

## Stichting Algemeen Pensioenfonds Unilever Nederland Code on Responsible Investing

February 2018

### Introduction

This (revised) *Code on Responsible Investing (Code)* sets out how *Stichting Algemeen Pensioenfonds Unilever Nederland (the APF)* carries forward its social responsibility as an institutional investor. As the concept of responsible investing faces regular and repeated change, this Code will be subject to regular review and reconsideration. The APF aims to reflect in its reviews the latest developments in public opinion regarding responsible investment, and in particular the views of our participants on relevant matters.

This Code outlines the APF's investment approach with regard to key risks which are not always effectively integrated into financial analysis, including matters such as environmental, social and corporate governance issues. It details specific concerns in these respects and sets out key international conventions and codes of conduct relevant to each. It reflects the APF's endorsement of the *UN Principles for Responsible Investment*, the *Portfolio Decarbonisation Coalition*, the *Institutional Investor Group for Climate Change*, the *Task Force for Climate related Financial Disclosures*, the *Sustainable Development Goals* and the *UN Global Compact*. This Code discusses the application of the APF's approach across the full range of different asset classes, and how the APF seeks to reflect this approach through concrete actions, including a reflection on the parties with which the APF works in the field of responsible investment.

## Table of Contents

<b>1</b>	<b>Vision and objective</b> .....	<b>3</b>
1.1	Investment objective .....	3
1.2	Social responsibility .....	3
1.3	Expectations of companies .....	3
1.4	Expectations of governments .....	4
<b>2</b>	<b>Fundamental principles</b> .....	<b>5</b>
2.1	Respecting human rights .....	5
2.2	Respecting labour rights .....	5
2.3	Combating bribery and corruption.....	6
2.4	Protecting the environment and climate .....	6
2.5	Ensuring a sustainable food supply .....	6
2.6	Improving health and hygiene.....	7
2.7	Avoiding involvement in controversial weapons.....	7
2.8	Respecting corporate governance standards.....	7
<b>3</b>	<b>Implementation</b> .....	<b>8</b>
3.1	<b>Responsible investment tools</b> .....	<b>8</b>
3.1.1	Evaluation .....	8
3.1.2	Exclusion.....	8
3.1.3	Engagement.....	9
3.1.4	Voting.....	9
3.1.5	Impact Investing .....	9
3.2	<b>Implementing the fundamental principles</b> .....	<b>10</b>
3.2.1	Respecting human rights.....	10
3.2.2	Respecting labour rights.....	11
3.2.3	Combating bribery and corruption .....	12
3.2.4	Protecting the environment and climate.....	12
3.2.5	Ensuring a sustainable food supply .....	13
3.2.6	Improving health and hygiene .....	14
3.2.7	Avoiding involvement in controversial weapons.....	14
3.2.8	Respecting corporate governance standards .....	15
3.3	<b>Collaboration and partners</b> .....	<b>15</b>
3.3.1	Principles for Responsible Investment.....	15
3.3.2	International Corporate Governance Network.....	16
3.3.3	Eumedion.....	16
3.3.4	Hermes EOS.....	16
3.3.5	Univest Company.....	17
3.3.6	ESG Research Provider .....	17
3.3.7	Portfolio Decarbonisation Coalition.....	17
3.3.8	Institutional Investor Group for Climate Change .....	17
3.4	<b>Evaluating impact</b> .....	<b>17</b>
3.5	<b>Transparency and accountability</b> .....	<b>18</b>

## 1 Vision and objective

### 1.1 Investment objective

The APF represents the interests of its participants, pensioners and corporate sponsor. Its investment policy seeks to apply appropriate risk constraints, taking in particular account the risk of underfunding. This Code cannot breach these risk constraints, and indeed its aim is to help promote the overarching objective of delivering pensions consistently and as promised, over the long-term.

### 1.2 Social responsibility

The APF is conscious of its social responsibility as an institutional investor and seeks to act accordingly. This means that the APF in its investment policy reflects the norms and values of society, and thus takes into account in its investment decisions relevant environmental, social and corporate governance considerations, according to international standards. This means that the APF expects the companies (section 1.3) and governments (section 1.4) in which the fund is investing to respect its eight fundamental principles - which are further discussed in section 2.

As a company pension fund, the APF also aims to align with the long-term ambitions of its corporate sponsor Unilever. The APF's vision on responsible investment is therefore aligned with the long-term vision and strategy of Unilever as described in its *Sustainable Living Plan*. The more recently drafted Sustainable Development Goals, set out by the United Nations, are also used as a framework for alignment with the long-term ambitions to promote Sustainable Development. The Sustainable Development Goals are a collection of 17 interrelated global goals covering a broad range of social and environmental development issues which can be targeted through the APF investment policy.

These topics are therefore integrated in the fundamental principles of the APF as well (see section 2).

### 1.3 Expectations of companies

The APF invests in companies directly or indirectly through a range of different asset class allocations, including through equities, corporate bonds/loans, real estate and private equity funds. The APF expects these companies to act in accordance with the fundamental principles set out in section 2. This expectation is breached where the company:

1. is systematically and repeatedly involved in violations of a fundamental principle; and
2. has taken insufficient measures to prevent similar cases arising in the future. This occurs in one of the following two cases:
  - the company lacks an appropriate enterprise-wide management system covering the relevant area and containing the following elements:
    - policy principles;
    - an operational approach to put these principles into practice;
    - appropriate procedures for dealing with problems and issues which arise from time to time;
    - information flows that enable effective monitoring of the implementation of the policies and procedures;

- adequate training and education for relevant staff to enable them appropriately to implement the policies and procedures;
- regular feedback to management; and
- appropriate reporting on these matters, including where relevant public reporting.
- the company does have such a management system but delivery in practice indicates that either the policies or procedures have significant unremedied defects.

#### 1.4 Expectations of governments

By investing in government bonds, the APF finances governments and their activities. The APF expects these public authorities to act in accordance with the fundamental principles set out in section 2. This expectation is breached where the public authority:

- systematically and repeatedly violates a fundamental principle; and/or
- has insufficient measures in place to limit or end structural violations of the fundamental principles by individual or corporate citizens.

## 2 Fundamental principles

The APF explicitly aims to endorse the following fundamental principles in all its investment activities:

- respecting human rights;
- respecting labour rights;
- combating bribery and corruption;
- protecting the environment and climate;
- ensuring a sustainable food supply;
- improving health and hygiene;
- avoiding involvement in controversial weapons; and
- respecting standards of corporate governance.

Each of these fundamental principles is discussed further in the following sub-sections.

### 2.1 Respecting human rights

The APF endorses the Universal Declaration of Human Rights, which was adopted in 1948 by the United Nations. The Universal Declaration sets out the rights and freedoms of every person “without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status”.

The key human rights enshrined in the Universal Declaration include:

- the right to life and liberty;
- freedom of expression;
- freedom of religion;
- the right to a fair trial;
- the right to food, work and education.

In 1966, the Universal Declaration of Human Rights was supplemented by the International Covenant on Civil and Political Rights (UNCCPR) and the International Covenant on Economic, Social and Cultural Rights (UNCESCR). These agreements also state that civil and political rights, and the right to economic, social and cultural development, are central to the rights of humankind. In 2008, the United Nations Declaration on the Rights of Indigenous Peoples was adopted, securing the (land) rights of indigenous peoples.

How companies should deal with the various human rights enshrined in the documents listed above, is clarified by the 2011 UN Guiding Principles on Business and Human Rights. According to the principles, companies are expected to respect human rights and to implement a human rights due diligence process, to identify their (negative) impact on human rights, prevent or reduce this impact and account for how they will address the remaining impact.

### 2.2 Respecting labour rights

The APF endorses the four fundamental principles and rights of the International Labour Organisation (ILO) on labour and labour conditions. These are:

- freedom of association and recognition of the right to collective bargaining;
- the prohibition of all forms of forced labour;

- the prohibition of child labour;
- the prohibition of discrimination (on grounds of ethnicity, gender or social origin) with respect to the provision of work or specific functions.

### **2.3 Combating bribery and corruption**

The APF endorses the OECD Guidelines for Multinational Enterprises and the Business Principles for Countering Bribery Transparency International on the fight against corruption. Corruption is the performance or omission of acts with the aim of benefiting a person, group or organisations, without a legitimate claim to that benefit. Corruption includes various types of behaviour, including bribery, extortion, fraud and money laundering.

### **2.4 Protecting the environment and climate**

The APF recognises the central importance of companies and governments striving to protect the environment and limit global climate change as much as possible. Besides careful use of natural resources and protection of biodiversity, an organisation should strive to prevent environmental pollution and play its role in limiting climate change. For the APF, environmental pollution encompasses any degradation or damage to the environment from human activities. Local and regional forms of pollution are damage to soil, air and water pollution. The main threat to the global environment is the ongoing climate change caused by the emission of greenhouse gases.

With regard to the environment and combating climate change the APF endorses the objectives of the Portfolio Decarbonisation Coalition, the Institutional Investor Group for Climate Change as well as the Task Force Climate related Financial Disclosures. The APF addresses reduction in greenhouse gas emissions through a multifaceted approach: partial coal divestment, investment manager engagement, active ownership activities and through positive investment in the low carbon transition.

### **2.5 Ensuring a sustainable food supply**

The APF believes that the right to food (Article 25 of the Universal Declaration on Human Rights) is the most basic human right, and the agriculture and food sector has a major role to play so that it can be respected, protected and fulfilled everywhere, always. However, while meeting the ever-growing global demand for food it is equally important to avoid the depletion of the earth's resources. Globally, the agriculture industry is the largest contributor to soil depletion, environmental pollution and the degradation of ecosystems. Also, the agricultural industry is the largest user of freshwater resources, often creates land right conflicts with local communities and indigenous peoples and is responsible for 10-12% of the global emissions of greenhouse gases.

The APF therefore stimulates companies in the agriculture industry to participate in multi-stakeholder roundtables (such as the RSPO, Bonsucro, RTRS) which develop standards for the production of agricultural commodities and share best practices. Agricultural commodity producers should get their products certified by the relevant supply chain standards by these roundtables and other credible organizations (such as Fairtrade, Utz, Rainforest Alliance).

## 2.6 Improving health and hygiene

The APF believes that companies and governments should take their responsibility towards ensuring health and hygiene for the global population seriously and should act based on the precautionary principle. Companies prevent the deterioration of the health of employees, clients and nearby residents by their products or production processes. Companies and governments should take their joint responsibility to provide safe drinking water, access to medicine and access to sanitation for people all around the globe.

The APF therefore signed the Access to Medicine Investor Statement and engages with pharmaceutical companies on what actions they take to improve the access to medicine of low income groups. The APF expects companies to adhere to the Montreal Protocol and the Basel, Rotterdam and Stockholm conventions.

## 2.7 Avoiding involvement in controversial weapons

The APF will not be involved in investments related to the production of weapons and weapons systems, or their essential parts, which are prohibited under international law, or whose use violates fundamental humanitarian principles. This means avoiding weapons with indiscriminate impacts on civilian populations, including chemical and biological weapons, landmines and cluster munitions. This approach is based on several international conventions including the Non-Proliferation Treaty on atomic weapons, the Ottawa Treaty (landmines), the Chemical Weapons Convention, the Biological and Toxin Weapons Convention and the Convention on Cluster Munitions.

## 2.8 Respecting corporate governance standards

The APF welcomes and supports the standards of corporate governance as set out by the OECD (Principles of Corporate Governance) and the International Corporate Governance Network (Statement on Global Corporate Governance Principles), as updated from time to time.

These corporate governance standards encompass the following key issues:

- the purpose of the company, returns for shareholders;
- openness and transparency on activities;
- monitoring and control activities, oversight of key risks;
- ownership responsibilities, voting rights and remedies for shareholders;
- governance and management of the company;
- remuneration policy and rewards; and
- citizenship, stakeholder relations and ethical behaviour.

The APF encourages all companies in which it invests to adhere to best practice standards in terms of corporate governance, not least to any local corporate governance code, and especially to deliver these key aims.



### 3 Implementation

#### 3.1 Responsible investment tools

##### 3.1.1 Evaluation

The APF employs Unigest and other asset managers to invest its assets. The APF encourages its external asset managers to select investments based on social, environmental and corporate governance criteria (so-called ESG criteria). The APF evaluates the external asset managers' ESG integration practices through its in-house developed qualitative Manager Evaluation Framework which is supplemented with external quantitative portfolio screening data, to analyse and evaluate the managers' performance, and will use this analysis as a basis for dialogue with the asset manager.

The APF is confident that the inclusion into investment decisions of relevant criteria on environment, social and corporate governance (ESG) leads to a better understanding of the risks associated with individual investments and so to better risk-adjusted returns over time. The APF therefore seeks to promote the inclusion of ESG factors into the investment decision-making of its asset managers. The APF also takes account of this approach when it is selecting and monitoring its asset managers. The APF seeks to include responsible investing criteria within its contracts with external asset managers, considering among other things the best practices set out in the [Model Mandate Initiative](#) of the [International Corporate Governance Network](#).

##### 3.1.2 Exclusion

The APF will seek to exclude investments in companies or governments if:

- these are linked to arms production or controversial weapons, including cluster munitions, anti-personnel landmines, depleted uranium, chemical and biological weapons;
- they extract more than 50% of revenues from coal mining and / or coal power generation, as these companies are seen as unsuccessful when it comes to transitioning to a low carbon economy, exposing the APF to risk that is not expected to be rewarded;
- it appears from reliable sources that the activities of the company or the government systematically and repeatedly violate a fundamental principle; and/or
- the activities of the company or the government violates a fundamental principle in a way which remains undermanaged in spite of engagement activities.

There are certain activities with which the APF and its beneficiaries do not wish to be associated, and the APF therefore seeks to exclude companies involved in these activities, excluding investment both through shares and through bonds where the APF is invested through separately managed accounts. These exclusions include certain activities in breach of the fundamental principles, particularly where the APF, with the assistance of its service provider Hermes EOS, regards engagement on the issue to be unfeasible. The APF will also on occasions put in place exclusions based on the engagement experience of Hermes EOS, considering avoiding investment in companies in breach of the fundamental principles which remain undermanaged in spite of Hermes EOS engagement activities.



### 3.1.3 Engagement

Hermes EOS has been appointed to undertake engagements on behalf of the APF with companies in its portfolios on issues which may impact the companies' long-term sustainability and on breaches of the fundamental principles. This role is to act on behalf of the APF, using its influence as a shareholder to ensure that companies change their behaviour in accordance with the fundamental principles or the wider set of issues also encompassed by the Hermes Responsible Ownership Principles or their regional variations. The APF recognises the value of an active engagement approach in relation to companies and other relevant assets in which it invests. This is a fundamental part of delivering its responsible investment approach, reflecting among other things Principle 2 of the UN Principles for Responsible Investment.

Engagement is board- or senior-level dialogue with a specific objective in mind, seeking necessary change at the company. Engagements may relate to the preservation or creation of shareholder value or may relate to longer-term environmental, social or governance issues which may not have immediate stock-specific impacts. Engagement is escalated according to the nature and severity of the concerns. Where engagement does not result in a satisfactory outcome then the APF may consider whether to retain its investment in the company. Company-specific engagements are normally undertaken by Hermes EOS where it believes that:

- engagement will lead to an increase in the value of a company's shares; or
- engagement will prevent or limit a decrease in the value of a company's shares.

Where concerns are raised through monitoring or voting processes, or through another channel, Hermes EOS considers engagement with the company in question. In particular, engagement will be actively considered where a company is in breach of the fundamental principles. For practical reasons, priorities must be set. Due regard is given to the following factors in determining whether and how the engagement is taken forward:

- the level of the company's exposure to the issue at hand; and
- the likelihood of engagement success and potential to bring about positive change.

Such considerations are based around an assessment of the likely impact of the engagement and the ultimate benefit to the value of the APF's holding. Engagements may involve:

- meetings with executives and non-executive directors;
- discussions with the other shareholders of the company;
- leading or participation in collaborative investor initiatives;
- submission of shareholder resolutions at general meetings as appropriate; and/or
- other steps as deemed appropriate in the specific circumstances

### 3.1.4 Voting

Proxy voting is an important investor right and responsibility. Voting is regarded as an important constituent of the APF's engagement programmes and the use of voting rights attached to shares held by the APF is appropriately aligned to the APF's overall responsible investment policies and objectives. Therefore, through its agent Hermes EOS, the APF seeks wherever practicable to vote responsibly on every resolution at all shareholder meetings of companies in its portfolios, seeking to use these voting rights to reinforce its wider responsible ownership approach.

As an institutional investor, the APF has a strong interest in well-functioning financial markets. Voting to reinforce corporate governance best practices plays an important role in helping to maintain the proper functioning of markets and the proper accountability of company directors to their shareholders. Therefore, through its agent Hermes EOS, the APF seeks wherever practicable to vote responsibly on every resolution at all shareholder meetings of companies in its portfolios. It seeks through this to reflect its support for the OECD's Principles of Corporate Governance and the International Corporate Governance Network's Statement on Global Corporate Governance Principles, and also the other fundamental principles. Most matters that are brought to shareholder vote are governance-related but where environmental or social or other issues are subject to resolutions, the APF will reflect its social responsibility as an institutional investor and the fundamental principles described in section 2.

In order to reflect the APF's responsible investment approach and to provide most value, the APF through Hermes EOS aims to vote all shares globally but will focus voting efforts on those areas where it has the greatest investment exposures and the most immediate concerns. The voting approach seeks to respond to the specific circumstances of companies, taking local best practice and regulation into account. Voting is undertaken pragmatically and in pursuit of positive change. The purpose of the vote is to achieve beneficial change in company behaviour, not simply to register dissatisfaction. Hermes EOS executes the vote in accordance with the APF's interests as a long-term owner and undertakes voting-related dialogue with companies.

Whenever possible, the APF, through Hermes EOS, seeks an open dialogue with portfolio companies in advance of casting a vote against management to explain the APF's rationale and to seek change in the company's position. Where a vote against management is cast, communication is continued with the company to explain the voting action and to offer constructive solutions.

### 3.1.5 Impact investing

The goal of the ESG value creation allocation is to deliver positive impact with respect to ESG factors, while not compromising on the general risk and return targets of the total the APF portfolio. Impact investments can be made in the listed and unlisted markets. APF already invests for impact and will continue exploring impact opportunities. APF are open to new initiatives in this space and collaborates with peers.

## 3.2 Implementing the fundamental principles

### 3.2.1 Respecting human rights

In implementing this fundamental principle, the APF makes the following choices:

- Indirect exposure through supply chain or otherwise to violations of human rights, where indications are that it is due to systemic issues which affect the majority of the industry and over which the company has no direct responsibility – monitor and encourage company to consider developing standards for suppliers, including monitoring; if prevalent across sector encourage industry collaborations to develop better practice and change behaviours. Likely to be classified as **Low** but escalate to **Medium** if indications that company could be more proactive.
- Indirect exposure through supply chain or otherwise to violations of human rights where indications that company is not sufficiently proactive in addressing the issues, e.g. through appropriate standards for suppliers. Likely to be classified as **Medium** to **High**, depending

on history and seriousness of allegations and nature of the company's response (including disclosure/communication with stakeholders), in particular in comparison with peers.

- Direct company responsibility for violations of human rights – press company to develop immediately stronger policies and practices, including, where appropriate, to offer rapid and appropriate remediation to victims and (as relevant) families. Likely to be classified as **High**.
- For direct company responsibility for violations of human rights, Hermes EOS will include a list for the APF to consider for **Exclusion** where a company fails effectively to address the issues through enhanced policies and processes or where issues persist, or a company is unresponsive to engagement.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

### 3.2.2 Respecting labour rights

In implementing this fundamental principle, the APF makes the following choices:

- Indirect exposure through supply chain or otherwise to violations of labour rights where indications are that it is due to systemic issues which affect the majority of the industry and over which the company has no direct responsibility – monitor and encourage company to consider developing standards for suppliers, including monitoring; if prevalent across sector encourage industry collaborations to develop better practice and change behaviours. Likely to be classified as **Low** but escalate to **Medium** if indications that company could be more proactive.
- Indirect exposure through supply chain or otherwise to alleged forced or child labour assess scale of exposure and prevalence across sector; press for clear standards for suppliers, clear and effective monitoring of compliance; if prevalent across sector encourage industry collaborations to develop better practice and change behaviours. Likely to be classified as **Medium** to **High**, depending on quality of company standards and monitoring, escalate if company response insufficiently proactive, particularly if weak in comparison with peers.
- Direct employment breaches regarding labour rights – encourage company to develop stronger policies and approaches, protect and enhance worker rights. Likely to be classified as **Medium** but escalate to **High** if history or seriousness of allegations suggest underlying systemic problems.
- Direct employment breaches regarding alleged forced or child labour – press company to develop immediately stronger policies and safeguards for workers, offer rapid and appropriate remediation to victims and (as relevant) families. Likely to be classified as **High**.
- For direct employment breaches regarding labour rights Hermes EOS will include on list for the APF to consider for **Exclusion** where approach appears reckless or ill-considered and company fails effectively to address them through enhanced processes, or where company unresponsive to engagement. For alleged forced or child labour Hermes EOS will include on list for the APF to consider for **Exclusion** where issues persist and a company fails effectively to address them through enhanced processes and policies or where a company is unresponsive to engagement.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

### 3.2.3 Combating bribery and corruption

In implementing this fundamental principle, the APF makes the following choices:

- Weak or non-existent policies within a sector or where operate in region prone to bribery and corruption – monitor and encourage to develop appropriate policies and procedures. Likely to be classified as **Low** but escalate if failure to develop policy persists.
- Company facing specific allegations of bribery and corruption – press for enhancement of policies and procedures, clear processes for ensuring that staff (and agents as relevant) adhere to standards and have whistle-blowing mechanisms available. Likely to be classified as **Medium** but escalate if failure to develop policy or problems persist.
- Company facing fine or settlement for bribery and corruption, or individual (current or former) staff face prosecution – press for complete overhaul of policies and procedures, and of processes for ensuring that staff (and agents as relevant) adhere to standards and whistle-blowing mechanisms. Likely to be classified as **High**.
- Hermes EOS will include a list for the APF to consider for **Exclusion** where a company has been associated with severe or repeated breaches and does not act with appropriate vigour to change policies and procedures, or where problems persist, or where a company is unresponsive to engagement.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

### 3.2.4 Protecting the environment and climate

In implementing this fundamental principle, the APF makes the following choices:

- Indirect exposure through supply chain or otherwise to activities with severe impacts on the environment where indications are that it is due to systemic issues which affect the majority of the industry – monitor and encourage company or other investee asset, where relevant, to consider industry collaborations to develop better practice and change behaviours. Likely to be classified as **Low** but escalate to **Medium** if indications that company could be more proactive.
- Direct company involvement with controversial practices (e.g. hydraulic fracturing, oil sands, drilling in the Arctic) with uncertainties regarding impacts on the environment. Likely to be classified as **Low** but escalate to **Medium** if indications that the company is not to a sufficient degree seeking assurances, where possible, regarding the risks. Where incident with environmental impact, such as spill or breach of (inter)national legislation, but indication that due to circumstances beyond the company's control, likely to be classified as **Low** but escalate to **Medium** if, in view of the severity of the issue, the company could be more proactively addressing/remediating.
- Indirect exposure through supply chain or otherwise to activities with severe impacts on the environment where indications that it is due to systemic issues which affect the majority of the industry but where indications that company is not sufficiently proactive in addressing the issues, e.g. through appropriate standards for suppliers or industry collaborations. Likely to be classified as **Medium** to **High**, depending on history and seriousness of allegations and nature of the company's response (including disclosure/communication with stakeholders), in particular in comparison with peers.
- Direct company involvement with activities suspected of significant environmental impacts where company is not sufficiently proactive in restricting established impacts on the environment or where company is not sufficiently proactive in seeking assurances and disclosing/communicating the risks. Likely to be classified as **Medium** or **High** but escalate if company unwilling to acknowledge responsibility or the need for comprehensive risk management. Where incident with environmental impact, such as spill or breach of (inter) national legislation and company is not proactively seeking to

address/remediate, likely to be classified as **Medium** but escalate to **High** if history or seriousness of allegations suggest underlying systemic problems.

- Direct company involvement with activities suspected of significant environmental impacts where company is not acknowledging the need for comprehensive risk management or actively seeking to mitigate/manage the environmental impacts of the activities. Likely to be classified as **High**. Where multiple incidents or sufficiently severe single incident, such as a spill or breach of (inter)national legislation and company response appears inadequate. Likely to be classified as **High**.
- Hermes EOS will include on list for the APF to consider for **Exclusion** where sustained and significant involvement in activities or incidents with significant environmental impacts where the company is not sufficiently seeking to manage or remediate or is unresponsive to engagement.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

### 3.2.5 Ensuring a sustainable food supply

In implementing this fundamental principle, the APF makes the following choices:

- Indirect exposure through supply chain or otherwise to activities with severe impacts on the environment or local populations where indications are that it is due to systemic issues which affect the majority of the industry – monitor and encourage company or other investee asset, where relevant, to consider industry collaborations to develop better practice and change behaviours. Likely to be classified as **Low** but escalate to **Medium** if indications that company could be more proactive. Direct company involvement with controversial practices (e.g. peat development, land grabbing, forest fires) with uncertainties regarding impacts on the environment. Likely to be classified as **Low** but escalate to **Medium** if indications that the company is not to a sufficient degree seeking assurances, where possible, regarding the risks. Where incident with environmental impact, such as spill or breach of (inter)national legislation, but indication that due to circumstances beyond the company's control, likely to be classified as **Low** but escalate to **Medium** if, in view of the severity of the issue, the company could be more proactively addressing/remediating.
- Indirect exposure through supply chain or otherwise to activities with severe impacts on the environment where indications that it is due to systemic issues which affect the majority of the industry but where indications that company is not sufficiently proactive in addressing the issues, e.g. through appropriate standards for suppliers or industry collaborations. Likely to be classified as **Medium to High**, depending on history and seriousness of allegations and nature of the company's response (including disclosure/communication with stakeholders), in particular in comparison with peers.
- Direct company involvement with activities suspected of significant environmental and social impacts where company is not sufficiently proactive in restricting established impacts on the environment and local communities or where company is not sufficiently proactive in seeking assurances and disclosing/communicating the risks. Likely to be classified as **Medium** or **High** but escalate if company unwilling to acknowledge responsibility or the need for comprehensive risk management. Where incident with environmental and social impact, such as spill or breach of (inter)national legislation and company is not proactively seeking to address/remediate, likely to be classified as **Medium** but escalate to **High** if history or seriousness of allegations suggest underlying systemic problems.
- Direct company involvement with activities suspected of significant environmental impacts where company is not acknowledging the need for comprehensive risk management or



actively seeking to mitigate/manage the environmental and social impacts of the activities. Likely to be classified as **High**. Where multiple incidents or sufficiently severe single incident, such as a series of forest fires or breach of (inter)national legislation and company response appears inadequate. Likely to be classified as **High**.

- Hermes EOS will include on list for the APF to consider for **Exclusion** where sustained and significant involvement in activities or incidents with significant environmental impacts where the company is not sufficiently seeking to manage or remediate or is unresponsive to engagement.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

### 3.2.6 Improving health and hygiene

In implementing this fundamental principle, the APF makes the following choices:

- Weak or non-existent policies within a sector – monitor and encourage to develop appropriate policies and procedures. Likely to be classified as **Low** but escalate if failure to develop policy persists.
- Company facing specific allegations of endangering the health of its employees or the local community or the company is ranked in the lower half of the Access to Medicine ranking – press for enhancement of policies and procedures, clear processes for ensuring that staff (and agents as relevant) adhere to standards. Likely to be classified as **Medium** but escalate if failure to develop policy or problems persist.
- Company facing fine or settlement for endangering the health of its employees or the local community or the company is ranked at the bottom of the Access to Medicine ranking – press for complete overhaul of policies and procedures, and of processes for ensuring that staff (and agents as relevant) adhere to standards and whistle-blowing mechanisms. Likely to be classified as **High**.
- Hermes EOS will include on list for the APF to consider for **Exclusion** where a company has been associated with severe or repeated health issues and does not act with appropriate vigour to change policies and procedures, or where problems persist, or where a company is unresponsive to engagement.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

### 3.2.7 Avoiding involvement in controversial weapons

In implementing this fundamental principle, the APF makes the following choices:

- Sometimes companies are erroneously linked with controversial weapons due to their providing services or products to a related industry which are not necessarily directly linked to arms production or controversial weapons. Where such uncertainties exist, Hermes EOS seeks to contact companies to gain clarity on their activities and, where appropriate, press for greater public disclosure and transparency on the extent and nature of any involvement. One of the questions to be answered also is if the type of weapon a company has links to does fall under the definitions of the conventions mentioned.
- Such dialogue is not always possible, however, and often occurs in relation to companies based in countries which have limited disclosure requirements. We also note that in many cases where a company is involved in these activities, the work undertaken is an integral element of state defence programmes, which renders engagement unfeasible. Hermes EOS will include a list for the APF to consider for **Exclusion** where involvement is confirmed and there is no prospect of change.

- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

### 3.2.8 Respecting corporate governance standards

In implementing this fundamental principle, the APF makes the following choices:

- While governance issues may easily in themselves be a cause for concern and engagement, our classification of a company as controversial due to governance issues will often be related to incidents where the governance shortcomings have resulted in poor/failed management of significant risks which may have been flagged in a norm-based screening. Certain breaches of corporate governance standards may however in themselves lead to a controversy assessment if the breach is sufficiently severe, particularly where accountability to shareholders is demonstrably lacking. Key areas of focus include board leadership/independence, accountability to shareholders, remuneration, related-party transactions, conflicts of interest and audit/accounting.
- Failure to adhere to basic corporate governance standards, in particular where significant deviation from local/regional standards. Likely to be classified as **Low** but escalate if deviations have already resulted in poor/failed management of significant risks.
- Ongoing and severe deviations from basic corporate governance standards where breaches have resulted in poor/failed management of significant risks. Likely to be classified as **Medium** but escalate if lack of responsiveness to shareholders' concerns.
- Ongoing and severe deviations from basic corporate governance standards and lack of responsiveness to shareholders' concerns. Likely to be classified as **High** but escalate if deviations have resulted in significant impact on share price or financial performance.
- Hermes EOS will include on list for the APF to consider for **Exclusion** where ongoing and severe deviations from basic corporate governance standards have resulted in poor/failed management of significant risks and significant impacts on share price or financial performance.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

## 3.3 Collaboration and partners

The size of the APF's investments as a proportion of the total financial sources of any individual company or government will generally be low, limiting the scope for the APF to influence change on its own. Through initiatives such as the Principles for Responsible Investment (PRI), International Corporate Governance Network (ICGN), Portfolio Decarbonization Coalition (PDC), Institutional Investor Group for Climate Change (IIGCC) and Eumedion, the APF will therefore seek cooperation with other institutional investors inside and outside the Netherlands to carry forward its responsible investment approach and to reflect the fundamental principles in its approach.

The APF already works with a number of peers and partners - Hermes EOS, Univest Company, Research Providers, Asset Owner Disclosure Project (AODP) and Eumedion - which help the Fund to implement its responsible investment policy in a consistent and efficient manner, aiming to achieve as much impact as possible.

### 3.3.1 Principles for Responsible Investment

The APF is a signatory to the PRI. The principles state:



- We will incorporate ESG issues into investment analysis and decision-making processes;
- We will be active owners and incorporate ESG issues into our ownership policies and practices;
- We will seek appropriate disclosure on ESG issues by the entities in which we invest;
- We will promote the acceptance and implementation of the Principles within the investment industry;
- We will work together to enhance our effectiveness in implementing the Principles;
- We will each report on our activities and the APF towards implementing the Principles.

### 3.3.2 International Corporate Governance Network

The APF is considering joining the International Corporate Governance Network, an international network of investors focused on the promotion of good corporate governance. Membership provides access to fund research and informal contacts with other specialists, and provides the opportunity to participate in the development of world-leading best practice guidance.

### 3.3.3 Eumedion

The APF is a member of Eumedion. This organisation draws together institutional investors which share a collective interest in advancing good corporate governance in the Netherlands. Eumedion seeks to promote the acceptance of and compliance with high corporate governance standards for listed companies and institutional investors, particularly in the Netherlands and European markets.

### 3.3.4 Hermes EOS

By appointing Hermes EOS to help it to implement its responsible investment principles, the APF has demonstrated its commitment to collaborative work. Hermes EOS is a vehicle for collective investor action in responsible investment, drawing together efforts on behalf of over 40 institutional investors from across Europe and around the world. On behalf of these investors, Hermes EOS engages with companies with the aim to solve issues and stimulate steps towards more sustainable practices. Depending on the outcome of these engagements and the willingness of companies to take the necessary steps, Hermes EOS also advises the participating investors on their voting behaviour and exclusion lists.

Alongside its responsible investment activities, the APF through its agent Hermes EOS also seeks to engage in public policy dialogue and the development of best practice, where this is deemed an appropriate way to protect and promote the interests of long-term institutional investors, and to ensure the continuing positive functioning of the financial markets through which the fund invests. Through these activities, the APF and Hermes EOS seek to promote long-term approaches in financial markets and protect the interests of long-term investors in those markets. These efforts are classified under four broad headings:

- empowering owners;
- investor protections;
- lengthening timeframes; and
- honest reporting.

### 3.3.5 Uninvest Company

Investment services provider Uninvest Company operates as the fiduciary manager of the APF and is therefore responsible for the execution of the investment policy of the APF, a.o. the selection of external asset managers. Uninvest has developed a range of internal capabilities to take into account the fundamental principles of the APF (see section 2) in the screening and selection of investments.

### 3.3.6 ESG Research Provider

In order to identify if and when companies and governments are breaching the APF's fundamental principles, the APF - and its service providers Uninvest Company and Hermes EOS - gets support from an ESG research provider (see section 2).

### 3.3.7 Portfolio Decarbonisation Coalition

The APF is a member of the Portfolio Decarbonization Coalition (PDC). This is a multi-stakeholder initiative that will drive GHG emissions reductions on the ground by mobilizing a critical mass of institutional investors committed to gradually decarbonizing their portfolios.

### 3.3.8 Institutional Investor Group for Climate Change

The APF is a member of the Institutional Investors Group on Climate Change (IIGCC) which is a forum for investors to collaborate on climate change. IIGCC provides investors with a collaborative platform to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change.

## 3.4 Evaluating impact

Based on its social responsibility as an institutional investor, the APF has formulated fundamental principles (section 2). It expects the companies and governments it invests in to adhere to these fundamental principles as much as possible and within a reasonable timeframe (see sections 1.3 and 1.4). To encourage companies and governments to do so, responsible investment tools (section 3.1) are used, whereby pragmatic choices are made by service provider Hermes EOS (section 0).

The APF believes it is important to regularly evaluate if its responsible investment tools achieve a stronger adherence of its investments to its fundamental principles. Based on this evaluation, the implementation choices made with regard to each fundamental principle (section 0) can be adjusted or improved.

The APF will seek for independent advice to set up an appropriate evaluation framework, to assess the impacts of its responsible investment activities. This evaluation framework will make use of various tools which are developed in the global responsible investment community, including:

- the Task Force Climate related Financial Disclosures;
- the Sustainable Development Goals (SDG; s);
- the Portfolio Decarbonisation Initiative.

The evaluation framework will need to recognize the limited impact which the APF as an individual investor has, but will nevertheless look for ways to assess and quantify the impacts of the APF's activities.

### 3.5 Transparency and accountability

The Code is a reflection of the shared views of the APF's participants, pensioners and corporate sponsor. Because these views may change over the course of time, also in response to changes in society, the APF will periodically evaluate this Code in the light of the developing views of the stakeholders in the APF.

The APF believes that communication about its policies and approach is extremely important. Transparency is the basis for our external communication. The APF seeks to be accountable to its participants, its pensioners and its corporate sponsor for the decisions it makes and the actions taken.

The Dutch Corporate Governance Code recommends that institutional investors, such as pension funds:

- annually publish on their website their policy regarding their exercise of voting rights in relation to shares they hold in listed companies;
- annually publish on their website and/or in their annual report information about the implementation of their policy on the exercise of voting rights in that year;
- at least once every quarter on their website report whether and how they have voted as shareholders at general meetings of shareholders.

The APF endorses these recommendations and seeks fully to adhere to them. The APF's website makes the required disclosures of policies and practices including an overview of how it has voted at the shareholder meetings of the companies in which it invests. The APF will also publish an overview of its share and bond portfolios on a quarterly basis. Finally, in its annual report the APF provides a description how it has carried out its social responsibilities during the year.

The APF website will also disclose Hermes EOS reports which detail on a quarterly basis on the voting, engagement and public policy work undertaken on the APF's behalf. Hermes EOS will also prepare annually a detailed evaluation of the APF and impact of engagements with companies in the APF's portfolios.