SSPF Responsible investment policy

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Introduction

This document describes the responsible investment policy of Stichting Shell Pensioenfonds (SSPF). SSPF defines 'responsible investment' as investments in which the interests of all participants of the group and of society as a whole are represented in the long term. Besides financial considerations, environmental, social and governance aspects (ESG) are also taken into account. SSPF aims to create long-term value through its investments and sees responsible investment as a contributing factor to this long-term value creation. The board considers the development and maintenance of a responsible investment policy to be a continuous process, which includes periodic updates to the policy.

Objectives

The objectives of the SSPF responsible investment policy are as follows:

- The policy and its implementation are in compliance with the current treaties, legislation, guidelines, codes and covenants that SSPF has signed regarding responsible investment;
- The policy is committed to securing sustainable improvements in relation to the environment, society and governance;
- The policy makes a positive contribution to the risk and return profile of SSPF investments, with due observance of the thematic preferences of participants.
- The policy aims to pursue a climate-neutral investment portfolio by 2050, in line with the 'Paris' targets; and
- To ensure that choices and results are transparent and explainable to all SSPF stakeholders.

Guiding principles of responsible investment

In its development of responsible investment policy, SSPF uses legislation as well as various guidelines, codes and covenants as basic starting points:

The United Nations

- Global Compact (UNGC): This consists of criteria in relation to human rights, employment rights, the environment and anti-corruption.
- Principles for Responsible Investment (UNPRI): This includes an alignment of investor responsibilities with the broader ESG interests of society. SSPF signed the UNPRI in 2008.
- Guiding Principles on Business and Human Rights (UNGP): These principles provide companies with a 'protect', respect' and remedy' framework in the area of human rights.
- Sustainable Development Goals (SDG): The SSPF board recognises the importance of the SDGs from the United Nations in achieving a more sustainable world.

OECD guidelines

- OECD guidelines for multinational enterprises. These guidelines help companies deal with issues like supply chain responsibility, human rights, child labour, the environment and corruption.
- The following OECD guidelines apply specifically for institutional investors: Responsible business conduct for institutional investors. These guidelines set out the various elements of the due diligence process.

SSPF asks its external fiduciary manager, ESG service providers and/or asset management companies to act in accordance with the guidelines above or to endeavour to do so. SSPF requires the companies it invests in to adhere to these same guidelines.

Starting points

SSPF attaches great importance to responsible investment. Besides the board's own beliefs, the preferences of participants in terms of ESG represent important elements of the policy. To this end, a participant survey is periodically conducted. Furthermore, based on extensive analyses, a number of themes are selected and prioritised for which the fund aims to take action.

ESG belief statement

With regard to ESG, the pension fund has formulated an investment belief statement, which has been embedded in the elaboration of the responsible investment policy. This involves the following investment belief statement: "Engaged shareholdership promotes good governance and corporate social responsibility. Integration of ESG factors contributes positively to the risk/return profile." ESG factors influence the investment risk and return of all asset categories, with good governance being a prerequisite for improving a company's performance on the E (environmental) and S (social) factors. SSPF expresses its social responsibility through its responsible investment policy.

Participant survey

Based on the most recent participant survey, SSPF has prioritised four United Nations SDGs that the pension fund will take into consideration when developing its policies. These SDGs are as follows: Gender equality (5), Affordable and clean energy (7), Sustainable cities and communities (11) and Climate action (13). These priorities are periodically updated to ensure consistency with the ESG preferences of participants and the board of the fund.

Theme prioritisation

The pension fund conducts research on a variety of ESG risks and controversies. Based on a series of qualitative considerations, the fund has prioritised three themes. These include: climate change, governance and universal principles (in the areas of human rights, labour rights, environment and corruption).

Ultimum remedium

It is the belief of SSPF that quiet diplomacy serves the interests of successful dialogue, which could involve joint action with other institutional investors where appropriate. SSPF believes in the use of engagement as a tool for the achievement of sustainable change. As an 'ultimum remedium', companies that fail to make any progress in the field of sustainable business practice can be excluded.

Governance

Anchoring in the board

The board is ultimately accountable for the responsible investment policy. To underscore the great importance the board attaches to ESG, this topic is discussed among the entire board and not delegated to the investment committee. In the board, several board members are designated as first points of contact for ESG ('ESG focal points'). These members guarantee the level of knowledge and its incorporation in the board. They monitor all current ESG matters in this respect and (jointly) decide which items will be added to the agenda of the board.

ESG Forum

The ESG focal points (one of whom also serves on the investment committee) are part of the ESG forum, alongside representatives from the fiduciary manager and the office of the SPN executive office. The ESG forum is a collaborative body that meets quarterly to discuss the ESG reports (from the fiduciary and the voting and engagement provider), ESG topics and developments, and any potential proposals. In-depth discussions are held in the ESG forum and proposals are then prepared for the board. The function of the ESG forum is solely one of policy preparation, with the decision-making power remaining with the board.

Instruments for the socially responsible investment policy

The decision to include long-term value creation as a guiding principle has been integrated into various parts of the policy and investment cycle, as well as in the selection and evaluation criteria for external managers. If possible, SSPF monitors areas such as the strategy, financial and non-financial performance, risks, capital structure, social and ecological impact, and corporate governance of the companies in which it invests. SSPF actively exercises its voting rights as much as possible.

If necessary, SSPF collaborates with others, or external service providers, to seek active dialogue with companies in which it is investing, in order to achieve improvements in environmental and social policy and governance ('good governance') and, as such, also achieve better results, remedy and/or recourse.

SSPF asks the external fiduciary manager, ESG service providers and/or asset managers to act in accordance with SSPF policy and objectives and strives to collaborate with them in the long term, in order to achieve long-term value creation through responsible investment. In its responsible investment policy, SSPF prioritises thematic focus areas, which are based in part on its own ESG risk assessment from the board as well as the ESG preferences of participants (SDGs).

Inclusion list

The pension fund maintains a country inclusion list with regard to investments in government bonds. This inclusion list is based on three criteria:

- Minimum rating of B3/B-
- Not subject to UN arms embargo
- A minimum World Bank governance score

Engagement

SSPF seeks out dialogue with invested companies, either jointly with other institutional investors or otherwise. On the one hand, this is achieved through proactive dialogue (engagement), encouraging companies to make improvements to specific themes ('do good'). On the other hand, through reactive engagement ('do no harm').

SSPF sees engagement as one of the most important ESG instruments. The Engagement Plan of EOS is discussed and reviewed annually with the board. Engagement is carried out on equity investments and corporate bonds by a dedicated external engagement service provider (EOS).

Due to potential conflicts of interest, no engagement takes place between the pension fund and Shell PLC.

Exclusions

SSPF primarily believes in the use of engagement as a tool for the achievement of sustainable change. However, as an 'ultimum remedium', companies that are making no or insufficient progress on ESG can be excluded. The board at SSPF will decide on any action of this nature on a case-by-case basis. This assessment includes both the (potential) negative impact of the decision on society and the environment, as well as the impact on risk and return of the fund.

Legal exclusions

A company is excluded if it acts in a manner that is in breach of the law or treaties or conventions that the Netherlands has ratified. For this reason, SSPF does not invest in companies active in cluster munitions, landmines or chemical and biological weapons. It also excludes companies in the nuclear sector that conduct activities in violation of the non-proliferation treaty. In case of exclusion, SSPF invests neither in shares nor in bonds of the excluded companies.

Conduct-based exclusions

Companies associated with serious controversies (based on UN Global Compact principles and/or OECD guidelines) and/or having major adverse sustainability impacts (based on prioritised PAIs) and where engagement is not expected to lead to demonstrable improvement in results will be excluded by SSPF. The exclusion decision is made based on three dimensions: ESG judgement, financial risk and financial return. Positions with pressing ESG issues (legally excluded activities, unacceptable activities by international standards and lack of engagement perspective) are not adequately justified by either return or risk considerations.

Excluded companies are periodically monitored by SSPF to see if exclusions can be lifted.

Votes

SSPF actively uses its voting rights, among other means, to strengthen engagement. For this purpose, the pension fund makes use of external voting service providers. The SSPF voting policy consists of three components: the Shell General Business Principles, the Responsible Ownership Principles for listed companies and the Global Voting Guidelines of the service provider. SSPF has reviewed and endorsed the voting principles and guidelines of these service providers.

The pension fund has a policy on securities lending, which allows the pension fund to actively exercise its voting rights. No vote is held at the Shell plc shareholder meeting.

Custom ESG benchmarks

SSPF uses custom ESG benchmarks to ensure the most effective implementation of its ESG policy. SSPF has implemented custom ESG benchmarks for many of its liquid asset classes. The custom ESG benchmarks show an improvement over generic market benchmarks in terms of carbon intensity and the ESG governance score. In addition, the ESG E and S scores of the custom ESG benchmarks should be at least equal. The custom ESG benchmarks are periodically reassessed based on the climate policy formulated by the pension fund.

Portfolio construction (internally managed mandates)

Portfolio construction for internally managed mandates integrates ESG considerations and characteristics. Excluded companies or countries are not included in the investable universe. Custom ESG benchmarks tilt the portfolio toward lower carbon intensity and better governance scores. When constructing bond portfolios, SSPF has a preference for green bonds, where the risk/return profile is similar or better than their conventional counterpart. In addition to this formal and centrally monitored mode of incorporation into portfolio construction, integration also occurs when portfolio managers compare Principle Adverse Impact indicators and factor this weighting into the investment process.

Manager selection (externally managed mandates)

Newly selected externally managed funds prohibit:
(a) investments in issuers that are involved in cluster munitions, anti-personnel mines, biological and chemical weapons and/or nuclear weapons in a manner inconsistent with the Nuclear Non-Proliferation Treaty; or
(b) having a reporting obligation with respect to exposure to 'excluded' companies, the starting point being 0%.

Monitoring

ESG compliance and ESG risks are assessed on a quarterly basis, using reports from the ESG advisor and ESG service providers. Implementation of the voting and engagement policies is also monitored each quarter. These monitoring activities can be used by the fund to make adjustments where necessary.

Evaluation and accountability

Accountability with regard to policy is achieved in several ways. The board is held accountable through the annual report, the publication of pre-contract sustainability information[1] and the publication of Principal Adverse Impacts (PAI statements). In addition, SSPF communicates its ESG policy, progress and achievements through a variety of channels using a participant-friendly approach.

The pension fund conducts an annual sustainability risk assessment to identify or recalibrate portfolio ESG risks. SSPF also evaluates the ESG policies of individual asset classes. Finally, the impact of the ESG policy is also mapped out and evaluated on an annual basis. In line with its outsourcing policy, ESG service providers are also evaluated yearly.

The outcome of the review may result in a policy revision or in engagement of another or an additional ESG service provider.

[1] The pre-contractual sustainability information describes the E&S characteristics of SSPF and explains how they have been factored into SSPF investments.

Appendix: Climate policy

Introduction

Climate risk has been identified as a key risk by SSPF. To mitigate this risk, the fund has established a climate policy as part of the broader ESG policy of SSPF.

Climate belief statements

The following climate belief statements are in place in the pension fund:

- The pension fund has an important fiduciary and social responsibility with regard to addressing the impact of climate change on the fund through its policies, including ESG integration and engaged share ownership, and to working to support the goals of the Paris Agreement to reduce global warming.
- Climate change leads to financial risks and therefore has an impact on the long-term financial position of the pension fund. At the same time, climate mitigation and adaptation offer investment opportunities as well as an opportunity to improve quality of life in the world. Adopting a climate policy is important to properly address this issue.
- The board supports the goals of the Paris Agreement and believes this can be better achieved by making an impact on the real world than through excluding sectors and companies.
- The board believes that climate risks can impact investment returns and that financial market prices do not always fully reflect these risks, at least not at present.
- Implementing a climate policy may come at a (short-term and limited) cost of return if it mitigates climate risks.

Support of Paris Agreement targets

SSPF supports the targets of the Paris Agreement and is committed to supporting the energy transition in its policies. The pension fund aims to pursue an investment policy that is in line with the Paris targets with a focus on real world impact. The pension fund allows investment portfolios to have an increased (but acceptable) deviation in comparison to the general market (indices) through the adoption of climate policies.

The climate policy consists of the following steps:

- 2025: Reduce carbon footprint of the investment portfolio by 20% vs 2022
- 2030: Reduce carbon footprint of the investment portfolio by 40% vs 2022
- 2050: Net zero investment portfolio

Instruments

To achieve its objectives, SSPF has put multiple instruments in place and there are increasing requirements over time regarding eligibility to invest in companies and countries. There is a partial overlap with the tools of the ESG policy. SSPF aims to achieve the targets (formulated in the climate policy above) with the following approach:

- Engaging in dialogue with companies to set targets in line with Paris Agreement;
- Actively exercising voting rights at shareholder meetings on relevant resolutions
- Companies (shares and credits) with substantial activities in thermal coal, shale gas and tar sands without a credible transition plan will be subject to possible exclusion from 2030 onwards. This is how a gradual energy transition is being pursued.
- SSPF monitors the progress made by companies (shares and credits) in their transition. Companies that do not stay within their IEA SDS carbon budget, do not have an SBTi approved or other ambitious and credible transition plan and where engagement shows insufficient progress are subject to possible exclusion.
- There are stricter requirements for investing in new corporate debt (bonds). This means that these companies:
  - must have at a minimum a greenhouse gas reduction target from 2025; and
  - must have at a minimum an ambitious greenhouse gas reduction target by 2030,

  unless the company is within the carbon budget allocated.
- Stricter requirements will apply to investing in government bonds. Countries are reviewed as to whether they have a national climate plan and assessed as to whether implementation is in line with these plans.
- More scope is being created in the portfolio for investment opportunities that will positively contribute to or benefit from the transition.