



**A framework for
responsible investment
research into third party
solutions**

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ACTIAM has developed Fundamental Investment Principles (FIP) to assess investment targets' responsibility performance¹. ACTIAM offers its clients comprehensive responsible investment solutions. However, being a responsible investor with limited scale only, not all of our offerings need to be produced in-house. They can also be sourced from external specialised managers. ACTIAM acknowledges that its sphere of influence and derived responsibility extends to rendering also those investments responsible that are made through third parties.

Rather than developing a complex rating model, ACTIAM chooses for concise guiding principles for its profoundly case-by-case driven analyses. This does not lead to semi-automated binary choices. It necessitates informed and in-depth discussions regarding investment decisions, against the background of the large diversity of specialised asset managers and their services and products.

Looking at third party solutions in their most basic form, ACTIAM identifies two distinct sets:

1. Segregated mandates, where ACTIAM's client remains in full control as asset owner. This puts ACTIAM in a position to implement its responsible overlay on its client's behalf.
2. Pooled funds, where ACTIAM's client becomes a (minority) shareholder. Here, ACTIAM's client participates in a fund that acts as the primary asset owner having to serve all participants' interests on an equal footing. That is, the fund, not ACTIAM, is the prime party responsible for the development and implementation of strategies and policies, possibly including responsible ones.

It should be clear that segregated mandates offer more possibilities to exert influence than pooled funds:

- With segregated mandates, ACTIAM will instruct the external manager, costs admitting in the light of our fiduciary duties, to implement ACTIAM's responsible investment decisions one-on-one (i.e., its exclusion list)².
- With pooled funds, ACTIAM will, all other things being equal, prefer selecting responsible investment managers over those that lack a credible and well implemented responsible strategy.

In order to implement these responsibilities, ACTIAM discerns the following aspects of third party solutions:

- clients
- asset categories
- third party managers
- products and their investments
- monitoring

With respect to clients, ACTIAM will ensure to thoroughly understand clients' views on responsible investing. In particular, this will address the extent to which responsible investment strategies should be part of external manager selection processes. ACTIAM will thus add a responsible investing paragraph to its investment management agreements. ACTIAM will not serve clients who do not support the implementation of our FIP as a minimum - unless they follow other, stricter criteria - including our FIP-derived approach toward third party solutions.

Concerning investments in specific asset categories³ through third parties, ACTIAM will successively develop the necessary responsible investment frameworks. This should include relevant criteria, research methodologies, and allocation and selection processes.

When selecting a manager, ACTIAM will investigate that party's responsible investment credentials. Ceteris paribus, ACTIAM will prefer those parties more advanced in responsible investing than others. If other (e.g. fiduciary) con-

1) The FIP focus on investment targets' (expected or likely) (involvement in) serious violations of human rights (including child and forced labour), environmental damage, corruption, and generally accepted ethical principles. Furthermore, ACTIAM does not want to invest in companies involved in the production of weapon systems of which the effects are disproportional, or that make no distinction between military and civil targets.
The FIP may be shared upon request. An abbreviated version is publicly available at <http://actiam.nl/>

2) Please note that the research universe underlying the FIP not necessarily matches the investment universe of the product in question. ACTIAM's research results, e.g. its exclusion list, may be more limited in scope than the product at hand, leading to possible gaps in research coverage. If this occurs, optimal transparency will be granted in depicting these limitations.

3) E.g. alternative investments like commodities, derivatives, hedge funds, private equity etc.

siderations press for a choice for a less advanced party (concerning responsible investing), ACTIAM will engage with that party, striving to help improve the latter's responsible investments strategies and implementation. In doing so, ACTIAM will follow a nondogmatic approach: ACTIAM will be open to any responsible investment strategy, as long as it is credible and consistently implemented and does not conflict with ACTIAM's FIP or their underlying vision.

Looking at products and their investments, ACTIAM will, whenever feasible given fiduciary duties, favour segregated accounts over pooled funds. This is due to the higher degree of influence that can be exerted with the latter. Here, ACTIAM will ask third parties to implement its FIP and related investment decisions, unless such action cannot be justified in economic terms. To do so, ACTIAM will strive to develop the necessary research coverage if not yet present, along with proxy voting for all firms invested in, and engagement activities where applicable.

Where pooled funds are regarded the better solution, ACTIAM will, *ceteris paribus*, strongly prefer more over less responsible investment strategies, as identified through careful due diligence. Should the strategy (or its implementation) not be fully satisfactory, ACTIAM might also decide to engage with the external party, seeking adaptations through dialogue. Even if the strategy is deemed satisfactory, it could happen for the product to make investments in titles that ACTIAM does, on its own account and based on its FIP and research coverage, exclude from investment. Given the careful due diligence conducted, and the described non-dogmatic stance toward other managers' (responsible) strategies, ACTIAM would in such a case enter into a dialogue with the party. The objective would be to fully understand that manager's choice and underlying reasoning, and, if opportune, to discuss rebalancing toward titles not excluded by ACTIAM.

ACTIAM will regularly monitor third parties' investments, and compare them with its FIP-based exclusions. Any deviations will be handled as described above.

