

Position paper ABP

Investing in the Netherlands

Introduction

The European Commission (EC) is reviewing the Sustainable Finance Disclosure Regulation (SFDR) to make it fit for purpose and future proof. As part of this review, several authorities, including the EU Platform on Sustainable Finance and the European Supervisory Authorities, have come up with ideas and suggestions to develop a categorization scheme. As part of this discussion, it was proposed to develop a common understanding/definition of impact investing and to take a view on how impact investing should relate to such a scheme. Recently, the EC published its proposal for SFDR 2.0 (“Proposal”) in which impact investments are treated as a subset of the Sustainable and Transition categories. Such products are required to make additional disclosures when they have generation of pre-defined, positive and measurable social or environmental impact as objective.

Carefully consider the need for a strict definition of impact investing and technical requirements (level 2)

In the Proposal “impact” is being referred to as generating a pre-defined, positive and measurable social or environmental impact that is to be underpinned by a pre-set impact theory. The desired impact in terms of investment by the financial product and the contribution of investors in the product is to be measured, managed and reported on.

ABP welcomes the acknowledgement of impact investment as part of the sustainable investment framework but emphasizes the importance of staying away from a strict legal definition and technical requirements. ABP subscribes to the definition of impact investing of the Global Impact Investing Network (GIIN). The GIIN broadly defines impact investments as “investments made with the intention to generate positive, measurable and environmental impact alongside a financial return”. Other than clarifying the main concepts of impact investing and describing best practices for impact investing, it is very much up to the investor’s approach to develop impact methodologies and ambitions. For instance, on top of the GIIN definition, ABP has added more stringent requirements to its

approach, by requiring a clear contribution to the impact of portfolio companies and ABP applies different requirements for venture/growth investments in the Netherlands. Due to these more stringent requirements, has ABP limited its scope for impact investing to its private market investments. *A (strict) legal definition and technical requirements might make market participants more reluctant to develop such methodologies and ambitions, hampering growth in this space.*

In line with the definition of sustainable investment (SFDR art. 2, sub 17), defining impact investment in practice will prove to be quite difficult. In this respect we welcome the EC’s acknowledgement of the practical implementation challenges and concerns of the sustainable investment definition by deleting it in the Proposal and sustaining only the underlying concepts in a simplified form. In line with this reasoning, our experience in impact investing has shown that detailed prescriptive requirements can hinder impact investing. Impact analyses are extremely investment-specific and require intensive reviews of a proposed solution’s positive and negative impacts. These impacts are often specific to the company itself including its product, geography, and end user base. Prescriptive regulatory requirements could potentially lead to the exclusion of a good impact investment that does not fit the rule set (e.g. an innovative technological breakthrough on climate that does not check the boxes), or it could also result in greenwashing (e.g. where an investment checks the boxes, but a deep review of evidence shows that it does not actually achieve outcomes).

Our understanding of what is and is not impactful is constantly evolving as more data becomes available. Specific rules around impact that cannot adapt to new learnings and changing circumstances could make impact investing difficult over time and potentially result in outcomes inconsistent with the overall objective of impact investing (e.g. where the rules define an activity as impact, but evidence emerges indicating it is not).

Furthermore, reasonable people can and will disagree on what is and is not impact, and given the limited

data available on outcomes, it seems premature and unnecessary for regulators to weigh in on this discussion at this point in time. For example, some will consider nuclear power impact while others will not.

We do encourage transparency and dialogue on how investors define what is and is not impact. We see great value in well-functioning globally accepted market standards such as the GIIN definition and the IRIS+ impact metrics. However, we think a strict legal definition and technical requirements (for instance in level 2) could hamper accelerating impact investments. ABP sees more use in referencing globally acceptable market standards, leaving room for adaptation to future developments and investors' own methodologies and ambitions, combined with clear transparency obligations for investors claiming to make impact investments.

Impact investments to be disclosed as part of all product categories

Pension funds manage large, diversified portfolios that, under the SFDR, qualify as a single product. The Sustainable and Transition categories will therefore not be feasible for a pension scheme, leaving only the ESG Basics category as a feasible category. At the same time ABP does make impact investments and finds it important to communicate in a clear, concise and understandable manner to its participants on these investments.

From the Proposal it seems that Sustainable and Transition products with an impact objective are required to make impact disclosures. We note that according to the Proposal, ESG Basics products can count sustainable and transition investments as permitted investments, meaning that they can also make impact investments referencing the investors approach based on the GIIN definition. We strongly feel that ESG Basics products should be allowed to disclose if and to what extent they make sustainable and transition investments, including impact investments.

In this respect it is worth noting that because of the Dutch mandatory pension system, ABP's ultimate beneficiaries are not retail investors choosing a commercial asset manager. ABP can therefore not

use any categorization as a marketing tool. However, pension participants do need to be informed about the investment decisions made on their behalf, for example on impact investments. We carry out surveys among our participants to understand what they consider important and what they expect from ABP in terms of sustainable and responsible investment. ABP incorporates the outcomes of these surveys into its policy development process. *Although ABP does not commercially reach out to pension participants (e.g. marketing to persuade retail investors to invest in funds) the pension fund must be able to keep communicating about impact investments regardless of the category that applies to its pension scheme.*

Contact details

Pensioenfonds ABP

Postbus 4806

6401 JL Heerlen

www.abp.nl

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