Top 1000 Funds article on CO2 index
Source: Top 1000 Funds, July 2016

PGGM, the €186bn asset manager for the Dutch healthcare pension fund PFZW, has a low carbon index designed around reweighing and active engagement with the 250 constituent companies. The fund is gradually shifting its passive equity allocation - accounting for 90 per cent of its total equity portfolio - to the index, says Marcel Jeucken, PGGM’s Managing Director of Responsible Investment.

“Our ambition is to half the carbon footprint of our passive equity allocation. We have started with our market cap strategy which is roughly half of our passive portfolio. Our smart beta, quantitative passive strategies, are currently under review how to lower the carbon footprint in those portfolios.

With the carbon index we can see the most carbon intensive industries and whether they are reducing their footprint,” he explains. Companies that engage and improve are reweighted to their full position within the index but those that stay at the bottom will be taken out of the portfolio. “We will gradually do so, reducing our allocation to those companies with 25% per annum” he says. “Coal companies will largely be eliminated from the investment portfolio by 2020.” He stresses the emphasis is on engagement and divestment. “We say to companies why don’t you do this or try that? Engagement is constructive.” Next steps PGGM will take is to look at the carbon intensity of its credits and real estate portfolios. For the latter it attempts to use big data for which PGGM has partnered with data analytics company GeoPhy. “We are carrying out research in this area. That involves lots of tracing, analysis and backtracking. It’s exciting.”

PGGM was one of the fund’s to contribute to the PRI’s recent guide on integrating ESG in private equity. Jeucken believes that private equity is ultimately well suited to ESG because of investors “higher stakes” in investee companies and the long-term nature of private equity investment. “In private equity there is a much closer relationship with the company so that when you want better data you get better data,” he says.

Next to reducing the carbon footprint with 50% of its portfolio, PGGM is on a journey to quadruple the investments with positive societal impact from $5 billion to $20 billion over the next five years. PGGM calls these investment in solutions. These investments are no seperate asset class but simply part of existing allocations to various asset classes. These contain investments that contribute to solutions in the fields of water, health, food security and climate. “We don't only want to significantly increase such investments but also want to measure their impact on society. At PGGM we can measure the climate impact of Polish wind energy versus Spanish solar power. We also show our impact by linking numbers to something real that our beneficiaries can relate to, like their own household carbon use.”
“Although much of the portfolio of investments in solutions will include direct investments in private markets we decided we couldn’t build a whole portfolio from only private markets if we want to quadruple our total exposure, simpy because of size,” says Jeucken. The fiduciary arm of PGGM, for example, developed an approach to invest in solutions in listed equity on behalf of PFZW. A universe was developed of 350 listed companies that contribute positively to the 4 themes. PFZW awarded mandates in total of 2.5 billion euro to invest within that universe. These are longterm investments for which we will measure the positive societal impact. The universe also includes big conglomerates chosen for their impact. “Although big companies may only have a small percentage of their business devoted to ‘Solutions’ they

often have a big impact when it comes to improving the world." Along with exposure to listed equities, the Solutions allocation includes investments in green bonds from corporate issuers.

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