

Statement on the investment principles

ABP

2016

This Statement on the investment principles (“Statement”) concisely describes the basis of ABP’s investment policy. The objective of ABP’s investment policy is to achieve a maximum realistic long-term return for the participants and former participants in the pension fund. The board determines what risks ABP is prepared to accept in this context, taking into account the structure of the members file, the required solvency, and the desirability of stable contributions.

ABP makes the investment process a key focus in its investment policy in order to achieve consistent and well-reasoned investment practices in all areas of the organization. Based on thorough economic analyses and a comprehensive financial and risk policy, strategic (multiyear) and annual investment plans are drawn up and implemented as part of this process. This achieves cohesion between the investment policy and the other financial control instruments, including the premium and indexation policy in particular.

In implementing the investment plan, adequate spread is realized in the investments and the impact an investment has on the overall portfolio in relation to the liabilities structure is always taken into account. No individual asset class, investment instrument, or investment technique is excluded in advance. ABP explicitly considers in each case whether the use of the control rights associated with the investments can contribute to realizing the investment objective. Criteria related to the available expertise, economies of scale, and flexibility are used in choosing between internal asset management (by the administrative organization) and (partial) outsourcing. The ABP Board of Trustees ensures that the costs related to the investment policy are reasonable and proportionate.

I Objective

I.1 ABP and its participants

The General Pension Fund for Public Employees (ABP) is the industry-wide pension fund for employers and employees in the sectors of government and education, and the bodies affiliated with these sectors. ABP's mission is based on participants and retired employees being entitled to a sustainable and reliable pension fund that can follow through on its financial obligations now and in the future. Employees in the aforementioned sectors accrue a financial claim at ABP to help cover the financial effects of disability, death, or retirement. At the end of Q3 2015, the total ABP members file comprised approximately 1.07 million active participants, 0.83 million retired employees, and 0.94 inactive participants.

I.2 Sustainable pension system

The rights and obligations of the employers and employees affiliated with ABP, such as the pension rights to be accrued and contributions to be paid, are described in the pension regulations, administration rules, and actuarial and technical business reports from ABP. Affordability in combination with the indexation target requires a sufficiently high return on the invested assets.ⁱ This means a consistent long-term policy must be pursued within the bounds of the risk profile determined for the fund. The financial assessment framework is also taken into account in this context, which calls for more attention to short-term fluctuations in the fund's financial position. A sustainable pension system therefore requires balanced financial control that is consistent over time.

I.3 Objective of the investment policy

With the pension liabilities in mind, the objective of ABP's investment policy is to achieve the maximum realistic long-term return for the participants and former participants in the pension fund.ⁱⁱ The Board of Trustees determines what risks ABP is prepared to accept in this context taking into account the structure of the members file, the required solvency, the desirability of stable contributions, and what limits it sets for the investment policy (see the inclusion policy in Section III.7). ABP asks all those involved in its investment process to make this investment objective an absolute priority.

I.4 Statement on the investment principles

A pension fund's investment policy is crucial for both the security and the affordability of the pension. It is against this backdrop that ABP has drawn up this Statement on the investment principles ("Statement"). It concisely describes the basic assumptions and presentation of ABP's investment policy, for the benefit of the participants and former participants in the pension fund, and with respect to the society in which ABP operates.

I.5 Investment principles

ABP has a number of investment principles that serve as a guide in formulating and implementing the strategic investment policy. These principles form the basis, or the philosophy, for the structure of the organization and the distribution of the available resources. They are based on academic insights, years of experience, and our current view of the critical success factors for the coming years. A number of these have already been the subject of discussion

in the investment world. Therefore, ABP continues to evaluate these principles on an ongoing basis. By presenting a number of specific investment principles, ABP shows how it approaches the world of investing and how it believes it can be successful in this regard.

1. Investment risk is rewarded.
2. Diversification provides advantages.
3. Financial markets are not perfectly efficient and we can benefit from this.
4. ABP can invest responsibly and make the investment portfolio sustainable without this being at the expense of the portfolio's risk–return profile.
5. First movers have an advantage.
6. Our long-term horizon is a competitive advantage.
7. The way in which our professional investors work as individuals and as a team makes the difference.
8. Good processes are a condition for achieving results.
9. We are cost conscious and seek out added value.

I.6 Decision-making

ABP has an Accountability Board which represents employees, retired employees, and employers in the government and education sectors. The Board of Trustees asked the Accountability Board to advise on its proposed decision to adopt this Statement.

The Accountability Board advised positively in this regard on January 28, 2016.

I.7 Amendment to this Statement

The topics addressed in this Statement are the subject of constant discussion both within the ABP organization and outside it. ABP will therefore periodically revise this Statement at least every three years upon the amendment of the strategic investment plan as well as after every significant change to the investment policy.ⁱⁱⁱ New insights will be incorporated into this Statement.

II. Organization

II.1 Investment process

ABP makes the investment process a key focus in its investment policy. The investment process is defined as the entire set of rules pertaining to the preparation and implementation of the investment policy and the management of the investments. ABP asks its administrative organization to ensure that the rules of the investment process are adhered to. This results in consistent and well-reasoned investment practices.

II.2 The ABP organization and the Investment Policy Committee

The various departments of the ABP organization each have their own duties and responsibilities in the investment process. These are described in more detail in the strategic investment plan. The ABP Board of Trustees has charged its administrative organization with the actual investing of the available funds.^{iv} The Board of Trustees is ultimately responsible for the entire investment process, and makes policy decisions and decisions of a strategic nature. It is advised in this context by the Investment Policy Committee. This committee comprises a number of Board of Trustees members and external members. The external members are appointed on the basis of their expertise. They have demonstrated expertise in the field of investments or financial markets.

II.3 Advice of the Accountability Board

The Accountability Board has the task of advising the Board of Trustees on matters where the Board of Trustees requests advice, as well as on everything concerning the policy on which the Accountability Board feels advice is necessary. The Board of Trustees asks the Accountability Board to advise on the adoption or amendment of, among other things

- the actuarial and technical business report (ABTN)
- the Strategic Investment Plan

II.4 Reporting and accountability

The administrative organization reports periodically to the ABP Board of Trustees on how the investment plan is being implemented and on the investment results achieved.

Every year in ABP's financial statements and annual report, the ABP Board of Trustees accounts for the management of the pension assets that it administers, and provides insight into the fund's financial situation.

II.5 Comprehensive financial and risk policy

ABP comprehensively fleshes out the fund's financial and risk policy, taking into account all the control instruments available to the fund. A functional distinction is made here between control (ex ante risk management), risk control, and (internal) supervision.

In the context of control, the financial and risk policy is analyzed every three years and updated annually in conjunction with the other financial control instruments against the background of various economic scenarios. An important analysis instrument in this context is asset liability management (ALM), whereby developments in the investments and liabilities are examined in relation to each other. The outcomes are presented in a financial and risk policy report where the Board of Trustees lays down the basic assumptions for this policy, and on the basis of which ABP's Board of Trustees subsequently determines the basic policy assumptions for the premium, indexation, and investment policy.

II.6 Investment plans

ABP makes a distinction between the strategic (multiyear) investment plan and the annual investment plan. The investment plans are put together in accordance with the strategic investment plan. The Board of Trustees adopts the investment plans.

II.7 Strategic investment plan

The starting point for the strategic investment plan is ABP's liabilities. It contains the key investment choices that ABP must make, specifically:

- a. the desired composition of the assets in terms of asset classes (strategic allocation) the risk profile of the strategic allocation, analyzed in light of all the rights and obligations on the level of the fund, both in the short and long-term^{iv}
- b. the return objective per asset class, expressed in one or more measures of comparison (benchmarks)
- c. to what extent ABP is willing to allow the actual investment portfolio to deviate (temporarily) from the strategically desired portfolio
- d. the weighing of balance sheet risks, including management of the interest rate risk and currency risk

II.8 Annual investment plan

The annual investment plan sets out how ABP will implement the strategic investment plan in the particular year.

II.9 Expertise

ABP ensures that in all phases of the investment process, it has, or has access to, the expertise required for

- an optimal investing result^v
- professional management of the investments
- management of the risks associated with investments

II.10 Segregation of interests

Attention is paid to possible conflicts of interest in the implementation of the investment plan. The Board of Trustees and employees of ABP, and its administrative organization, are bound by a code of conduct aimed at preventing conflicts of interest.

II.11 Risk management related to asset management

ABP pursues a comprehensive risk management policy which describes the basic policy assumptions and frameworks, the formulation of the risk appetite, and the set-up of the organization;

the aim of this policy is to be able to adequately monitor and control risk. Risk management consists of risk measurement, and control of financial and operational risks. Financial risks can be categorized as market, credit, or liquidity risk. The various financial risks are reported on periodically to the Investment Policy Committee and the Board of Trustees. In special circumstances, ad hoc reports are sent to the Board of Trustees.

Specialist officers have been appointed at ABP and within the administrative organization to manage the risks associated with the investments. Both at the level of ABP and at the level of the provider, the risk management handbooks are maintained where the policies and procedures for managing financial and operational risks are laid down.

For management of the interest rate risk (mismatch risk) on the ABP balance sheet, the exposures to strategic assets in the investment portfolio are of great importance. Market risks are specifically managed using, among other things, standard deviation, tracking error, and value at risk (VAR) methods. Exposure limits and credit ratings, among other things, are used for credit risk. The liquidity risk is managed via stringent creditworthiness criteria for counterparties and strict collateral requirements for derivatives positions. Furthermore, all risk categories are reviewed for abnormal distributions, stress tests are performed, and—alongside quantitative models—qualitative approaches to risk management are applied.

A number of measures have been implemented for the management of operational risks including authorization schemes, a contingency policy, and incident management. Best-practice standards, such as [ISAE 3402](#) certificates, are also used for both the set-up and functioning of the system of control measures.

III. Implementation

III.1 Prudent person

The prudent person rule is key in implementing the investment plan. The prudent person rule is supported by the following pillars:

- expert asset management;
- assets invested in the interest of the participants and former participants;
- assets invested such that the security, quality, liquidity, and return of the portfolio as a whole is guaranteed. This means the risk and return profile of the portfolio as a whole must be constantly attuned to the fund's liabilities structure and the investments must be adequately diversified.

III.2 Freedom of investment

ABP assesses every investment purely on grounds of risk and return considerations. In line with the prudent person rule, the impact of the investment on the overall portfolio is examined in relation to the liabilities structure and no individual asset class, investment instrument, or investment technique is excluded in advance.

Neither as investor nor in any other sense does ABP want to accept responsibility for a business activity which could give rise to an unforeseen obligation to provide additional capital.

In a general sense, ABP will oppose any form of investment coercion or investment restriction that is not based on legislation and regulations; this detracts from an optimal risk and return profile.

III.3 Outsourcing

The investments in implementation of the investment plan are outsourced to the administrative organization and —via further outsourcing— to third parties contracted for this purpose by the administrative organization. In choosing between internal asset management (by the administrative organization) and (partial) outsourcing to third parties, the administrative organization tests against criteria elaborated in the Outsourcing Handbook. These are related to the available expertise, the culture of the organization itself, economies of scale, and flexibility. The selection of the aforementioned third parties—including asset managers and brokers—and the assessment of their performance take place based on objective criteria. Engagement subsequently takes place on condition that the outsourcing is subject to at least the same requirements and conditions that apply for the administrative organization. The considerations made and arguments used in this context are evidenced by a selection and evaluation file, which is put together systematically. The ABP organization also has adequate control mechanisms to manage the outsourcing risks.

III.4 Costs

In implementing the investment plan, ABP incurs no costs other than those deemed reasonable and proportionate in relation to the size and composition of the invested assets, and the objectives of the pension fund.

III.5 Valuation

The ABP Valuations Handbook contains rules that form the basis of the valuation of all assets and liabilities. The investments are valued at current value, adjusted by the receivables, debts, accruals, and cash that can be allocated to them. If possible, the market value is used as current value. A Finance and Risk Valuation Committee has been established within the administrative organization for the pricing of listed investments and valuation of unlisted investments. This committee also manages the valuation handbook it has drawn up—in line with the ABP Valuations Handbook—which contains a description of the valuation method for every investment product.

III.6 Responsible investing

ABP wants to generate the returns necessary to meet (future) pension liabilities in a responsible, sustainable, and transparent manner.

The responsible investing policy therefore forms an important part of ABP's investment policy and impacts the construction of the investment portfolio, and the selection of individual investments as described in the next sections.

III.7 Inclusion policy

A large part of the investment portfolio is invested in equities and corporate bonds. ABP is convinced that in the long term, companies that devote more than average attention to corporate social responsibility and the transition to a sustainable economy in their business operations generate the most value for shareholders, society in general, and consequently for our participants.

Companies that devote more than average attention to corporate social responsibility and the transition to a sustainable economy in their business operations form the best match with ABP's vision of responsible investment. They are the core of the investment portfolio. ABP also expects the businesses in which the fund invests to have their operations in line with the standards stated in the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the OECD Principles of Corporate Governance, and the International Corporate Governance Network Statement on Global Corporate Governance Principles.

III.8 Thematic responsible investing

In addition to the inclusion policy, ABP also has a number of thematic targets with respect to responsible investing, with the aim to realize these through engagement and the selection of investments, primarily within the illiquid asset classes. These thematic targets were developed around themes that touch on the background of our participants: safety, education,

and strengthening of the economic structure. The themes are expected to be realized in the period between 2015 and 2020.

III.9 Investments excluded on the basis of legislation or regulations

Under no circumstances does ABP invest in companies that are involved in the production of cluster munitions, antipersonnel (land) mines, or chemical and biological weapons. This also applies to companies that manufacture nuclear weapons, if they do so in contravention of the international Nuclear Non-Proliferation Treaty, which the Netherlands has ratified. Companies that ABP suspects violate one or more of the UN Global Compact principles, and where an intensive engagement process does not result in changes to business practices, are excluded for investment and included on the externally communicated exclusion list. ABP also avoids investing in government bonds of countries that are subject to a UN arms embargo.

III.10 Accountability for results

ABP sees being transparent about what is invested in, and to what extent realization of the objectives is achieved, as inextricably connected with the identity of a responsible investor. This is reported to participants annually with the publication of a responsible investing report certified by an independent auditor. Participants and other stakeholders are informed periodically by news items posted on the ABP website. A permanent dialogue is conducted with participants and social organizations on the investments in relation to social issues. A participants' consultation is part of the annual management evaluation of the responsible investing policy.

III.11 Sideline activities

ABP develops activities that enable it to perform its societal function—providing participants and former participants with the means to cover the financial effects of disability, death, or retirement on the basis of solidarity and collectivism—as well as possible. ABP does not perform any activities that are not among the core tasks of a pension fund.

III.12 Accountability

ABP is conscious of the societal role it plays as a large investor. This role obligates ABP to be extremely cautious in its conduct. ABP is prepared at any time to account for its investment practices and the consequences these have for society.

Amsterdam, 2016

Chair,

First vice-chair,

End notes

i ABP pursues a cohesive premium, investment, and indexation policy with a relationship between the coverage ratio and possible indexation. This policy is laid down in more detail in the pension regulations and the fund's actuarial and technical business report.

ii This objective deliberately refers to a realistic return, with a view to the fund's ambition to be able to fully and consistently index the accrued financial claims in line with wage developments in the government and education sectors.

iii This Statement replaces the "Statement on investment principles 2013."

iv The asset allocation implies that ABP allocates 60% to real assets and 40% to fixed-income securities.

v "Optimal investment result" means the maximum (expected) realistic long-term return given the risks ABP is willing to accept.