Suitable investment mix

Now that we know what the separate age groups' risk preferences are, we can determine what a suitable investment policy is. To do this, we will calculate how particular investment policies will affect the members' projected pensions, using thousands of economic scenarios that DNB (the Dutch central bank) supplies for these purposes. This allows us to see whether a particular investment policy aligns with our members' preferences.

Investments will be collective under the new pension plan as well

For the new pension plan that you will switch to in 2026, the social partners have agreed on a 'solidarity based contribution plan'. As in the existing set-up, under the new pension plan all our members' pension savings will be invested collectively for us to derive benefits of scale. You will not make your own investment decisions. However, we will make allowances for your age. The returns that are added to your pension savings are linked to factors such as your age and the associated level of risk: the younger you are, the more risk we will take for you. You will be receiving further information about the new pension plan during the period ahead.

The new pension system

We conducted the survey in preparation for updating the pension plan to align with the new legal pension rules. The high response rate to the survey shows how important this matter is to many of our members. This was also reflected in the questions that were asked during the survey. For example, some pension beneficiaries shared that they do not feel comfortable, or are unhappy, with the idea that their pensions will fluctuate more than they do now. It is useful for those members to know that their pension savings will move up and down, but that we will take measures to minimise those fluctuations, and to avoid needing to lower the pensions if at all possible. You can visit our website www.philipspensioenfonds.nl/en/newrulespensions for an extensive list of questions and answers about these matters. The same page also includes a series of short videos that discuss and answer various questions.

Supervision of how the risk preference survey was conducted

In case you did not know this already, all pension funds fall under the supervision of the Dutch Authority for the Financial Markets and the Dutch central bank. The AFM and DNB keep a close eye on these risk preference surveys, to make sure that they are carried out properly. They also monitor whether the investment policy that the pension fund's board adopts draws on the findings from the survey and makes sufficient allowance for scientific understanding and the members' characteristics. Those external authorities are not the only ones supervising: risk appetite is also discussed with the Accountability Body, which is made up of representatives of the stakeholders in Philips Pensioenfonds: active members, pension beneficiaries and the employers.

Investment decisions for 'Climate Action'

When investing your pension savings, Philips Pensioenfonds takes social aspects into account, such as the environment and human rights. Our responsible investment (RI) policy describes how we go about this. The composition of our investment portfolio is determined with consideration of several Sustainable Development Goals (SDGs). In earlier issues of this magazine, we discussed 'Good Health and Well-Being' (SDG3) and 'Responsible Consumption and Production' (SDG12). Read on to find out how we make investment decisions that contribute towards SDG13: 'Climate Action'.

13 CLIMATE ACTION

Development Goal 13: 'Climate Action'

The United Nations has defined a total of 17 Sustainable Development Goals (SDGs), to help create an equitable and sustainable world by 2030. The SDGs give people all over the globe guidance in facing challenges such as poverty, healthcare and the climate change crisis. 'Climate Action' (SDG13) is one of the goals that Philips Pensioenfonds considers when it makes investment decisions. The ultimate goal of 'Climate Action' is to take urgent or necessary action to counter climate change and its impacts.

Long-term policy and challenges

Climate change is having a major economic and worldwide impact, with physical changes such as rising sea levels and more extreme weather. These changes can cause infrastructural damage, for example, and affect companies' supply chains. To limit this climate change, an energy transition is underway, which involves switching from fossil sources of energy (natural gas, petroleum, coal) to sustainable sources (solar, wind). The impacts of climate change and the energy transition feature prominently on political and societal agendas.

Considerations relating to these themes are often complicated. Philips Pensioenfonds has a long-term policy for investments, for example. Moreover, the energy transition cannot take place from one day to the next, and companies may adapt over time. That is why we consider energy companies not only based on what they are doing now, but also look into their plans for the future. Because of this complexity, we constantly monitor our investment decisions as they relate to climate, and make adjustments as and when necessary.

How we select our investments

We review thousands of companies that might be eligible for inclusion in our equities portfolio. We use a variety of data sources to determine what they are contributing towards SDG13, 'Climate Action'. A specialist external organisation measures what proportion of the company's revenue comes from products and services that contribute to this SDG. This output is used to select companies that are suitable for investment towards achieving SDG13. We also consider several questions in our investment decisions, for example:

- How does the company manufacture the products that it sells? Do its methods align with the SDG?
- Will the risks and returns of our investments in equities continue to align with our financial ambition?

Companies that we invest more in

Since 2021, when we first started giving explicit consideration to SDG13 in our equities portfolio, our choices for the energy sector have focused more on companies that operate in the area of renewable energy or electric solutions. However, other sectors also offer solid investment opportunities that align with this SDG: efforts to update infrastructure by raising dikes, for example. The amounts given as examples below are based on the value of the total equities portfolio in early-April 2024, of around €4.2 billion.

- Stantec is a consultancy firm that provides project advice and other consultancy services on matters of climate change, for example coastal erosion. Stantec has gained extensive expertise and experience, and uses this to help create more infrastructure-based solutions to the impacts of climate change. Our current investment in this company is €4.4 million, compared with €455,000 before the change on the basis of the SDGs.
- First Solar in the US manufactures solar panels and is concerned with maintenance and recycling of old panels. Its purpose is to minimise the carbon and water footprint across the entire production process. Our current investment in this company is €8.6 million, compared with €808,000 before the change on the basis of the SDGs.

Considerations for energy companies

Our policy for investing in fossil energy companies is as follows: Philips Pensioenfonds does not invest in shares in companies that derive a large portion of their revenue from coal or oil, relative to renewable energy, without credible plans to make their operations more sustainable. Such companies do not align with the ambition to contribute more towards SDG13. We measure the ratio by reviewing their revenues against the following criterion: the proportion of revenue from coal or oil minus the proportion of revenue from renewable energy may not be more than 50%. If it is, we will only invest in the company if it has a properly thought-out plan to become more sustainable in the long term. This means that it must have a realistic climate plan in which the carbon emissions align with the existing understanding for achieving the goals of the Paris Climate Agreement. For an efficient review, Philips Pensioenfonds uses data from a research agency. The companies' plans are reviewed against criteria from an independent platform.

What companies we do and do not invest in now

Given the principles outlined above, we now do not invest in shares of most of the large 'oil companies'. Exxon Mobil, for example, derives approximately 80% or more of its revenue from oil, without a credible plan for the energy transition. If our monitoring during the years ahead shows that the company starts to meet our requirements, or if it adopts and implements a credible plan, we will start investing in its shares again. We do invest in energy companies that derive enough of their revenue from renewable energy or that have a credible plan for becoming a sustainable energy company in the future, for example Repsol and BP.

Would you like to find more about how we make our sustainable investment decisions?
Go to www.philipspensioenfonds.nl/en/mvb

Share your thoughts

“Philips Pensioenfonds’s investment policy should take into account what companies are doing in terms of climate and climate goals”

Earlier this year, we hosted a couple of sessions with members to talk about responsible investment (RI). During those sessions, Anita Joosten (Director of Investments) and Arian Borgers (Investment Manager) explained our RI policy and spoke with members about the factors we look at in our investment decisions in terms of the Sustainable Development Goals, or SDGs. The United Nations (UN) has defined those SDGs to create a sustainable world for everyone by 2030. One of the goals is linked to Climate Change. We presented four of the panel members with the question whether they felt it was important to consider climate and climate goals as a factor in our investment policy. Read on to find out what they said.

Zep Kleijweg (26)

Position: Scientist Electronics, Signify Research

“Besides the direct influence that companies have on society, I believe that sustainability and other social aspects are becoming increasingly important for companies to remain relevant in their market. Where multiple companies offer similar products or services, more and more often it’s their social attitude that sets them apart. I expect that a strong sustainability policy will become more of a factor in people’s decision whether or not to do business with particular companies. So a company that gears its operations towards social responsibility early on, and with a broad focus, can gain an edge further along over companies that are less concerned with social responsibility. I believe not only that this is important in terms of society, but also that it’s possible to achieve good returns by investing in companies are more concerned with sustainability than the competition.”

Alexander Docters (60)

Position: Repair Quality Engineer, Philips Medical

“I believe that it’s important to look beyond my pension savings, and I expect Philips Pensioenfonds to take this seriously *and* act accordingly: this means using our pension savings for sustainable investments. The world has changed, and if we want proper funding we need to react. I also believe that we have a moral obligation to use our money for good and sustainable purposes, and I think that this aligns with the course that Philips Pensioenfonds has taken. It’s useful to follow the ideas of organisations such as the UN and NGOs: by supporting sustainable innovations, our savings can make a difference and we can secure future-proof returns. I think that Philips Pensioenfonds’s decision to invest less in fossil materials was one that needed to be made, and it aligns with what I expect from my pension fund.”

Cas Tuyn (61)

Most recent position: Technical Author & Back-End Developer

“Throughout our working lives we set aside about 25% of our income for later, for when we retire. That’s an enormous amount of money, and you hope that it’s handled responsibly. Unfortunately, social organisations have discovered that you can use the money that pension funds’ members have saved to exert pressure. Surveys with leading questions create the impression that those members would love to change the world, even if they ‘might’ end up with less pension. But pension fund members like me just want a pension that increases alongside wage inflation, and we expect our pension fund to make sure that we get it. As soon as a pension fund decides to avoid certain sectors of the economy that could yield high returns, by definition that means a loss. Profits in the energy sector – which includes oil and gas – are high, for example, and the defence industry is also performing very well. At the same time, alternative ‘green’ investments are struggling with overcapacity, because the installed capacity for solar and wind energy is simply too much. The solution is to return to the only job that a pension fund has: to make investments that yield returns. In my opinion, that can best be done with an investment policy that’s linked to an index, without any *woke* influences.”

Aleksandar Ševo (56)

Position: Scientist Architect, Signify Research

“Climate is an important issue to me, and I believe that pension funds, with so much money at their disposal to invest, can exercise a huge influence over companies. I find it hard to rate companies. I don’t think electric cars are at all environmentally friendly, for example, because the electricity is often generated from fossil fuels and producing lithium for the batteries causes terrible damage. Or a company might appear ‘green’ on the surface if it offsets its carbon emissions by buying certificates, for instance. At the same time, the climate is affected by far more factors than just fossil fuels. Reckless deforestation in the Amazon jungle to produce palm oil is worse, to my mind. I believe that companies that are driven mostly by profits will pursue those profits no matter what the cost. This might be different for companies that place a greater emphasis on the environment and social aspects. If I had to choose, I’d prefer my pension fund to promote human and environmental aspects at the cost of a lower rate of return.”

What factors do we consider in terms of climate and climate goals?

Our investment policy considers societal aspects such as the environment, labour rights and human rights. Climate is a factor in the portfolio for two reasons. First, we consider sustainability risks such as climate change, since those risks affect the value of the investments. Second, we look at what efforts companies undertake towards several of the UN’s Sustainable Development Goals. We invest more in companies that contribute towards renewable energy or climate solutions. We have stopped investing in companies that derive a large portion of their revenue from fossil fuels without credible plans to become sustainable in the long term. However, we still invest in companies that have reliable sustainability plans for the future. Lastly, we firmly believe that our approach to RI aligns perfectly well with our financial ambition.

Philips Pensioenfonds excludes investments in companies that produce controversial arms (such as cluster bombs and land mines). However, it still invests in companies that produce other arms.