Report on
Initial Progress Assessment
by the
Monitoring Committee of the Dutch Pension Funds Agreement
on Responsible Investment

17 December 2020

1 SUMMARY: PROGRESS, OBSERVATIONS AND RECOMMENDATIONS BY THE MONITORING COMMITTEE

This report by the Monitoring Committee of the Dutch Pension Funds Agreement on Responsible Investment (referred to hereinafter as "the Agreement") describes the progress made by the Parties with regard to implementation of the Agreement after the first year during which it was in force. The report clarifies the extent to which the Participating Pension Funds comply with the Wide Track performance indicators after one year, as well as the extent to which the Parties comply with the Deep Track arrangements and the other arrangements in the Agreement. This annual monitoring report is directed by the Monitoring Committee to the Steering Committee. The Steering Committee utilises the monitoring report to inform the Parties about implementation of the Agreement and if necessary to make recommendations for improvements. This Monitoring Report "Initial Progress Assessment" follows the Monitoring Committee's Baseline Assessment Report[1] and also addresses follow-up to the recommendations set out in the latter.

1.1 Number of participating and reporting funds, reporting period

Out of the 190 pension funds in the Netherlands, 82 have signed the Agreement. This means that (as of the reference date of 31 December 2019) 91% of Dutch pension assets fall within the scope of the Agreement. The Agreement came into force on 1 January 2019 for a period of four years. The present Initial Progress Assessment by the Monitoring Committee is based on the results of 75 pension funds that filled in the Monitoring Tool in the summer of 2020, having been asked about the current situation on the reference date (31 December 2019). If Participating Pension Funds provided information in the Monitoring Tool and during the process of hearing all sides that became available in 2020, that information has been included in this Initial Progress Assessment.

1.2 Observations at the End of Year 1

1.2.1 Wide Track Progress

The Agreement includes performance indicators with a view to measuring implementation of the Wide Track. For the key indicators "Policy", "Outsourcing", "Monitoring of Outsourcing" and "Reporting & Transparency", the Agreement specifies the year in which 100% of the Participating Pension Funds are expected to have implemented all the performance indicators (for example 100% of the Participating Pension Funds are expected to have implemented all the sub-indicators of the "Policy" key indicator in Year 2). For the intervening years, the Monitoring Working Group defined intermediate targets. The latter are not formal Agreement arrangements but have been drawn up in order to clarify the progress made.

[1] SER (2019), *Baseline Assessment by the Monitoring Committee of the Dutch Pension Funds Agreement on Responsible Investment*, November 2019. Available at https://www.imvoconvenanten.nl/en/pension-funds/news/nulmeting-pensioenfondsen

Key indicators in Agreement	Baseline Assessment	Initial Progress Assessment		Year 2	Year 3	Year 4
	Result	Interim target	Result	Target	Target	Target
Percentage of Participating Pension Funds that have fully incorporated the Agreement into their Policy	0%	50%*	0%	100%	100%	100%
Percentage of Participating Pension Funds that have fully incorporated the Agreement into their Outsourcing	1%	34%*	13%	67%	100%	100%
Percentage of Participating Pension Funds that have fully incorporated the Agreement into their Monitoring of Outsourcing	8%	39%*	7%**	69%	100%	100%
Percentage of Participating Pension Funds that have fully incorporated the Agreement into their Reporting & Transparency	1%	26%*	1%	51%	75%	100%

Table 1: Overview for the four key indicators of the percentage of Participating Pension Funds that have implemented all the sub-indicators for the respective key indicator

*Interim targets as formulated by the Monitoring Working Group; no formal indicators in the Agreement.

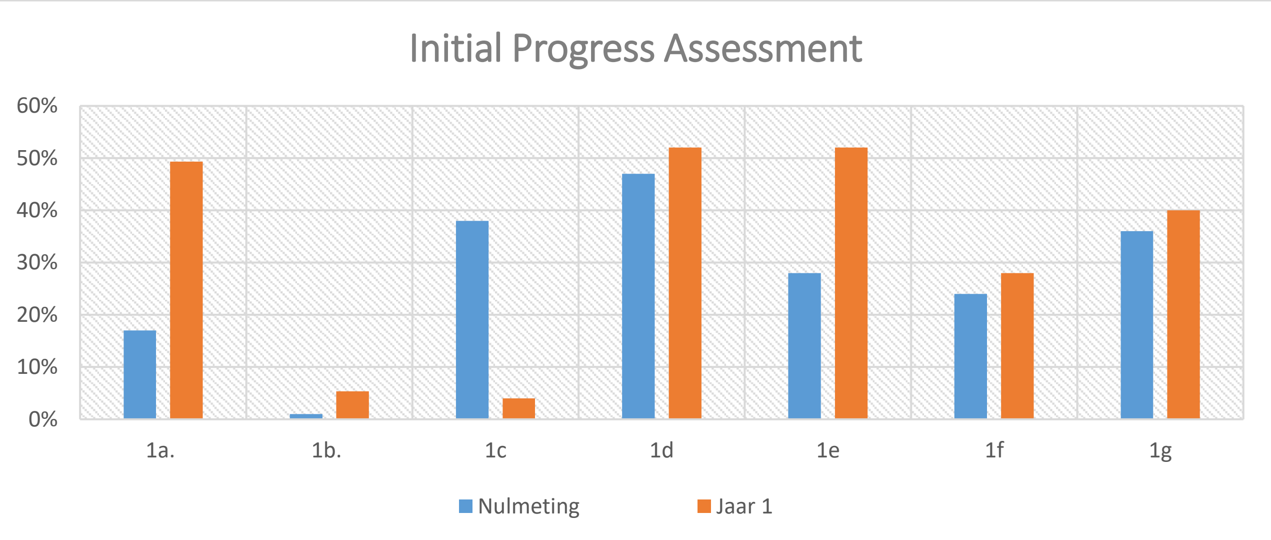
** The Monitoring Committee has no clear explanation for the 1% reduction in the "Monitoring of Outsourcing" key indicator compared to the Baseline Assessment. The slight difference may perhaps be explained by a change in the number of Participating Pension Funds between the Baseline Assessment and the Initial Progress Assessment.

Table 1 shows, for the four key indicators, the percentage of Participating Pension Funds that have implemented all the sub-indicators for the respective key indicator according to the Initial Progress Assessment. In order to clarify the progress made, the table also shows the intermediate objective for Year 1 and the results of the Baseline Assessment. Progress on all the sub-indicators is presented in the detailed explanation later in this report (p. 10 *et seq*.).

The Monitoring Committee wishes to make the following observations with regard to the progress of the Wide Track:

1. Implementation of the Agreement is lagging behind the intermediate objectives as regards all the key indicators.
2. The Monitoring Committee finds the score for the "Policy" key indicator (0%) to be disturbing. The objective is to achieve 100% implementation of this key indicator by the end of 2020, meaning that all the Participating Pension Funds will have implemented all seven "Policy" sub-indicators. However, none of the Participating Pension Funds has been able to fully achieve all the sub-indicators for "Policy" after the first year. The Monitoring Committee has singled out the key indicator "Policy" because it provides a framework for interpreting the other indicators.
3. When one analyses progress regarding "Policy" at a sub-indicator level, however, (between the Baseline Assessment and the present Initial Progress Assessment), the picture is more positive: progress has been made on almost all the sub-indicators, as shown in Graph 1. For example, approximately half of the Participating Pension Funds

have formulated a policy that is in line with the *OECD Guidelines for Multinational Enterprises* (referred to hereinafter as the "OECD Guidelines") and the *United Nations Guiding Principles on Business and Human Rights* (referred to hereinafter as the "UNGPs") (sub-indicator 1a). Many Participating Pension Funds have in practice adopted the template from the Toolbox, which includes a reference to the Guidelines.
For sub-indicator 1c, the score in the Initial Progress Assessment is lower than in the Baseline Assessment. This is because – in accordance with the advice of the Monitoring Working Group – the assessment criteria have been tightened up so as to bring them more in line with the text of the agreement.



Nulmeting: Baseline assessment Jaar 1: Year 1

Graph 1: Percentage of Participating Pension Funds that comply with the "Policy" sub-indicators in the Baseline Assessment and the Initial Progress Assessment

4. The biggest problem as regards implementing the Agreement obligations for "Policy" is the application of due diligence, a key element of the OECD Guidelines and the Agreement (sub-indicator 1b). Only 5% of the Participating Pension Funds have implemented this core element. This finding needs to be followed up by all the Parties.
5. The Monitoring Committee expects that a delay regarding the "Policy" key indicator will have consequences for progress on the "Outsourcing", "Monitoring of Outsourcing", and "Reporting & Transparency" key indicators. If policy is not developed and adopted by the management boards, this may have an adverse impact on achieving the next steps to be taken in line with the objectives of the Agreement.
6. Implementation of the Agreement arrangements needs to be speeded up in order to achieve the objectives that have been set. This demands greater attention on the part of management boards and where possible more time and resources.
7. Where the key indicators for "Outsourcing", "Monitoring of Outsourcing" and "Reporting & Transparency" are concerned, the Monitoring Committee notes that progress has in

general been achieved. For a number of sub-indicators less progress has been achieved than envisaged, but more time is available for implementation in line with the objectives of the Agreement.

1.2.2 Progress on the Deep Track

The Monitoring Committee wishes to make the following observations with regard to the Deep Track:

1. Progress has been made on the Deep Track. Based, however, on the information received by the Monitoring Committee from the working groups, progress cannot yet be reported or measured in accordance with the KPIs (Key Performance Indicators) included in the Agreement (such as those for Outputs and Outcomes/Impacts).
2. There are currently two active Cases (Palm Oil, Mining). A third case (the Platform Economy) has been under development since the third quarter of 2020 and therefore lies outside the Monitoring Committee's reporting period.
3. The Parties participating in the Deep Track will pursue a joint objective and strategy in their cooperation in the Cases, as set out in the Cooperation Plan. Based on the interviews conducted, the Monitoring Committee notes that progress on defining a common goal and strategy is slow-moving. There is no lack of good will and the information received is, in general, interpreted by the Monitoring Committee as being constructive, but a clear "common denominator" for selecting a specific Case that is relevant to all concerned is not easy to develop.
4. The Monitoring Committee notes that the participating Parties find it valuable to work together in the Cases and to keep abreast of one another's knowledge and expertise. However, no insights into effectiveness, feasibility, and scalability are yet apparent.

1.3 Other Agreement obligations

The Monitoring Committee wishes to make the following observations with regard to the other Agreement obligations:

1. The Monitoring Committee notes that in November 2019, in accordance with the Agreement arrangements, the Toolbox Working Group produced a document with recommendations for texts that Participating Pension Funds can incorporate into their policies, contracts, and monitoring.
2. The Monitoring Tool shows that 36 Participating Pension Funds have utilised the Toolbox, while 39 have not (yet) done so.
3. The Toolbox is rated positively by 28 of the 58 respondents (a score of 4 or 5 out of 5);
4. Required improvements to the Toolbox that were mentioned by respondents include "clearer explanation needed regarding due diligence; guidance needed regarding implementation of policy in index funds; little guidance and few concrete recommendations; less guidance than expected; access to remediation unclear".
5. The Monitoring Committee concludes from the progress made that more specific elaboration and further development of the Toolbox, particularly in terms of its practical

applicability, could provide greater support for the Participating Pension Funds in achieving the defined objectives.

6. The Monitoring Committee notes that there is constructive cooperation between the Parties. It also notes that funding for performance of Agreement roles is cited as an obstacle by some Parties. The Monitoring Committee recommends that the Steering Committee investigate this point.

1.4 Observations regarding Follow-up of the Baseline Assessment Recommendations

Based on the Baseline Assessment that was carried out, the Monitoring Committee drew up 13 recommendations for the Steering Committee, all of which were adopted by the latter in full. The Monitoring Committee has the following observations regarding these recommendations after Year 1:

1. Four out of thirteen recommendations have been followed up, namely 1, 3, 11, and 13. In particular, recommendations regarding engagement, cooperation, and shared definitions have thus been implemented. The Toolbox Working Group has followed up many recommendations by providing examples and explanations.
2. The Monitoring Committee was unable to ascertain whether three recommendations (numbers 8, 9, and 10, see appendix) had been followed up.
3. Six recommendations remain in force. These concern specific implementation and application. The Monitoring Committee sees progress, but it notes that the (additional) Toolbox could be more specific and developed faster. The time remaining for implementation during the Agreement Period is decreasing, and Participating Pension Funds seem to be losing time by reinventing the wheel themselves. The Monitoring Committee advocates specific "how to" versions and case studies that the Participating Pension Funds can work with immediately.

1.5 Recommendations from this Monitoring Report "Initial Progress Assessment"

1. Implement Due Diligence.

Based on the observation that the due diligence cycle still needs to be further elaborated and implemented in "Policy", "Outsourcing", "Monitoring of Outsourcing" and "Transparency & Reporting", the Monitoring Committee recommends requesting the Toolbox Working Group to develop the existing Toolbox further, namely in the form of a "how to" guide. The Monitoring Committee recommends that the Toolbox Working Group should pay particular attention to (1) applicability to smaller pension funds; (2) the fact that in addition to mandates, investments are also made in investment funds; and (3) that some investments are made passively in terms of investment style. This makes clear where the six steps of due diligence are applied and how they are documented (i.e. by whom) and according to what reporting requirements. The Monitoring Committee is also thinking in terms of a detailed case study so as to assist management boards, so that Participating Pension Funds have a good idea of what due diligence entails and can decide on their own choices and implementation on that basis.

The Monitoring Committee expects that the experience of innovative cooperation and knowledge-sharing derived from the Deep Track case studies can be put to good use by the Toolbox Working Group in creating a “how to” guide to the due diligence process.

2. Speed up implementation of policy.
Implementation of the Agreement arrangements needs to be speeded up in order to achieve the objectives that have been set. The managing boards of the Participating Pension Funds play an important role in this. Establishing policies, themes, and incorporation of due diligence are decisions by management boards that are needed in the first quarter of 2021 in order to successfully achieve the objectives.

3. Results-oriented cooperation.
Cooperation is needed so as to share knowledge and develop new ways of working. This includes sharing networks and making use of one another’s potential in order to achieve greater impact. For example, the Agreement requires Participating Pension Funds to bring about similar communication and contract amendments with their outsourcing partners. A good example of results-oriented cooperation is the letter from all the Parties to the Agreement to their outsourcing partners (news item available on the Agreement website).[2]

4. Managing cooperation with administrators.
Pension funds are increasingly formulating their own policies as regards environmental, social, and governance matters (ESG). At the same time, however, many Participating Pension Funds follow the ESG policies of their administrators for practical and cost reasons. It is then less straightforward to establish priorities for the Agreement provisions on the basis of the results of due diligence and the priorities of participants, among others. In addition, cooperation between Participating Pension Funds with shared principles and priorities can increase the efficiency and effectiveness of ESG policies, for example as regards recovery and redress.

1.6 Looking ahead

The Monitoring Committee expresses its expectation that, if the recommendations are acknowledged and implemented, the Parties will be able to focus more closely on outsourcing, monitoring of outsourcing, and accountability in the coming years of the Agreement. That, after all, makes visible and tangible the impact sought by the Participating Pension Funds, which forms the basis of the Agreement.

[2] https://www.imvoconvenanten.nl/nl/pensioenfondsen/nieuws/vermogensbeheerders-oproep-due-diligence

The Monitoring Committee is considering altering the format and method of its report next year. Monitoring the indicators will remain an important component, but the Committee can also map out the process in other ways, so as to clarify more specifically what is going well, what requires attention, and what experience and insights are useful for achieving the objectives of the Agreement.

The Monitoring Committee

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- U.N.J. (Udeke) Huiskamp MBA
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DETAILED EXPLANATION

2 Framework

This section outlines the aim of the Agreement and the role of the Monitoring Committee and the present report within it.

The Parties have defined the purpose of the Agreement as follows:

- The objective of this Agreement is for the Parties to prevent, mitigate and/or remediate (or have remediated) the negative social and environmental consequences of investments by pension funds, with no risk being excluded in advance (Paragraph 1.3).
- The Dutch Pension Funds Agreement on Responsible Investment is intended to meet the expectations arising for pension funds from the OECD Guidelines and the UNGPs, whereby the OECD guidance "Responsible business conduct for institutional investors" provides support for implementation (Paragraph 1.4).
- Given that the OECD guidance for institutional investors is new for pension funds and that there are few examples worldwide of how the OECD Guidelines and UNGPs are being fleshed out and implemented by institutional investors, learning and innovation are key objectives of the Agreement (Paragraph 1.5).
- Implementation of this Agreement should contribute to, and may not prejudice, fulfilment of the pension funds' fiduciary duty (Paragraph 1.6).

With the Agreement, the Parties wish to achieve the following objectives (Paragraph 1.9):

- support the Participating Pension Funds in resolving ESG issues that arise in their investment practice and that they are unable to resolve alone;
- urge the Participating Pension Funds to seek to optimise their investment processes through learning and innovation with a view to increasing the impact on investee companies;
- bring about medium- and long-term improvements for individuals and groups who (may) experience adverse impacts associated with the activities of companies in which Participating Pension Funds invest, either directly or indirectly;
- in the short term (the Term of the Agreement), make and implement process agreements on the policy and activities of Participating Pension Funds, as described in Articles 2 to 8 below.

Positioning of the current assessment

- The Monitoring Committee will monitor compliance with the provisions of the Agreement. For the purposes of monitoring, the Delegations will, in so far as necessary, translate these provisions into useful, quantifiable and transparent criteria (Paragraph 20.2);
- In the interests of monitoring the progress of the Agreement as a whole and across both the Wide and Deep Track, the Delegations will develop KPIs in addition to the aims and arrangements set out in this Agreement. Based on the Baseline Assessment, the KPIs will

set the target percentages for policy (Year 1), outsourcing (Years 1 and 2), monitoring (Years 1 and 2) and transparency (Years 1, 2 and 3), following the formulas set out in Appendix 2 to the Agreement. The KPIs may be amended if the Steering Committee so decides.

- The present report by the Monitoring Committee concerns the Assessment for Year 1. The purpose of the Assessment is to determine the extent to which the Participating Pension Funds are complying with the Wide Track agreements at the end of the first year. This assessment therefore concerns an objective survey of Policy, Outsourcing, Monitoring of Outsourcing, and Reporting & Transparency as adopted and reported by the Participating Pension Funds themselves.

Methodology of the Monitoring Committee

- Each year, an independent Monitoring Committee will monitor the progress made by the Parties in implementing the agreed activities, based on the principles of reasonableness and fairness.
- The Monitoring Committee will monitor the quality and quantity of the input from the Parties, based on the assessment criteria developed and applied by the Monitoring Working Group.
- Where it deems this necessary, the Monitoring Committee may ask the Parties to clarify the information provided and/or to send missing information, in so far as this information has not already been validated externally.
- The Monitoring Committee will report its findings to the Steering Committee confidentially, through the SER's Secretariat, by means of an annual monitoring report.
- The Steering Committee will use the monitoring report to inform the Delegations about the measures taken to implement the Agreement arrangements and if necessary to make recommendations for improvements.

3 Response Process

In order to monitor implementation of the Agreement's Wide Track, the Participating Pension Funds and Parties fill in a Monitoring Tool each year. The Participating Pension Funds are requested to report their progress on the basis of approximately 50 KPIs ("sub-indicators"). Where relevant, they are requested to add evidence to the Monitoring Tool. The responses to the KPIs are assessed by the Monitoring Committee, with the support of the SER's Secretariat. If this assessment shows that the response is incorrect or incomplete, the score for the KPI will be adjusted. The Monitoring Committee will engage with the Participating Pension Funds so that they have the opportunity to respond and/or provide additional information, after which the KPI assessment will be reassessed.

The initial period for filling in the tool (1 May 2020 – 31 July 2020) was extended by a few days (until 5 August) and the process of hearing all sides was also extended (until 1 October). The assessment was delayed by almost a month because most of the Participating Pension Funds did not complete the Monitoring Tool until just before the closing date. In accordance with the text in the Agreement, the Monitoring Tool refers to the 2019 calendar year. Information generated in 2020 that Participating Pension Funds submitted when answering the questions and during the process of hearing what the parties concerned have to say has been taken into account.

Of the 83 pension funds that have signed the Agreement, 75 Participating Pension Funds filled in the tool in full. Seven Participating Pension Funds stated that they would not be completing the tool because they were in the process of being wound up. One Participating Pension Fund did not respond at all to the invitation and reminder to complete the tool, without giving any reason. KPIs were also included in the Monitoring Tool for the other participating Parties (other than Participating Pension Funds), so as to monitor implementation of their activities. These other participating Parties all filled in the tool. Given this response from Participating Pension Funds and other Parties, the Monitoring Committee considers the information suitable for determining progress after one year.

The Monitoring Committee endeavours to conduct the assessment as factually and objectively as possible so as to provide the clearest possible picture of implementation of the agreed activities by Participating Pension Funds. The process of hearing all sides, for example, was conducted as objectively as possible, so as to avoid creating the impression of an assessment or bias.

4 Framework, Observations, and Recommendations from Year 1 Assessment

In this section, the Monitoring Committee presents its observations and recommendations. The Agreement comprises the following components:

- Policy
- Outsourcing
- Monitoring of outsourcing
- Transparency & Reporting
- Other Obligations

For each component, the framework of the Agreement is briefly described, as well as the Monitoring Committee's observations based on the Initial Progress Assessment and any resulting recommendations.

4.1 Framework, Observations, and Recommendations regarding Policy

4.1.1 Policy Framework

The following (abbreviated) components are relevant to monitoring "Policy":
Paragraph 3.1 of the Agreement – Participating Pension Funds must bring their ESG policy into line with the OECD Guidelines and UNGPs as soon as possible but no later than two years after the Agreement comes into effect. That policy must include at least the following:

a. A commitment to the OECD Guidelines and UNGPs;
b. A description of how the Participating Pension Fund interprets and is incorporating the various ESG due diligence steps into the outsourcing, monitoring, and reporting of External Service Providers pursuant to the OECD Guidelines and the UNGPs;
c. An explanatory text addressing specific themes, including the use of standards, which the Participating Pension Funds deem to be risky based on information resulting from an ESG due diligence procedure, as well as specific themes reflecting the priorities identified by the participants of the Participating Pension Fund;
d. Information on the activities in which individual Participating Pension Funds will not invest;
e. The policy on voting at the AGMs of listed companies and Engagement with respect to listed companies and corporate bonds, directly or through outsourcing, aimed at encouraging long-term value creation in companies;
f. A description of how (social) value creation will be used as a guiding principle in the longer term.

Paragraph 3.2 of the Agreement – The Parties will jointly develop a toolbox within one year of the Agreement coming into effect…. It is recommended that this include templates based on the OECD Guidelines and UNGPs for drafting policy texts that satisfy the criteria set out in Paragraph 3.1.

Paragraph 3.4 of the Agreement – Where possible and meaningful, Participating Pension Funds will involve third parties that they regard as stakeholders in the development of ESG policy. Participating Pension Funds will generate support among participants for the choices they make regarding responsible investment.

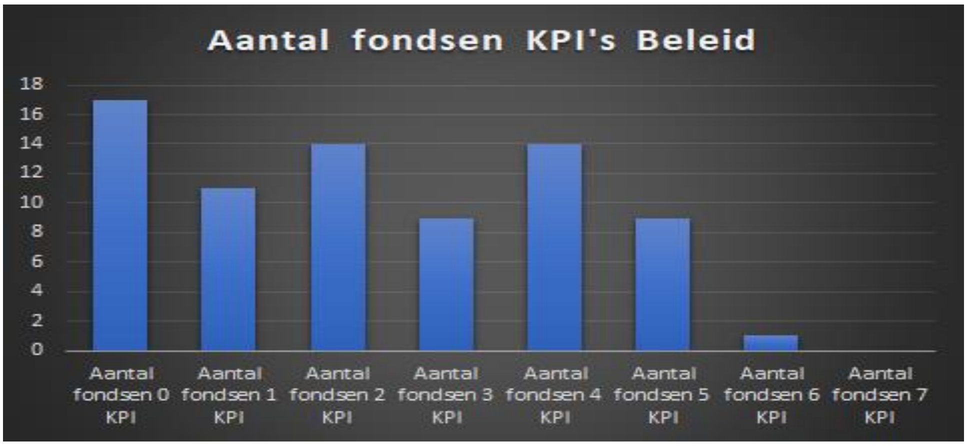
4.1.2 Observations regarding Policy

In the present Initial Progress Assessment, the Monitoring Committee emphasises incorporation of the Agreement obligations into the policy of the Participating Pension Funds. This is, after all, the framework for the steps that follow. Implementation of "Policy" is monitored on the basis of seven sub-indicators. The objective is that by the end of Year 2 (2021), 100% of the Participating Pension Funds will have complied with all the sub-indicators. The intermediate objective as formulated by the Monitoring Working Group is indicated for each sub-indicator in the first column of the table below

KPI Percentage of Participating Pension Funds that have fully implemented the sub-indicator		Initial Progress Assessment		Baseline Assessment
	Objective	Result on basis of percentage of pension funds	Result on basis of percentage of invested assets	Result on basis of # pension funds
Key indicator for policy				
1. All applicable sub-indicators implemented	50%	0%	0%	0%
Sub-indicators, does policy contain:				
1a. A text pursuant to the OECD Guidelines and the UNGPs.	58%	49%	83%	17%
1b. A description of how the Participating Pension Fund interprets and is incorporating the various ESG due diligence steps into the outsourcing, monitoring and reporting of External Service Providers, according to the OECD Guidelines and the UNGPs.	50%	5%	5%	1%
1c. An explanatory text addressing specific themes, including the use of standards, which the Participating Pension Funds deem to be risky based on information resulting from an ESG due diligence procedure, as well as specific themes arising from the priorities identified by the participants of the relevant pension fund.	69%	4%	42%	38%
1d. Information on the activities in which the individual pension funds will not invest.	73%	52%	63%	47%
1.e. The approach towards Engagement for listed companies, directly or through outsourcing, aimed at encouraging long-term value creation in companies.	64%	52%	87%	28%
1.f. The Approach towards Engagement in respect of corporate bonds, directly or through outsourcing, aimed at encouraging long-term value creation in companies.	62%	28%	50%	24%
1.g. The policy on voting for listed companies, directly or through outsourcing, aimed at encouraging long-term value creation in companies.	68%	40%	33%	36%
1.h. A description of how (social) value creation will be used as a guiding principle in the longer term.	77%	69%	96%	55%

Table 2 Progress of main and sub-indicators for Policy. Note: The Agreement originally specified 6 sub-indicators. On the advice of the Monitoring Working Group, one sub-indicator has been split. The key indicator is thus assessed on the basis of 7 indicators.

The Monitoring Committee notes that 0% of the Participating Pension Funds have complied with all the sub-indicators for “Policy”. At the same time it is apparent that many Participating Pension Funds have implemented one or more sub-indicators: approximately half of them have formulated policy that is in line with the OECD Guidelines and UNGPs. The Monitoring Committee concludes that when one considers the number of sub-indicators that must be met by Participating Pension Funds, a great deal of work still remains to be done.



Aantal fondsen KPI's Beleid	Number of funds meeting KPIs for Policy
Aantal fondsen KPI…	Number of funds meeting KPI…

Graph 2: Number of pension funds and number of KPIs met

Graph 2 shows that more than half (57%) of the Participating Pension Funds have implemented two or fewer of the seven sub-indicators, while almost one third (32%) have implemented four or more of them. Many Participating Pension Funds have in practice adopted the template from the Toolbox, which includes a reference to the Guidelines.[3]

The problem regarding implementation of "Policy" involves the application of due diligence. This concerns a description in the policy of *how* due diligence is interpreted and incorporated. Due diligence is a crucial component of the OECD Guidelines and consists of a six-step cycle. Only 5% of the Participating Pension Funds have implemented this core element in accordance with the Agreement.[4] In combination with the low score for implementation of due diligence, there is a low score on the policy choice for thematic focus areas that follow from the due diligence cycle. It should be noted that the Toolbox to support Participating Pension Funds in formulating policy, including implementation of due diligence, was published at the end of 2019. The period between the Toolbox becoming available and the present progress assessment was therefore only brief. However, the Monitoring Committee concludes from the responses of Participating Pension Funds when engaging with them that many Participating Pension Funds have only a limited knowledge of the due diligence cycle and refer to exclusion policy or engagement, or state that due diligence does not apply to passive investment.

[3] With the template, pension funds subscribe to the OECD Guidelines and the UN Guiding Principles on Business and Human Rights with reference to the OECD guideline for institutional investors.
[4] Compared to the Baseline Assessment, the percentage of Participating Pension Funds meeting indicator 1c ("thematic focus areas based on information from an ESG due diligence process") has decreased. This has been caused by tightening up the assessment based on instructions from the Monitoring Working Group.

4.1.3 Recommendations

With a view to the capacity for learning of the Agreement process, the following recommendation is presented on the basis of the observations made:

- The Monitoring Committee recommends that the Steering Committee instruct the Toolbox Working Group to increase the effectiveness of the existing Toolbox. In particular, applicability for smaller pension funds must be made more specific and application for passively invested portfolios must be more explicit. The Monitoring Committee has in mind specific cases and “how to” manuals.

4.2 Framework, Observations, and Recommendations regarding Outsourcing

4.2.1 IRBC Agreement Framework

Several components of the Agreement concern outsourcing. Paragraph 3.1b, for example, expects Participating Pension Funds to specify "how the Participating Pension Fund interprets and is incorporating the various ESG due diligence steps into the outsourcing, monitoring and reporting of External Service Providers pursuant to the OECD Guidelines and the UNGPs". Paragraph 4.1 of the Agreement explains this by stating that Participating Pension Funds "[remain] responsible for implementing the OECD Guidelines and the UNGPs in the Asset Classes. To ensure that the OECD Guidelines and UNGPs are implemented in the Asset Classes of Participating Pension Funds, these guidelines and guiding principles will be incorporated into contracts with External Service Providers. The OECD guidance for institutional investors offers support for such implementation."

This is worked out in detail in Paragraphs 4.1 and 4.2. The following (abbreviated) components are substantively relevant to "Outsourcing":

Paragraph 4.1 of the Agreement – Participating Pension Funds will stipulate in new contracts with External Service Providers at least that the External Service Provider must, pursuant to the OECD Guidelines and UNGPs, do the following:

a. implement ESG in policy and management systems and use long-term value creation as a guiding principle;
b. identify and prioritise the actual and potential adverse impact of activities undertaken in the Participating Pension Fund's Asset Classes, while involving relevant stakeholders in this effort;
c. use and, where necessary and possible, increase leverage to ensure that the adverse impact of activities undertaken in the Asset Classes is prevented or mitigated;
d. use and, where necessary and possible, increase leverage by imposing time-limited demands in which it encourages listed investee companies that cause or contribute to an adverse impact to prevent and/or mitigate that adverse impact and/or to provide access to remediation;
e. when Paragraph 8.3 applies, set up processes to provide access to remediation;
f. when (temporarily) reducing an investment position in or divesting from companies that have been prioritised owing to the severity of the adverse impact, also consider the potential adverse impacts on disadvantaged groups;
g. render accountability by monitoring results and by reporting to the Participating Pension Fund, with due observance of the reporting requirements as described in Article 5 of this Agreement.

Paragraph 4.2 of the Agreement – Within one year of the Agreement coming into effect, the Parties will jointly develop a Toolbox that includes templates for texts satisfying the criteria described in Paragraph 4.1 that Participating Pension Funds can incorporate into contracts with External Service Providers, in which such External Service Providers are asked to carry out due diligence pursuant to the OECD Guidelines and the UNGPs. With regard to existing contracts that are not renewed within the term of the Agreement, Participating Pension Funds will make every effort to bring them into line with the provisions set out in Paragraphs 4.1 and 5.1.

4.2.2 Observations regarding Outsourcing

The table below shows the quantitative results for implementation of Outsourcing.

KPI Percentage of Participating Pension Funds that have fully implemented the sub-indicator		Initial Progress Assessment		Baseline Assessment
	Objective	Result on basis of percentage of pension funds	Result on basis of percentage of invested assets	Result on basis of percentage of pension funds
Key indicator, outsourcing				
2. All applicable sub-indicators implemented	34%	13%	57%	1%
Sub-indicators, does outsourcing contain:				
2.a. Implements ESG in policy and management systems and uses long-term value creation as a guiding principle.	35%	30%	78%	3%
2b. Identifies and prioritises the actual and potential adverse impact of activities undertaken in the Participating Pension Fund's Asset Classes, while involving relevant stakeholders in this effort.	35%	37%	73%	3%
2c. Uses and, where possible, increases leverage to prevent or mitigate the adverse impact of activities in the Asset Classes.	35%	12%	11%	3%
2d. Uses and, where necessary and possible, increases leverage by imposing time-limited demands in which it encourages listed investee companies that cause or contribute to an adverse impact to prevent and/or mitigate that adverse impact and/or to provide access to remediation pursuant to Paragraph 8.2.	41%	41%	66%	11%
2e. if Paragraph 8.3 applies, it sets up processes to provide access to remediation.		1 fund		1 fund
2f. When (temporarily) reducing an investment position in or divesting from companies that have been prioritised owing to the severity of the adverse impact, also considers the potential adverse impacts on disadvantaged groups.	34%	25%	62%	1%

2g. Renders accountability by monitoring results and by reporting to the Participating Pension Fund, with due observance of the reporting requirements as described in Article 5 of this Agreement.	See KPI 3	See KPI 3	See KPI 3	See KPI 3

Table 3 Progress of main and sub-indicators for "Outsourcing".

4.2.3 Observations regarding Progress

- As regards the sub-indicators for "Outsourcing", the Participating Pension Funds have made progress in a number of areas. The Agreement lays down that the Participating Pension Funds must have complied with 100% of the sub-indicators by the end of Year 3 of the term of the Agreement.
- The number of Participating Pension Funds that have included implementation of ESG policy in the new/renewed contracts with administrators and asset managers, whereby the Participating Pension Fund ensures that long-term value creation is a guiding principle, is still only modest. In the reporting period, six Participating Pension Funds indicated that they would include implementation of ESG in new and renewed contracts. Fewer still have explicitly included long-term value creation as a guiding principle.
- Four Participating Pension Funds indicated that they have contractually stipulated implementation of due diligence in the administrator's management systems. A closer look reveals that this has been properly substantiated by only one Participating Pension Fund. Fifteen Participating Pension Funds indicated that they had not yet stipulated this, with the majority indicating that ESG is incorporated as a provision or is incorporated in contracts.
- Two Participating Pension Funds indicated that they have contractually stipulated identification and prioritising of activities with a negative impact. Only one Participating Pension Fund indicated that it had included the setting up of processes to enable access to remediation in the contract.

4.2.4 Recommendations

- From next year on, clear progress is expected on this key indicator, as agreed in the Agreement. The Monitoring Committee recommends that – with the aid of templates in the Toolbox and experience of utilising them – the Participating Pension Funds that have already taken steps should share their findings so that other pension funds can learn from them.
- The Monitoring Committee recommends that extra attention be paid to designing processes for access to remediation, because this is new for both the Participating Pension Fund and for the administrator. The figures show that little experience has been gained with this as yet. The Monitoring Committee calls on management boards to first take their time and, above all, to start small, to gain experience with an administrator and mandate, and then to take bigger steps on that basis. The Monitoring Committee realises that one

needs to adopt a pragmatic attitude within this process, precisely because it is also a learning process.

4.3 Framework, Observations, and Recommendations regarding Monitoring of Outsourcing

4.3.1 IRBC Agreement Framework

External Service Providers for fiduciary management of the assets of, *inter alia*, pension funds have been implementing ESG policies for many years and provide monitoring reports on that implementation. However, such monitoring and reporting is not yet (systematically) based on the OECD Guidelines and the UNGPs and the due diligence approach arising from them. The Agreement lays down that Participating Pension Funds will include the reporting requirements in accordance with the OECD Guidelines/UNGPs in contracts with External Service Providers, doing so as soon as possible but by no later than three years after the Agreement comes into effect. The purpose of these reporting requirements for External Service Providers is to monitor, *inter alia*:

a. progress on implementing ESG policy;
b. the risk-identification methodology and findings concerning the adverse impact identified in the Asset Classes;
c. information on how adverse impact is prevented and/or mitigated in the Asset Classes and/or how access is offered to redress and/or recovery;
d. the severity of the adverse impact.

In order to support Participating Pension Funds in implementing these new reporting requirements, the Agreement stipulates that, within one year of the Agreement coming into effect, the Parties will jointly develop a Toolbox that the Participating Pension Funds can include in the reporting requirements for External Service Providers.

4.3.2 Observations regarding Monitoring of Outsourcing

KPI Percentage of Participating Pension Funds that have fully implemented the sub-indicator		Initial Progress Assessment		Baseline Assessment
	Objective	Result on basis of percentage of pension funds	Result on basis of percentage of invested assets	Result on basis of # pension funds
Key indicator, Monitoring				
3. All applicable sub-indicators implemented	39%	7%	21%	8%
Sub-indicators, does Monitoring contain:				
3a. Progress made by the relevant External Service Provider in implementing its own and/or the relevant Participating Pension Fund’s ESG policy.	66%	68%	92%	49%
3b. The External Service Provider’s ESG risk-identification methodology and its findings concerning the adverse impact identified in the Asset Classes.	41%	21%	63%	11%
3c. Information on how the External Service Provider has attempted, on behalf of the Participating Pension Fund, to prevent and/or mitigate the adverse impact of activities in the Asset Classes and/or to encourage the provision of remediation.	45%	27%	38%	17%
3d. The External Service Provider must provide information on the listed companies that have been prioritised based on the severity of the adverse impact and over which its leverage has not led to sufficient progress within the designated time frame.	45%	27%	43%	18%

Table 4 Progress on main and sub-indicators for “Monitoring of Outsourcing”.

Important: The Monitoring Committee has no clear explanation for the 1% reduction in the “Monitoring of Outsourcing” key indicator compared to the Baseline Assessment. The slight difference may perhaps be explained by a change in the number of Participating Pension Funds between the Baseline Assessment and the Initial Progress Assessment.

4.3.3 Observations regarding Monitoring of Outsourcing

- Almost two-thirds of the Participating Pension Funds indicate that they have included in the reporting requirements that the External Service Provider must report periodically on the progress made in implementing ESG policy. Most of the Participating Pension Funds that indicate that they have not done so state that this already happens in practice but is not yet included in the contracts.

- Twenty-one percent of the Participating Pension Funds indicate that the reporting requirements provide that External Service Providers must inform them about the ESG risk identification methodology. Some of the Participating Pension Funds indicate that they comply with this in part. Others indicate that they are being notified of adverse impacts that have been identified.
- In line with this, a large proportion of Participating Pension Funds have stipulated in the reporting requirements with External Service Providers that the latter must include information on how they report and, where appropriate, remediate any adverse impact of activities in the Asset Classes on behalf of the Participating Pension Fund.
- As regards the indicator for "prioritising of listed companies based on the severity of the adverse impact and over which its leverage has not led to sufficient progress within the designated time frame", 27% of the Participating Pension Funds indicate that they have included the use of leverage in their reporting requirements. They have stipulated in the reporting requirements that the External Service Provider must report on Cases in which the use of leverage has resulted in insufficient progress.

4.3.4 Recommendation

Based on the observation that implementation of the entire due diligence cycle by Participating Pension Funds is still in its infancy, the Monitoring Committee recommends that the Toolbox Working Group be requested to develop the existing manual further, paying attention to the reporting requirements and documentation. The Monitoring Committee recommends that this should take the form of a "how to" guide. This will make clear where the six steps of due diligence are applied and how they are documented (i.e. by whom) and according to what reporting requirements. The Monitoring Committee is also thinking in terms of a detailed case study so as to assist management boards, so that Participating Pension Funds have a good idea of what due diligence entails and can decide on their own choices and implementation on that basis.

4.4 Framework, Observations, and Recommendations regarding Reporting & Transparency

4.4.1 IRBC Agreement Framework

Transparency based on public reporting is a core principle of responsible investment. Participating Pension Funds must expand their public reporting so as to report in accordance with the OECD Guidelines and the UNGPs, doing so as soon as possible but no later than three years after the Agreement comes into effect. Such Reporting & Transparency will include at least the following:

a. a list of the names of companies and/or investment funds in which the assets are invested;
b. the approach to due diligence pursuant to the OECD Guidelines and the UNGPs;
c. an explanation of how the Participating Pension Fund's ESG policy has been integrated into the various Asset Classes;
d. the engagement activities, their results, and the subsequent decisions;
e. an explanation of the policy regarding voting at meetings of shareholders;
f. future ESG policy and ESG objectives.

Transparent communication regarding ESG policy with prioritisation and focus appropriate to the Participating Pension Fund and its participants is a first step towards building support. The Agreement provides that, within one year of it coming into effect, a Toolbox will be developed that includes templates for texts that Participating Pension Funds can incorporate into their reports. Although the Toolbox has been developed, the Monitoring Committee notes that it has been fleshed out to only a limited extent, particularly as regards Reporting & Transparency regarding the approach to due diligence.

4.4.2 Observations regarding Reporting & Transparency

KPI Percentage of Participating Pension Funds that have fully implemented the sub-indicator		Initial Progress Assessment		Baseline Assessment
	Target	Result on basis of percentage of pension funds	Result on basis of percentage of invested assets	Result on basis of # pension funds
Key indicator, Reporting & Transparency				
4. All applicable sub-indicators implemented	26%	1%	4%	1%
Sub-indicators, does Reporting & Transparency contain:				
4a. Subject to the principle of "comply or explain", in so far as legally and practically possible and with due regard for Proportionality, and with a delay of one financial quarter but not more than one year annually, a list of the names of companies and/or investment funds within the listed equity portfolio(s) in which the assets of the Participating	44%	44%	51%	25%

Pension Fund were invested over the previous period.				
4b. The Participating Pension Fund's approach to due diligence pursuant to the OECD Guidelines and the UNGPs (whether or not pursued through External Service Providers).	26%	5%	37%	1%
4c. An explanation of how the Participating Pension Fund's ESG policy has been integrated into the various Asset Classes in which the Participating Pension Fund invests.	37%	41%	29%	16%
4d.I. Companies with which a form of Engagement has been pursued on behalf of the Participating Pension Fund and to what end.	39%	33%	79%	18%
4d.II. The results of Engagement pursued on behalf of the Participating Pension Fund in specific companies.	43%	32%	36%	24%
4d.III. Decisions taken by the Participating Pension Fund when Engagement has been unsuccessful.	33%	9%	6%	12%
4e. An explanation of how the Pension Fund voted at shareholders' meetings of listed investee companies, in accordance with Directive 2007/36/EC as regards the promotion of long-term shareholder engagement.	54%	36%	64%	39%
4f. Where valuable, future ESG policy and ESG objectives.	43%	37%	66%	24%

Table 5 Progress of main and sub-indicators for Reporting & Transparency

- Progress on the key indicator of Reporting & Transparency is failing to meet the objective.
- In line with the findings on the incorporation of due diligence into policy, transparency regarding due diligence is failing to meet the objective (based on the percentage of Participating Pension Funds).
- With regard to sub-indicator 4d.III, "transparency regarding the decisions taken by Participating Pension Funds when engagement has been unsuccessful", progress is only limited. Given that reporting on decisions based on progress results is important for the effectiveness and credibility of engagement, it is desirable for there to be progress regarding this sub-indicator.
- For a few sub-indicators, such as publication of a list of investee companies/investment funds, significant progress has been made compared to the Baseline Assessment, and the result exceeds the objective.
- It is a positive development that more Participating Pension Funds are providing insight into their future ESG policy and ESG objectives. Active communication regarding ESG policy choices can increase stakeholder engagement, as illustrated by the example in the Toolbox regarding this article in the Agreement.[5]

[5] "The pension fund's management board is considering what future policy should look like. We would therefore like to know what our participants and other stakeholders think is important."

4.4.3 Recommendations

- Participating Pension Funds are recommended to report, based on unambiguous criteria, on what decisions are taken if engagement has been unsuccessful;
- The Monitoring Committee calls on the Toolbox Working Group to provide practical guidance, especially for smaller pension funds, on how to report transparently on implementation of the six due diligence steps and the results of those steps.

4.5 Framework, Observations, and Recommendations regarding the Deep Track

4.5.1 IRBC Agreement Framework

1. 12.1 Cooperation between the Parties in the Cases will give rise to innovations and new insights and produce broadly relevant lessons learned. Three levels can be distinguished in this context:
    a. 12.1.1 Issue: insights about how to tackle adverse impacts effectively within the context of the ESG issue;
    b. 12.1.2 Cooperation: tactical and strategic insights about how to build the leverage of the Participating Pension Funds over companies through cooperation; This concerns cooperation across the entire process of proposing and selecting, executing, closing and reflecting on Cases;
    c. 12.1.3 Policy: insights that are reproducible or that have implications for the pension funds' due diligence processes, for government, NGO and Trade Union policymaking, or for the application of the UNGPs and the OECD Guidelines in other sectors/countries and thus for the Wide Track (Articles 2 to 8).
2. 12.2 The working groups and sub-working groups will reflect on their Cases every year so as to identify and document strategic insights and lessons learned. The boards of the funds involved in the execution of these Cases will be invited to participate. Third parties and/or experts can also be invited where necessary. Upon the close of a Case, a workshop that includes external experts will be organised for reflection purposes, with policy implications being a specific topic of discussion. The Parties will endeavour to document the lessons learned and insights concerning the Deep Track in publications. The working group or sub-working group will report its final findings to the Monitoring Committee and the Steering Committee. The Steering Committee will review these findings before drafting recommendations for the Wide Track activities. Among other things, this means that during implementation of the Agreement, lessons learned in the Deep Track will be incorporated into the Toolbox and/or its application.

4.5.2 Observations

Ten pension funds are active in the Deep Track, along with a number of other parties. The composition differs per Case and depends on the activities and affinity of these parties with the *Case* concerned.

In the first year of implementation of the Agreement, two Deep Track Cases were set up, one focused on a specific mining company and the other more sector-specifically on palm oil.

Despite the many differences between the Deep Track projects, there are also a number of similarities. These have led to the following observations:

- The focus areas (mining and palm oil) are known for presenting challenges as regards both ESG and human rights. Those challenges concern both what happens at the work sites (working conditions) and the impact on people living nearby. There have already been engagement projects in the past regarding these issues, including by signatories to the Agreement, whether or not through their administrators. The innovative nature of the Deep Track lies mainly in the cooperation between the Parties.
- The Deep Track Cases are generally still (i.e. at the time of the interviews with the Monitoring Committee) in their early stages. The Monitoring Committee has the impression that choosing and setting up the specific Cases was by no means straightforward. Care needed to be taken to ensure that there was sufficient support for the topic, that each Party was of sufficient added value, that any (political) consequences had been identified and addressed, etc. This took more time than the participants had anticipated.
- The COVID-19 pandemic meant that a physical visit to one of the Cases was not possible in 2020. A virtual visit did take place, however, during which all Parties made a contribution based on their unique knowledge, those they represent, contacts, and experience. This would seem to be an innovative and promising concept.
- The first real results in terms of behavioural change at companies and/or "impact on the ground" have yet to be determined. It is too early to say anything meaningful about this after only one year. Looking ahead, the Monitoring Committee notes that questions regarding funding, especially the NGO contribution to the Deep Track, could limit the role of the NGO parties and thus the intended results in the future.
- There are also questions regarding the scalability of the Deep Track and whether it is feasible in actual practice to set up and implement similar tracks outside the context of the Agreement.

4.5.3 Recommendations

Based on its observations, the Monitoring Committee has two recommendations:

- One matter to investigate is whether the unique Agreement approach has a different or greater impact than engagement activities concerning the same topics as before. The Monitoring Committee therefore recommends that the impact at the various levels (issue, cooperation, and policy) be tracked closely and that there be targeted communication about this, including outside the context of the Agreement. It would perhaps also be valuable to ascertain from the companies with which engagement has been carried out how they experienced this innovative way of conducting engagement (whether or not by means of an independent study).

- So as to remove as many practical obstacles as possible, such as financing for NGOs, the Monitoring Committee recommends that, where possible, this should be clarified at the start of an engagement process.

4.6 Framework, Observations, and Recommendations regarding other Agreement Obligations

This section sets out the Monitoring Committee's observations and recommendation regarding the Toolbox, as well as those regarding the roles of the Parties.

4.6.1 IRBC Agreement Framework

- (7.1) Within one year of the Agreement coming into effect, the Parties will jointly develop a Toolbox that Participating Pension Funds will consider and may use to implement the OECD Guidelines and UNGPs.
- (7.2) The Toolbox Working Group will prepare explanatory texts addressing specific themes based on risks identified by pension funds in due diligence procedures.
- (7.3) All Participating Pension Funds must be able to apply the Toolbox in a meaningful and practical manner.
- (7.5) In the interests of learning and innovation, lessons learned will be used to improve the Toolbox.
- (7.5) The Federation of the Dutch Pension Funds will incorporate the Toolbox into a Service Document on Responsible Investment.
- (7.5) The Monitoring Committee will monitor the use and effectiveness of the Toolbox.

4.6.2 Observations regarding the Toolbox

- The Toolbox Working Group produced the document "Dutch Pension Funds Agreement on Responsible Investment Toolbox" at the end of 2019. Monitoring for Year 1 shows that many Participating Pension Funds have taken note of the Toolbox and about half of them report that they utilise it.
- The Monitoring Committee notes that many Participating Pension Funds have not (yet) been able to make effective use of the Toolbox. Based on feedback from the Participating Pension Funds, the Monitoring Committee notes that the Toolbox is not yet as specific and applicable as desired. The Monitoring Committee sees further development of the Toolbox (and particularly the elaboration of due diligence) as an important means of ensuring that the objectives of the Agreement remain attainable.
- The Monitoring Committee also notes that the Cooperating Parties can deploy the Toolbox more effectively in order to achieve the objectives of the Agreement.
- The Agreement stipulates that the Federation of the Dutch Pension Funds will support the Participating Pension Funds in implementing the Toolbox by incorporating it into a Service Document on Responsible Investment. The Monitoring Committee notes that this has not yet been achieved, and recommends that support be provided by means of additional communication (for example webinars) aimed at clarifying the six steps of the due diligence process.

4.6.3 Recommendations

- The Monitoring Committee recommends that the Toolbox Working Group produce a more elaborate version of the existing Toolbox. This should not only include templates, but also specify where these should be applied, how they will be documented (i.e. by whom), what reporting requirements this will entail, etc. Specifically, a detailed case study can be drawn up so that Participating Pension Funds have a clear idea and can make their own interpretation/choices on that basis.
- The Monitoring Committee recommends that the Toolbox be developed in the spirit of the Agreement, i.e. through mutual cooperation. A good example of results-oriented cooperation is the letter from all the Parties to the Agreement to their outsourcing partners (news item available on the Agreement website).[6]

4.7 Roles of the Pension Funds, the Federation of the Dutch Pension Funds, Government, NGOs, and Trade Unions

The Agreement sets out the roles for all Parties involved with a view to ensuring the meaningful and practical implementation of the OECD Guidelines and the UNGPs. The following roles (abbreviated from the Agreement) are specified:

1. The Participating Pension Funds will ensure that there is support among participants for the choices made regarding responsible investment.
2. The Federation of the Dutch Pension Funds will incorporate the Toolbox into a Service Document on Responsible Investment.
3. The Trade Unions will acquire and share knowledge and networks so as identify, mitigate, and remedy labour rights.
4. NGOs will share knowledge and networks for their field, including regarding due diligence procedures.
5. Among other things, the Government will proactively promote the Agreement and the OECD standards at international and national level, including through trade missions and embassies. In addition, the Government will continue to fulfil its duty to protect at the international, European, and national levels.

[6] https://www.imvoconvenanten.nl/nl/pensioenfondsen/nieuws/vermogensbeheerders-oproep-due-diligence

4.7.1 Observations

- The Monitoring Committee concludes from the low score for the question (question 1c: score 4%) regarding choices made on the basis of priorities set by those represented, that Participating Pension Funds have as yet hardly taken on this role, if at all.
- The Federation of the Dutch Pension Funds has published a user-friendly version of the Toolbox on its website. At the end of November 2020, the information had not yet been incorporated into the 2016 Service Document on Responsible Investment.
- Knowledge of labour rights in specific sectors and regions was shared, *inter alia*, when the thematic focus areas were determined. Utilising networks is relevant within the Deep Track, including when performing due diligence based on the UNGPs.
- The NGOs report that the input of their knowledge of such things as due diligence and the thematic focus areas within the Toolbox Working Group did not match the level of ambition or the everyday environment of pension funds. The NGOs perceive a lack of cooperation and feel that their ESG knowledge has not been utilised as much as it should have been in order to achieve the objectives of the Agreement.

4.7.2 Recommendations

- Up to now, cooperation has often perhaps been too tentative, with that being one reason why progress has been less than anticipated. The Monitoring Committee therefore recommends that the Parties to the Agreement look closely at where they reinforce one another and at how each Party can best be deployed in order to achieve the objectives of the Agreement.
- Given the Government's role in promoting implementation of the Agreement and the importance for pension funds of implementation remaining practicable and the costs manageable, the Monitoring Committee advises the Steering Committee that regulators should, where possible, become parties to the Agreement, particularly its due diligence provisions and the reporting requirements that are to be developed.

5 Follow-up to the recommendations in the Monitoring Committee's Report for the Baseline Assessment Year

The following are the recommendations that the Monitoring Committee made in its report on the Baseline Assessment year, and the observations that it has regarding their implementation and/or follow-up.

As regards "Policy"

Recommendations in the Report for the Baseline Assessment Year	Observations regarding following-up of Recommendations
Recommendation 1. In the first year of a complex process such as the Dutch Pension Funds Agreement on Responsible Investment, it is logical that it is not yet entirely clear to all Participating Pension Funds how they should proceed. The Monitoring Committee therefore recommends that the Parties to the Agreement (where possible in cooperation) involve Participating Pension Funds, their administrative offices, management boards, participants, and other stakeholders in the Agreement process, and that they provide appropriate information and training. It is advisable to start with the subjects where the Monitoring Committee finds that there is confusion/uncertainty (for example difference in codes and guidelines such as the UNGC, UNGPs, UNPRI, OECD Guidelines, who develops the Toolbox, etc.). It is likely that future differences between the self-assessments and those by the Monitoring Committee will decrease as clarity is achieved among the Participating Pension Funds.	The Monitoring Committee notes on the basis of the reports received that there is involvement and cooperation on the part of the Parties. Confusion/uncertainty about the different codes/guidelines is clearly decreasing. Nevertheless, the Monitoring Committee continues to recommend that a clear – and concise – framework for pension funds be developed setting out how these guidelines and codes are positioned and how they interact. A number of organisations would seem to have awaited action on the part of the Toolbox Working Group, which confirms the picture that it is not yet entirely clear to all parties. One recommendation would be for the Toolbox Working Group to indicate clearly in advance what it will deliver and when it will do so.
Recommendation 2. It is advisable to make it clear at an early stage in development of the Toolbox that due diligence according to the OECD Guidelines is different from that set out in generic outsourcing guidelines according to the Dutch Central Bank (DNB). In addition, the idea seems to exist that it is the SER that is developing the Toolbox for the pension funds; it should be made clear that it is being developed by the working group. Due diligence according to the OECD Guidelines requires that potential or actual adverse impacts of investments on stakeholders such as employees or local communities be identified. This would appear to be	Incorporation of the entire due diligence cycle still seems to be in its infancy, so this recommendation continues to apply. Only four Participating Pension Funds have specified all six steps of the due diligence cycle. If one considers integration of four of the six steps, then 21 Participating Pension Funds comply. It is above all access to remediation that is lagging behind and is sometimes confused with risk mitigation (confusion that also applies in the case of outsourcing and monitoring thereof). The greatest confusion still seems to exist as regards the requirements for a description of how due diligence is incorporated into management systems, and the description of monitoring. What is missing here is above all how the

something new for investors, who up to now have focused mainly on reducing the potential adverse impact on the financial value of their investments. This also seems to be something new for the majority of Participating Pension Funds and their administrators. Nor has any approach yet been developed to mitigate or remedy identified adverse impacts of investments; the Agreement foresees this being done by means of innovation and learning.	fund sees its own role in the cycle (namely management systems – where is it dealt with within the pension fund? and monitoring – what does the information mean for the management board and/or administrative office?). It is therefore recommended that the Toolbox Working Group produce a more elaborate version of the existing Toolbox. This should not only include templates, but also specify where these should be applied, how they will be documented (i.e. by whom), what reporting requirements this will entail, etc. In order to speed things up, the Monitoring Committee specifically envisages creating a detailed case study so that Participating Pension Funds have a clear idea and can make their own interpretation/choices on that basis.
Recommendation 3. It is advisable that exhaustive definitions be developed for such key concepts as long-term value creation and due diligence in order to clarify the concepts concerned; this should be done with the involvement of participating parties such as NGOs and trade unions. The analysis now utilises the Eumedion definition and considers mainly whether the interests of third parties and relevant Stakeholders have been taken into account. The process of arriving at an exhaustive definition can also be of value to all participating Parties.	This point seems to have been taken on board effectively. There is now only a single Participating Pension Fund that (wrongly) refers only to returns and the participants.

As regards Outsourcing

Recommendations in the Report for the Baseline Assessment Year	Observations regarding following-up of Recommendations
Recommendation 4. Be specific about which parts of the Agreement are included in the contracts with the asset manager and/or in those with the external service provider (the administrator or fiduciary). A reference to the standard policy of the administrator is too general.	The Monitoring Committee notes that progress has been made here, but it reiterates its recommendation to be specific about which components are concerned. Of the various steps – Implementing ESG policy, Identifying and prioritising impacts, Using leverage to reduce impacts, Divestment/temporary disinvestment after adverse impacts – divestment/temporary disinvestment would seem to be the most overlooked in the contracts and also the step that is most often omitted from new contracts.
Recommendation 5. Make a clear distinction between the fund’s policy and that of the administrator. Ideally, the fund should formulate its own policy,	The Monitoring Committee notes that Participating Pension Funds are increasingly making a distinction between their own policy and that of the administrator, but that this

compare it with that of the administrator, identify the differences, and decide whether or not they are acceptable on the basis of policy and own risk attitude, etc.	could be made even clearer so as to delineate more clearly who issues the instructions and who implements policy (i.e. what policy). In a number of cases, for example, the policy on due diligence refers to a generic explanation regarding cooperation with the administrator, or that reports are received, or reference is made to the job description of the administrator. Such reporting is fine in itself, as long as it is then clear again what these possible reports by the administrator mean for the policy of the fund and its implementation. For example, are adjustments made to implementation, new themes, and/or is leverage exerted on the basis of the results? A practical suggestion is for Participating Pension Funds to make this question part of their ORA (Own Risk Assessment), above all because there is a link here with risk attitude. The Toolbox Working Group can make a start on this.
Recommendation 6. When developing the Toolbox during the term of the Agreement, focus in particular on how existing contracts can be adapted in order to apply the elements of the Agreement. After all, there will be many more existing contracts than new ones during the term of the Agreement.	The Toolbox that has been developed is not specifically designed for existing or new contracts. The Monitoring Committee therefore reiterates its recommendation.
Recommendation 7. Make a distinction in the Toolbox to be developed between how to deal with general fund conditions (if the pension fund participates in an investment fund) and contract conditions (if the pension fund can conclude its own mandate).	The Toolbox has not been developed to respond to this question. This is particularly relevant for Participating Pension Funds that often do not have their own mandates (this mainly concerns pension funds under EUR 5 billion) and would help them from a practical perspective. The Monitoring Committee therefore reiterates its recommendation.

Monitoring of Outsourcing

Recommendations in the Report for the Baseline Assessment Year	Observations regarding following-up of Recommendations
Recommendation 8. In developing the Toolbox, pay specific attention to the risk identification method for environmental and social impacts for different Asset Classes.	The Monitoring Committee has not observed this, and emphasises that Participating Pension Funds would be helped with highly practical elaborations, not only templates but also specific steps so that a fund can quickly proceed to implementation. The Monitoring Committee therefore reiterates its recommendation.

Recommendation 9. Develop specific guidelines in the Toolbox (for example KPIs), for monitoring and reporting adverse environmental and social impacts.	The Monitoring Committee has not observed this and therefore reiterates its recommendation.
Recommendation 10. Discuss with pension administrators and administrative offices how they can fulfil in practice their leading role and responsibility for implementation of the OECD Guidelines and UNGPs via monitoring and reporting by External Service Providers.	The Monitoring Committee has not observed this and therefore reiterates its recommendation.

Reporting & Transparency

Recommendations in the Report for the Baseline Assessment Year	Observations regarding following-up of Recommendations
Recommendation 11. In the context of transparency regarding future ESG policy/objectives, it is striking that the description is often very brief. As a result, it is not clear what the fund is going to implement or change. It is advisable to make the choices by the pension fund's management board regarding ESG policy and implementation of the OECD Guidelines/UNGPs transparent for participants.	The Toolbox offers a number of examples. Compared to the Baseline Assessment, more funds communicate about ESG policy and objectives. The Monitoring Committee's qualitative observation is that there is still room for improvement as regards the specificity of the objectives. In order to generate support among participants and to involve them in the choices that are to be made, a long-term approach is needed as regards transparent communication and dialogue, i.e. of what the fund specifically has in mind. It is advisable to start on this as soon as possible so as to be able to fulfil Agreement arrangements in good time.

Other Agreement Obligations

Recommendations in the Report for the Baseline Assessment Year	Observations regarding following-up of Recommendations
Recommendation 13. Cooperation is needed to increase the level of knowledge of OECD Guidelines/UNGPs among pension fund boards and administration offices and to avoid confusion regarding commonly used terms. The Toolbox that is to be developed should therefore contain, first and foremost, clear, non-technical definitions that can be easily applied and explained.	The Monitoring Committee notes that the Toolbox Working Group has provided for this by supplying the templates and providing explanatory notes.

Appendix 1: Key Performance Indicators

1. KPIs for the Wide Track

Explanatory notes
The Key Performance Indicators (KPIs) have been developed in anticipation of the Agreement's Monitoring Tool and may be adapted where necessary. The Parties have agreed on the following principles and KPIs, bearing in mind the possible need for further improvements by the Steering Committee.

Three different types of indicators are used to measure the progress of the Agreement:
1. The KPIs: key indicators used to ascertain the progress of the Agreement.
2. Sub-indicators: underlying indicators needed to measure a KPI.
3. Tracking indicators: supportive indicators for measuring the progress of the Agreement, but with no associated objective.

The following KPIs will be used to monitor the Wide Track:
1. Number of Participating Pension Funds that have incorporated the Agreement into their policy (# number of funds).
2. Number of Participating Pension Funds that have incorporated the Agreement into their outsourcing (# number of funds).
3. Number of Participating Pension Funds that have incorporated the Agreement into their monitoring (# number of funds).
4. Number of Participating Pension Funds that have incorporated the Agreement into their reporting (# number of funds).

These KPIs are further fleshed out in sub-indicators derived from the text of the Agreement and included in the table below. The percentage should increase over the years of the Agreement (target = year 0 + (100 – year 0) × (year/(number of years up to 100%))), with year 0 being derived from the Baseline Assessment. The percentages in Year 1 and in the intervening years depend on the Baseline Assessment (possibly more than 0%).

A number of other variables are also measured, as a tracking indicator:
- The KPI targets are measured in terms of the number of funds, and the assets managed by these funds are also monitored for each KPI, as a tracking indicator.
- The number of Participating Pension Funds relative to the total number of Dutch pension funds, both in number and in assets under management.
- The number of Participating Pension Funds that have signed the Agreement may increase (or decrease as a result of consolidation) after the start of the Agreement. The number of Participating Pension Funds (in number and percentage of assets under management) is therefore calculated each year, as a tracking indicator. Use of the Toolbox in Year 2 and beyond is monitored (as a tracking indicator).

The following is an overview of the KPIs (i.e. the key indicators) and the sub-indicators.

KPIs for the Wide Track Sub-indicators

R = Result
T = Target

KPI	Baseline Assessment (%)	1st progress assessment (%)		End of Year 2 (%)		End of Year 3 (%)		End of Year 4 (%)	
	R	T	R	T	R	T	R	T	R
Key indicator for policy									
1. All applicable sub-indicators implemented	0%	50%	0%	100 %		100 %		100 %	
Sub-indicators, does policy contain:									
1a. A text pursuant to the OECD Guidelines and UNGPs.	17%	58%	49%	100%		100%		100%	
1b. A description of how the Participating Pension Fund interprets and is incorporating the various ESG due diligence steps into the outsourcing, monitoring and reporting of External Service Providers.	1%	50%	5%	100%		100%		100%	
1c. An explanatory text addressing specific themes, including the use of standards, which the Participating Pension Funds deem to be risky based on information resulting from an ESG due diligence procedure, as well as specific themes arising from the priorities identified by the participants of the relevant pension fund.	38%	69%	4%	100%		100%		100%	
1d. Information on the activities in which the individual pension funds will not invest.	47%	73%	52%	100%		100%		100%	
1.e. The Approach towards Engagement for listed companies, directly or through outsourcing, aimed at encouraging long-term value creation in companies.	28%	64%	52%	100%		100%		100%	
1.f. The Approach towards Engagement for corporate bonds, directly or through outsourcing, aimed at encouraging long-term value creation companies.	24%	62%	28%	100%		100%		100%	
1.g. The approach towards/policy on voting at listed companies, directly or through outsourcing, aimed at encouraging long-term value creation in companies.	36%	68%	40%	100%		100%		100%	
1.h. A description of how (social) value creation will be used as a guiding principle in the longer term	55%	77%	69%	100%		100%		100%	

KPI	Baseline Assessment (%)	1st progress assessment (%)		End of Year 2 (%)		End of Year 3 (%)		End of Year 4 (%)	
	R	T	R	T	R	T	R	T	R
Key indicator, outsourcing									
2. All applicable sub-indicators implemented.	1%	34%	13%	67%		100%		100%	
Sub-indicators, That the new and renewed contracts with External Service Providers include:									
2.a. Implements ESG in policy and management systems and uses long-term value creation as a guiding principle.	3%	35%	30%	67%		100%		100%	
2b. Identifies and prioritises the actual and potential adverse impact of activities undertaken in the Participating Pension Fund's Asset Classes, while involving relevant stakeholders in this effort.	3%	35%	37%	67%		100%		100%	
2c. Uses and, where possible, increases leverage to prevent or mitigate the adverse impact of activities in the Asset Classes.	3%	35%	12%	67%		100%		100%	
2d. Uses and, where necessary and possible, increases leverage by imposing time-limited demands in which it encourages listed investee companies that cause or contribute to an adverse impact to prevent and/or mitigate that adverse impact and/or to provide access to remediation pursuant to Paragraph 8.2.	11%	41%	41%	70%		100%		100%	
2e. If Paragraph 8.3 applies, it sets up processes to provide access to remediation.	1 fund		1 fund	66%		100%		100%	
2f. When (temporarily) reducing an investment position in or divesting from companies that have been prioritised owing to the severity of the adverse impact, also considers the potential adverse impacts on disadvantaged groups.	1%	34%	25%	67%		100%		100%	
2g. Renders accountability by monitoring results and by reporting to the Participating Pension Fund, with due observance of the reporting requirements as described in Article 5 of this Agreement.	See KPI 3	See KPI 3	See KPI 3	67%		100%		100%	

KPI	Baseline Assessment (%)	1st progress assessment (%)		End of Year 2 (%)		End of Year 3 (%)		End of Year 4 (%)	
	R	T	R	T	R	T	R	T	R
Key indicator, monitoring outsourcing									
3. All applicable sub-indicators implemented.	8%	39%	7%	69%		100 %		100 %	
Sub-indicators, reporting requirements incorporated into new contracts with External Service Providers:									
3a. The relevant External Service Provider’s progress in implementing its own and/or the relevant Participating Pension Fund’s ESG policy.	49%	66%	68%	83%		100 %		100 %	
3b. The External Service Provider’s ESG risk-identification methodology and its findings concerning the adverse impact identified in the Asset Classes.	11%	41%	21%	70%		100 %		100 %	
3c. Information on how the External Service Provider has attempted, on behalf of the Participating Pension Fund, to prevent and/or mitigate the adverse impact of activities in the Asset Classes and/or to encourage the provision of remediation.	17%	45%	27%	72%		100 %		100 %	
3d. The External Service Provider must provide information on the listed companies that have been prioritised based on the severity of the adverse impact and over which its leverage has not led to sufficient progress within the designated time frame.	18%	45%	27%	72%		100 %		100 %	

KPI	Baseline Assessment (%)	1st progress assessment (%)		End of Year 2 (%)		End of Year 3 (%)		End of Year 4 (%)	
	R	T	R	T	R	T	R	T	R
Key indicator, Reporting & Transparency									
4. All applicable sub-indicators implemented.	1%	26%	1%	100%		100%		100%	
Sub-indicators, the reporting by the Participating Pension Funds contains:									
4a. Subject to the principle of "comply or explain", in so far as legally and practically possible and with due regard for Proportionality, and with a delay of one financial quarter but not more than one year annually, a list of the names of companies and/or investment funds within the listed equity portfolio(s) in which the assets of the Participating Pension Fund were invested over the previous period.	25%	44%	44%	62%		81%		100%	
4b. The Participating Pension Fund's approach to due diligence pursuant to the OECD Guidelines and the UNGPs (whether or not pursued through External Service Providers).	1%	26%	5%	50%		75%		100%	
4c. An explanation of how the Participating Pension Fund's ESG policy has been integrated into the various Asset Classes in which the Participating Pension Fund invests.	16%	37%	41%	58%		79%		100%	
4d.I. Companies with which a form of Engagement has been pursued on behalf of the Participating Pension Fund and to what end.	18%	39%	33%	59%		79%		100%	
4d.II. The results of Engagement pursued on behalf of the Participating Pension Fund in specific companies.	24%	43%	32%	62%		81%		100%	
4d.III. Decisions taken by the Participating Pension Fund when Engagement has been unsuccessful.	12%	33%	9%	55%		77%		100%	
4e. An explanation of how the Pension Fund voted at shareholders' meetings of listed investee companies, in accordance with Directive 2007/36/EC as regards the promotion of long-term shareholder engagement.	39%	54%	36%	69%		84%		100%	
4f. Where valuable, future ESG policy and ESG objectives.	24%	43%	37%	62%		81%		100%	

5.1 Appendix 2 Timeline of production of the report

The Monitoring Committee undertook various steps from January 2020 until delivery of the report in December 202. These were, in brief:

- Coordination with the Council's Secretariat; the Monitoring Committee discussed and coordinated its working method with the Secretariat on a number of occasions. The SER's Secretariat provided support for the Monitoring Committee during the process.
- Consultation with the Monitoring Working Group on progress assessment.
- Mutual coordination regarding the approach, questioning, and application of the principles for discussions with the parties concerned. The Monitoring Committee conferred several times from February to June in order to coordinate with one another. This took the form of conference calls.
- Review of Year 1 results and feedback to the SER's Secretariat. The Monitoring Committee kept in close touch with the SER's Secretariat throughout the process, including regarding the data processing of "Policy", "Outsourcing", "Monitoring of Outsourcing", "Reporting & Transparency".
- Discussing with the individual Participating Pension Funds by means of the online tool.
- Conference calls with the Deep Track, Mining (23 June), and Palm Oil (16 September) (sub)working groups.
- Videoconference with the Banking and Insurance Agreements Monitoring Committees to pool experience and good practices for monitoring (7 July).
- Processing of feedback from the Steering Committee regarding the draft report.