

# **PNO Media Responsible Investment Policy**

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## 1. Introduction

The PNO Media pension fund looks after the interests of its participants, pensioners, and affiliated employers by administering pension schemes. By carefully investing premiums paid by participants, PNO Media ensures healthy accrual of pension entitlements for employees in the creative industry. We do this in a way that is both socially responsible and sustainable, targeting returns that are both attractive and appropriate.

PNO Media has a long history of responsible investment practices. Responsible investment is a natural and essential part of the fund's identity. Responsible investment is part of all our investment decisions and anchored in our investment philosophy. A powerful responsible investment policy benefits PNO Media and its participants in both a social and a financial sense. Building on previous policy, this responsible investment policy was developed over the 2018-2019 period through an administrative process involving PNO Media's accountability body that was based partly on the results of a survey of participants' preferences and interests. PNO Media monitors the progress of implementation of the responsibility investment policy, takes participants' interests into account, and will evaluate the policy after a period of five years, or sooner if required by developments.

In Chapter 2 of this document, we will first go into our responsible investment vision. Chapter 3 will subsequently be about the three goals we are pursuing with this policy. Through this policy, PNO Media sets out to step up its focus on making a positive contribution to society and sustainability ('doing good'), besides avoiding or mitigating investments with a negative impact on society and sustainability ('doing no harm'). This is reflected in how the goals are ordered:

1. Through its investments, PNO Media wants to contribute to a more liveable world by generating positive impact on society and the environment ('doing good');
2. PNO Media has set out to create a better risk/return profile and a more future-proof investment portfolio by integrating financially material environmental, social, and corporate governance risks and opportunities into the investments;
3. PNO Media takes its social responsibility to avoid or mitigate the negative impact of investments on society and the environment ('doing no harm').

Applying focus is necessary to be able to be effective, which is why PNO Media focuses on a number of specific themes, including freedom of press, human rights, and climate. These themes are listed in Chapter 3, and detailed further in Chapters 5 to 7. When it comes to implementing the policy, PNO Media has defined a number of basic principles, which are listed in Chapter 4. Partly given the

industry in which the fund operates, PNO Media considers transparency an essential value. With this policy, PNO Media intends to offer insight into the why, what, and how behind its responsible investment practices. In terms of the choices made and instruments used, PNO Media renders account through reports and its website, as detailed in Chapter 8. PNO Media monitors the implementation of its responsible investment policy on a quarterly and annual basis, while the policy is set for its first evaluation in 2024, or sooner as required by developments in the implementation or by external developments.

## 2. Vision

Given the industry in which they work, PNO Media pension fund participants are interested in and well informed on social developments and challenges. When it comes to responsible investment, they expect the fund to position itself clearly and make coherent choices. Given the long horizon of PNO Media's obligations, the fund makes investments based on a long-term perspective with a key focus on developments and challenges in society. PNO Media firmly believes that responsible investment leads to better investment choices and is, therefore, beneficial for the fund and its participants alike. Responsible investment is necessary and part of PNO Media's identity. The challenges that the fund faces in society are huge and come with opportunities, risks, and responsibilities with respect to the fund's investment practices.

Over the past few decades, global wealth has grown significantly. But this increase in wealth, as well as rapid population growth, also has its drawbacks. On a social level, all kinds of wrongs still exist today, ranging from poverty in parts of the world, human rights violations, limited access to education and healthcare, corruption, and exploitation of workers. In a wide range of different areas, human impact on ecosystems has gotten out of hand, reducing biodiversity and contaminating the environment in many parts of the world. Some urban areas are on the verge of a water shortage, or are already struggling with a shortage of water, a vital resource for humans. In part due to rapidly rising emissions of CO<sub>2</sub> and other greenhouse gases, the climate is changing. On many of these issues, governments are tightening their policy and entering into international treaties, such as the 2015 Paris Agreement that aims to keep global warming well below 2 degrees Celsius. The Dutch government has also ratified this climate target. Another example comes from the UN, which has formulated 17 Sustainable Development Goals that were adopted by its 192 member states in 2015. These are goals for a liveable world by 2030 that have been embraced by governments, companies, and investors across the globe.

The above developments all have an impact on PNO Media's investments, as they produce risks, but also offer opportunities. PNO Media weighs the effect of these risks and opportunities in its investment practices. PNO Media's investment practices have an impact on the world, which can be either negative or positive. The fund is aware of this, and takes its responsibility. Although avoiding adverse impact ('doing no harm') has been part of the fund's responsible investment policy for some time, PNO Media now wants to do even more to make sure its investment practices do not adversely impact on the environment and society. This is why PNO Media endorses the OECD (Organisation for Economic Cooperation and Development) Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights. The fund has asserted this commitment by joining the Dutch government, trade unions, civil society organisations, and many other Dutch pension funds in signing the International Socially Responsible Investment (ISRI) covenant (*Internationaal Maatschappelijk Verantwoord Beleggen (IMVB)* in Dutch). What exactly the ISRI covenant means for PNO Media will be detailed in Chapter 7. However, developments in the world require us to do more than just avoid negative impact. Wherever possible, PNO Media seeks to contribute to making the world a more liveable place, by choosing investments that generate positive impact on the environment and society ('doing good').

*In a nutshell, PNO Media's definition of responsible investment is to contribute to moving towards a more liveable world, to avoid or mitigate impact on the world around us, and to consider the environment, society, and good corporate governance as factors in all its investment activities.*

### 3. Goals and themes

Based on its identity, beliefs, and vision, PNO Media has formulated three goals for its responsible investment policy:

1. Through its investments, PNO Media wants to actively help create a liveable world by generating positive impact on society and the environment ('doing good');
2. PNO Media wants to create a better risk/return profile and a more future-proof investment portfolio by integrating financially material environmental, social, and corporate governance risks and opportunities into the investments;
3. By taking its social responsibility, PNO Media aims to avoid or mitigate the negative impact of investments on society and the environment ('doing no harm').

Implementation of these principles is subject to the following enabling conditions:

- The responsible investment policy is aligned with the investment principles and part of the long-term strategic investment policy.
- The fund uses prudent investment considerations (for the short and the long term) in the responsible investment policy, see also Chapter 4.
- The fund is cost-conscious and weighs the costs of implementing the responsible investment policy against the expected value creation, whereby the concept of value added extends to more than just financial value.

Based on its identity, broadly shared expectations for society, and its own goals, PNO Media has made theme-based choices for the implementation of the responsible investment policy. These themes will be detailed in Chapters 5 through 7. The themes are the following:

*'Doing good' themes. To contribute to:*

- A stable and consistent climate for people worldwide.
- Access to sufficient and good-quality water worldwide.
- Access to sufficient and good-quality food worldwide.

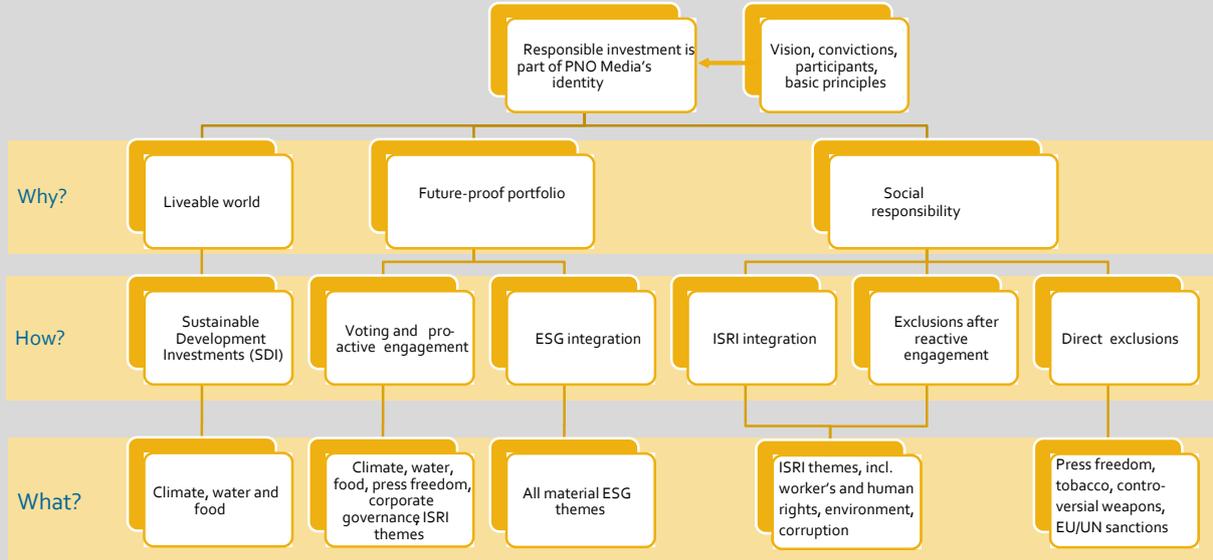
*'Doing no harm' themes. To avoid investments or avoid/mitigate involvement in:*

- Serious press freedom violations.
- Controversial weapons.
- Tobacco production.
- Sanctions imposed by the UN and European Union on account of human rights violations and arms trade.
- Serious human rights and workers' rights violations.
- Serious environmental pollution (including carbon emissions/climate).
- Poor corporate governance.

**Box: Correlation between goals, instruments, and themes**

The figure below shows the correlation between goals, themes, and instruments. Each of the goals is linked to one or several instruments that are used to shape the goals, and subsequently to the theme areas in which this is put into practice. In some cases, a goal will also be fulfilled using other

instruments, albeit less prominently so. Proactive engagement (see Sections 5.2, 6.2, and 7.2) and the associated engagement programme, for example, are instruments that contribute to all goals (social responsibility, future-proof portfolio, and liveable world), but primarily to a future-proof portfolio and liveable world. This also goes for exercising voting rights, which contributes to all goals, but primarily to future-proofing the portfolio. The goal of working towards a liveable world is fulfilled using Sustainable Development Investments (SDI), provided that they have a comparable risk/return profile on an aggregate level across the investment category. The goal of future-proofing the portfolio is fulfilled primarily through ESG integration, i.e. by taking the impact of financially material environmental, social, and governance (ESG) risks and opportunities on investments into account. PNO Media also weighs the impact that investments have on the world, which we call International Socially Responsible Investment (ISRI) integration<sup>1</sup>. This contributes towards our goal of taking our social responsibility, and has been anchored by signing the ISRI covenant in the Netherlands.



<sup>1</sup> Many environmental, social, and good corporate governance (ESG) considerations will produce both risks and opportunities for investors and the world. We use different terms to refer to such risks because there are ESG risks and opportunities on the one hand that are not covered by the ISRI covenant (such as the degree of independence of a company's executive board) and because there are also risks on the other hand that are not financially material (yet) and therefore do not constitute a financial risk for the investor but do form a risk for the world (such as forms of environmental contamination that are not prohibited by law). These latter kinds of risks are what we refer to as 'additional ISRI risks.' Execution of the ISRI covenant therefore concerns both types of risk (financially material ESG risks *and* additional ISRI risks).

## 4. Basic principles

PNO Media firmly believes that weighing ESG criteria in investment decisions produces better results and/or better risk control in the long term. In financial terms, this is reflected primarily in the second goal (future-proof portfolio). For the third goal (social responsibility), the financial consequences of excluding certain investments are identified in advance, with mitigating measures added as and when possible. The reason behind excluding certain investments is unrelated to financial considerations and relates instead solely to the set of values that PNO Media's investments must serve. For the first goal (liveable world), achieving at least the same risk-corrected investment returns is a prerequisite, albeit one that is not set on the level of individual investments, but for an entire investment category. The aim is to generate positive impact on society.

PNO Media is fully aware of its social responsibility as an institutional investor and operates accordingly, meaning that the fund, in its investment policy, considers values that are broadly accepted in society.

The share that PNO Media's investments represent in the overall financing of individual companies and governments is, on the whole, small, partly due to the size of the fund and the targeted investment spread. As a result, PNO Media's responsible investment policy has limited impact on companies' or governments' actions. Where possible, PNO Media teams up with other investors to boost its clout.

*PNO Media implements its responsible investment policy across its entire investment portfolio, and therefore in all investment categories. In the following chapters, we will go into our practices in working towards each of the three goals of our responsible investment policy.*

## 5 Goal 1: liveable world

Through its investment portfolio, PNO Media wants to focus more on contributing to a positive social impact ('doing good'). This means favouring investments in entities that sell products and services that offer solutions to the most important sustainability challenges, as well as helping companies increase their social impact. In working towards this latter objective, PNO Media has set up the engagement programme, for which the UN's 17 Sustainable Development Goals (SDGs) provide a

broadly recognised framework that allows PNO Media to quantify and record its positive impact (see text box).

### 5.1 Investments with a positive social impact

Investments with a positive sustainability impact, i.e. Sustainable Development Investments (SDI), are investments in (entities with) products and services that contribute to achieving one or several of the UN's SDGs and that meet financial risk and return requirements. Sustainable Development Investments are not a separate investment category, as they can be classified in any investment category. They contribute to achieving (one or several of) the SDGs, but they must never be incompatible with other SDGs or PNO Media's other responsible investment goals.

To give the policy a more specific focus, PNO Media has not adopted all 17 SDGs as its goals. Instead, the pension fund has chosen themes to which a large majority of the fund's participants are committed and in which the fund can invest on its own scale: climate, water, and food. By 2030, all the world's countries will consume 50% more energy, 40% more water, and 35% more food than they do today. The themes of climate and energy, water scarcity, and food production are all closely correlated. Not only is it about increasing production to overcome scarcity, but also about access to basic necessities in areas where scarcity is most pressing, and about quality (such as healthy food) and/or alternatives. Climate and energy, and water scarcity and food production have a direct impact on humans and the environment. And so, the fund has set out to invest more in (properties of) products and services that deliver a positive social contribution to:

- A stable and consistent climate for people worldwide. (SDG 7, 12, and 13).
- Access to sufficient and good-quality water worldwide (SDG 6).
- Access to sufficient and good-quality food worldwide (SDG 2)

**Box: The Sustainable Development Goals (SDGs)**

The Sustainable Development Goals (SDGs) have been adopted by all United Nations member states as the 2030 Agenda for Sustainable Development. The SDGs replace the Millennium Development Goals that had been set for the year 2015. Effective from 2016 to 2030, the SDGs comprise 17 development goals and 169 underlying targets to operationalise the goals. It is up to each individual UN member state to enshrine these goals in domestic policy. The 17 SDGs are captured in the figure below (the 5 SDGs that PNO Media focuses on based on its 3 focus themes are circled).



Until now, PNO Media has not steered its responsible investment policy towards investments with a positive social impact. However, the fund does expect to have these kinds of investments in its portfolio soon. The approach to incorporate SDI into the portfolio will be split up into two phases:

1. In 2021, PNO Media will begin with a baseline measurement for all SDGs across the entire existing investment portfolio.
2. After base lining, PNO Media will, in the second half of 2021, formulate goals for additional SDI based on the three focus themes.

PNO Media will be using a broadly accepted method for the SDI baseline measurements and additional SDI. The base lining will cover all 17 SDGs, while there will be a specific focus on three themes, which are made up of 5 SDGs. Besides the base lining and adding SDI (measured in euros of invested capital), PNO Media also wants to quantify the actual impact in physical terms (such as total carbon emissions avoided or cut), so as to make it possible to quantify and communicate the fund's actual contribution to the SDGs. Given the fact that this is still a largely underdeveloped practice and currently done only on a limited scale in the world, PNO Media will gradually introduce these

measurements for the three focus themes. This will allow PNO Media to first focus on actually mapping and adding SDI, and to learn from the experiences of others who are already measuring impact in physical terms. PNO Media will be actively tracking developments and initiatives in the area of impact measurement.

## 5.2 Activist shareholdership: proactive engagement

Contributing to a more liveable world can also be done through *proactive engagement*. By engaging with companies, PNO Media intends to encourage them to increase the positive social impact of their products and services. PNO Media will enter into consultations with its external ESG service provider to focus part of the proactive engagement programme on this aspect, and to monitor and report on progress made. This concerns the themes of climate, water, and food. Proactive engagement is also part of the future-proof portfolio and social responsibility goals, meaning that it covers multiple themes. Sections 6.2 and 7.2 will go into this in detail.

## 6. Goal 2: future-proof portfolio

### 6.1 ESG integration

PNO Media wants to intensify ESG integration across all investment categories. ESG integration extends to taking environmental (E), social (S), and governance (G) aspects into account that are financially material within an investment strategy. Taking ESG aspects into account can lead to lower financial risks and/or better returns over the investment period and within the framework of the investment mandate. This means that it is not necessarily about specific mandates, but about taking ESG into account in existing and new investment strategies, which the fund does as follows:

1. Generic and investment class-specific responsible investment questions are part of the due diligence process for new investments/mandates;
2. A responsible investment assessment is a standard element of the monitoring of existing and new investment/mandates;
3. Investment mandate managers have implemented responsible investment as a fully integrated part of the investment process, taking into account the specific features of the investment category.

This assessment is, on the one hand, about integrating the material ESG criteria into the investments by the external asset manager, and, on the other hand, about ensuring the external asset manager is

appropriate for PNO Media's broader responsible investment policy (such as in terms of enabling exclusions by PNO Media or enabling integration of International Socially Responsible Investment (ISRI), see Chapter 7). In the long term, every asset manager will be scored on their responsible investment performance (which also looks at the extent of ESG integration) in the same way as a manager's financial performance is reviewed and considered in selecting and monitoring asset managers<sup>2</sup>. PNO Media will subsequently invest only in managers with a good responsible investment score. Managers with low scores on responsible investment will be approached through the engagement programme and encouraged to improve their score. If improvement fails to materialise over a certain period of time, PNO Media may opt to cease to do business with such a manager.

### ***Climate***

Climate change is an ESG risk that requires special attention, as also anchored in Dutch legislation and regulations, including IORP II (Institutions for Occupational Retirement Provision Directive). In 2020, PNO Media will run a stress test on the climate risks in the investment portfolio. Also in 2020, the fund will start assessing exposure to the risks of climate change and the energy transition as part of the three-yearly evaluation of investment categories. Since the climate issue is both a risk and an opportunity, it is a special focus point in the implementation of the responsible investment policy through the use of the instruments of ESG integration, engagement, and investments with a positive impact (SDI).

## 6.2 Activist shareholdership: proactive engagement

PNO Media has a policy in place for activist shareholdership that rests on the mainstays of engagement and voting, as also required under the EU's Shareholders Rights Directive II. Proactive engagement targets a positive impact (liveable world goal) and/or is intended as an enabling practice in avoiding incidents and negative impact (social responsibility goal). Engagement can also lead to better investment returns by stimulating long-term value creation at companies (future-proof portfolio goal). For details of reactive engagement (social responsibility goal), please refer to Section

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<sup>2</sup> The terminology used here, i.e. ESG integration, ISRI integration, and responsible investment, may be confusing. Different terms are needed to denote different motives and goals. PNO Media wants its asset managers and investments to be aligned with the whole responsible investment policy. The responsible investment policy offers different instruments, such as exclusions, engagement, SDI, ESG integration, and ISRI integration. The 'responsible investment assessment' covers all these instruments and PNO Media's focus themes. The term 'ESG integration' is solely about those ESG themes (focus and other themes) that are material within the investment strategy and period. 'ISRI integration' is about the execution of the ISRI covenant, primarily the themes of human rights, workers' rights, and environmental contamination.

7.2. Each of these goals will be reflected in parts of PNO Media's engagement programme. When it comes to engaging with companies that have issued the shares and corporate bonds that PNO Media has in its portfolio, PNO Media works closely together with an ESG service provider. In doing so, the fund focuses specifically on:

- Human rights and workers' rights
- Environmental pollution
- Corporate governance
- Freedom of the press
- Climate
- Water
- Food.

Good corporate governance is an important means in achieving environmental and social goals. PNO Media adheres to the Dutch Corporate Governance Code and the OECD and ICGN (International Corporate Governance Network) principles of good corporate governance. For other themes related to the social responsibility goal, PNO Media bases its efforts on the OECD Principles for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the UN Global Compact. The UN's Universal Human Rights and ILO's (International Labour Organisation) labour rights are part of that. When it comes to climate, PNO Media uses the 2015 Paris Agreement as its guiding principle. To assess the level of press freedom in a country, PNO Media goes by the World Press Freedom index, see Section 7.1. The focus themes from the UN's SDGs (see Section 5.1) guide PNO Media's decisions in working towards a liveable world.

### 6.3 Voting

Voting rights are an important right that shareholders have. PNO Media exercises its voting rights with respect to all companies in the portfolio. The fund does so in a centralised fashion across all investments through an ESG service provider and based on its own voting guidelines, which the fund is set to define and publish in 2020. In deciding how to vote, PNO Media goes by the codes and principles of good corporate governance listed in Section 6.2, as well as the aforementioned treaties on the environment and society. To ensure full transparency, PNO Media publishes how it has voted on its website. Whenever the fund votes against an item on the agenda, the thinking behind it will be explained afterwards.

PNO Media lends out shares with a view to generating additional financial value. In some cases, this may mean the fund will not be able to exercise the voting rights on all shares in a company because some of these shares have been lent out, which reduces the clout of our engagement efforts in these kinds of situations. Shares held in companies on the reactive engagement list (see Section 7.2) will, therefore, never be lent out.

## 7. Goal 3: social responsibility

PNO Media has both a social responsibility and the intrinsic conviction to avoid its investments having a negative impact on society and the environment. PNO Media firmly believes that trying to effect change is to be preferred over directly excluding certain investments to keep the negative impact of these investments under control. That said, investing for change is not possible everywhere. When a company's products are believed to have a negative impact, direct exclusion is still the preferred option. Also when it comes to the conduct of governments (when investing in government bonds), investing for change is not an option for a pension fund. However, when it comes to the conduct or performance of the companies in which PNO Media invests, the fund will engage with these companies to mitigate, remediate (i.e. to provide remedy and/or redress under the OECD Guidelines), and curtail the negative impact of that conduct or performance (reactive engagement). If a company fails to improve to an adequate degree, PNO Media may decide to exclude investments in this company. Any companies and government bonds excluded by PNO Media are listed on a publicly available exclusion list, which is updated at least once a year.

### 7.1 Direct exclusions

PNO Media excludes government bonds from its investment environment if they have been issued by countries where freedom of the press is violated and against which the UN and EU have imposed sanctions following human rights violations and/or arms supplies. Across all its investment categories, PNO Media excludes companies and entities that are involved in controversial weapons and/or tobacco production.

#### ***Freedom of the press***

For PNO Media and its participants, freedom of the press is a key theme that is related to the industry that the fund represents. Freedom of the press is a fundamental right and part of the universal human right to freedom of speech as adopted by the UN. The protection and reinforcement

of press freedom is the responsibility of all countries. PNO Media does not invest in government bonds issued by countries with a poor press freedom record, i.e. countries with a low ranking on the World Press Freedom Index of all countries of the world that is published every year. The World Press Freedom Index ranks countries on media independence, self-censorship, level of pluralism, quality of the legal framework, transparency, and media infrastructure. It also looks at the number of violations over the past year, assessing the intensity of violence against and incidents involving journalists and the media. PNO Media excludes government bonds issued by countries with a very low overall score on this index, as well as countries that saw serious press freedom incidents and abuses over the past year<sup>3</sup>.

### ***Human rights violations by countries***

*Countries* may be involved in broader *human rights violations* and/or (civil) war. In serious situations, the United Nations and the European Union draw up sanctions lists of the countries involved. Although PNO Media is not under a legal obligation to do so, PNO Media has committed to not investing in government bonds issued by countries that appear on sanctions lists. PNO Media places these countries' government bonds on its exclusion list.

### ***Controversial weapons***

PNO Media wants no involvement whatsoever in the production of weapons, weapon systems, and essential parts of weapons, and neither in weapon maintenance, that are prohibited under international law or the use of which violates fundamental humanitarian principles, such as the principle of proportionality (unnecessary suffering must be avoided) and the principle of distinction (military targets and civilian objects must be distinguished). These so-called *controversial weapons* can be split up into weapons of mass destruction (with consequences for both military targets and civilians in a military conflict) and weapons that can cause civilian casualties during and after a military conflict (such as undetonated land mines or radioactive radiation caused by certain kinds of ammunition).

The following are considered controversial weapons:

- Chemical and biological weapons
- Nuclear weapons
- Anti-personnel mines

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<sup>3</sup> This means exclusion of government bonds issued by countries in the lowest category (category 5) in the overall score and the lowest category on the 'abuse' score as far as the overall score is in the lowest two categories.

- Cluster munition
- Depleted uranium ammunition

PNO Media excludes any companies involved in the production or selling of these kinds of weapons from its investment environment. For cluster munition, we are required to by law. For the other types of weapons, it is a policy choice by PNO Media.

**Box: Controversial weapons**

Biological weapons are microbiological or biological substances in volumes that are not justified for peaceful use and ammunition that is designed to weaponise these substances. Defined as per the UN Convention On the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction.

Chemical weapons are chemicals with properties that can kill or cause other harm through toxicity and ammunition designed to weaponise these chemicals. Defined as per the UN Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction.

A nuclear weapon is any device which is capable of releasing nuclear energy in an uncontrolled manner and which has a group of characteristics that are appropriate for use for warlike purposes. Definition taken from the UN Treaty for the Prohibition of Nuclear Weapons in Latin America and the Caribbean. The Treaty on the Non-Proliferation of Nuclear Weapons (NPT) from 1968, which was signed by nearly all UN member states, does not provide a clear definition.

Anti-personnel mines are designed to be detonated by the proximity or contact with a person, and intended to injure or kill that person. These kinds of mines generally remain hidden and active, and cause civilian casualties, for a long period of time after the end of a military conflict. Defined as per the Ottawa Convention/UN Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction.

Cluster munition are bombs that release or eject large numbers of smaller munitions to bomb a larger area. Undetonated munitions often cause civilian casualties long after a military conflict has ended. Defined as per the 2008 Oslo Convention on Cluster Munitions.

Depleted uranium is used to treat projectiles so that they can, for example, pierce through armour plating. The radioactive load remains active in an area long after the end of a military conflict and (stealthily) causes civilian casualties. There is no international convention regulating the spread and definition of depleted uranium ammunition. The general definition used by research firms for responsible investment is that depleted uranium ammunition is made up of projectiles (bullets, missiles, etc.) that have been treated with a radioactive chemical agent, i.e. depleted uranium. Owing to its high density, depleted uranium is generally used to make projectiles more powerful (so that they can pierce through steel, for example). U-235 concentrations used for these purposes can be anywhere downwards of 0.7%.

### ***Tobacco production***

Tobacco usage has very serious adverse health effects and can even be deadly, not only to users, but also to non-users through second-hand smoke inhalation. Worldwide, tobacco usage causes one million deaths every year, as well as soaring healthcare costs. On top of that, the tobacco industry is susceptible to legal risks and risks ensuing from (changes to) legislation and regulations. Social resistance to smoking is growing. PNO Media does not invest in companies that generate revenue from tobacco products. Tobacco products include cigarettes, cigars, snuff tobacco, chewing tobacco, e-cigarettes, and the cultivation of tobacco leaves. Any companies that own a stake of over 10% in a company that is involved in the production of tobacco are also excluded.

### 7.2 Activist shareholdership: reactive engagement

In responding to products by companies and the conduct of countries, direct exclusion is the most appropriate instrument. But when it comes to dealing with the conduct/performance of companies, engagement is the preferred option as a responsible investment instrument, because it allows the fund to harness its influence to improve the situation. PNO Media distinguishes between reactive (Section 7.2) and proactive engagement (Section 5.2 and 6.2). Reactive engagement is used in response to incidents and serious violations that affect the environment and/or society. If reactive engagement in response to conduct is unsuccessful, the next step can be to proceed to the exclusion of the company.

PNO Media performs due diligence on all its listed share portfolios and corporate bond portfolios to identify companies that may and actually have a negative impact on society and/or the environment as defined in the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. The OECD Guidelines and UN Guiding Principles are the basis for the ISRI covenant, which PNO Media has signed. As part of being one of the signatories to this covenant, PNO Media also endorses the UN Global Compact (see text box). For companies in which PNO Media invests and that cause or help cause (such as through suppliers) negative impacts, PNO Media draws up a 'reactive engagement list'. Companies on this list are prioritised based on the most severe negative impact(s) on society and/or the environment in areas specified in the UN Guiding Principles and OECD Guidelines (i.e. the so-called ISRI themes). The severity of the impact is determined based on scale, scope, and level of irreversibility.

PNO Media uses a third party to perform due diligence appraisals, while it uses the services of an ESG partner for its engagement efforts. The aim is for the companies in question to end the negative

impact that they (may) cause for third parties, to offer remedy and/or redress for affected parties, where relevant, and to take adequate measures to prevent future incidents. For each company individually, the engagement objective, strategy, questions, and timeline are adopted for a period of three years. PNO Media monitors progress. In case of insufficient progress after approximately three years, PNO Media will decide whether or not to proceed to exclude the company in question. Prior to making such a decision, the fund may have used more rigorous measures to reinforce the engagement, such as joining forces with other investors or other stakeholders by, for example, voting against certain directors at the shareholders' meeting or against granting discharge, or by submitting, either individually or together with other investors, proposals at the shareholders' meeting and/or by making public statements. Companies excluded after unsuccessful engagement will be put on PNO Media's exclusion list, along with details explaining why they have been excluded.

**Box: OECD Guidelines, UN Guiding Principles, and the UN Global Compact**

The OECD Guidelines for Multinational Enterprises are guidelines for multinational enterprises that operate in or out of OECD countries (or other countries that have adopted the OECD guidelines). These are non-binding principles and standards for corporate social responsibility in a global context in compliance with applicable legislation and internationally accepted standards. These guidelines cover disclosure of financial and non-financial information, human rights, workers' rights, the environment, the combating of bribery, bribe solicitation, and extortion, consumer interests, science and technology, competition and taxation.

The UN Guiding Principles (UNGPs) on Business and Human Rights were ratified unanimously by the United Nations Human Rights Council in 2011. There are a total of 31 UNGPs with 3 pillars: 1. state duty to protect human rights, 2. corporate responsibility to respect human rights, and 3. access to remedy for victims of human rights violations. Companies need to have appropriate policy measures and processes in place to be able to try to avoid negative impact on human rights and to respond adequately if such impact occurs. The guiding principles are based on a threefold approach that can be summarised as follows: 1. a public policy commitment to respect human rights that are embedded in a company's corporate culture, 2. an ongoing human rights due diligence process, whereby the company evaluates human rights risks, integrates findings into its decision making, takes action to mitigate these risks, tracks the effectiveness of these measures, and communicates its efforts internally and externally, 3. processes to offer remedy to anyone who has suffered adverse human rights impacts through the company's own activities or as a result of its business relationships. It concerns companies' own operations and employees, and the operations over which they have direct control, immediate or strategic suppliers, and impacts that are caused further down in the value chain by third parties on which they have limited influence.

The ten principles from the UN Global Compact (UNGC) in the areas of human rights, labour, the environment, and anti-corruption are broadly supported among companies and investors worldwide, and have been derived

from the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. The 10 principles are the following: 1. businesses should support and respect the protection of internationally proclaimed human rights, and 2. make sure that they are not complicit in human rights abuses, 3. businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining, 4. the elimination of all forms of forced and compulsory labour, 5. the effective abolition of child labour, 6. the elimination of discrimination in respect of employment and occupation, 7. businesses should support a precautionary approach to environmental challenges; 8. undertake initiatives to promote greater environmental responsibility, 9. encourage the development and diffusion of environmentally friendly technologies, 10. businesses should work against corruption in all its forms, including extortion and bribery.

### 7.3 International Socially Responsible Investment (ISRI) integration

Reactive engagement is an important instrument that PNO Media uses to implement the ISRI covenant. Aside from that, PNO Media records agreements, where possible, with its own external asset managers on the implementation of the ISRI covenant in investments administered by those asset managers. In this context, we go by the OECD guideline for institutional investors and integrate relevant provisions of the ISRI covenant in our selection and monitoring framework. These provisions are incorporated into mandates or selection criteria for investment funds for all investment categories in which the fund invests, with the exception of liquidities (as per the ISRI covenant). We expect our external asset managers to do due diligence to identify (potential) negative impacts on society and the environment. In doing so, the most serious negative impacts must be prioritised based on severity, scope, irreversibility, and likelihood. Where meaningful, external stakeholders or experts must be consulted in the assessment and/or handling thereof. Where necessary, PNO Media itself will also do this. In their approach, the external asset manager can use due diligence results in selecting or deselecting companies and/or activist shareholdership. We expect our external service providers to engage in active monitoring of and reporting on the implementation of these agreements, covering the progress of the implementation of responsible investment, the ISRI risk assessment methodology, findings on negative impacts in the manager's investments, and the manager's approach to avoiding or mitigating the negative impact and/or offering remedy or redress. We will engage with the service provider and make adjustments to the approach as and when necessary. When it comes to implementation of the ISRI provisions, we publish progress updates on our website, see Chapter 8.

PNO Media wants to formalise the above in new contracts with external asset managers. Where this turns out not to be possible, the fund will assess whether or not there are compelling reasons to still invest through the asset manager in question, and communicate the decision. PNO Media's efforts in integrating the provisions of the ISRI are initially focused on embedding them in new contracts. From 2022 (or sooner if possible) onwards, PNO Media will endeavour to also record such agreements in existing contracts.

## 8. Communication

Being the pension fund for the creative industry that caters specifically to media-related companies, PNO Media sets great store by rendering account and pursuing a clear and transparent communication policy. With this in mind, PNO Media wants to keep its participants as well informed on its responsible investment efforts as possible through regular reports on the progress and results of the responsible investment policy, which also include a look ahead to the upcoming period. In its annual (responsible investment) report or on its website, PNO Media provides insight into the activities and results across all investment categories and for all the instruments specified in this policy. The approach adopted for ESG and ISRI integration, as well as the results, are explained, covering both successes and situations where PNO Media did not achieve what it had set out to achieve in a given year. PNO Media will provide an overview of all investments with a positive social impact (SDI). The fund's voting and engagement practices are also explained, including progress updates on engagement processes, the positive results of engagement, and/or the engagement processes where the engagements has not yielded the desired results and where PNO Media has switched to explicit exclusion of an investment (from the reactive engagement programme). Further details of the voting and engagement activities, including how PNO Media has voted for each company and on each agenda item at a shareholders' meeting, with which companies PNO Media has engaged and what such engagement efforts were about over the past year, are provided by PNO Media on its website. Every year, PNO Media publishes a list of investments in listed companies and the exclusion list on its website.

## Appendix: Glossary

ESG	Environmental, Social, and Governance	Environmental, social, and corporate governance factors
ESG integration		To take financially material ESG risks and opportunities into account in investment decisions
ICGN	International Corporate Governance Network	International network organisation of companies, investors, academics for the promotion of good corporate governance.
ILO	International Labour Organisation	
ISRI	International Socially Responsible Investment (from the Dutch <i>Internationaal Maatschappelijk Verantwoord Beleggen (IMVB)</i> )	A covenant under which Dutch pension funds have agreed to take the impact of investments on the environment and society into account in their investment practices.
ISRI integration		To take financially material ESG risks into account that also pose a risk to society and the environment as agreed in the ISRI covenant, and to take 'additional ISRI risks' into account that do not constitute a financially material risks for the investor but do constitute a risk to society and the environment.
ISRI themes		ESG themes that are relevant to the implementation of the ISRI covenant in investments as specified in the OECD Guidelines and UN Guiding Principles (see box in Section 7.2).
IORP II	Institutions for Occupational Retirement Provision Directive	European Union directive for pension funds and premium pension institutions. IORP II sets, among other things, new governance requirements for pension funds.
OECD	Organisation for Economic Cooperation and Development	-
OECD Guidelines	OECD Guidelines for Multinational Enterprises	A set of supply chain responsibility, human rights, child labour, environmental, and corruption principles from 2011 for internationally operating enterprises.
SDGs	Sustainable Development Goals	The Sustainable Development Goals were adopted by the United Nations (2015) as the new global 2030 Agenda for Sustainable Development.
SDI	Sustainable Development Investments	Investments based primarily on a product's/service's positive impact on the SDGs.
SRD II	Shareholders' Rights Directive	A European Union directive that sets out to strengthen the position of shareholders and to ensure that decisions be made for the long-term stability of a company.
UNGC	The United Nations Global Compact principles	A set of principles for human rights, labour rights, the environment, and corruption put together by the United Nations and companies (2000)
UNGP	UN Guiding Principles on Business and Human Rights	A set of principles on companies' responsibilities with respect to human rights, drawn up by the United Nations (2011).
UN	United Nations	