Sustainability policy

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1 Introduction

The Pension fund Board of Stichting Pensioenfonds SABIC Nederland (SPF) considers sustainability to be a major aspect of investment philosophy and an integral component of SPF's investment principles. SPF is convinced that the sustainability policy is a way of contributing to sustainable development in the world without necessarily putting pressure on the portfolio's risk and return profile.

1.1 Long-term Social and Other Value Creation as Leading Principle

SPF aims to use its investments for long-term social and other value creation as well as to offer a good pension to all members, now and in the future. A pension that enables them to enjoy their retirement in a livable world. To realize value creation and limit sustainability risks in the long term, we use external service provider Morningstar Sustainalytics for its screening and research capacities and service provider Columbia Threadneedle Investments (CTI) to implement the engagement policy.

The following starting points are used in adopting long-term value creation as the leading principle:

- Investment categories are selected according to actual economic activities and underlying value creation;
- SPF uses absolute objectives for excess returns and returns in the long term;
- In selecting asset managers, investment funds, or individual titles, SPF takes into account forward looking strategies for the long term and social value creation. SPF does not only take into account returns that were achieved in the past;
- Mandates and contracts that have a sufficiently long term are agreed with external service providers;
- The remuneration of external service providers is linked to performance over a sufficiently long term, where applicable.

SPF incorporates this leading principle into its policy through integrating sustainability and sustainability risks where possible in all investment categories via several instruments. These instruments arise from SPF's strategic vision on sustainability. SPF safeguards compliance with these instruments by not only focusing on sustainability in selecting individual titles but also when appointing asset managers and other fund service providers. SPF expects its service providers to act in accordance with policy and objectives and aims for long-term cooperation to realize the joint objectives.

The six instruments, which form the basis and structure of SPF's sustainability policy, and which are further detailed in chapters 2 to 7, are:

- Themed Focus Areas
- ESG Integration
- Engagement
- Voting Policy and Corporate Governance
- Exclusion
- Transparency

1.2 Sustainability Risks

An important part of SPF's sustainability policy is integrating sustainability risks. Sustainability risks are the risk that the value of the investment portfolio decreases as a consequence of events or circumstances in ecological, social, or governance areas (ESG). Ecological events include climate change, scarcity of natural resources, and pollution. Social issues include employment issues and product liability. Governance involves themes such as shareholder rights, business ethics, diversity, and Board Member remuneration. The occurrence of a sustainability risk results in other risks or financial risks. This can negatively influence the value of an investment.

SPF works with external managers who take investment decisions. When selecting these managers, SPF always assesses how the managers handle sustainability and sustainability risks. This policy incorporates the measures SPF takes itself in this area and the specific aspects that are taken into consideration in selecting managers (sections 1.3, chapters 3 and 6)

1.3 A Commitment to OECD Guidelines and UNGPs

As a consequence of anchoring SPF's commitment to sustainability in policy and administration, the fund signed the broad track of the International Socially Responsible Investing Covenant (IMVB) in December 2018. In doing so, SPF endorses the OECD guidelines for multi-national companies and the UN's Guiding Principles on Business and Human Rights. SPF also uses the OECD roadmap for institutional investors as guide. SPF also expects its external fiduciary manager DPS, ESG service providers, mandate managers, and companies in which SPF invests to act in accordance with these international standards and to report on this.

1.4 Statement on principal adverse impact indicators

SPF has anchored sustainability in its policy and policy implementation. Part of this policy is that the potential or actual negative impact on society and the environment is identified when screening the investment portfolio. This is important for SPF considering its aim for long term social and other value creation.

In 2023, SPF decided to opt-in regarding the "Statement on Adverse Effects on Sustainability Factors" in accordance with SFDR Article 4. This is a statement that financial institutions are required to prepare under European legislation if these financial institutions take into account the principal adverse impacts, as defined by the SFDR, on sustainability factors when making investment decisions. The PAI (Principal Adverse Impact) statement will be published on the SPF website. Starting in 2024, SPF will report annually on at least 20 PAI indicators.

1.5 Taxonomy & target for sustainable investments in accordance with SFDR

Through the Taxonomy Regulation, the European Union set a framework to decide which economic activities are ecologically sustainable. Those are economic activities that contribute to an ecological goal and which do not cause significant damage to other ecological goals. In total, six different ecological objectives have been defined. SPF believes it is important to also invest in economic activities that contribute to these ecological objectives.

As of January 1, 2024, SPF has decided not to include a target percentage for sustainable investments according to SFDR. This decision is due to the absence of a widely accepted market definition, the complexity of developing its own definition, the implications in implementing the target, and the lack of sufficient reporting data from investee companies. SPF anticipates that practical definitions will evolve, and more relevant data will become available when companies actually start reporting on their sustainable goals. SPF closely monitors developments on this subject and will evaluate the possibilities in 2024 to responsibly establish a target percentage for sustainable investments in accordance with SFDR.

1.6 Development of the Sustainability Policy

Policymaking

Initiatives and developments concerning sustainability and socially responsible investing are discussed when determining the investment plan. These discussions assess whether and how these initiatives and developments will be worded in SPF's policy. Over the course of the year, SPF builds on the policy as set out in the investment plan, and the Board of SPF sticks to the chosen path. We regularly evaluate our direction and the initiatives, either in a broad administrative dialogue or in discussions within the Asset Management Committee.

Stakeholders

SPF considers it important that sustainability contributes to shaping a sustainable future for all stakeholders concerned. SPF plays an important role in society. The Board has therefore made this information on the sustainability policy and its implementation available to the stakeholders. The Board takes their interests very seriously and works to encourage sustainability. SPF's stakeholders are diverse and represent a plurality of interests and priorities, but the strategic vision concerning sustainability is a common theme visible among all stakeholders.

A brief explanation of the stakeholders is given below.

Members

The members are SPF's foremost priority, as SPF exists for and because of them. The members agree with SPF's vision concerning sustainability. Within SPF's policy, the members consider an active approach to sustainability to be an important principle. Members consider it to be SPF's responsibility to take account of the consequences for people and the environment when making investments. A majority of members has indicated, however, that their pension should not suffer as a result of SPF's sustainable ambitions. SPF also regularly gauges members' stance towards sustainability. SPF will evaluate the results of this survey and will refine its policy and communication accordingly.

Employers

SPF is the company pension fund of SABIC and its affiliated companies. SABIC is committed to sustainability and has listed this as a strategic core point in its company strategy. Naturally, SPF is an entirely independent foundation. However, SABIC aims to integrate sustainability in its governance and addresses its own suppliers on this point. As a company pension fund, SPF emphasizes the importance of pursuing dialogue on the topic of sustainability. Engagement and Corporate Governance, as SPF implements these within the fund's own vision on sustainability, are therefore important principles for affiliated employers.

The Dutch Government and Regulators

The Dutch government and regulators encourage financial stability and contributions to sustainable prosperity in the Netherlands. They have an important role in compliance with the sustainability-related legislation to which SPF should adhere. Mandatory legislation and regulations with respect to sustainability have increased in recent years as a consequence of the European Action Plan 'Financing Sustainable Growth'. The purpose of this Action Plan is to encourage the financial sector to contribute to the Paris Climate Agreement objectives. New European regulations arise from this Action Plan, which will apply to the entire financial sector. Examples of this are the EU Sustainability Disclosure Regulation with the aim of harmonizing transparency regarding ESG risk management, and the Taxonomy Regulation which aims to create a clear definition of ecological sustainability that should be used within the financial system.

The Dutch government and regulators integrate and anchor sustainability as much as possible in the performance of their tasks and governance. Both the Authority for the Financial Markets (AFM) as well as De Nederlandsche Bank (DNB) focus on further integration of sustainability in their core tasks, sustainable governance, sustainable social policy, integrity and compliance, and social commitment. The regulators also apply this view to how SPF has anchored sustainability in its governance. This makes ESG Integration in SPF's governance an important aspect of the DNB and AFM supervision of SPF.

Financial institutions and suppliers

SPF invests in an investment portfolio with a global spread via mandates and investment funds. This represents a direct connection to financial institutions. SPF thinks it is important that these financial institutions make sustainability a high priority. Additionally, SPF has entered into a number of collaboration agreements with suppliers in which sustainability is an important criterion. Considering the size of SPF's investment portfolio, it is in the interests of the financial institutions and suppliers to do business with SPF. They can only do so if they comply with SPF's vision of sustainability. Non-compliance with certain criteria will have consequences for their collaboration with SPF.

The Media and Interest Groups

The media and interest groups play a prominent role when it comes to management and reporting concerning sustainability. In recent years, the media and interest groups have been very much involved in this area. For example, they emphasize the critical evaluation of how organizations anchor sustainability in policies as well as how organizations implement the sustainability frameworks. Transparency is vital for providing insights to the media and interest groups in their capacities as stakeholders.

Pension Sector

The pension sector plays an active role in various areas in developments relating to responsible investments, has undergone significant developments in recent years in this respect, and has also made conscious choices. Sustainable investment receives ongoing focus from the pension sector and the chains around this. What is clear here is that there is a deeper focus on sustainable investment. Where this was initially driven by reputational risks associated with investments that are perceived as being socially 'wrong', the emphasis is now shifting specifically from reputational risk to financial risk and to financial opportunities. This has resulted in sustainability being considered as part of risk management and as being a good and promising investment.

2 Themed Focus Areas

In signing the broad track of the IMVB Covenant in 2018, SPF endorses the OECD guidelines for multi-national companies and the UN Guiding Principles on Business and Human Rights. In committing to these OECD guidelines and UNGPs, SPF aims to focus on certain societal developments that are important for its members and have been identified as high risk for its investment portfolio. Against this background, SPF aims to work particularly on the sustainability theme of climate change: This concerns the prevention of negative societal and environmental impact in the investment portfolio. In addition to the focus on climate change, SPF has decided to include circularity as the second thematic focus in its sustainability policy. An explanation of the themed focus areas is given below.

2.1 Theme 'Climate Change'

Climate change is one of world's greatest problems. Climate change is resulting in increasing levels of irreparable damage to global social, economic, and ecological systems. This threatens the social security of millions of people. Climate change is caused by emissions of greenhouse gases (including CO_2) and deforestation. Objectives are agreed, and measures are taken and implemented internationally, throughout Europe and nationally to combat climate change and limit the consequences of this. The Paris Climate Agreement from 2015, the EU Green Deal at the end of 2019, and the Dutch Climate Agreement in 2019 are the most recent agreements that apply and are implemented. Under the theme of climate change, the focus is on two Sustainable Development Goals (SDGs), namely: SDG 7 (affordable and clean energy) and SDG 13 (climate action).

In the context of international corporate social responsibility, pension funds are expected to make an important contribution in combatting climate change, such as by gradually reducing the CO_2 intensity of their investment portfolio. Pension funds can support the energy transition and generate positive impact by investing in companies that stimulate sustainable energy.

SPF aims to achieve a 55% reduction in CO_2 emissions by 2030 compared to the benchmark and scope 1 and scope 2 carbon data from 2016. This goal applies to the investment categories of stocks, investment-grade credits, and US high yield. Additionally, SPF has set a target to achieve net-zero (100% reduction) in CO_2 emissions by 2050.

SPF uses engagement to combat the uncontrollable effects of climate change.

SPF is transparent about its adopted approach and results in its annual report which is published on the website.

Companies in sectors that significantly influence the climate are expected to take clear action via engagement as well as undertake the following steps:

1st step: Awareness

The first step is that of basic awareness of climate change and of a company's own activities in this respect. This is manifested in such things as providing information on greenhouse gas emissions.

2nd step: Active Emission Management

The company uses emission management to develop concrete actions and the emissions for which the company is directly responsible are reduced. Drawing up targets and efficiency investments form part of this.

3rd step: Strategic Approach

The essential shift takes place in the third step, that of the strategic approach, in which the company sees curbing climate change as an important business activity. Via engagement, the Board of the company is expected to use scenario analyses to examine the risks and opportunities of climate change for the strategy. The company must take emissions throughout the chain into account and not only emissions relating to its direct activities.

4th step: Alignment

'Alignment' is the final objective that companies are expected to pursue. This step goes further than assessing the impact of climate change on the business. The company examines the impact of its business on climate change. Companies are expected to contribute actively to addressing climate change by aligning their own business objectives to the Paris Climate Agreement objectives. The introduction of objectives demands proactivity, which can ultimately result in a positive influence on a company's financial position.

2.2 Theme 'Circularity'

The theme of 'Circularity' is a topic that resonates with participants and aligns with the efforts of the sponsor.

Circularity, also referred to as the circular economy, is an economic model that aims to minimize waste and optimize the use of resources. In contrast to the traditional linear economic model, where raw materials are extracted, processed into products, and often discarded as waste after use, the circular economy seeks to create a closed-loop system.

The Circular Economy theme focuses on two Sustainable Development Goals (SDGs), namely: SDG 6 (clean water and sanitation) and SDG 12 (responsible consumption and production). Before implementing the theme in the portfolio, it will be further developed.

3 ESG Integration

Where possible, SPF manages and evaluates investments according to ESG factors. ESG stands for Environment, Social, and Governance. Sustainability risks for the portfolio and other ESG aspects are also considered when making investment decisions in the various mandates. The way in which societal issues in the form of ESG aspects are embedded in the investment decisions differs for each investment category and mandate. A minimum level of ESG integration is required to safeguard each investment or interest in a company. In addition to SPF endorsing the ESG due diligence steps in accordance with the OECD guidelines, SPF also expects its fiduciary managers, ESG service providers, asset managers, and companies in which SPF invests to act in accordance with the OECD guidelines for multinational companies and the UN's Guiding Principles on Business and Human Rights, and to report on this. SPF also expects its fiduciary manager and asset managers to have a sustainability risks policy.

Identifying and Assessing Actual and Potential Negative Impact in the Investment Portfolio and for Potential Investments

The potential or actual negative impact on society and the environment is identified when screening the investment portfolio. The likelihood of negative impact is also considered, and the most serious negative impact is prioritized according to: (1) seriousness, (2) scale, and (3) irreversibility.

In assessing identified actual and potential negative impact, SPF involves relevant external stakeholders and experts, such as external service providers, Morningstar Sustainalytics, and CTI.

Prevent and/or Mitigate Negative Impacts

When companies in the investment portfolio could potentially or actually cause negative impact, SPF uses its influence to prevent and/or mitigate this impact and to enable remediation and/or redress.

SPF does this via engagement in investments in (real estate) equity, (high yield and investment grade credits) corporate bonds, and/or by voting at shareholders' meetings in the Netherlands. Voting takes place remotely via proxy voting. Proxy voting means outsourcing the execution of voting rights to a specialist service provider which, in SPF's case, also provides advice relating to the proposals on which voting is taking place. SPF uses Institutional Shareholders Services (ISS) for this, a renowned institute in this area.

When companies in which SPF invests cause negative impact or have contributed to this, SPF expects that they offer remediation and/or redress for the affected areas or that they contribute to this. When companies in which SPF invests are directly associated with the negative impact, SPF expects them to use their influence to enable remediation and/or redress. When SPF itself has caused negative impact or has contributed to this, SPF will itself offer remediation and/or redress or will contribute to this.

Engagement and voting policy are further described in chapters 4 and 5 of this sustainability policy.
SPF can also decide to divest. SPF also considers the potential or actual negative consequences of divestment on society and the environment. The exclusion policy is further described in chapter 6.

Monitoring Implementation and Results

SPF monitors the progress and impact of the ESG policy by requesting a report from its service providers at least on an annual basis and discussing this. SPF will also make adjustments where necessary. SPF demonstrates accountability to its members and other stakeholders annually by publishing an overview of the total investment portfolio on its website. The annual report specifies how the fund handled sustainability during the year in question. The results of votes at shareholders' meetings are also presented on the SPF website.

4 Engagement

SPF places a high priority on engagement. In this, SPF enters into a series of intensive dialogues with companies whose practices are not in line with the UN Global Compact's principles and where potential or actual negative impact has been identified.

SPF has four objectives with respect to engagement based on negative impact:

- The negative impact must stop;
- The company must remediate and/or redress any injured parties;
- The company must take sufficient measures to prevent future incidents;
- The company must be transparent about the measures taken.

SPF makes time-bound agreements with companies and monitors progress. If necessary, SPF involves stakeholders in this, including injured parties. Here, SPF focuses particularly on ESG topics that:

- Are financial material;
- Cause the most serious negative impact for society and the environment;
- Are important for members.

SPF assesses an engagement process as successful if all time-bound objectives have been achieved.

When companies do not respond satisfactorily to its engagement efforts within the predefined term, SPF can escalate in the following ways:

- Starting/intensifying cooperation with other investors to step up the momentum in the dialogue;
- Voting, including:
    - Against the appointment of relevant Directors;
    - Against the remuneration proposals for relevant Directors;
    - On shareholder proposals;
- Starting/intensifying cooperation with other stakeholders (for example market parties, trade unions, or social organizations) to step up the momentum in the dialogue;
- Public communications to step up the momentum in the dialogue;
- Submit or co-submit shareholder proposals in line with the engagement process objectives;
- Start legal procedures in line with the engagement process objectives.
- Divestments:
    - SPF's policy states that investments will no longer be made in companies receiving a 'poor' assessment from CTI for three consecutive years, if this is related to the Sustainable Development Goals (SDGs) that SPF focuses on.
    - Starting from the first quarter of 2025, companies that should be excluded according to this policy will be submitted for approval to the investment committee and the board.
    - No exclusion and divestment will take place without a positive decision from both this committee and the board.
    - In exceptional situations, the board may decide to deviate from this rule. This may be necessary when a company requires additional time for changes, or in cases of acquisitions, changes in management, or strategic alterations.
    - Investments in a company can be resumed when the company achieves an assessment of 'adequate' or 'good'.

SPF demonstrates accountability for the engagement processes implemented each year in its annual report. SPF reports on the progress of engagement processes as long as this does not undermine the effectiveness of ongoing engagement processes.

Since Q4 2020, SPF has had an active engagement program that attempts to encourage companies to positively contribute to the field of social issues and social sustainability issues. This is done in two ways: proactively and reactively.

SPF has outsourced engagement to CTI. CTI acts as an engagement party on behalf of a number of institutional investors. SPF's engagement program addresses holdings in (real estate) equity and holdings within (investment grade credits and high yield) corporate bond portfolios.

Proactive engagement involves a thematic effort to simultaneously encourage multiple companies (often across the entire sector) to make further improvements. Examples include sector-wide initiatives concerning child labor, conflict resources, or CO_2 emissions. Such engagement programs often span multiple years.

Reactive engagement is initiated after significant misconduct by a company comes to light. Such cases of misconduct can be attributed to conduct that violates the Ten Principles of the United Nations Global Compact. In the event of such incidents, engagement seeks to prevent a recurrence of such an incident or new malpractices, by requiring better risk management procedures or process changes within a company.

Performance Indicator

SPF demonstrates accountability for the engagement processes implemented each year in its annual report. SPF reports on the progress and results of engagement processes as long as this does not undermine the effectiveness of ongoing engagement processes.

5 Voting Policy and Corporate Governance

SPF invests in over 1300 listed companies worldwide. That means we have to continually screen and analyze these companies in order to be aware of the opportunities and risks. Investment in listed companies comes with management risks, for example. These are risks that result from bad decisions or incorrect policy by the Board. SPF’s policy for good governance is intended to protect our interests as a shareholder while at the same time living up to our responsibility in that role.

Wherever there is an indication that a company is not living up to proper principles of social responsibility, SPF has several options to exert an influence. As an example, SPF votes at the shareholders' meetings of all the listed companies worldwide in which SPF invests. Where these voting initiatives do not have the desired effect, SPF still has the option to pursue a process of engagement or to divest its holdings in the relevant companies.

SPF uses its voting approach to monitor all Dutch listed companies in which it invests for material affairs, including but not limited to the company’s business model for creating long-term value, the company strategy, performance and risks and opportunities, the capital structure, societal and ecological effects, corporate governance, and corporate actions – such as mergers and acquisitions. Material affairs are affairs that will probably have a significant effect on the capacity of the company to create long-term value.

If SPF votes against a Board proposal or abstains from voting on a Board proposal, SPF can decide to explain the reasons for its Vote Summary Report to the Board of the company.

SPF invests in a great many companies. For cost and capacity considerations, we vote remotely via proxy voting. We rely on the services of CTI, in exercising our voting rights. CTI’s voting guidelines are available on SPF's website: Corporate Governance Guidelines.

Performance Indicator

SPF publishes on its website at least once per year how SPF has voted in shareholder meetings of the listed companies in which it invests, per individual company and per voting point. Where applicable, SPF also provides an explanation once a year on the most important votes.

6 Exclusions

SPF's investment policy produces an investment portfolio that reflects its standards and values. Companies that conduct themselves in a manner not compatible with the UN Global Compact's Ten Principles are excluded from our investment.

The Ten Principles of the UN Global Compact are derived from the following four international treaties and declarations:

1. The Universal Declaration of Human Rights;
2. The ILO Declaration on Fundamental Principles and Rights at Work;
3. The Rio Declaration on Environment and Development;
4. The United Nations Convention against Corruption.

The Ten Principles are sub-divided into four main themes. These main themes are human rights, labor law, environment, and fighting corruption. The Ten Principles are described below under the four themes.

Human Rights

1. Companies must support and respect the protection of internationally accepted human rights; and
2. Ensure that they do not become complicit in human rights violations.

Labor Law

3. Companies must recognize labor union rights and the right to collective bargaining;
4. Endorse the banning of all forms of forced labor;
5. Effectively abolish child labor; and
6. Companies must combat discrimination in employment and occupation.

Environment

7. Companies must take steps to prevent causing an environmental impact.
8. Engage in initiatives to advance environmental awareness; and
9. Promote the development and dissemination of environmentally friendly technologies.

Fighting Corruption

10. Companies must combat all forms of corruption, including extortion and bribery.

Alongside the exclusions based on conduct that is not compatible with SPF's standards and values, SPF also excludes companies that are involved in the production of controversial weapons as well as suppliers that produce products that are essential for the production of these weapons (key suppliers). Controversial weapons are understood to be: cluster bombs, land mines, chemical and biological weapons, depleted uranium ammunition, white phosphorus bombs, and nuclear weapons.

Additionally, companies involved in tobacco production (with revenue greater than 0%), and companies engaged in coal mining (with revenue greater than 5%) and oil extraction from oil sands (with revenue greater than 5%) are also excluded.

Investments in loans to countries that do not adhere to international treaties or which are under sanction by the UN, EU, or the Dutch government are also excluded. In most cases, the sanctions are related to human rights, arms proliferation, and democratic rights.

Finally, SPF also excludes investments in shares and loans from Saudi Aramco, which holds 70% of the SABIC shares.

SPF has appointed Morningstar Sustainalytics to screen its investment portfolio with respect to the exclusion policy. This consultancy engages in worldwide research into social issues and analyzes investment portfolios for their sustainability. Morningstar Sustainalytics follows a structured approach that is widely accepted within the pension sector.

Prior to any new securities investment, this is checked against the fund's exclusion list. The investment portfolio is also reviewed each quarter to determine whether all in the preceding quarter's investments complied with the fund's exclusion criteria. When an individual investment does not comply with SPF's exclusion criteria, the asset manager is given the assignment to ensure that this investment is sold prior to the quarter end.

Performance Indicator

SPF is accountable in its annual report for the total number of exclusions that took place in the relevant year and the distribution of these over the number of countries and number of companies that are excluded. SPF also indicates in its annual report how the total number of exclusions relates to the total number of exclusions in the previous year.

7 Transparency

SPF publishes an annual report and publishes information on its website to ensure transparency about the sustainability policy and its implementation. In the context of transparency about where SPF invests, SPF publishes an annual overview of the total investment portfolio on its website. SPF's website will also provide a Vote Summary Report of shareholder meetings of the listed companies in which SPF invests.

In signing the IMVB covenant in 2018, SPF pledged to anchor the OECD guidelines and UN Guiding Principles within the pension fund policies, outsource activities to external service providers, and monitor and report on this topic. Beginning in 2022, SPF will report (for the first time in the 2021 annual report) on the progress of covenant implementation.