

Glossary

Responsible Investment

This glossary contains terms and abbreviations used on the website of Philips Pensioenfonds in the context of responsible investment. With this glossary, we aim to contribute to a better understanding of these terms and to improve the accessibility of our texts on responsible investment. In this way, you can gain a clear picture of how we take sustainability into account in our investment policy.

Explanation of terms

A

Accountability to participants

A pension fund explains how it invests and how sustainability is taken into account, for example via the website, the annual report, and voting and engagement reports published on the website.

Active portfolio management (active investing)

In active investing, an asset manager deliberately makes choices that deviate from the market average, for example by choosing to buy or avoid certain companies. Sustainability risks and opportunities are also taken into account.

B

Benchmark (standard and sustainable)

A benchmark is a kind of yardstick used to assess the performance of an investment. Such a yardstick consists of a large collection of investments, sometimes thousands. There are many different benchmarks. In equity benchmarks, large companies often carry more weight than smaller ones; this is referred to as a standard benchmark. A sustainable benchmark also takes factors such as climate, human rights and good governance into account.

Biodiversity

Biodiversity refers to the variety of plants, animals and ecosystems. Loss of biodiversity can pose risks to the economy and investments, for example in agricultural yields or real estate.

C

Circular economy

In a circular economy, raw materials are reused and waste is minimized. This helps conserve natural resources and reduce negative environmental impacts.

Climate change

Long-term changes in the climate, such as rising temperatures and more extreme weather. This can pose risks to investments and the economy.

Climate impact

The impact that investments have on the climate, for example through levels of CO₂ (greenhouse gas) emissions or through investments in sustainable solutions.

Climate neutral

Climate neutral means that greenhouse gas emissions are avoided or offset, so that there is no net additional contribution to global warming.

Climate targets and the Paris Agreement

The Paris Agreement is an international agreement concluded in Paris in 2015 to limit global warming. Climate targets are clear objectives aimed at reducing greenhouse gas emissions.

Corporate bonds

Corporate bonds are loans to companies. The holder receives interest and is repaid the principal amount at a later date. The holder runs the risk that the company may not be able to pay the interest or repay the loan.

D

Developed and emerging markets

Developed markets are countries with stable and mature economies, such as the Netherlands and France. Emerging markets are countries that are growing economically but often involve higher risks, such as Mexico and India.

E

Energy transition

The transition from energy derived from coal, gas and oil to sustainable energy sources such as solar and wind power. This transition is important to limit climate change and reduce dependence on other countries.

Engagement and dialogue

Engagement means that a pension fund enters into dialogue with companies and countries in which it invests. The aim is to increase the long-term value of investments. Companies and countries are, for example, encouraged to comply with international standards for responsible conduct.

Exclusions

Exclusions mean that a pension fund deliberately does not invest in certain companies or countries, for example due to involvement in weapons, tobacco or serious human rights violations.

G

Government bonds

Government bonds are loans to countries. When investing in government bonds, a pension fund also assesses sustainability aspects such as human rights and environmental policies of countries.

Green and social (sovereign) bonds

These are loans to governments or companies that are specifically used to finance sustainable or social projects, such as climate measures or quality healthcare.

I

Impact investing

Impact investing involves deliberately investing in projects or companies that generate measurable positive effects on people and the environment alongside financial returns.

Investment portfolio

The investment portfolio is the total set of investments held by a pension fund, such as shares, bonds and real estate. This portfolio is intended to provide a good pension, now and in the future.

N

Natural capital

The natural resources on which the economy and society depend, such as water, agricultural land and clean air. Degradation of natural capital can cause financial risks. Biodiversity is part of natural capital.

Net zero

Net zero means that greenhouse gas emissions associated with investments are reduced as much as possible over time. Emissions that cannot be avoided are offset. The goal is for investments to no longer contribute, on balance, to further global warming.

P

Participant surveys and participant panels

Through participant surveys (questionnaires distributed to a large group of participants) and participant panels (small groups of participants whose views are gathered in group discussions), a pension fund asks participants what they consider important. These insights are taken into account in the responsible investment policy.

Passive investing

In passive investing, the portfolio follows a market index. Few active choices are made, which helps reduce costs. Sustainability characteristics can be incorporated through the selected market index.

R

Risk management

Risk management is the process by which a pension fund identifies, measures and manages risks, including financial risks and sustainability risks.

S

Shares (Equities)

Shares represent ownership interests in a company. The value of shares can rise, but there is also a risk that their value may fall. Whether a share price rises or falls depends on how the company performs compared to investors' expectations.

Stewardship

Stewardship means that a pension fund actively takes responsibility for its investments. The fund does this by monitoring the companies and countries in which it invests, engaging with them on governance and sustainability, and voting where possible. In this way, the pension fund seeks to protect and enhance the long-term value of investments, for participants as well as for people and the environment.

Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs) are international goals set by the United Nations for global development. Philips Pensioenfonds focuses on four goals: good health and well-being, sustainable cities and communities, responsible consumption and production, and tackling climate change.

Sustainability aspects (also referred to as ESG aspects)

Sustainability aspects relate to environmental, social and governance issues. Examples include climate change, human rights, working conditions, and how companies and countries are governed. Philips Pensioenfonds takes these aspects into account when investing, because the Fund aims to generate returns in a responsible manner and because these aspects can influence risks, returns and the long-term value of investments.

Sustainability risks

These are risks related to environmental, social or governance issues, such as climate change or poor working conditions. These risks can affect returns.

V

Voting

As a shareholder, a pension fund can vote at shareholders' meetings. This allows the fund to exert influence on corporate policy and governance.

Explanation of abbreviations

- **CSR** – *Corporate Social Responsibility*
CSR means that companies take their impact on society into account, for example with regard to employees, the environment and the communities in which they operate.
- **ESG** – *Environmental, Social & Governance*
ESG refers to how companies deal with environmental issues, human rights and governance. Pension funds consider ESG aspects when investing pension assets, because they provide insight into risks and into how responsibly a company operates.
- **GSS bonds** – *Green, Social & Sustainability bonds*
These are bonds that finance sustainable or social projects, such as clean energy or public transport. The capital invested in these bonds may only be used for such projects.
- **OECD** – *Organisation for Economic Co-operation and Development*
The OECD has established international guidelines for responsible business conduct. These guidelines help companies and investors address issues such as human rights, the environment and working conditions responsibly.
- **PAI** – *Principal Adverse Impacts*
PAI is a prescribed list of factors that may have negative effects related to investments, for example on the climate or human rights. Pension funds use this list to explain what they do to mitigate these effects in the so-called Declaration on Adverse Sustainability Impacts.
- **RI** – *Responsible Investment*
In responsible investment, a pension fund considers not only return and risk, but also ESG aspects such as the environment, human rights and governance. The aim is to manage pension assets responsibly.
- **SDG** – *Sustainable Development Goals*
The SDGs are 17 global goals set by the United Nations to make the world fairer, healthier and more sustainable by 2030, for example in the areas of poverty, climate, health and education.
- **SDG companies** – *Companies contributing to the SDGs*
These are companies whose products or services contribute to one or more Sustainable Development Goals, for example by providing clean energy or improving healthcare.
- **SFDR** – *Sustainable Finance Disclosure Regulation*
This is a European regulation that requires pension funds and other financial institutions to clearly communicate how they address sustainability in their policies and investments.
- **UNGPs** – *United Nations Guiding Principles on Business and Human Rights*
These principles state that companies and governments must respect human rights and prevent, mitigate or remedy harm where it occurs.
- **UNPRI** – *United Nations Principles for Responsible Investment*
This is an international initiative in which investors commit to incorporating sustainability considerations into their investment decisions.