



Corporate Governance

Release date:
November 13, 2020

1 Introduction

Pensioenfonds Zorg en Welzijn (PFZW) is the pension fund of, for and by the Dutch healthcare and welfare sector. At PFZW, employees and employers jointly aim to ensure a good collective pension in a liveable world. Our primary task is to provide our beneficiaries with the best possible pension. Hence, we first and foremost strive for an optimal risk-adjusted return on our investments. We believe that a good pension is worth more in a liveable world. That is why investing in a sustainable manner is important to us. We are convinced that integrating Environmental, Social and Governance (ESG) issues leads to improved financial performance in the long run. We believe that financial and social return go hand in hand.

Corporate Governance is important for PFZW, both from compliance with law and regulations as from a stewardship perspective. This Corporate Governance Policy Paper defines our general principles and view on good practices, with regard to PFZW's investor responsibilities. It also discusses the way PFZW fulfils the role of steward and active shareholder of our (equity) investments. This Corporate Governance Policy Paper falls hierarchically under our **Integral Policy and Instruments Responsible investments**.

Corporate governance is one of the—if not the—most important preconditions for embedding and anchoring sustainability and long term value creation. It determines the way in which we as investor can interact with companies and execute our rights and responsibilities as shareholders. Our Corporate Governance Policy Paper primarily addresses environmental, social and corporate governance (ESG) related matters. We want all our investment to meet a minimum sustainability requirements, which we address in our Investment policy 2020–2025. Corporate governance is a prominent part of these requirements and stewardship efforts.

This document explains PFZW's policy framework for corporate governance and minimum sustainability requirements from a Dutch asset owner perspective. It sets out our underlying basic principles and expectations, and explains how we meet our ownership and stewardship responsibilities. This paper serves three purposes:

1. **Being transparent** to our relevant stakeholders about PFZW's view on corporate governance.
2. **Communicating our views** to market participants and (listed) companies we invest in, with regard to corporate governance.
3. **Providing guidance** for our asset managers for integrating corporate governance in investment decisions and to promote good corporate governance and sustainability practices at (listed) investee companies.

In this paper we will first explain why corporate governance is a precondition and hence a key area of focus for our investments. Subsequently we discuss the way in which we regard corporate governance and our role as universal owner and steward. We will conclude the paper by discussing how to address corporate governance in our investments and the stewardship activities we are required to undertake. Furthermore, we highlight our efforts to mitigate material risks and/or concerns and contribute to long-term value creation by (listed) investee companies and consequently to the long-term risk-adjusted returns on our investments.

2 The Importance of Corporate Governance

Good corporate governance is not a goal in itself, it serves as a precondition and catalyst for embedding and anchoring sustainability. Good corporate governance standards and practices help to mitigate material risks and contribute to long-term value creation by the companies we invest in, and to the long-term risk-adjusted returns on our investments.

However, addressing proper corporate governance standards and practices is far from voluntary either. Through laws, rules and regulations¹ and/or mandatory² or voluntary signed and/or endorsed codes and/or principles³, as well as the society at large require investors of (listed) companies to take their (stewardship) responsibility in playing an active and effective role in the corporate governance model.

Stewardship, engagement and active shareholder ownership, is part of PFZW's identity and contributes to a positive reputation of our pension fund.

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1. For example the implementation into Dutch Law of the EU Shareholder Rights Directive (SRD II) and the implementation of the Directive on the activities and supervision of institutions for occupational retirement provision (IORP II).
 2. For example the Dutch Corporate Governance Code.
 3. For example, PFZW was closely involved in the setting up and drafting and became one of the launching signatories to the UN-backed Principles of Responsible Investment (UNPRI). PFZW has committed itself to integrating ESG issues into investment analysis and decision-making processes and to promote acceptance and implementation of the Principles within the investment industry. And As Eumedion participant, PFZW contributed in developing the first Dutch Stewardship Code (20 June 2018). We endorse this Stewardship Code.

3 Our understanding of Corporate Governance

We take the position that corporate governance describes the division of tasks and responsibilities between the management and supervisory board of a company on the one hand and its shareholders, including proper supervision and accountability thereof, on the other hand. Corporate governance standards must ensure proper management systems with adequate checks and balances. It should serve shareholders and provide them with the necessary tools and influence to bring about changes within companies, for example ESG improvements. Furthermore, it describes the relationship between the company and its relevant stakeholders and its conduct towards these stakeholders.

3.1 Our basic Corporate Governance principles

This Policy Paper Corporate Governance is principle based and discusses PFZW's general basic principles and position on corporate governance and specific aspects thereof. In order to meet our pension ambition in a prudent way, PFZW invests globally—amongst others—in equity capital of (listed) companies. To this end, PFZW requires well-functioning and sound capital markets. Given the exposure to multiple markets and ESG matters, PFZW considers it to be in its best interest to promote capital market and corporate governance practice improvements in order to achieve sustainable financial returns on its investments worldwide. These investments are a cross section of globally available investment opportunities. Risk and return of these investments are to a large degree determined by well-functioning jurisdictions (rule of law⁴), markets, economies, sectors, institutions and companies.

Role as Asset Owner

As an institutional investor, PFZW is the owner of the investments on behalf of the ultimate beneficial owners: our beneficiaries. We see shareholders as (co-)owners of the company. Being an asset owner brings along rights as well as responsibilities. As a responsible asset owner, we will make prudent use of the rights and obligations that come along with (listed) equity ownership. This means that:

- long term value creation of the business has top priority, and we relate this to our belief that ESG matters are a determining factor;
- PFZW takes its identity into account in its investments and its actions resulting thereof;
- PFZW puts the interests of its beneficiaries on the forefront, whilst considering the interests of other relevant stakeholders.

PFZW views itself as a universal investor. The universal investor concept presumes that large institutional investors (i) hold equity of many or even most (listed) companies in all major indices worldwide, (ii) tend to invest for sustainable long-term returns, and (iii) possess economic interests that are aligned with (or even identical) to those of the broader society. Hence, it is in the best interest of universal investors to promote social and environmental goals, such as—but not limited to—laid down in international conventions like the UN's Global Compact the UN Sustainable Development Goals (SDGs) or the OECD Guidelines for Multinational Enterprises and by and/or through the equity in companies they own or manage. PFZW indeed considers this to be an important part of its management of its investments.

Goal of long-term value creation

PFZW strives for an optimal risk-adjusted return on our investments. Therefore, we seek to invest in companies that first of all create sustainable long term value and that have a positive impact on society and/or the environment. Various studies have found a positive or neutral correlation between corporate governance and financial performance or market value. Companies with involved and active owners tend to perform better, both financially in terms of positive social and/or environmental impact. Considering the large number of companies PFZW invests in, PFZW will have to be selective, seek collaboration with others and/or render the services of third parties when implementing and executing this Corporate Governance Policy Paper. Nevertheless, PFZW always remains fully responsible for the execution of this Policy Paper

4. Which relates also to Sustainability Development Goal (SDG) 16.

Corporate Governance as well as the determination of its objectives and agenda. In weighing the various interests, we will take into account principles of reasonableness and fairness, as well as materiality and proportionality.

Mindful of Dutch descent

Even though PFZW invests globally, the applicable laws and regulations differ per jurisdiction. As a Dutch Pension Fund, PFZW views the underlying norms and values of Dutch laws, regulations, (corporate governance and stewardship) Codes and society as the leading framework for our actions. In this respect, operating on a global scale could mean that local laws and regulations make it troublesome or even impossible for PFZW to play its role well. Hence, under certain circumstances, PFZW will partly or completely relinquish itself from its active role. As a last resort, PFZW could decide to refrain itself from investing in a company, sector and/or an entire jurisdiction.

Also, PFZW is of the opinion that institutional investors, in particular asset owners, bear a higher responsibility for their domestic market. As Dutch Pension Fund, PFZW sees The Netherlands as its home market and is prepared to make additional efforts to improve its capital market as a whole and its investments in Dutch companies in particular

Principle based

As stipulated, our view on Corporate Governance is principle based, as is the case for the Dutch Stewardship Code. This Policy Paper Corporate Governance intends to provide general guidance. It may be applied and/or interpreted depending on the circumstances of each case. All in all, PFZW will strive to live up to the spirit of this policy, implement it, be transparent about the process and report accordingly. This policy paper and the subsequent positions on specific aspects of corporate governance will evolve over time. PFZW monitors relevant developments closely and will evaluate and update its policies when necessary.

Separation of role PFZW and the company's board

The management and supervisory board of a company is responsible and accountable for the management of the company. PFZW acts on behalf of the interests of its beneficiaries and holds the board accountable for the execution of the board's tasks by means of voting, engagement and/or shareholder litigation procedures. Where relevant, PFZW will utilize its right to submit shareholder resolutions to the agenda of a shareholders meeting, for example on ESG matters.

3.2 Endorsed Corporate Governance principles

PFZW endorses internationally recognized and accepted basic principles of good corporate governance and proper checks and balances. It refers to the six basic principles of the G20/OECD Principles of Corporate Governance (2015), although these OECD Principles are in first instance aimed at legislators, and the ICGN Global Governance Principles (2017). PFZW complements its basic corporate governance framework with specific principles of the Dutch corporate governance system and Dutch law, rules and regulations, the Corporate Governance Code and the Stewardship Code⁵. Shareholder rights, accountability and transparency are key focus corporate governance matters for PFZW.

5. Please note in this respect the Statement compliance Dutch Corporate Governance Code of our asset manager.

4 Instruments to address corporate governance in our investment portfolio

4.1 Stewardship

Asset owners—like PFZW—and asset managers hold the overwhelming majority of the shares in listed companies and manage assets on behalf of third parties. As a result, society at large expects that asset owners and asset managers take their responsibility in playing an active role in promoting good corporate governance and sustainability practices at their investee companies. The recently adopted revised EU Shareholder Rights Directive (SRD II)⁶ stipulates that ‘effective and sustainable shareholder engagement is one of the cornerstones of the corporate governance model of listed companies’. We want to meet our stewardship responsibilities in a way that contributes to long-term value creation by our investee companies and consequently to the long-term risk-adjusted returns on our investments.

As a Eumedion participant, PFZW contributed to the development of the first Dutch Stewardship Code (20 June 2018)⁷. PFZW endorses this Stewardship Code.

Stewardship is also embedded in Principle 2 of the UNPRI: ‘We will be active owners and incorporate ESG matters into our ownership policies and practices.’

It is not the investor’s—asset owner’s nor the asset manager’s—role to manage the companies in which they invest. However, as investor we do have a role to play in monitoring the management and supervisory boards of those companies and that is why we need to gain understanding on how the boards fulfil their responsibilities and hold them accountable for their actions or lack thereof.

4.1.1 Voting

PFZW’s stewardship role includes voting in an informed manner at (extraordinary) general meetings and the monitoring of our investee companies. Informed, means that the voting right is exercised in accordance with PFZW’s voting policy and voting guidelines⁸.

We strive to vote in an informed manner at all (extraordinary) general meetings with the aim to:

- Have a positive contribution to the long-term value creation by our investee companies;
- Contribute to the continuity of the companies and their affiliated enterprise;
- Promoting good corporate governance and sustainability (ESG) practices at our investee companies.

We monitor the votes executed on our behalf by our asset manager and require that these votes are publicly disclosed on their website.

6. Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC to encourage long-term shareholder engagement (OJ 2017, L 132. SRD II has been implemented in the Netherlands, effective as of 1 December 2019.

7. The Dutch Stewardship Code entered into force on 1 January 2019. From book year 2019 onwards, we are expected to apply the principles of the Code and report on the implementation of it.

8. Please refer to the Global Voting Guidelines of our asset manager.

4.1.2 Shareholder proposals

In many jurisdictions, shareholders have the right and practical means to propose a resolution for a (extraordinary) general meeting to discuss and/or vote on during the (extraordinary) general meeting. We see this as one of the essential shareholder rights.

PFZW exercises restraint in using this right. In principle we will not use our right to file a shareholder resolution without prior dialogue with the company. However, when we deem it needed or desirable to meet our stewardship responsibilities and/or achieve our goals, we will utilise this instrument.

4.1.3 Engagement

We conduct a meaningful and constructive dialogue with markets and/or companies with the aim to bring about improvements. We engage individually as well as collectively⁹. PFZW has an Engagement Policy which determines how engagement is determined and conducted.

For universal owners, market (collective) engagement is instrumental in (top-down) improving corporate governance standards and/or practices in the jurisdictions and capital markets we invest in. The primary aim is to improve transparency, reduce capital market (systemic) risks and improve the comparability between capital markets (level playing field).

Corporate governance focus areas:

Shareholder rights

To be able to undertake our stewardship responsibilities and to play an active role in promoting good corporate governance and sustainability practices at investee companies, investors need appropriate and effective shareholder rights. Our market and company engagement is aimed to preserve and improve these rights.

Boards

It is the management and supervisory board's role to manage the companies in which we invest, not our role as (ultimate beneficial) owner of the shares in these companies. However, we have a role to play in monitoring the boards of those companies. That is why we need to gain understanding on how these boards fulfil their responsibilities and create long-term value. The composition and functioning of the executive and supervisory board are crucial in this.

Compensation and remuneration

Excessive compensation contradicts with the values of our beneficiaries and the identity of our pension fund. In our Compensation Policy we express our views on compensation within the capital markets system and set our goals for change. It applies to financial service providers, like our asset manager(s), and companies we invest in. We see significant differences in practises across our various asset classes and therefore we will provide a tailored implementation of this policy for each asset class.

4.1.4 Transparency & accountability

PFZW attaches great importance to transparency and accountability. We report on our website about our compliance with applicable legislation and the commitments arising from codes and covenants and disclose the specific information requested. We require our asset manager(s) and/or service provider(s) to demonstrate and report on the stewardship activities conducted on our behalf.

9. In line with for example: 'We will work together to enhance our effectiveness in implementing the Principles.' (UNPRI) and '[Investors] cooperate where appropriate and at their discretion with other shareholders in performing their stewardship activities' (Dutch Stewardship Code).

4.1.5 Shareholder litigation

PFZW defines shareholder litigation as the conduct of legal proceedings as a shareholder in companies in which we invest, or were invested, which qualify on the basis of one or more of the following objectives:

- Financial proceeds to limit damages: Recovering investment losses resulting from fraud, corruption, embezzlement or other forms of misconduct by listed companies;
- Contribution to the risk-return profile: Where possible, improving the corporate governance of the company concerned in order to remain invested as a shareholder with a long-term outlook;
- Prevention: Setting standards to prevent undesirable behaviour (fraud, corruption, deception etc.).

We make a clear distinction between what we see as 'active' versus 'passive' shareholder litigation. We regard passive shareholder litigation as conducting an appropriate administrative process to collect full or proportionate financial damages accruing to us from settlements in group actions and/or administrative penalties imposed by regulatory bodies. This 'proof of claim' process is largely administrative and has been outsourced by our asset manager(s) to an external service provider. On our behalf, our asset manager(s) obtain information to monitor relevant shareholder litigation cases, through service provider(s), law firms, from its own network of institutional investors, and its own research, based partly on public sources. We see passive shareholder litigation as a minimum obligation and reserve the right to conduct active shareholder litigation actions.

4.2 Policy papers on specific aspects of corporate governance

PFZW publishes policy papers on specific aspects of corporate governance on its website. These papers form the basis for our voting on relevant topics and serve as a starting point for discussion and/or engagement with market participants such as—but not limited to—standard setters and (listed) companies. We will add, update and/or revoke these papers where needed and/or we deem fit.

4.2.1 Anti-bribery & corruption

Combating bribery, bribe solicitation and extortion is mentioned in the OECD guidelines for multinationals (2011) as a focus area for preventing and/or mitigating (potential) adverse impact. This topic is addressed in our Policy Paper on Anti-Bribery and Corruption and will therefore not be addressed in this paper.

4.2.2 Sustainable tax

Taxation is mentioned in the OECD guidelines for multinationals as a focus area for preventing and/or mitigating (potential) adverse impact. This topic is addressed in our Policy Paper on Sustainable Tax and will therefore not be addressed in this paper.

5 Conclusion and further steps

Corporate governance is an important precondition for embedding and anchoring sustainability. Hence, good corporate governance is not a goal in itself. Good corporate governance standards and practices contribute to long-term value creation by the companies we invest in and to the long-term risk-adjusted returns on our investments and help to mitigate financially material and reputational corporate governance risks.

Given the exposure to multiple markets and ESG matters, PFZW considers it to be an important part of its duty to promote capital market and corporate governance practice improvements in order to achieve a sustainable financial return on its worldwide investments. These investments are a cross section of globally available investment opportunities. Risk and return of these investments are to a large extent determined by well-functioning markets, economies, sectors and companies.

PFZW endorses internationally recognized and accepted basic principles of good corporate governance and proper checks and balances. We endorse the Stewardship Code.

We require our asset manager(s) and/or service provider(s) to demonstrate and report on the stewardship activities conducted on behalf of PFZW.

6 Reference

Please find herewith some of the major corporate governance principles we endorse:

1. G20/OECD Principles of Corporate Governance (2015)
2. Dutch Corporate Governance Code (2016)
3. Dutch Stewardship Code (2018)
4. ICGN Global Governance Principles (2017)