

Investment beliefs

ABP's mission is: building a good pension together. This mission is the starting point for formulating our investment beliefs. Working towards a sustainable pension in a sustainable world is a core value for ABP in striving to achieve this mission. We take investment risk in order to be able to offer a good pension at a reasonable price. Our ambition is to fully index the pensions, while also limiting the risk that we have to lower them. Our investment process stems from this core value and focuses on achieving our mission. The investment beliefs form the foundation for our investment process. Where we refer to value creation, we mean value in a broad sense; this means not only financial value but also social value.



Inhoud

1. Risk, Return, Costs and Sustainability	3
2. Sustainable and responsible investment	4
3. Long-term horizon	5
4. Strategic asset allocation	6
5. Investment risk	7
6. Diversification	8
7. Cost-conscious	9
8. Investing in the Netherlands	10



1. Risk, Return, Costs and Sustainability

Belief

"Our participants benefit from a balanced evaluation when making investment decisions. We do this by assessing each investment using four criteria: risk, return, costs and sustainability."

Argumentation

This investment belief is central to ABP. It covers everything we do and precedes all the other beliefs. The four criteria (risk, return, costs and sustainability) are reflected in the underlying investment beliefs. ABP weighs up these criteria in every investment decision. We believe we can make the best possible trade-off. This investment belief helps us to communicate on how we construct our investment portfolio.

Consequences

We assess whether the return on each investment after costs structurally offers proper compensation for the risk that we incur with that investment. We set sustainability conditions for our investments and take risks related to the environment, labor and human rights, and corporate governance fully into account in our investment policy and investment decisions.



2. Sustainable and responsible investment

Belief

"ABP's investments have an impact on society, and society has an impact on ABP's investments. Responsible investment and making the investment portfolio more sustainable does not negatively affect the risk-return profile of the portfolio."

Argumentation

ABP's investment portfolio has an impact on society. This is why sustainable and responsible investment is important in ensuring a healthy, good and responsible retirement for our participants. In this way, we take into account the effects of our investments on the world and society. In this context, we examine a range of factors including the impact of our investments on the climate and the conservation of nature and biodiversity. We look for investments that contribute to the UN Sustainable Development Goals (SDGs) and create real world impact – the demonstrable positive change that we want to make with our investments in the world.

Sustainable and responsible investment also plays a role in identifying and managing risks that affect the investment portfolio. The extent to which companies adapt their products and processes to the consequences of the energy transition and contribute to it, is an example of this. Academic research shows that implementing different ways of investing sustainably can have a neutral to positive effect on the risk-return profile of portfolios.

Consequences

As the starting point of the investment process, we use our inclusion policy to determine a sustainable universe for all asset classes. ABP thus consciously chooses what it does and does not invest in. We use our influence as a large and long-term investor to enter into a dialog with the companies in which we invest. If this dialog does not lead to meaningful changes at companies that perform poorly on sustainability, we no longer want to invest in those companies. We take into account the way in which our investments take the environment and labor and human rights into account and whether there is good governance.



3. Long-term horizon

Belief

"As a pension fund, ABP invests for the long term. This offers investment opportunities that are not available to investors who have a shorter horizon."

Argumentation

Long-term value creation is driven by economic activity. Our long-term horizon offers advantages that we exploit. The short-term price fluctuations of investments are less relevant to us. We make conscious choices for the long term and stick to them. In this way, we limit the number of transactions we make and save on the costs associated with them. This also allows us to invest in illiquid asset classes and make investments that complement those we make in public markets.

These investments enable us to take advantage of illiquidity premiums and give us the opportunity to gain exposure to a larger part of the total economy or market. The market also recognizes ABP as a long-term investor, which allows us to shape dialog with companies more effectively. We have an eye for the short term but weigh the importance of this against achieving our long-term ambitions.

Consequences

We invest in assets that create long-term value. Only long-only investments match this approach. These are investments that allow us to benefit from price increases. We only allow short positions, i.e., investments that benefit from price declines, at total portfolio level in order to manage risks or to facilitate efficient portfolio management (as opposed to active management) via derivatives.



4. Strategic asset allocation

Belief

"Deciding which asset classes to invest in has more impact on returns than decisions about the investment choices within a specific asset class."

Argumentation

Academic research shows that the return on an investment portfolio is largely explained by the choice of asset class mix. The added value of active investing within an asset class is limited and occurs mainly in illiquid asset classes. Active investing also leads to additional costs.

Consequences

For each asset class, we look at the best way to achieve our ambition. For liquid asset classes, index investing with low costs is the starting point. We compile the index, which is basically a basket of investments, ourselves on the basis of long-term active strategic choices based on our sustainable and responsible investment policy. We give the asset manager objectives, which ensure that the focus is on achieving long-term returns in a sustainable manner. We can add forms of active investing if we have sufficient prior evidence that, after the deduction of costs, this will structurally contribute more to achieving our ambition at ABP level than index investing. For illiquid asset classes (mostly private investments), there is no possibility for index investing and we actively manage portfolios.



5. Investment risk

Belief

"We have to take risks to obtain a return on our investments. A higher expected return is usually accompanied by a higher expected risk. In areas where we do not expect to generate returns, we avoid risks as much as possible."

Argumentation

Sufficiently high returns are crucial for ABP's investment portfolio. In the long term, about two-thirds of pension value comes from investment returns. In order to achieve this return, ABP must take investment risks. In order to achieve higher returns on our investments, we also need to take higher risks. We are aware of this but do not take more risk than is necessary to achieve our ambition (inflation-proof pension). We assess this in the context of our asset liability management research and strategic asset allocation. We distinguish between rewarded and unrewarded risks. We see ownership risk (equities and real estate), credit risk and illiquidity risk as rewarded risks and interest rate risk and currency risk independently as unrewarded risks. Where we do not expect returns, we avoid risks as much as possible. We look at interest rate risk and inflation risk at total portfolio level and in relation to our ambition of ensuring an inflation-proof pension.

Consequences

In the context of overall balance, we make an optimal assessment between the various risks and their impact on achieving our ambition. We make decisions on the degree of interest rate hedging we apply with the help of our asset liability management (ALM) research.



6. Diversification

Belief

"The diversification of investments across different asset classes is expected to result in a better risk-return balance for the investment portfolio. Diversification within asset classes can further strengthen this effect. Diversification does not offer endless added value."

Argumentation

Many asset classes behave differently from each other in different market situations. We expect portfolio diversification to provide a better balance between risk and return. In addition to this main source of distribution between asset classes, additional diversification can also be achieved. This can be done by diversifying investments within asset classes, based, for example, on region, country, sector, vintage years, bond characteristics. Diversification of investments is not stable over time, and in times of stress, certain investments can move more in line with each another. We do not pursue diversification indefinitely, because there comes a time when spreading investments even further yields less rather than more as it increases costs and complexity.

Consequences

We do not seek more diversification of investments than necessary. We make choices about adding asset classes in our strategic asset allocation. We weigh to what extent their profile (risk, return, costs and sustainability) contributes to achieving our ambition. In addition, the profile of any new category should not already be accessible through asset classes we already invest in. In making these choices, we use our scale and governance budget, especially in illiquid assets. For all asset classes, we do not add more complexity than is necessary to achieve our ambition. We make choices about diversification at asset class level in the mandate process.



7. Cost-conscious

Belief

"ABP is cost-conscious. Investments must have added value if they involve incurring costs."

Argumentation

Costs are usually a certainty and are incurred before any benefits have been reaped. In the long term, costs have a major impact on the pensions to be paid out. This is why ABP is focused on controlling costs. Investments must have demonstrable and structural net added value. We are transparent about costs and regularly arrange for external evaluations of the costs we have incurred. Among other things, we make comparisons between our costs and those of comparable investors. Of course, we also look at the added value created by the associated investments.

Consequences

We assess costs for asset classes in relation to the starting point of a strategic investment portfolio of equities and government bonds. We only invest in additional asset classes if this offers overall added value. In addition, we also take the social context of our total asset management costs into account. Within an asset class, we only invest actively if, after deduction of costs, this demonstrably yields structurally more than investing via an index. All deviations from the starting point must fit our governance principles and be explainable.



8. Investing in the Netherlands

Belief

"ABP can have a direct impact on the lives of its participants with its investments in the Netherlands."

Argumentation

The vast majority of our participants live in the Netherlands. In addition to a good pension, they also want a good living environment, affordable housing and sustainable economic development. Dutch society is facing major challenges in this respect. Consider, for example, the energy transition from fossil to renewable energy. Our employers (including the government, and the education and energy sectors) are already investing in solving this. ABP contributes to this with its investments. This ensures greater support for ABP's pension scheme.

Consequences

Within the range of asset classes we currently manage, we look for investments in the Netherlands that have an impact on our participants. In cases where potential investments are not yet ready, we use our position as a long-term investor to enter into dialog with policymakers and the business community. We make clear agreements with our asset manager to stimulate investments in the Netherlands and record these in our 'Investing in the Netherlands' Program.



Publication details

Pensioenfonds ABP

PO Box 4806

6401 JL Heerlen

www.abp.nl

© 2022 | Pensioenfonds ABP