



# ESG in IORP II en implementatie in Nederlandse regelgeving

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IVP conferentie - 3 oktober 2018



Building a better  
working world



### Uitgangspunt



Onderkennen van belang van ESG in beleggingsbeleid en risicobeheer

### Vereisten



Uitleg hoe met ESG factoren rekening wordt gehouden bij:

- ▶ Beleggingsbeslissingen
- ▶ Risicobeheer

### Informatie



Rapportage over impact ESG factoren op de beleggingen

- ▶ Relevantie
- ▶ Materialiteit

### Toelichting bij ontwerpbesluit ivm implementatie IORP II

Een pensioenfonds heeft als langetermijnbelegger direct te maken met de consequenties van niet-duurzame ecologische, economische of sociale ontwikkelingen op de toekomstige waarde van de beleggingen. De risico's die daarmee verband houden, vormen dan ook een onderdeel van het risicobeheer en de eigenrisicobeoordeling.”

*(concept Nota van Toelichting)*

# Environment, Social and Governance (ESG) in IORP II

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## Artikel 19

ESG mag worden meegewogen in prudent person beleggen

## Artikel 25

Risicobeheer omvat ESG

## Artikel 28

Eisen aan eigen risicobeoordeling

## Artikel 30

Verklaring inzake beleggingsbeginselen

## Artikel 41

Informatie aan toekomstige deelnemers

## Artikel 45

Informatie op verzoek aan deelnemers en pensioengerechtigden

## Artikel 49

Toezichthouder bevoegd strategieën, processen en rapportage procedures te beoordelen



# ESG in ontwerp besluit voor implementatie IORP II – Besluit FTK

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## Artikel 18

- ▶ Beleid risicobeheersing
- ▶ Uitvoering beleid
- ▶ ESG en de beleggingsportefeuille en beheer

## Artikel 18b

- ▶ Risicobeoordeling en regelmaat
- ▶ Vastlegging resultaten
- ▶ Beoordeling van nieuwe of opkomende risico's:
  - ▶ Klimaatverandering;
  - ▶ Gebruik van hulpbronnen en het milieu;
  - ▶ Sociale risico's; en
  - ▶ Politieke risico's

## Artikel 29a

- ▶ Verklaring inzake beleggingsbeginselen
- ▶ Hoe rekening gehouden in beleid met ESG?

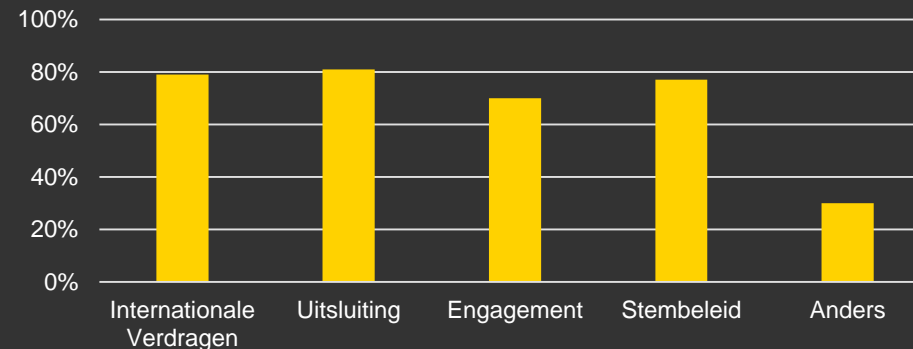


- ▶ Milieu, klimaat, mensenrechten en sociale verhoudingen
  - ▶ Expliciet onderdeel van eigen risicobeoordeling en risicobeheer
  - ▶ Onderdeel maken van schriftelijk beleid
  - ▶ Beleid opvolgen (kunnen verantwoorden)
  - ▶ Meenemen in strategische besluitvorming
  - ▶ Uitleg hoe ermee rekening te houden in het beleggingsbeleid
  - ▶ Onderdeel van informatieverplichtingen

**Vereisten gelden ook voor kleine pensioenfondsen. Nederland kiest er expliciet niet voor om kleine pensioenfondsen uit te zonderen van ESG verplichtingen.**

# ESG inbedden in Risico Management

- ▶ In 2017 had nog slechts 43% van de Nederlandse pensioenfondsen doelstellingen op het gebied van duurzaamheidsbeleid gesteld.\*
- ▶ Een groot deel van de pensioenfondsen geeft nu aan op verschillende terreinen beleid te hebben op het gebied van ESG.\*\*



- ▶ Risico management vaak gebaseerd op thema's (bijvoorbeeld tabak) of scoren van bedrijven (bijvoorbeeld via Sustainalytics) en is derhalve reactief ingestoken en gericht op uitsluiten
- ▶ Sustainability 2.0 wordt de verschuiving naar een pro-actief risico management, dat ten allen tijden voor alle bedrijven in de portefeuille op de hoogte is van alle zaken die op ESG gebied spelen

\* Benchmark Responsible Investing bij Pension Funds in the Netherlands, VBDO 2017

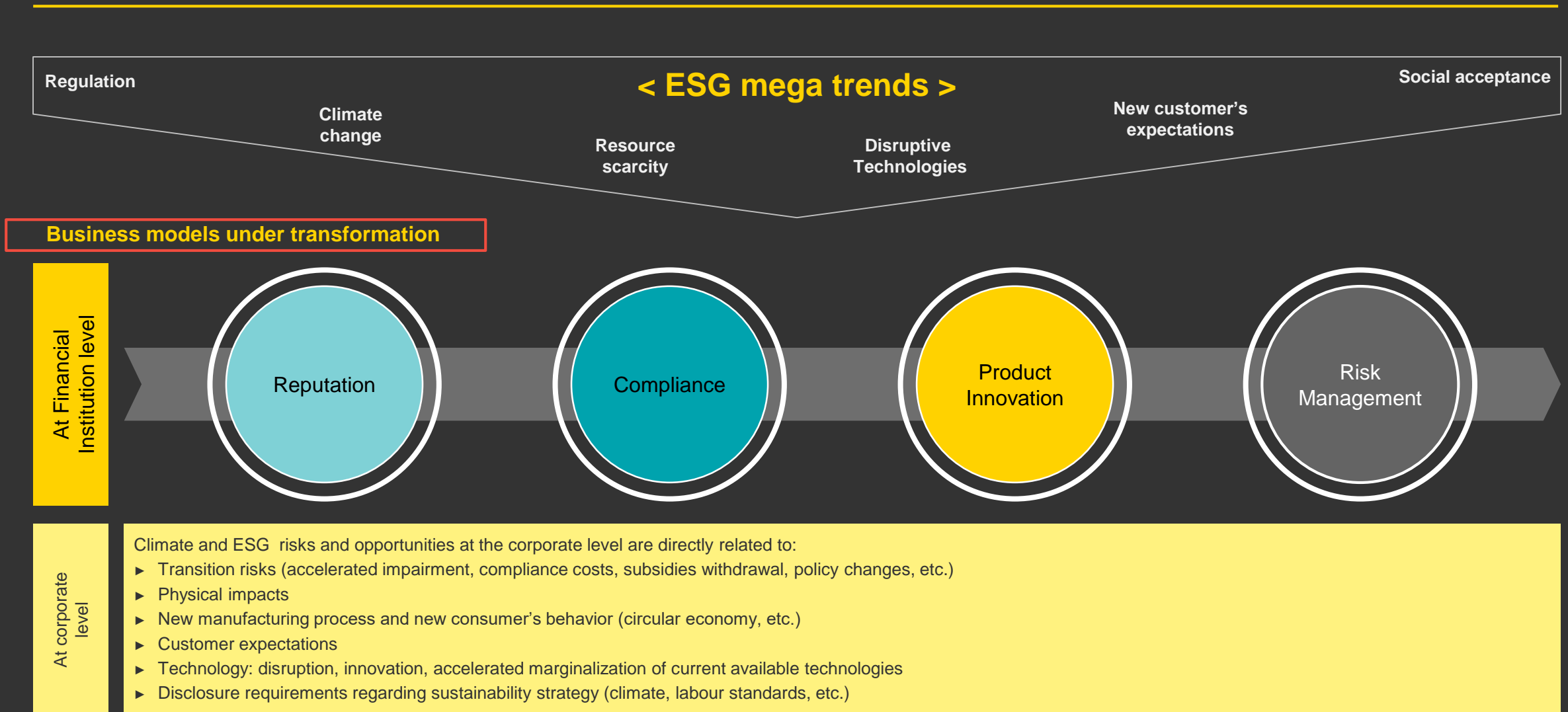
\*\* Tijdschrift voor Pensioenvraagstukken nr. 3, 2018

# Beleid maken ok: maar met welke diepgang? Relevantie van ESG, waar rekening mee te houden bij implementatie en hoe wij kunnen helpen

- ▶ Zie volgende slides
- ▶ Levels van ESG investing

				Impact investment		
Traditional		Responsible	Sustainable	Thematic	Impact-first	Philanthropy
Competitive returns						
	ESG risk management					
		ESG opportunities				
			High-impact solutions			
Focus	Finance only	The New Paradigm				Impact only
	Limited or no focus on ESG factors of under investments	Focus on ESC risks ranging from a wide consideration of ESG factors to negative screening of harmful products	Focus on ESC opportunities, through investment selection, portfolio management and shareholder	Focus on one or a cluster of issue areas where social or environmental need creates a commercial growth opportunity for market-rate or market-beating returns	Focus on one or a cluster of issue areas where social or environmental need requires some financial trade-off	Focus on one or a cluster of issue areas where social or environmental need requires some financial trade-off
Examples		<ul style="list-style-type: none"><li>▶ PE firm integrating ESG risks into investment analysis</li><li>▶ Ethically screened investment fund</li></ul>	<ul style="list-style-type: none"><li>▶ "Best-in-class" SRI fund</li><li>▶ Long-only public equity fund using deep integration of ESG to create additional value</li></ul>	<ul style="list-style-type: none"><li>▶ Clean energy mutual fund</li><li>▶ Emerging markets healthcare fund</li><li>▶ Microfinance structured debt fund</li></ul>	<ul style="list-style-type: none"><li>▶ Fund providing debt or equity to social enterprises and/or trading charities</li></ul>	

# Driving the transformation towards a sustainable economy





# Fundamental for sustainable transformation: ESG in a Nutshell – Why does it matter?!

“ESG Investing” is defined as the consideration of environmental, social and governance factors alongside financial factors in the investment decision-making process.



## Environmental (E)

- ▶ **Climate change:**  
How are climate risks evaluated for the business and are greenhouse gas reduction targets adequate?
- ▶ **Environmental impacts:**  
Are pollution controls sufficiently robust and e.g. biodiversity impacts mitigated?
- ▶ **Resource scarcity/efficiency:**  
Does the issuer's resource management address the right risks?
- ▶ **etc.**



## Social (S)

- ▶ **Health and safety**  
Has the issuer effective rules in place in order to ensure health and safety?
- ▶ **Labor rights:**  
Are there breaches to international conventions and an effective human capital development strategy?
- ▶ **Supply chain:**  
Has the issuer a comprehensive supplier management system in place and are the suppliers abiding by ESG standards?
- ▶ **etc.**



## Governance (G)

- ▶ **Board governance:**  
Are governance structures robust and does the Board exercise effective oversight?
- ▶ **Business ethics:**  
Is there evidence of effective procedures and processes to mitigate business ethics risks (briber, corruption, etc.)?
- ▶ **Cyber security:**  
How is the issuer identifying and managing cyber security risks?
- ▶ **AML compliance**



ESG integration – many organizations still struggle to develop appropriate processes and data systems to identify and assess the materiality of ESG risks and opportunities.

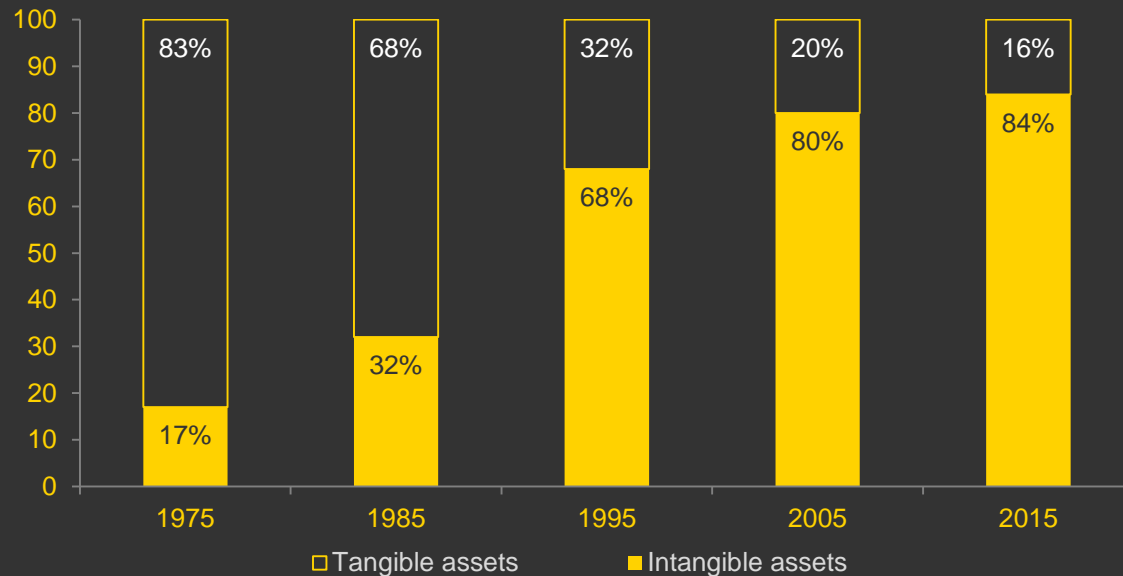
# ESG – invisible but material risks and opportunities + Integrated P&L (IP&L) coming up / pricing externalities

## Components of market value

No business is likely to thrive long term if its leaders are able to influence only 20% of what generates value.

*Strategic Finance, June 2016*

## Components of S&P 500 market value



## Capital captured in financial statement

Financial capital

Visible in annual accounts

Manufactured capital

Incomplete, but visible in annual accounts

Valuation buildings

Human capital

Partially visible

Total employees/FTE & salary expenses

Intellectual capital

Partially visible

Training and innovation expenditures

Social and relationship capital

(almost) invisible

Natural capital

Invisible

# The risk of failure – the costs of ignoring ESG

The implementation of appropriate ESG processes in the process framework of an asset management company helps mitigate a number of risks e.g.:

## Client-related risks and fiduciary duty

### Failure to report on ESG

- ▶ Possible loss of institutional investors!
- ▶ Increasingly institutional investors need to comply with ESG related reporting expectations and requirements and therefore require ESG data from their asset manager.

### Failure to provide ESG products to institutional investors

- ▶ Possible loss of institutional investors!
- ▶ Many institutions are required to comply with ESG and are therefore in need to invest in ESG funds.

### Failure to provide ESG products to retail investors

- ▶ Possible loss of retail market share!
- ▶ Retail market capital is shifting to client groups that have a higher awareness of sustainability issues. It is expected that the demand for ESG products will further increase.

## Operational / Performance-related risks

### Failure to incorporate ESG ratings appropriately

- ▶ Possible risk of underperforming ESG funds!
- ▶ If ESG factors are not weighted appropriately, they can result in poor predictions, overly restrictive investment universes and lead to underperformance.

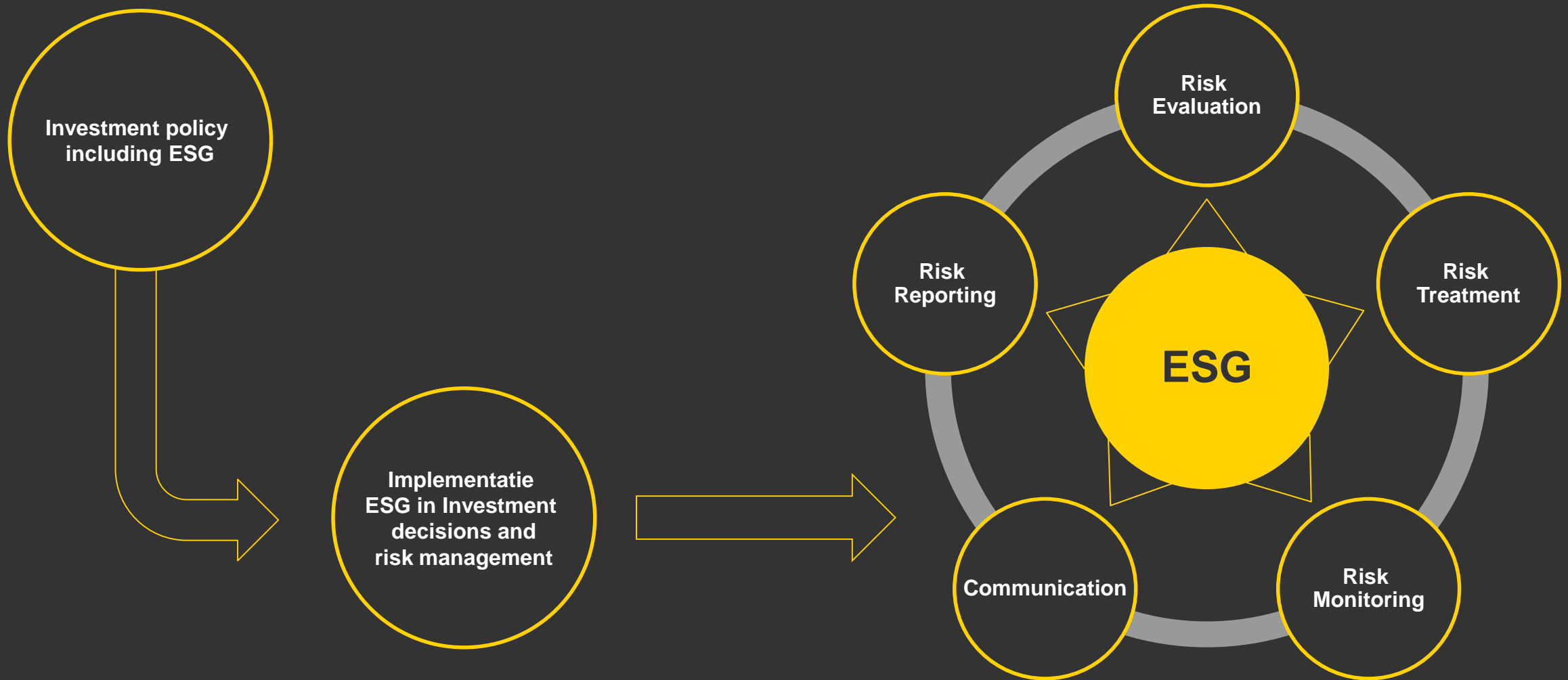
### Failure to implement comprehensive approach on ESG

- ▶ Possible risk of poor or inconsistent ESG data throughout the investment, risk and reporting processes!
- ▶ The implementation of an integrated approach on ESG is necessary to ensure that appropriate and consistent ESG data is available in all relevant systems

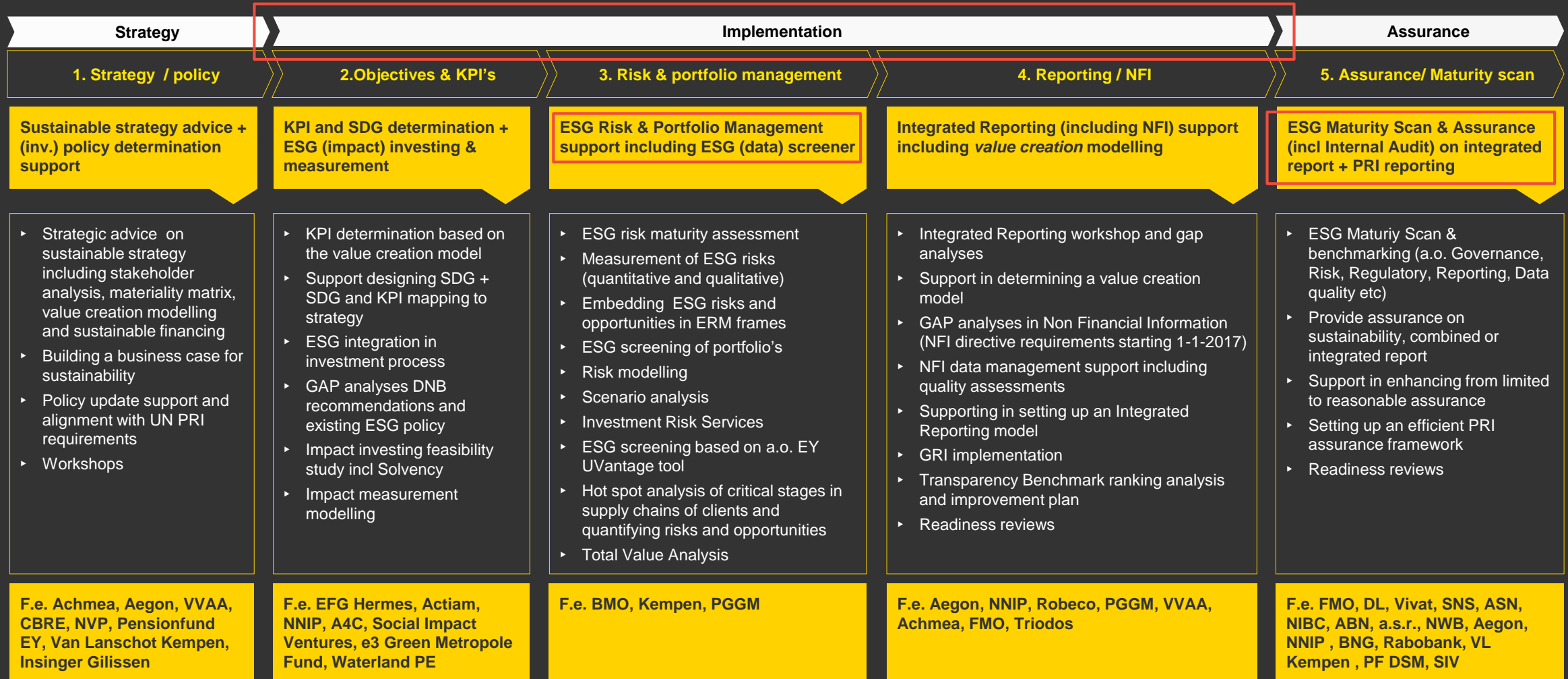
### Failure to implement back-loop between risk and research systems

- ▶ Possible risk of incorrectly applied ESG information, results in poor investment decisions and fund performance!
- ▶ In order to assess ESG data correctly, the risk and research systems need to be linked.

# Integration ESG in investment decisions and risk management



# 5 ESG solutions and credentials





**LexaTexer**  
next generation predictive analytics



Presents



**ESG Scanner**

Data Analytics and  
Assessment for  
ESG-managers and  
asset owners



# ESG Data Analytics and Risk Assessment for ESG-managers

## How does it work?

Monitor and integrate individual ESG factors into portfolio analysis and quantitative research. Identify risks across portfolios more effectively.

- ▶ 400+ curated independent international sources, not just the typical Reuters and Bloomberg sources
- ▶ 3.700 listed, SME and unlisted companies
- ▶ 1.700 C-Level executives
- ▶ 1.200 Commodities
- ▶ 129 Countries

## Your benefits

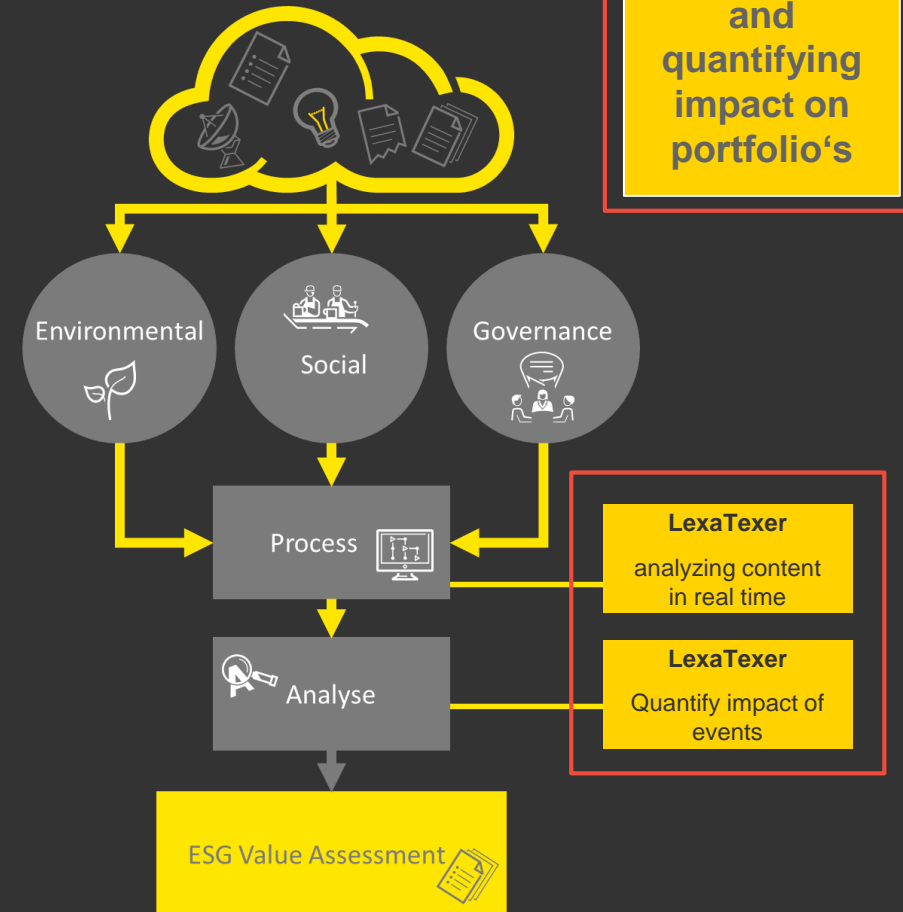
The ESG Scanner compiles ESG measures automatically in real time, and quantifies their impact on a wide range of measurable KPIs.

The ESG scanner lets you

- ▶ **identify** companies with strong ESG practices
- ▶ **quantify** the impact of ESG relevant events
- ▶ **aggregate** ESG measures and **generate** signals
- ▶ **assess** and mitigate **risk** in your portfolio



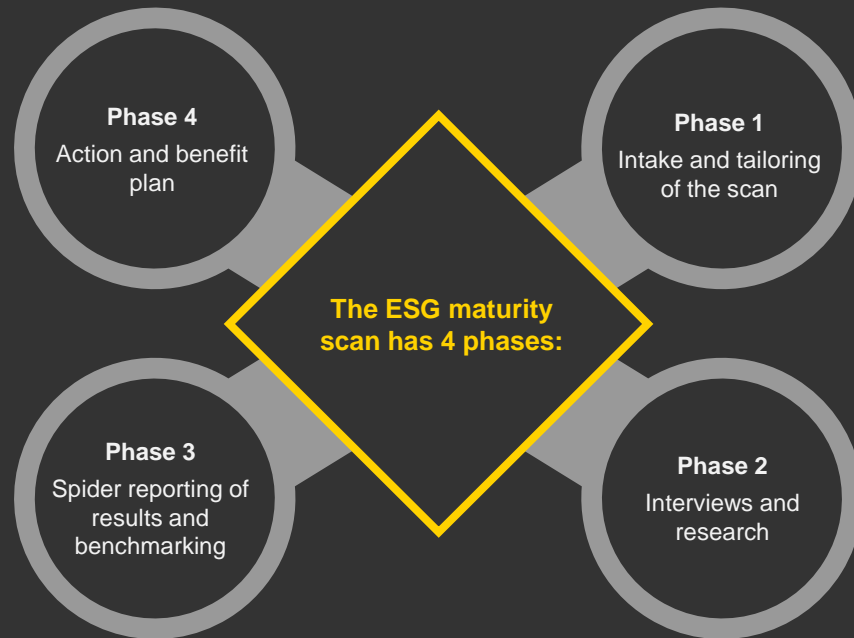
## ESG Scanner



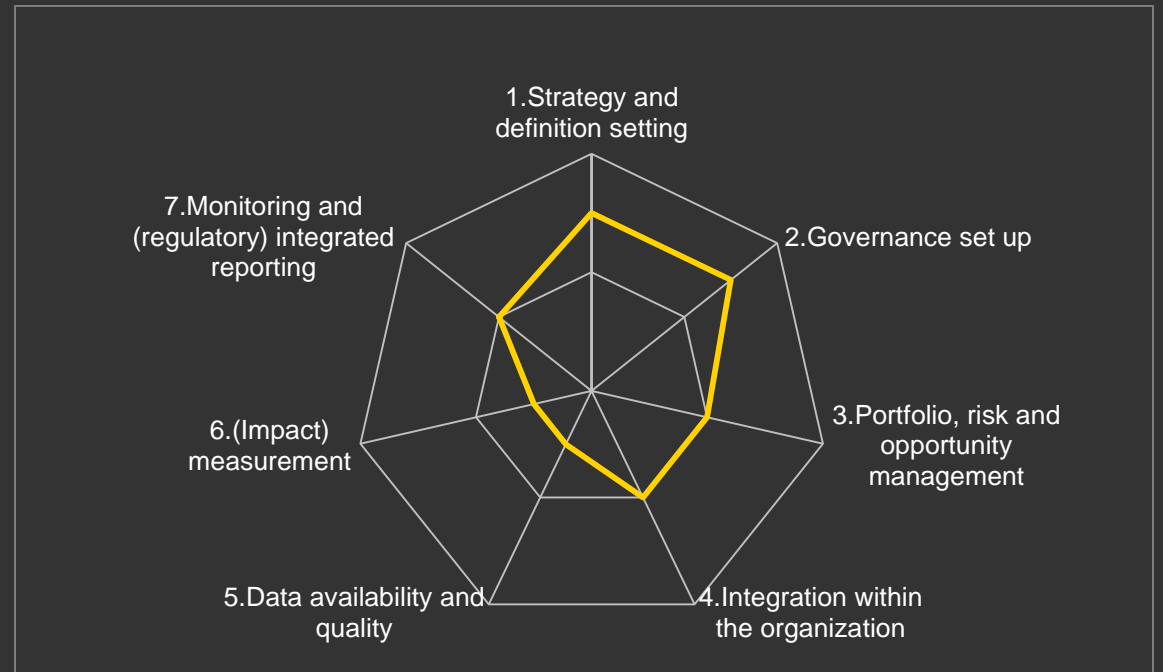
# ESG maturity scan – for financial institutions.

## How mature is your company?

### How does the ESG maturity scan work? Why EY?

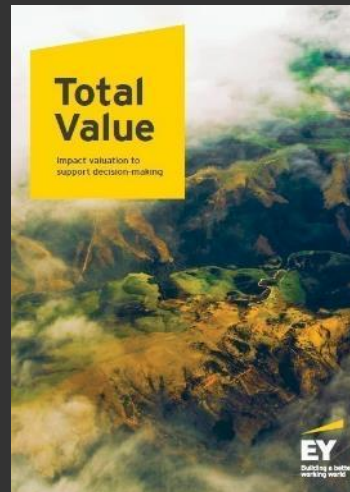


### ESG Maturity Scan score followed by actions





# Some relevant Thought leadership publications



**Wij helpen u graag met ESG  
vervolgstappen!**



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The better the question. The better the answer.  
The better the world works.





Thank you