

Date
12 November 2010
Our reference
PFZW2010-057

Russell Tribunal on Palestine
Attn. Mr. Pierre Galand
115 Rue Stévin
1000 BRUSSELS
Belgium

Subject
Russell Tribunal
Contact person
J.W. van Oostveen
Phone number
+31 30 277 5575

Dear Mr. Galand,

In response to your letter dated October 18th, 2010 regarding the London session of the Russell Tribunal on Palestine on corporate complicity, I wish to inform you that we respectfully decline the opportunity to provide a statement at the tribunal in London. Please do find enclosed a written statement clarifying our position.

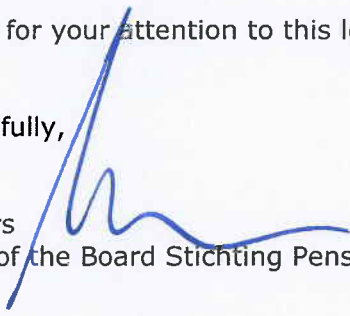
The Board of Stichting Pensioenfonds Zorg en Welzijn (PFZW) is deeply concerned about the ongoing conflict between Israel and Palestine, and the consequential long time occupation of Palestinian territories by Israel. It is further concerned about ongoing violations of international law in this context and about possible complicity in such violations by companies that are active in Israel and the occupied territories.

The enclosed statement sets out how PFZW is determined to attempt within its policy framework to use its influence as a shareholder in these companies by addressing the above concerns and to try to make a modest contribution towards the common goal of achieving a lasting and peaceful resolution to this complex conflict situation in the Middle East.

Thank you for your attention to this letter and enclosed statement.

Yours faithfully,

Hans Alders
Chairman of the Board Stichting Pensioenfonds Zorg en Welzijn



Enclosed: Statement PFZW to Russell Tribunal on Palestine

1. Profile of Stichting Pensioenfonds Zorg en Welzijn (www.pfzw.nl)

Stichting Pensioenfonds Zorg en Welzijn (hereafter referred to as PFZW) is responsible for the pension policy and pension assets of over 2.2 million current and former employees in the care and welfare sector. The pension fund is the owner of the assets, which at the end of September 2010 amounted to EUR 97 billion. PFZW has outsourced the administration of the pension scheme and the management of the pension assets to PGGM (www.pggm.nl).

PFZW has been active in the field of responsible investment for over 20 years. It is the pension fund's belief that this way of investing contributes to a high and stable return in the long term. PFZW's first activities on responsible investment date back to 1985. The pension fund has since been involved in the establishment of the "Principles for Responsible Investment (PRI)". This is an initiative taken at the invitation of the United Nations with a large number of international institutional investors. The PRI offer an aspirational framework for investors to take account of environmental, social and corporate governance factors. The PRI has now been signed by over 800 parties managing total assets in excess of \$22 trillion (www.unpri.org). PFZW's activities with regard to responsible investment are internationally recognized. Also, for three years in a row the pension fund came first in a benchmarking exercise of Dutch pension funds with regard to their approach to responsible investing (www.vbdo.nl).

2. Investment policy

PFZW is responsible for the financially sound administration of pension assets. The financial future of pension fund's beneficiaries and their families partly depends on the returns achieved on these pension assets. PFZW therefore aims to generate stable and above-average returns by means of an innovative investment policy.

PFZW applies an investment policy that is appropriate for the pension liabilities of the fund, with a risk-return profile ensuring an adequate and stable cover ratio. PFZW determines this investment policy with the support of PGGM.

As a result of this investment policy PFZW invests across the globe in a wide range of asset classes, including for example listed equity, bonds, private equity, hedge funds, real estate and infrastructure.

2.1 Listed equity

In line with its investment beliefs PFZW has in place a benchmark-based strategy for investments in listed equity (i.e. in shares of companies listed at stock exchanges around the world). In order to generate the highest net returns for the pension fund's beneficiaries, while considering the high costs of active management, a 'Sophisticated Matching Approach' is applied to closely track a selected benchmark of listed companies. In other words, there is no active stock picking involved. With the exception of the companies on the Exclusions List (see below), PFZW could invest in all companies that are included in the benchmark that is being tracked.

Statement PFZW to the Russell Tribunal on Palestine

Currently PFZW invests in over 4000 companies worldwide. It is important to understand that, with the exception of the Listed Real Estate portfolio and the Responsible Equity Portfolio, individual selection of listed companies for investment does not take place. This is solely determined by the benchmark that is being tracked.

3. Responsible Investment Policy

The PFZW Responsible Investment Policy emphasises the strategic importance of responsible investment. Responsible investment is an integral part of the pension fund's investment policy and investment beliefs. It is PFZW's aim to apply the Responsible Investment Policy to all investment categories.

PFZW defines responsible investment as consciously taking account of the influence of environmental factors, social factors and good corporate governance in all investment activities. These three aspects are also referred to as ESG factors. PFZW expects the focus on ESG factors to impact the risk and return of the pension fund's investments, enabling PFZW to continually achieve a high and stable return.

The key points of the Responsible Investment Policy are:

- active backing for the conviction that financial and social returns can go hand in hand;
- exploiting sources of return in cases where the influence of ESG factors plays an important role;
- representing shareholders actively to contribute to the quality and continuity of companies;
- expressing the pension fund's identity in terms of the limits of the investment policy and choosing specific focus areas on the basis of that identity;
- encouraging partners in the financial sector to practise responsible investment; and
- accountability with regard to targets, activities and results in the field of responsible investment.

3.1 Focus areas

As a reflection of the pension fund's identity, attention is focused on the following specific areas:

- Controversial weapons;
- Human rights and labour rights;
- Climate change;
- Health; and
- Good corporate governance.

These themes were adopted after extensive consultations with the beneficiaries of the pension fund and various social organisations.

3.2 Responsible investment activities

For the implementation of its policy, PFZW specifically and exclusively selected asset manager PGGM Investments. As part of this implementation PGGM Investments undertakes the following activities:

- ESG Integration into existing investment processes;
- Focussed ESG Investments;
- Exclusions;
- Voting; and
- Dialogue with companies (engagement)

Statement PFZW to the Russell Tribunal on Palestine

The approach to exclusions and engagement will be discussed below. The PGGM website or their Responsible Investment Annual Report can be consulted for more detailed information regarding the other activities of PGGM¹.

4. Exclusions Policy

Criteria whereby PFZW will not invest in certain companies have been in place since 1985. These criteria have been adjusted over time.

4.1 Controversial weapons

Since 2007, PFZW has excluded companies which make or trade in controversial weapons. These are weapons of mass destruction (nuclear, chemical and biological weapons) and weapons with a significant risk of (civilian) casualties during and/or after the military conflict (anti-personnel mines, cluster bombs and depleted uranium ammunition). Currently, 34 companies are being excluded from investments because of their involvement in the manufacturing of and/or trade in these controversial weapons. The PFZW website can be consulted for the full list of excluded companies².

4.2 Government bonds

In 2008 the Exclusions Policy was amended to include a provision on government bonds. Government bonds of five countries were excluded at the end of 2008. These include Iran, Myanmar (Burma), North-Korea, Somalia and Sudan. Government bonds (including inflation-linked government bonds and other debt securities – without any predefined purpose – of central and local government bodies) of these countries are excluded from investment. The exclusion does not apply to other investments in these countries.

4.3 Human Rights: Exclusion as a last resort, engagement as the preferred approach

In addition, PFZW regards it as a basic tenet of its identity that the companies in which the pension fund invests respect human rights and labour rights. Experience shows that there are high-risk countries and high-risk sectors in which violations of human rights are relatively frequent and in which companies can become involved. PFZW expects companies operating in these countries and sectors to have human rights policies, programmes and reporting systems in place.

PFZW does not in principle directly exclude such companies from its portfolio if these programmes are lacking, but prefers a role as active shareholder by firstly pursuing an engagement approach. On the pension fund's behalf PGGM Investments will enter into a dialogue with a company to improve the situation (end the violations if persistent) and to avoid any such violations in the future, for example by establishing satisfactory human rights policy, programmes and reporting.

¹ http://www.pggm.nl/About_PGGM/Investments/Responsible_Investment/Responsible_Investment.asp

http://www.pggm.nl/Images/10-3538%20PGGM%20VB%20Jaarverslag%20UK-02-LoRes_tcm21-165939.pdf

2

http://www.pfzw.nl/about_us/Investments/Responsible_Investments/Activities/Exclusions_of_listed_companies/Exclusions_of_listed_companies.asp

Statement PFZW to the Russell Tribunal on Palestine

If the engagement does not prove to be successful within a specified period – in other words, if a company fails, for example, to establish a policy and/ or remains frequently involved in new violations of human rights – the company will be excluded after all. Exclusion is explicitly regarded as a last resort (*ultimum remedium*), i.e. in case of problematic *behavior* PFZW prefers to first use its power to influence change.

Exclusion may then be the result of a company failing to move in the desired direction or completely failing to respond to specific engagement on the part of PGGM Investments. Recently, the Indian mining company Vedanta Resources and its daughter companies were added to the pension fund's Exclusions List, when PGGM Investments' dialogue with them did not bring about sufficient change in the company's environmental and human rights practices. In 2008, the Chinese oil company PetroChina was excluded because they were unwilling to seriously discuss human rights concerns related to Sudan.

5. Engagement

The dialogue with the companies in pension fund's investment portfolio (engagement) is outsourced to PGGM Investments. PGGM Investments has the following engagement approach in place. Engagement takes place within the context of the concept of active ownership. The PGGM Listed Equity Ownership Policy³ can be consulted for a detailed explanation of this concept.

Subject to the Responsible Investment Policy, the engagement focuses on corporate governance, human rights, climate change and health. Within these focus areas, specific spearheads for engagement are defined.

Periodically a list is compiled of companies on which PGGM Investments will focus their engagement efforts. To compile this engagement focus list, the following selection criteria are applied:

- The size of the investment within the equity funds and segregated accounts managed by PGGM Investments;
- The relative stake in the company and relative voting power;
- The expected impact on the ESG issue due to PGGM Investments' efforts;
- The expected contribution to long term value creation for PGGM Investments' clients.

5.1 Human Rights

For engagement in the area of human rights, the entire portfolio is carefully screened by external data providers to identify those companies in the pension fund's portfolio that may face allegations of or are involved in human rights violations. This information is then used to prioritise companies the engagement efforts will focus on. Stakeholder concerns are explicitly considered in this process.

³ http://www.pggm.nl/Images/10-3454%20PGGM%20Investments%20Listed%20Equity%20Ownership%20Policy_tcm21-165337.pdf

Statement PFZW to the Russell Tribunal on Palestine

Every engagement project has concrete objectives and timelines. This enables for adequate assessment whether the objectives have been achieved. Experience indicates that engagement projects take considerable time, typically 2-3 years to achieve their objectives. Where possible and appropriate PGGM Investments endeavors to inform the pension fund's beneficiaries and other stakeholders on the progress of the engagement projects, for example in the Responsible Investment Annual Report mentioned before or the quarterly reports on Active Ownership (in Dutch only)⁴.

6. PFZW's current exposure to companies active in the Occupied Palestinian Territories

The letter PFZW received from the secretariat of the Russell Tribunal on Palestine states that PFZW invests in 27 companies involved in corporate activity in the Occupied Palestinian Territories. The letter however does not disclose the source of this information.

For this statement it is assumed that this number was derived from the analysis of the PFZW portfolio (dated 31-12-2009) by the Israeli organization Who Profits as included in a report published by the Dutch organization Werkgroep Keerpunt on their website in February of this year⁵.

While the publicly available information on the pension fund's portfolio⁶ is updated once a year, the portfolio changes continuously as a consequence of investment decisions and benchmarks changes. Currently, PFZW invests in 13 companies identified on the list by Who Profits as being involved in corporate activity in the Occupied Palestinian Territories. The total amount of assets invested in these companies is almost €323 million (the average investment in these companies being close to €12 million). This amounts to about 0.3% of total assets under management. The ownership percentage in these companies varies from 0.59% to 0.01%.

Due to a recent change in one of the benchmarks that is tracked for the pension fund's listed equity investments, PFZW is no longer invested in any of the Israeli companies mentioned on the list by Who Profits.

4

[http://www.pggm.nl/Over_PGGM/Investments/Publicaties/verslagen en documenten/verslagen en documenten.asp#0](http://www.pggm.nl/Over_PGGM/Investments/Publicaties/verslagen%20en%20documenten/verslagen%20en%20documenten.asp#0)

⁵ <http://www.werkgroepkeerpunt.nl/dossier.php>

6

[http://www.pfzw.nl/about us/Investments/Transparency/Overview of Investments/Overview of Investments.asp](http://www.pfzw.nl/about_us/Investments/Transparency/Overview_of_Investments/Overview_of_Investments.asp)

7. Engagement with regard to companies active in Occupied Palestinian Territories

The situation in the Middle East and particularly in the Occupied Palestinian Territories deeply concerns the Board of PFZW and has therefore been the topic of various board discussions with the pension fund's external ethical advisors⁷ over the past few years.

Also, a small number of beneficiaries as well as other stakeholders, notably Werkgroep Keerpunt and nederlands palestina komite, have indicated to PFZW that the investments in companies that are active in the Occupied Territories, are of concern to them.

In response to these concerns, PFZW has asked PGGM Investments to develop an engagement approach with regard to these companies. This engagement approach focuses on those companies

- that contribute to sustaining the occupation (for example banks providing loans to finance Israeli settlements in occupied territory);
- whose products or services are directly associated with the occupation or suppression (for example a company allegedly providing custom-made bulldozers involved in the destruction of Palestinian homes);
- that contribute to activities that can be seen as in direct violation of international law (for example companies involved in a controversial tram way).

The starting point for the engagement is fact finding. PGGM Investments asks the companies to provide detailed information on for example policies and systems in place to identify and avoid the risk of being in violation of international law and what specific efforts have been undertaken to avoid or mitigate these risks. Where applicable, companies are asked to indicate how they ensure that there is equal access to their products or services.

In addition, information is gathered from different sources and experts to provide further input to these engagement efforts and the decision on the final outcomes, which may or may not be the decision to exclude the company from investments.

8. Concluding remarks

Finally, the Board of PFZW wishes to emphasize that it is deeply concerned about the ongoing conflict between Israel and Palestine, and the consequential long time occupation of Palestinian territories by Israel. It is further concerned about ongoing violations of international law in this context and about possible complicity in such violations by companies that are active in Israel and the occupied territories.

PFZW is determined to attempt within its policy framework to use its influence as a shareholder in these companies by addressing the above concerns and to try to make a modest contribution towards the common goal of achieving a lasting and peaceful resolution to this complex conflict situation in the Middle East.

⁷ Ethical advisors to PFZW are Prof. C. Flinterman, Mr. C. Homan and Mr. R Willems.