General Investment Guidelines
for the management of assets held by
the civil servants' pension fund of the State of North Rhine-Westphalia
(Pension Fund NRW)

Ministry of Finance circular of 2 May 2017

The Ministry of Finance of the State of North Rhine-Westphalia is issuing the following investment guidelines based on Section 6(6) of the Pension Fund Act (NRW) of 2 February 2016 (NRW Govt Gazette, p. 92) and after consulting with the Advisory Council specified under Section 11(1)(3) of the Act:

Section 1
Application of Guidelines

These General Investment Guidelines extend to the asset management carried out by the Ministry of Finance in accordance with Section 6(1)(1) of the Pension Fund Act and in the event of a transfer to banks or investment trusts within the meaning of Section 6(1)(3) of the Pension Fund Act.

Section 2
Investment Principles

(1) Any investment shall be part of a long-term strategy, guided by the objectives of security and profitability as set out in Section 6(3) of the Pension Fund Act. Security of investments shall be scrutinised at the time of acquisition and over the entire holding period.

(2) Any investment decision with regard to assets held by the Pension Fund NRW shall uphold appropriate allocation and diversification.

(3) The security and profitability objectives set out in the Pension Fund Act encompass the sustainability quality of the investment (as set out in Section 3).

Section 3
Sustainable Investment

(1) Securities (as specified in Section 6(4) of the Pension Fund Act) issued by ethically or ecologically problematic entities may not be acquired. Minimum standards for sustainable investments will be met by observing the exclusion criteria specified under Section 4.

(2) When assessing the security and profitability of an investment, relevant sustainability aspects, namely the environmental, social and governance quality of the issuer, must be taken into account (ESG integration).

(3) The requirements referred to under subsections 1 and 2 of this section also apply to the acquisition of investment fund or fund company shares, including listed ETF (exchange-traded funds). The sustainability quality of such assets

may be assessed on the basis of information provided by the fund distributor or the fund company.

Section 4
Exclusion Criteria

(1) Securities may not be acquired if there are clear indications that the issuer engages in one or more of the following practices:

(a) Clear breaches of principles set out in the United Nations Global Compact for the areas of human rights, labour, the environment and anti-corruption,

(b) Production of controversial weapons (cluster bombs, landmines, NBC weapons),

(c) Production of conventional weapons if this generates more than five per cent of the issuing entity's overall turnover,

(d) Operation of nuclear power stations or production of essential components if this generates more than five per cent of the issuing entity's overall turnover.

(2) In case securities are acquired and it later turns out that these securities fail to comply with one or more of the exclusion criteria set out in subsection 1, the securities in question must be sold. Decisions about such sales must be taken on the merit of each case, at an appropriate time and without severe impact on value. In case of securities acquired prior to 1 January 2017, any decision about a sale will be within the discretion of the Investment Committee. When deciding on a sale, the Committee shall also consider the remaining time to maturity.

Section 5
Integrating ESG Considerations

(1) Specific aspects of various industries or sectors may be taken into account when assessing the performance of an issuer with regard to environmental, social and governance (ESG) matters. To the extent that the Ministry of Finance does not have the requisite information, evidence may be heard from third-party experts.

(2) The more severe the impact of an industry or sector in relevant ESG areas, the more stringent the benchmarks shall be for sustainability management.

(3) When deciding on whether to buy corporate bonds or shares, preferences shall go to the 'Best in class'-issuers in terms of ESG performance.

Section 6
Review of the Investment Strategy

The investment strategy relating to the Pension Fund shall be reviewed on a regular basis, at least every three years. The review shall include the protocol in place for assessing the sustainability quality of the investment.

Section 7
Reporting to the Advisory Council

A report on the sustainability quality of investments shall be submitted once each year to the Pension Fund's Advisory Council (Section 11 of the Pension Fund Act) and the State Parliament's budget and finance committee (Section 6(2)(2) of the Pension Fund Act).

Section 8
Commencement

These guidelines shall become effective on 1 June 2017.