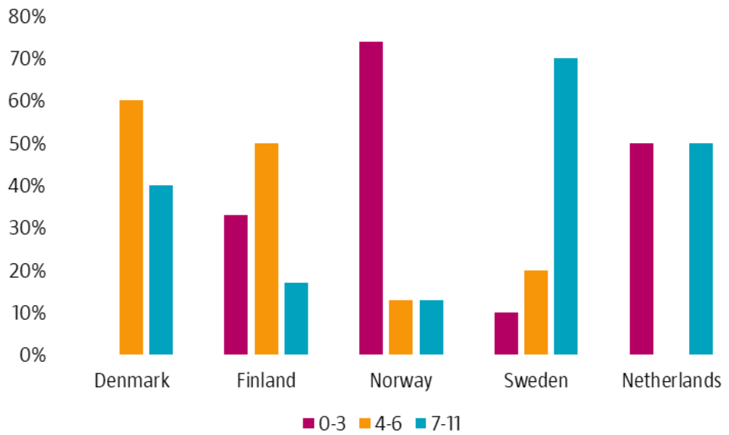
funds may exclude tobacco investments without signing the Tobacco Free Finance pledge, or may disclose their carbon footprint without being signatories of the Montréal Carbon Pledge.

Figure 1 shows that the Principles for Responsible Investment is most commonly accepted. Except for one, all pension funds in our sample in Denmark, Finland, Sweden and the Netherlands are signatories. Norway seems to be different, with only three signatories among the eight pension funds in our sample. This may be explained by the smaller Norwegian pension funds keeping a low profile – and saving time and money by doing so – while the larger pension funds take on the role as industry leaders by participating in the international sustainability debate. By comparison, the number of signatories to the United Nations Global Compact is markedly lower. It seems that the Global Compact targets corporations to engage in the sustainability debate, while the Principles for Responsible Investing are targeted at asset owners and asset managers. The signatories in our sample are mostly from countries in which the distinction between pension funds and life insurance companies is not always that clear (such as KLP in Norway) or where corporations sponsor a pension plan (such as Equinor or Norsk Hydro in Norway).

The tobacco industry is often classified as a 'sin' industry as it primarily produces unhealthy consumer products with no sustainable alternative use, and its production process is also questioned based on environmental and labor practices. Nevertheless, the Tobacco-Free Finance initiative is not widely embraced by pension funds in the Nordics, where there is only a handful of pledgers. While around half of pension funds from the Swedish and Dutch sample are members of the International Corporate Governance Network, the organization has only a few members in Denmark, Finland, and Norway. This high representation in Sweden and the Netherlands may be explained by a relatively strong domestic network effect, i.e. pension funds encourage their peers within the same country to become members, but appear not to exert the same influence on pension funds in other countries.

The right side of Figure 1 contains the initiatives that are related to climate change. Among our sample of pension funds, we see that climate change is taken seriously. This may be partially due to regulatory efforts and/or competitive pressures. Denmark and Sweden seem to be the most actively involved in these climate initiatives, with at least 9 out of 10 pension funds being members of the Task Force on Climate-related Financial Disclosures and of Climate Action 100+. Several pension funds from Denmark and Sweden are also members of the Net-Zero Asset Owner Alliance, which means they are committed to transition their investment portfolios to net-zero GHG emissions by 2050. The pension funds in Finland stand out in their commitment to the Montréal Carbon Pledge, which requires pension funds to publicly disclose the carbon footprint of their portfolios. There is only one pension fund from Denmark that pledged to do the same. Norwegian pension funds have relatively low membership of these climate change initiatives; nevertheless, together with Sweden, they have the highest representation of signatories to the DivestInvest campaign, pledging to divest from fossil fuels and to invest to speed up the transition to a zero-carbon economy.

Figure 2 | Distribution of the sustainability initiative membership per country



Source: Robeco, websites of the sustainability initiatives, websites of pension funds, Mar-Aug 2020. The share of pension funds in our sample with membership or signatory of 0-3 (red), 4-6 (orange) or more than 7 (blue) out of the 11 sustainability initiatives.

In Figure 2 we examine the distribution of sustainability initiative membership per country. This gives insight into whether membership is concentrated amongst a few pension fund 'leaders' or whether membership is more widely distributed, and whether pension funds focus on different initiatives. Membership is widely dispersed in Denmark and Sweden, where all except for one are members of at least four initiatives. In the other countries, there is much more concentrated membership, and a substantial group that subscribes to only three or fewer initiatives. Norway is the clearest example of this, where NBIM and KLP are the two 'leaders' and the six other pension funds maintain a low profile. In the Netherlands, there seems to be a clear split; one half of the sample has many memberships and the other half has almost no memberships.

An overview of exclusion policies

Exclusion (or divestment, or blacklist) policies are part of the ESG policy of almost all pension funds. There can be various reasons for divesting entirely from a firm. Some investors may be ethically motivated, not wanting to earn any money from, or even be associated with, certain products or activities. Divesting can also be used for signaling purposes as it sends a clear message to the firm and other stakeholders, such as consumers, regulators and policy makers. Divesting may also be motivated by reputational concerns, because holdings in controversial stocks can lead to critical questions or unfavorable media coverage. Blitz and Swinkels (2020) question whether exclusion policies are likely to result in changes that are better for society, as exclusions boil down to a transfer of ownership from a concerned investor to another, possibly less concerned, investor.[3] They argue that shareholder engagement is likely to achieve more tangible results than exclusion.

An exclusion policy usually sets out the principles and guidelines for the products or behavior of companies, outlining those which would result in an exclusion. Ultimately, this would translate into an exclusion list of issuers, whose assets cannot be owned by the pension fund. In most countries, pension funds are transparent about their exclusion list and publish this on their website. Finland is a remarkable exception, where none of the pension funds in our sample has a publicly available exclusion list, even though most have a publicly available exclusion *policy* on their website. This is reflected in Figure 4, where the first column (grey) of each country shows the share of pension funds that publish an exclusion list on their website. This is in stark contrast with Denmark, where all 10 pension funds publish their exclusion list. In Norway, only two pension funds have a public exclusion list. Several other Norwegian pension funds refer to the exclusion list of NBIM as their exclusion list, but do not publish an independent list and are therefore not included here. In Sweden and the Netherlands, 8 out of the 10 largest pension funds are transparent about their exclusion list.

Figure 3 | Number of public exclusion lists and length of exclusion lists per country

Source: Robeco, websites of pension funds, Mar-Aug 2020. The first bar ('Public') denotes the share of pension funds that publish a public exclusion list on their website (this is zero for Finland). The three other columns say something about the number of companies on the available public exclusion lists, with three size categories: short (1-50 companies) in red, medium (51-200 companies) in orange, and long (201 or more companies) in blue.

Figure 3 also contains information about the number of companies on the exclusion list. There are substantial differences. In Denmark, three pension funds exclude fewer than 50 companies, while three exclude more than 200 companies. In

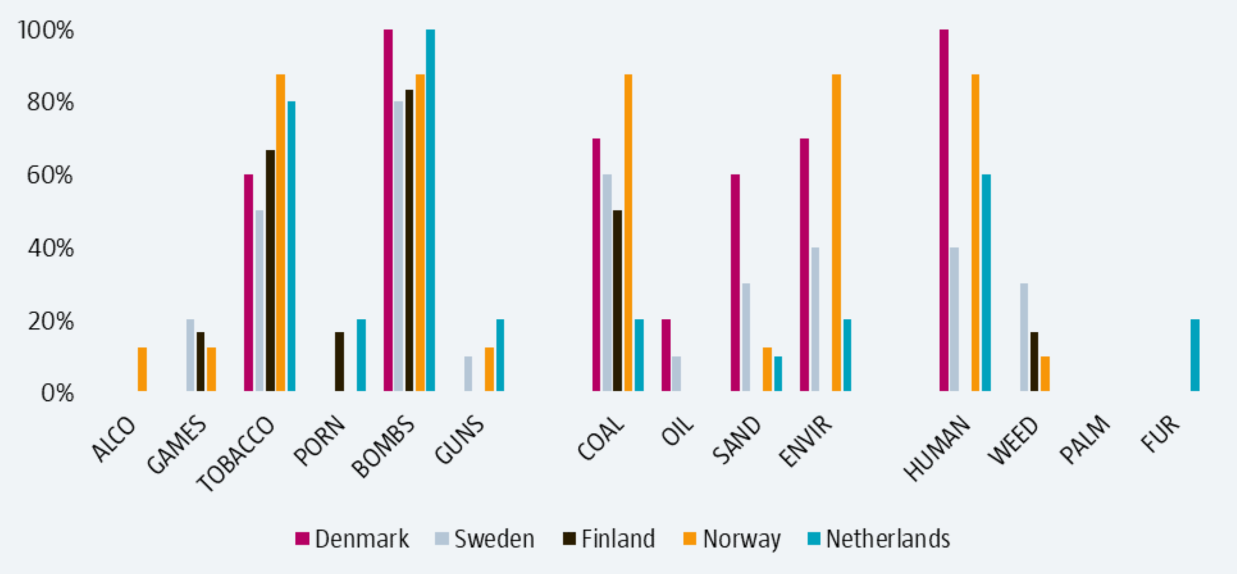
[3] Blitz and Swinkels (2020) "Is exclusion effective?", *Journal of Portfolio Management* 46 (3), 42-48.

Sweden, the exclusion lists tend to be rather short, with five pension funds excluding fewer than 50 companies. In the Netherlands, only one pension fund has a short exclusion list.

The overview in Figure 3 shows there are substantial differences in transparency across countries regarding excluded companies. Moreover, there is substantial variation both within and across countries in the length of exclusion lists.

In Figure 4 we display the proportion of pension funds that exclude companies that produce a specific type of product or exhibit certain undesirable behaviors. The definitions used in Figure 4 are not always identical. For example, while controversial weapons categories on exclusion lists almost always include companies that breach the UN Convention on Cluster Munitions and the UN Convention on Anti-Personnel Mines, nuclear weapons are not always part of this. And within nuclear weapons, some pension funds exclude companies that are involved with the production of nuclear weapons, while others blacklist companies that breach the UN Treaty on the Non-proliferation of Nuclear Weapons, and some do both.[4] Figure 3 is not aimed to incorporate this level of detail, but rather provide a bird's-eye view of exclusion policies.

Figure 4 | Exclusion policies by country



Source: Robeco, websites of pension funds, Mar-Aug 2020. Abbreviations: Alcohol (ALCO), Gambling (GAMES), Tobacco (TOBACCO), Adult entertainment (PORN), Controversial weapons (BOMBS), Conventional weapons (GUNS), Thermal coal (COAL), Oil (OIL), Oil or tar sands (SAND), Environmental damage (ENVIR), Human rights or labor rights violations (HUMAN), Cannabis (WEED), Palmoil (PALM), and Fur (FUR).

Some lists are also substantially longer than other lists for the same exclusion principle. This may be due to differences in the inclusion of emerging markets companies, micro capitalization stocks, or entities that issue public corporate bonds but not shares. Examples of such differences are that some controversial weapons exclusion lists contain "Larson & Toubro", while other exclusion lists also include its listed subsidiaries "L&T Technology Services", "L&T Finance Holdings", "Larsen & Toubro Infotech". For the purpose of Figure 4, these lists are not considered to be different.

Academic studies on the effect of exclusion policies on stock prices typically examine companies involved with the 'triumvirate of sin': alcohol, tobacco, and gambling.[5] Figure 4 shows that tobacco is indeed a production-based exclusion in the majority of our sample, in each of the countries, but that companies involved with the production of alcohol or gambling are rarely excluded.[6] Actually, controversial weapons are by far the most heavily excluded category, sometimes

[4] Companies often mentioned with the involvement of the production of nuclear weapons are AECOM, Airbus, BAE Systems, Boeing, BWX, Fluor, Honeywell, Lockheed Martin, Northrop Grumman, Safran, Serco. Companies often mentioned under the breach of the non-proliferation treaty are Bharat Dynamics, Larsen & Toubro, Tata Power and Walchandnagar Industries.
[5] See, for example, the influential study by Hong and Kacperczyk (2009) "The price of sin: The effect of social norms on markets", *Journal of Financial Economics* 93 (1): 15–36.
[6] Blitz and Swinkels (2020) show that equity investors in tobacco companies have not financed new tobacco business, as tobacco companies have bought back shares in the last decade instead of issuing new shareholder capital. See Blitz and Swinkels (2020) "Do tobacco share owners finance the tobacco business?", *Journal of Impact and ESG Investing*, forthcoming.

forced through national regulation.[7] Adult entertainment and conventional weapons are occasionally also mentioned in the academic literature for product-based exclusions, but are also rarely excluded by pension funds in our sample.

Exclusion lists have been growing on the climate and environment side over the recent years. Most Nordic countries have excluded investments in (thermal) coal companies. Surprisingly, the pension funds in the Netherlands are not (yet) doing this at large scale. In Denmark and Sweden, excluding oil/tar sands is no longer a novelty and the first large pension funds there have started excluding oil companies from their investment portfolio. These exclusion categories seem to be aimed at reducing the carbon risk exposure of these pension funds. The 'environmental damage' category is broader, and pension funds have their own policies to judge this misbehavior of companies. Typical companies mentioned here are mining companies such as Barrick Gold or BHP Billiton, but this category is very diverse.

The last part of Figure 4 contains other exclusion criteria. Human rights or labor rights issues are often mentioned by pension funds that themselves are organizations that relate to unions or labor associations. Although here, too, the principle seems homogenous, the exclusion lists on this topic are diverse. The most frequently mentioned companies here are Walmart, Elbit Systems and the Zijin Mining Group. Interestingly, Dutch pension funds do exclude producers of legal tobacco products, but not producers of illegal cannabis products.[8] Palm oil producers that are not sufficiently respecting the Roundtable on Sustainable Palm Oil are on Robeco's exclusion list, but no large pension fund has this category included, even though Norway and the European Parliament have voted a ban on the use of palm oil for biofuels. Finally, a few Dutch pension funds have excluded companies involved with fur, a view not shared by any of its Nordic peers.

Robeco and sustainability

Robeco sees sustainability as a long-term force for change in markets, countries and companies. We are convinced that considering ESG factors results in better-informed investment decisions and therefore leads to better results for our clients. In order to expand its leading position in sustainability investing, Robeco is a member of many sustainability initiatives that we examined in this note. By exercising our voting rights and engaging with the companies in which we invest, we aim to have a positive impact on both our investment results and on society. Robeco contributes to the Sustainable Development Goals (SDGs) by integrating ESG factors into the investment decision-making process and encouraging companies to take action on the SDGs through constructive engagement.

With an extensive range of sustainable and impact investing solutions, which uses ESG building blocks, Robeco also caters to investors with explicit ESG targets, like environmental footprint reduction, provides solutions for investors who wish to contribute to the SDGs, or who invest in themes, like water or gender equality. When it comes to exclusions, these are applied to controversial products such as tobacco, thermal coal and oil sands, and severe breaches of the UN Global Compact when a dialogue does not yield the required change, such as unsustainable palm oil companies. For topics like climate change and human rights, specific additional policies and approaches have been developed.

Conclusion

There seem to be strong network effects within countries to either be part of a sustainability initiative or exclude certain products or company behaviors. Amongst the stocks that are typically considered to be 'sin stocks' in academic studies, only tobacco stocks are shunned on a large scale by the pension funds in our sample, and alcohol and gambling are not. Controversial weapons such as cluster munition and anti-personnel mines are most heavily excluded. The exclusion lists of pension funds in Denmark and Sweden contain most climate-related companies, as portfolio decarbonization seems to be viewed as most urgent there. While pension funds seem to be consistent in considering environmental damage, human rights and labor rights as issues that merit exclusions, there seems to be a great deal of disagreement about which companies should be excluded. While these variations in exclusion policies reflect a healthy degree of diversity in the approach to sustainable investing, it also creates some challenges for asset managers. In particular, it means that they cannot follow a one-size-fits-all approach in developing sustainable investment solutions for institutional investors.

[7] For example, Dutch investors are not allowed to invest in companies that produce cluster munitions because of the Market Abuse Decree in the Financial Supervisory Act: https://www.afm.nl/en/professionals/onderwerpen/marktmisbruik/clustermunitie-mm-int
[8] Contrary to popular belief, non-medical cannabis products are illegal in the Netherlands. However, recreational consumption is tolerated. Cannabis production by listed companies is mostly for medical use, which may be legal in some countries as a pain relief drug.

Appendix A: Pension funds by country in our sample

Denmark	Assets
ATP	137.2
PFA Pension	77.1
Danica Pension	75.8
Sampension	43.6
PensionDanmark	34.4
Industriens Pension	24.1
Sygeplejersker (PKA)	17.1
PenSam	16.7
P+ (JØP/DIP)	16.1
AP Pension	15.8

Finland	Assets
Keva	50.1
Ilmarinen	46.5
Varma	44.6
Elo	23.4
VER	19.7
Veritas	3.2

Norway	Assets
GPF Global	944.7
KLP	67.7
GPF Norway	26.0
Oslo Pensjonforsikring	9.5
Equinor	4.5
PKH	2.6
Norsk Hydro	1.8
Tine	1.6

Sweden	Assets
Alecta	85.0
AP7	80.1
AMF	60.6
AP4	34.0
AP3	33.1
AP2	32.6
AP1	31.7
KPA	16.8
Nordea L&P	13.2
Länsförsäkringar	10.8

Netherlands	Assets
ABP (APG)	442.0
PFZW (PGGM)	225.2
PMT (MN)	78.4
bpfBOUW (APG)	61.8
PME (MN)	50.3
ABN Amro	28.9
Shell	28.5
ING	28.2
Vervoer	28.0
PGB	27.8

Source: Investments & Pensions Europe (September 2019), Robeco. Pension funds sorted on assets under management in EUR billion. Pension funds need to have at least EUR 1 billion in assets to make it to the sample. Fiduciary managers are mentioned in brackets, if applicable.

Appendix B: Short description of the sustainability initiatives covered in this research

Principles for Responsible Investment (2006)

The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors; to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.
Website: www.unpri.org

United Nations Global Compact (2005)

At the UN Global Compact, we aim to mobilize a global movement of sustainable companies and stakeholders to create the world we want. That's our vision.
To make this happen, the UN Global Compact supports companies to do business responsibly by aligning their strategies and operations with Ten Principles on human rights, labour, environment and anti-corruption; and take strategic actions to advance broader societal goals, such as the UN Sustainable Development Goals, with an emphasis on collaboration and innovation.
Website: www.unglobalcompact.org

Tobacco-Free Finance Pledge (2018)

The Tobacco-Free Finance Pledge highlights the leadership of financial institutions that have implemented tobacco-free finance policies and encourage others to follow suit. The Pledge recognises the significance of the World Health Organization Framework Convention on Tobacco Control – the first global public health treaty established in 2005 in recognition of the global tobacco epidemic.
Website: tobaccofreeportfolios.org

International Corporate Governance Network (1995)

The International Corporate Governance Network's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. Our policy positions are guided by the ICGN Global Governance Principles and Global Stewardship Principles, which are implemented by influencing policy by providing a reliable source of investor opinion on governance and stewardship; connecting peers at global events to enhance dialogue between companies and investors around long term value creation; and informing dialogue through education to enhance the professionalism of governance and stewardship practices.
Website: www.icgn.org

Carbon Disclosure Project (2000)

We want to see a thriving economy that works for people and planet in the long term. We focus investors, companies and cities on taking action to build a truly sustainable economy by measuring and understanding their environmental impact. CDP runs the global environmental disclosure system. Each year CDP supports thousands of companies, cities, states and regions to measure and manage their risks and opportunities on climate change, water security and deforestation. We do so at the request of their investors, purchasers and city stakeholders.
Website: www.cdp.net

Montréal Carbon Pledge (2014)

By signing the Montréal Carbon Pledge, investors commit to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis.
Website: montrealpledge.org/

Task Force on Climate-related Financial Disclosures (2015)

The Financial Stability Board Task Force on Climate-related Financial Disclosures will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The Task Force will consider the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries.
Website: www.fsb-tcfd.org

Institutional Investors Group on Climate Change (2001)
IGCC's mission is to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors. IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change.
Website: www.iigcc.org

Climate Action 100+ (2017)
Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition.
Website: www.climateaction100.org

DivestInvest (2014)
DivestInvest is a diverse, global network of individuals and organizations united in the belief that by using our collective influence as investors to divest from fossil fuels, and invest in climate solutions, we can accelerate the transition to a zero-carbon economy. In this way, we are supporting the agreement made by governments in Paris at COP21 and protecting our own investment returns.
Website: www.divestinvest.org

Net-Zero Asset Owner Alliance (2019)
The members of the Alliance commit to transitioning their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures, 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 Agreement.
Website: www.unepfi.org/net-zero-alliance/

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Some Funds referred to in this marketing material have been registered with the UAE Securities and Commodities Authority (the Authority). Details of all Registered Funds can be found on the Authority's website. The Authority assumes no liability for the accuracy of the information set out in this material/document, nor for the failure of any persons engaged in the investment Fund in performing their duties and responsibilities.

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Robeco is subject to limited regulation in the UK by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request.

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The sale of the Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The Fund must not be offered or sold to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The Fund is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The Fund corresponds to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated September 27, 1996, as amended.

Additional Information concerning RobecoSAM Collective Investment Schemes

The RobecoSAM collective investment schemes ("RobecoSAM Funds") in scope are sub-Funds under the Undertakings for Collective Investment in Transferable Securities (UCITS) of MULTIPARTNER SICAV, managed by GAM (Luxembourg) S.A., ("Multipartner"). Multipartner SICAV is incorporated as a Société d'Investissement à Capital Variable which is governed by Luxembourg law. The custodian is State Street Bank Luxembourg S.C.A., 49, Avenue J. F. Kennedy, L-1855 Luxembourg. The prospectus, the Key Investor Information Documents (KIIDs), the articles of association, the annual and semi-annual reports of the RobecoSAM Funds, as well as the list of the purchases and sales which the RobecoSAM Fund(s) has undertaken during the financial year, may be obtained, on simple request and free of charge, via the website www.robecosam.com.