pensioenfonds

Principal Adverse Impact Statement

Contents

Financial market participant

Stichting PME Pensioenfonds
LEI Code RR5C8B0WL67LM8LXGY08

Summary

Stichting PME Pensioenfonds (hereinafter: PME), LEI code LEI Code RR5C8B0WL67LM8LXGY08, takes account of the principal adverse effects of its investment decisions on sustainability factors. This document addresses how PME deals with the principal adverse effects.

This document concerns the reference period from 1 January 2022 to 31 December 2022. From 2023 on, the measured principal adverse effects will be reported on for the year 2022. This statement will be updated before the end of June each year with the measured principal adverse effects.

This statement has been drawn up pursuant to the European Union's legislation on sustainability, namely the Sustainable Finance Disclosure Regulation (SFDR). Investment decisions affect the world, and investments can have favourable but also adverse effects on sustainability factors. These sustainability factors concern a wide range of environmental, social, and employment issues, for example, respect for human rights or the preservation of biodiversity.

The SFDR designates a number of issues as the principal negative effects on sustainability factors in the form of 14 mandatory indicators on sustainability issues for companies, 2 mandatory indicators for public authorities and supranational institutions, and 2 mandatory indicators for real-estate assets. PME has also selected 2 additional indicators regarding ESG issues. Many of these issues are factored into investment decisions in large parts of the equity, corporate bond, government bond, and real estate portfolios. This means that the relevant indicator or a similar issue is included in the exclusion policy, the composition of investment portfolios, the voting policy, or an engagement programme.

Description of the principal adverse impacts on sustainability factors

The table below sets out the principal adverse effects of investments on sustainability factors. This table will be updated before 30 June 2023 with the quarterly measurements for the previous year, 2022. For each adverse effect, a score will be included that says something about the extent of the measured adverse effects. It also describes the activities undertaken to mitigate them. Various kinds of activities may be undertaken, such as using shareholder voting rights, engaging in dialogue with companies, or excluding certain investments.

Our approach to mitigating adverse impacts

The way in which PME takes account of the principal negative effects of investments on sustainability factors differs according to the subject and investment category. The table below summarises the activities undertaken by PME. The table explains the activities and indicates the asset category for which this approach is relevant.

Exclusions

PME operates an exclusion policy, which applies to countries, sectors, and individual companies. For example, PME excludes countries that are subject to relevant sanctions by the UN Security Council and/or the European Union. PME does not invest in government bonds of these countries. PME also refrains from investing in companies whose products or services are deemed to have a negative impact on society, such as controversial weapons, tobacco, small arms for civilian use, adult entertainment, tar sand oil, production of coal and fur. Finally, PME excludes companies that are active in the oil- and gas sector [1,2].

ESG integration

Through principles-driven portfolio preconditions, companies, countries and real estate with sub-standard ESG performance are excluded from investment portfolios so as to mitigate the principal negative effects on sustainability factors. The following criteria are applied:

- The sustainability of companies' operations is assessed based on various issues, such as CO2 emissions, energy and water consumption, anti-corruption, and human and labour rights. The conviction is that companies with a low ESG score, or no score, are responsible for the greatest adverse effects on sustainability factors. These companies are therefore excluded from the liquid equity and corporate bond investment portfolios. In the case of the equity portfolios, there is also a specific focus on companies with activities that could have a major impact on the environment. Companies operating in sectors with a high climate risk that have the lowest score are excluded from the investment portfolio. Furthermore, companies active in the oil and gas sector are excluded so as to mitigate the principal adverse environmental effects. Companies in a number of corporate bond portfolios are qualitatively assessed as regards ESG themes as part of the credit assessment.
- PME does not invest in the government bonds of countries that score poorly on financial and social aspects, so as to limit the principal negative effects of investments on sustainability factors. Based on the countries framework, public authorities are assessed regarding various issues such as vulnerability to climate risks, the country's willingness and ability to adapt to climate change, degree of democracy and corruption, and social development. If a country's score for any of these indicators is unsatisfactory, it is excluded from the emerging markets government bond investment portfolios.
- In the case of real estate investments, energy efficiency is important when deciding whether to invest in a particular property. This is assessed based, on energy labels and energy consumption, among other things. Efforts are underway in a number of portfolios to make properties more energy efficient.

Besides the demarcation of what can be invested in based on the above preconditions, there is room for asset managers to assess which specific companies, countries, and properties to invest in. ESG aspects are taken into account when selecting asset managers and investment institutions. For real estate managers that manage direct property portfolios, participation in the Global Real Estate Sustainability Benchmark (GRESB) is mandatory. This is an independent benchmark that assesses and compares real estate funds and portfolios worldwide as regards their sustainability performance. All asset managers are expected to sign the UN Principles for Responsible Investment (PRI), and to have a clear ESG policy and an effective process of ESG integration in place. Asset managers are required to take account of ESG aspects when making investment decisions. Asset managers are assessed annually based on the "Planet test", whereby points are given for the quality of the policy, ESG integration, and ESG reporting.

1 The exclusions of companies in the oil- and gas sector are based on sector classifications of benchmark providers.
2 The named exclusions are based on data of external data providers. For the completeness of the exclusions PME is dependent on the completeness of the available data.

Active ownership

Besides excluding companies, PME aims to influence companies' strategies for mitigating the negative effects on sustainability factors. If PME thinks there is room for improvement, it addresses companies about this.

- **Engagement:** PME pursues engagement through dialogue programmes on a variety of issues with a selection of companies in the listed equity and corporate bond portfolios. That engagement is of a thematic nature regarding issues such as a living wage or income, biodiversity and the energy transition, but it may also focus on mitigating specific abuses where companies fail to comply sufficiently with international standards on human and labour rights. The latter type of engagement is pursued if serious controversies are detected at companies following periodic screening.
- **Voting:** PME pursues a global voting policy for listed companies in which it invests regarding issues such as good corporate governance and climate.

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		**Metric**	**Impact [2022]**	**Impact [year n-1]**	**Explana-tion**	**Actions taken**
Climate and other environment-related indicators						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions				ESG integration, energy transition engagement programme and Dutch listed companies engagement programme, voting
		Scope 2 GHG emissions				
		Scope 3 GHG emissions				
		Total GHG emissions				
	2. Carbon footprint	Carbon footprint				ESG integration, energy transition engagement programme
	3. GHG intensity of investee companies	GHG intensity of investee companies				ESG integration, energy transition engagement programme
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector				ESG integration, energy transition engagement programme
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources				ESG integration, energy transition engagement programme
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector				ESG integration
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas				ESG integration, biodiversity engagement programme
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average				ESG integration

Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average				ESG integration
Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters						
Social and employee matters	10. Violations of the UN Global Compact principles or Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises				ESG integration, engagement through the living wage programme in the garment industry and living wage in the agrifood sector, engagement regarding controversies
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises				
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies				ESG integration
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members				ESG integration, engagement with Dutch listed companies, voting
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons				Exclusion
Indicators applicable to investments in sovereigns and supranationals						
Environmental	15. GHG intensity	GHG intensity of investee countries				ESG integration
Sociaal	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law				ESG integration

Indicators applicable to investments in real estate assets						
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels				Exclusion – The real estate investments concern mainly residential, retail, and office properties. Exposure to the fossil fuel industry through real estate does not therefore occur.
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets				ESG integration
Other indicators for principal adverse effects on sustainability factors						
Indicators applicable to investments in investee companies						
Climate and other environment-related indicators						
Share issues	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement				ESG integration, energy transition engagement programme
Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters						
Human rights	9. Lack of a human rights policy	Share of investments in entities without a human rights policy				Engagement through the living wage programme in the garment industry and living wage in the agrifood sector

Description of policies to identify and prioritise principal adverse effects on sustainability factors

Administrator MN identifies, assesses, prioritises, and implements important ESG themes for PME. MN has developed a process for that purpose in the form of an ESG matrix. The matrix identifies the impact of PME's investment activities on people, the environment, and society (ESG) and vice versa. Using the ESG matrix as a tool, MN can convey which ESG themes are material to PME and should be prioritised.

The sources underlying the risk analysis consist of information from data providers, publicly available (company) information, and information derived from discussions with stakeholders, such as NGOs and trade unions.

In the subsequent prioritisation process, MN considers, on the one hand, themes that should be prioritised on the basis of due diligence, based on the severity of the impact and the likelihood of the risk occurring. This involves assessing the severity of consequences based on the scale, scope, and irreversibility of the identified negative impacts. On the other, MN considers which themes fit in with the preferences and identity of PME and its pension participants.

For the most relevant ESG themes, a vision is elaborated in a position paper, which also specifies the most appropriate instrument for dealing with the prioritised theme and mitigating the identified adverse effects.

Responsibilities for policy and approval

The policy for identifying and prioritising the principal adverse effects is closely linked to implementation of the voting policy, the engagement programme, the exclusion policy, and investment strategies because these documents set out how sustainability factors are considered in investment decisions.

Final responsibility for PME's overall investment policy lies with its board. The board sets the investment policy frameworks and all adaptations of policies need to be adopted by the board. Within the decision-making process, the board is supported by the committee "Balans- en Vermogensbeheer". This committee is responsible for advising the board and consists besides board members also of independent members who are selectee on the basis of their expertise. MN advises on the investment policy of PME and carries out some of the investments itself. MN also advises on the outsourcing of investments to other asset managers. PME's board remains ultimately responsible for the investments and reports annually to the accountability body and the Supervisory Board.

The above components are set out in the Responsible Investment Policy. This was adopted by the board of PME on June 30, 2022 and is reviewed annually.

Margin of error for methodologies

The adverse effects designated as significant by the SFDR largely correspond to the issues identified by PME. A variety of information is utilised in identifying and prioritising the principal adverse effects, for example information from data providers and publicly available information. This information may not always be accurate and there are many different ways to weight and aggregate data in the form of ESG scores. As regards the availability of information, information on large companies is more readily available and large companies are also more likely to be exposed to controversies because of the broader scope of their activities and value chain. This may mean that certain principal adverse effects have hitherto been under-reported in publicly available information where smaller companies or low-profile asset categories are concerned.

Description of the data sources used

PME uses two data providers to report on the principal adverse effects: MSCI and ISS. ISS data is used for indicators 1 to 3. For indicators 4 to 16 and selected optional indicators, PME uses MSCI data. This data is available in particular for the following asset categories: listed equities, corporate bonds, and government bonds. For data regarding real estate, PAI 17 & 18, PME uses data reported to GRESB by the external real estate asset and fund managers.

Engagement policies

PME is an engaged shareholder and as such pursues an engagement policy. This means that it monitors how companies deal with sustainability performance. If necessary, PME enters into dialogue with these companies. In this way, it exerts influence on companies. PME also votes at shareholder meetings of companies in which it holds shares.

As regards adverse effects on sustainability factors, certain themes play a role in the voting policy and engagement programme. If the adverse effects are not reduced sufficiently, PME will reconsider the themes and the associated voting policy and/or engagement programme.

More information on the engagement policy can be found here.

Reference to international standards

Climate

PME endorses various national and international guidelines and standards relating to responsible investment. It is committed, for example, to meeting the commitments and targets of the Paris Climate Agreement. PME has also signed the Financial Sector Climate Commitment, which includes the responsibility to contribute to financing the energy transition.

PME aims to contribute to a 1.5 degree scenario in line with the Paris Climate Agreement. For example, PME enters into dialogue with companies that can be of major significance for the energy transition and that are at high risk if they do not adjust their business model. To assess whether the reduction targets of a specific company with which it engages are in line with the objectives of the Climate Agreement, PME applies the sector-specific reduction pathways of the Transition Pathway Initiative (TPI) and the International Energy Agency's (IEA) 2021 Net Zero Scenario.

PME reports annually on the carbon footprint of its investments. By signing the Montreal Pledge, PME has committed itself to measuring and publishing the carbon footprint of its investments annually. PME currently measures the carbon footprint of its equity and corporate bond portfolios, utilising the methodology prescribed by the Partnership for Carbon Accounting Financials (PCAF) and the EU's Technical Expert Group on Sustainable Finance (EU TEG).

Labour rights and human rights

It is important that companies respect labour rights and human rights and also make use of their influence within the supply chain so that their partners and suppliers do the same. It is a matter of ensuring that people around the world can do their work safely and healthily, but also that they are entitled to a living wage or income and that they do not need to be afraid to raise the matter of abuses in and around the workplace. To assess the progress of companies within the engagement programmes on those issues, PME makes use, as a key point of reference, of the OECD Guidelines for Multinational

Enterprises, the UN Guiding Principles on Business and Human Rights, the UN Global Compact Principles, and the ILO conventions. On the basis of the Corporate Human Rights Benchmark (CHRB) PME enters engagement with companies that are insufficiently following the UNGP's.

Good corporate governance

PME believes it is important that companies and countries are properly managed. Companies need to act as good employers by remunerating staff well and dealing fairly and proportionately with the remuneration policy for the top echelon of the company. There must be clear and transparent procedures for developing executive remuneration policies and bonuses. As a long-term investor, PME also finds it important that companies do not focus on maximising short-term profits but on the company's good long-term performance and the sustainability of its business model. Remuneration policy should therefore also focus on the long-term performance and sustainability of the company.

Historical comparison

This section will compare the negative effects between different years. As of June 2024, the adverse effects will have been measured over several years. From then on, a comparative analysis will be carried out to determine the trend in adverse effects over several years.

Questions?

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