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Effectiveness of Sustainable Investing

Deepen your strategy or ride the tide?

March 2026

MEER IMPACT MET MAATSCHAPPELIJK KAPITAAL



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Introduction & Management Summary



Sustainable investing at a crossroads:

Deepening strategy to drive real-world impact or following the tide?

A challenging environment for Dutch pension funds with multiple changes accumulating

Most Dutch pension funds, substantiated by participant surveys, strive to deliver on the dual ambition to provide **a good pension in a livable world**.

Not an easy task in a world where **megatrends are rapidly evolving** across demographics, climate, nature, technology, and geopolitics. These trends create risks already materializing in the real economy, as reflected in rising polarization, more frequent extreme weather events, supply chain disruptions, deglobalization, unsustainable debt levels, and growing human impact. Given **Europe's open economy**, it is particularly exposed to these forces.

Meanwhile, the sector is **transitioning to a new pension system**, a complex and demanding process, requiring significant governance time and participant communication. Together, these dynamics signal profound structural shifts that will shape long-term investment outcomes and real-world impact.

Combining the “wisdom of the crowds” with academic insights on sustainable investing

What role should pension funds play as universal owners in a multipolar world? Deepen their sustainable investment strategy or follow the tide? In this study, we examine perceptions of practitioners and academic insights on the effectiveness and real-world impact of sustainable investing, alongside pension funds' intentions for the coming period. It was conducted under the supervision of a steering committee comprising SPIN, bpf Detailhandel and bpfBOUW and includes:

- in-depth interviews with 31 Dutch pension funds (totaling > €775bn AuM)
- insights from 10 asset managers
- a review of academic literature
- a dedicated summit

We start with a management summary, followed by more details from our interviews with pension funds, literature research and insights from asset managers.



No ESG backlash among Dutch pension funds

No ESG backlash, most pension funds increase sustainability efforts

Despite global political headwinds, our survey reveals **no ESG backlash among Dutch pension funds**. Sustainability is widely regarded as:

- financially material, and
- In line with participant preference to contribute to a livable world and
- part of fiduciary duty

Most pension funds intend to increase their efforts on sustainability, while acknowledging that the financial sector cannot fix it all. Focus is on:

- More real-world impact by allocating more to private markets
- Participant involvement & communication
- Deeper a/o more systemic engagement
- Manager alignment on sustainability goals

Academics: do not overestimate real world impact, critical on the win-win narrative

A well-known meta-analysis by Friede et al. (2015) finds that **sustainable investing (SI) does not need to harm risk-return**. But **the win-win narrative is getting more criticized**. Academics and industry bodies¹ argue that **real-world impact is lacking or even counterproductive** a/o effects mostly relate to the **firm-level risk and do not exist at scale**.

Private market allocations and engagement in public markets are most promising to achieve real world impact. But its success depends on several factors, and causality remains hard to prove.

Coordinated a/o systemic engagements could increase effectiveness vs. an isolated approach. But literature on system-level engagement is scarce, partly due to **lack of standardization** in real impact definitions and measurement.

Asset managers underline the importance of clear asset owner demands

Asset managers indicate that the ESG backlash in the US is not all doom.

Firstly, **not all US = equal**; the ESG stance varies by region and investor type. Secondly, the backlash triggers **a reality check** and demands **more clarity and action**. If asset owners are explicit on their sustainability goals, managers can be more effective.

Lastly, **asset owners have significant influence and should engage more with asset managers** to ensure alignment.

Legal and reputational risks in anti-ESG regions are a **barrier** though for being more **vocal and catalyzing** other investors.



Towards more effectiveness and stronger governance

Survey reveals acknowledgement that more efforts are needed for real impact

The new pension system calls for **greater clarity, substantiation and dialogue with participants**. While sustainable investing is firmly embedded in policy frameworks, many funds question the current level of and claims about **actual real-world impact**. We observe a positive stance to actions that could increase effectiveness, such as a willingness to invest in **governance**, to do **more systemic and or deeper** engagement in public markets a/o allocate **more to private** markets.

Sustainability and impact goals have **not yet triggered major governance changes** at pension funds. Boards also face **challenges in ensuring legitimacy** in participant surveys, given low response rates, difficulty in uncovering underlying preferences and dealing with opposing views.

Academics criticize that the pursuit of dual goals lacks a good foundation

Bauer et al. (2026)¹ state that the dual pension objectives make it more difficult to hold pension boards **accountable** for their decisions. This is due to the uncertain nature and potential trade-offs with risks, returns, impact and costs.

Bauer et al. (2026) argue for a **broader definition of fiduciary duty with prioritization** of goals. With **clear benchmarks and decision rules** when financial and impact objectives are not fully aligned. Or in short, they call for a better governance framework with good checks and balances.

They also find that finding legitimacy from participants' preferences requires a **proper survey design and follow-up** to dive deeper into their responses. Biases and financial illiteracy may blur true underlying sustainability preferences.

Asset managers more productive with explicit goals and willingness to act

Asset managers indicate that asset owners can exert large influence to steer their investment partners. **The more specific** on sustainable investing goals, priorities and horizon, **the more effective** they can be. **Co-creation and early involvement** add to more effective solutions and alignment.

Sustainability goes beyond ticking the box. Managers encourage **asset owners** to join the sustainability conversations, **to challenge companies and managers and to escalate** if not productive. By being vocal, you can catalyze other investors.



Public markets: rethink approach for more influence

Pension funds recognize the tradeoff between impact per EUR and scale

Most pension funds have a **neutral** stance to **either small allocations with high impact** per EUR - impact generating and additionality - **or large allocations with low impact** per EUR, such as SDG a/o Green Bond investments. They recognize that scale and effectiveness are inversely related. The abundance of capital implies that **real impact in public markets is limited** or indirect.

Some instruments are considered **relatively ineffective for real-world impact**, but serve **other purposes** such as risk management, meeting participant preferences or signaling. Pension funds therefore find it more effective to assess the sustainability toolkit as an integrated whole, rather than evaluating each instrument in isolation. In addition, they see greater effectiveness in adopting **a broader systemic** approach and ensuring that their **asset managers are aligned** with their sustainability goals.

Academics: little real impact in public markets, engagement most positive

There is **wide academic consensus** that **public markets** offer limited opportunities for **real-world impact**. It would acquire a vast majority of the investor base to move (the cost of) capital into another direction. The same holds **for engagement**: there is wide support for **positive effects on performance**, but this does not always translate into **real-world impact**. Success depends on several factors and takes time, especially on a systemic level. Voting can be a strong signal and amplify engagement effectiveness.

Some studies find **counterproductive real-world effects** of brown companies deteriorating more than green companies improve. **High concentration risks or tilts are also a financial risk**. The jury is still out on the right portfolio size, as **extreme performers** can be a highly **distorting** factor in achieving diversification.

Our takeaways: combine active and passive for more impact without concentration

Public markets are too big to ignore and have **high internal cash generation to reinvest**. Key is how to incentivize management towards more sustainability. It requires **a targeted approach** with investment in good stewardship and use of leverage. Dare to be vocal and to act if not productive.

A combination of **both active and passive** management or in-depth knowledge with scale could be more effective. It allows for **deeper impact while preserving the overall-risk return profile**. Also, **a rethink on data and indices towards more forward looking** can increase the effectiveness of a passive approach by allocating more capital to transition.



Private markets: does it actually cause change?

Different opinions on impact definitions, on high-risk segments and approach

Pension funds use **varying definitions of impact** which makes targets hard to compare: some focus on the use of proceeds, others emphasize capital scarcity and additionality. Also **approaches differ** from **dedicated deep-impact** allocations to integrating **more impactful** investments **within** existing **strategic asset allocations**.

While there is a **broadly positive stance toward innovation and transformation**, views diverge on higher-impact segments. Particularly where perceived risks are elevated like Venture Capital. There is, however, a willingness to increase governance.

Finally, there is a **preference for local** impact. Investors recognize the need and potential for impact in emerging markets, but do not act on it.

Academics see most real impact in private, but conditions need to be met

Lack of common definitions and data are a constraining factor for evaluating performance and risk in impact research. This is particularly true for **private markets**, where academics claim that **additionality** is to be found. They also indicate that the observed capital scarcity for such projects¹ implies that (perceived) returns are subpar.

Research on the real impact of a private market investor highlights several key factors: **concentrated ownership and governance**, influence **across the full investment lifecycle** and better alignment with **capital scarcity**. At the same time, private markets present - sometimes internal -barriers such as complexity, higher costs, minimum ticket sizes a/o a maximum fund share and governance capacity.

Many private market solutions, de-risking or small steps lower entry barrier

Not all private investments equal high impact. Labels can be misleading; it requires a deeper dive (read: governance time) to **understand the different shades** of impact and overcome mental barriers such as “unknown makes unloved”. **De-risked approaches** could catalyze more private investments but also reduce impact. Also, a focus on **first, small steps and potential snowball effects** rather than (ticket) size could trigger more impactful private investments.

Traditional mandates are often too rigid for relatively new strategies with a limited track record and new data points. Deeper impact investments with higher uncertainty require more **mandate flexibility** to adapt accordingly.

¹⁰ ¹ Flammer et al. (2024) conduct in-depth blended finance research with data from a major development finance institute which confirms capital scarcity and the need for concessionary capital



Geopolitics as an additional driver for reallocation

Pension funds experience increasing unease with high US dependence

Dutch pension funds have a **high dependence on the United States**, spanning asset exposures, indices, data, technology, and trading platforms. Viable alternatives remain limited, resulting in significant lock-in.

Our research highlights **growing concerns** around policy uncertainty, data quality, ESG services, and alignment on sustainability objectives. With geopolitical shifts proving structural, the case for reassessing asset allocation strengthens. This could lead to **a greater focus on Europe** – supported by initiatives such as the Draghi framework and the pursuit of strategic autonomy - and reduced reliance on the United States. Timing is also an issue: a **frontrunner** bears the risk of acting too early while a **follower** may experience more market pressure if other peers act in sync.

How geopolitics translate into economy and markets is an art

Blueprints like [Project 2025](#) and the [Draghi Report](#), may trigger reforms and policy changes. This could feed through in sectors, inflation, FX rates, sustainability pathways or other variables. Big unknowns in this equation are the **human factor and tipping points**. Protection to become more “bad weatherproof”, like diversification, portfolio insurance a/o liquidity, comes at a price. And we do not like “certain losses” like this either according to Kahneman and Tversky (1979).

Mental barriers and biases thus may affect asset allocation. SPIL research finds **misperceptions and mindset** as key barriers for emerging markets investing. Strong **governance** supports **de-biasing** decisions, but requires maintenance given the many dynamics.

Asset managers: embed flexibility in portfolio, rethink data

Real world carbon reduction is lagging behind Paris goals and geopolitics could aggravate this. Asset managers **advise** their clients **to position for various climate scenarios, including adaptation**. With customized dashboards, they illustrate key portfolio sensitivities for different scenarios and alternative courses of action. Including more pressure by European asset owners on their US managers to stay more Paris-aligned.

Setting up a **European data initiative** could lower US dependence and foster **a rethink on data: more open and forward looking**¹. This could trigger a capital reallocation to markets with high transition potential, such as emerging markets (EM). EM managers flag the large **underserved markets and funding gaps** as both an economic and impact opportunity.

11 ¹ current market practice and climate benchmarks are using backward looking data, which results in negative tilts to issuers that have yet to decarbonize, such as in emerging markets



Preview on the next sections

The next sections provide further details for shaping views and identifying opportunities for further follow-up.

The remainder of this report is organized as follows:

- Survey results from our interviews with pension funds
- Literature research, with full reference lists by topic on pages 58-67
- Key takeaways from asset managers: interviews with specialists and white papers
- Appendix with work sheets and references



Survey results

Dutch pension funds

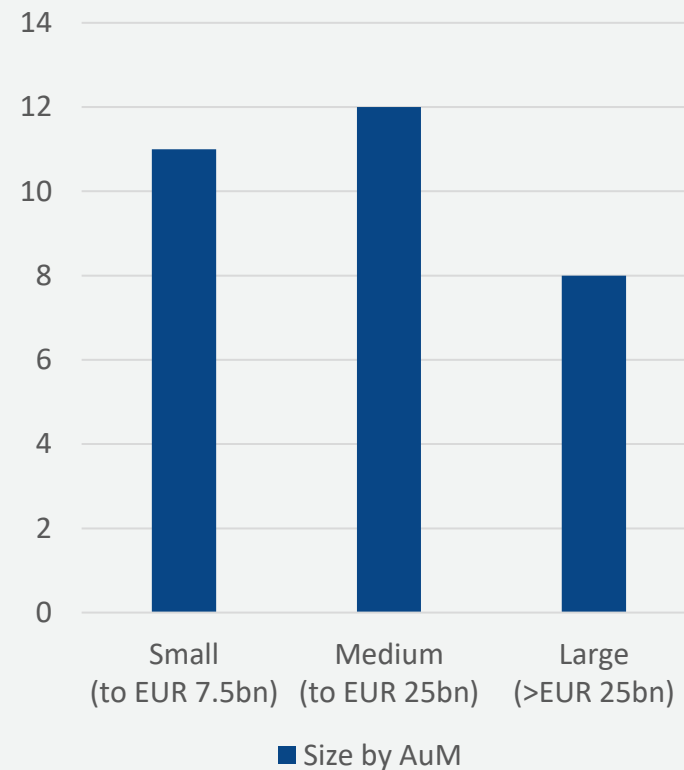


Survey outline and characteristics

Survey approach and summit

- We spoke to 31 Dutch pension funds with > EUR 775bn AuM (45% of total pension AuM)
- Before the interviews, we sent a brief survey to prepare and have a snapshot view
- 14 pension funds are related to companies, the remaining 17 represent a sector or profession
- The interviews were held with ESG specialists, pension board members or CIOs.
- The summit was attended by about 75 participants, including pension funds (50%), asset managers (40%) and fiduciary managers, industry bodies and consultants.

Sample size by pension type



Key questions

Which next steps on sustainability?

- More/equal/Less sustainable investing?
- New ESG/SI mandates and if so, what are the key triggers (internal, external)?
- What role to play as a pension investor and how effective is the financial sector as whole?

Effectiveness of instruments and approach

- Public: what instruments considered most/least effective and why?
- Private: what impact is pursued, what approach and where? What role has governance/complexity?

Implementation

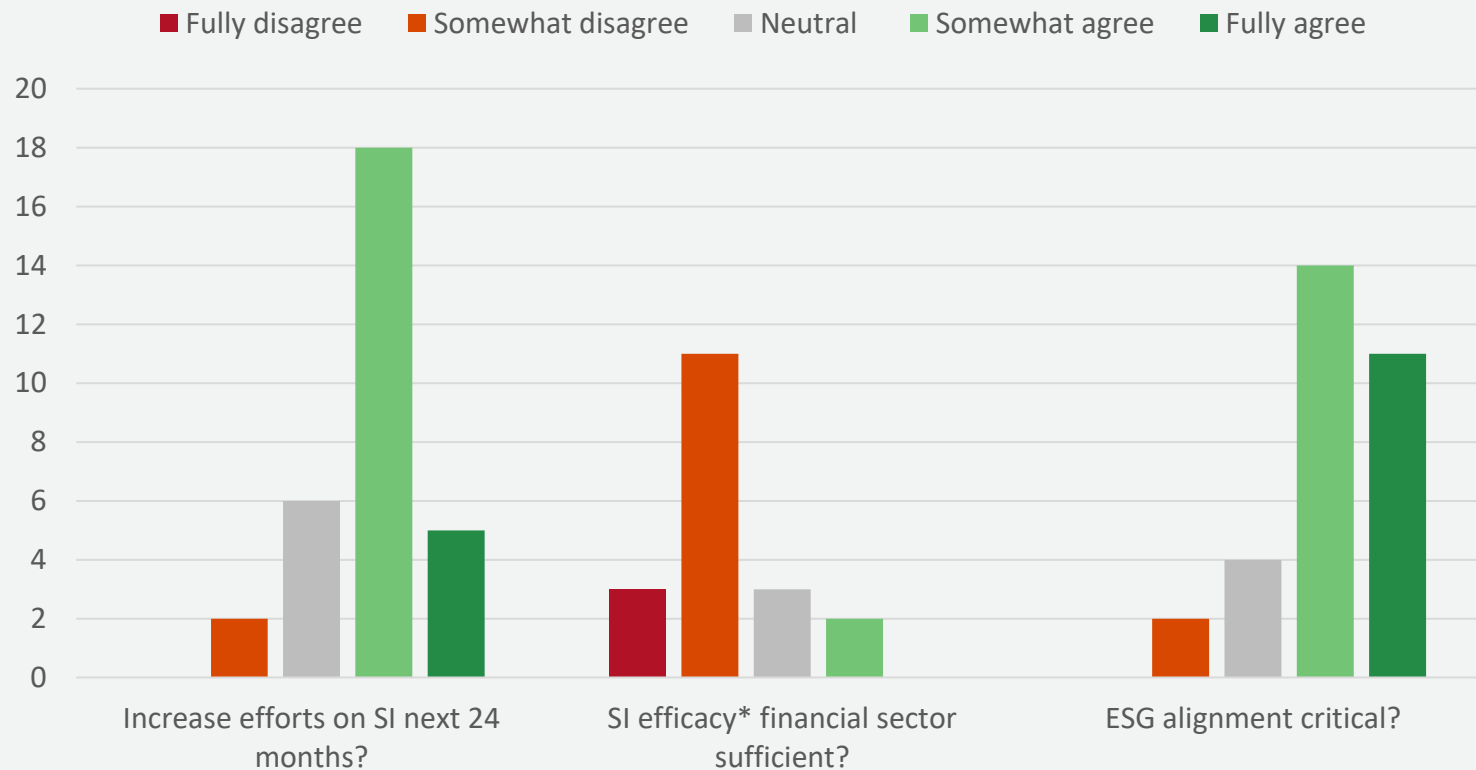
- What preferences on approach/allocation? Focus on certain assets, regions, more active a/o concentrated approach and engagement?
- How important is ESG alignment of the manager/ESG provider (incl. voting)? Act on it?
- What about underlying/indirect ESG costs?



No sustainability backlash among Dutch pension funds

many work on increasing their impact allocation and ensuring manager alignment

Pension funds to mostly increase their sustainability efforts, financial sector cannot fix it all



- Efficacy in terms of real-world impact

Improving impact with more focus on private, alignment and active ownership

When increasing their sustainability efforts, focus is **not so much on more policy but** on more **effective implementation**. This includes **raising the bar** and **new approaches** to impact investing, away from the traditional SAA approach with strict risk-return requirements to deeper impact.

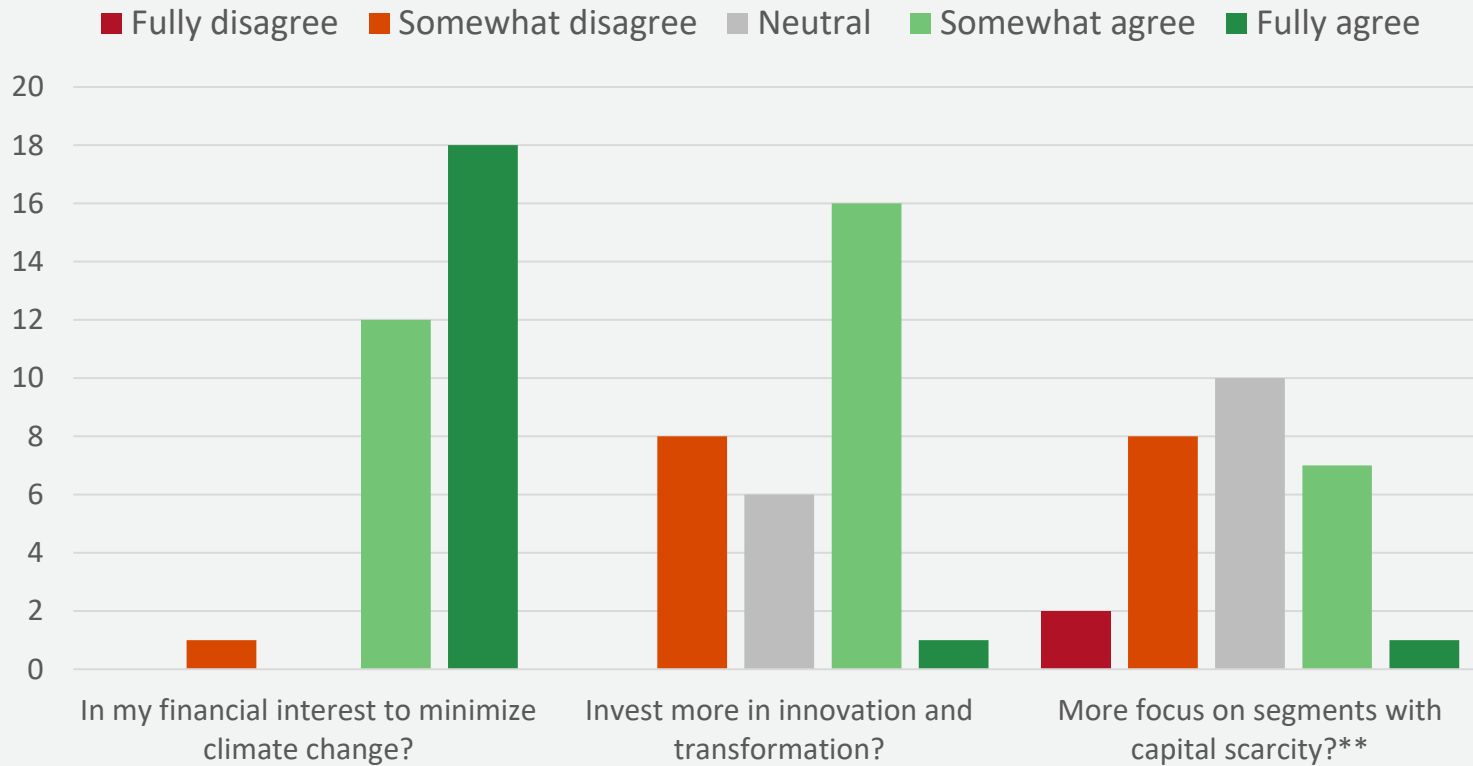
Respondents also cite that **engagement needs to evolve** towards more systemic/value chain a/o deeper engagement, including a clear implementation plan and monitoring of the performance of engagement service providers. **Policy engagement** is recognized as an important stick for enforcing change. They see a role to play here for the big players or pension industry bodies. **Collaboration** is seen as key, but appetite for initiating this is low.



What is our role in reducing systemic sustainability risks?

We love to be smart followers, joining forces together for new initiatives

Financial materiality of sustainability confirmed



Double materiality acknowledged, depth of impact more debated

Pension funds widely recognize the financial materiality of systemic risks like climate change and biodiversity loss. Over half are **positive on innovation and transformation**, including smaller funds. Otherwise said, there is no “Calimero complex” for more innovative investments. But **explicit support of participants** is key. Pension funds therefore prefer to stay close to the sector they represent and know well.

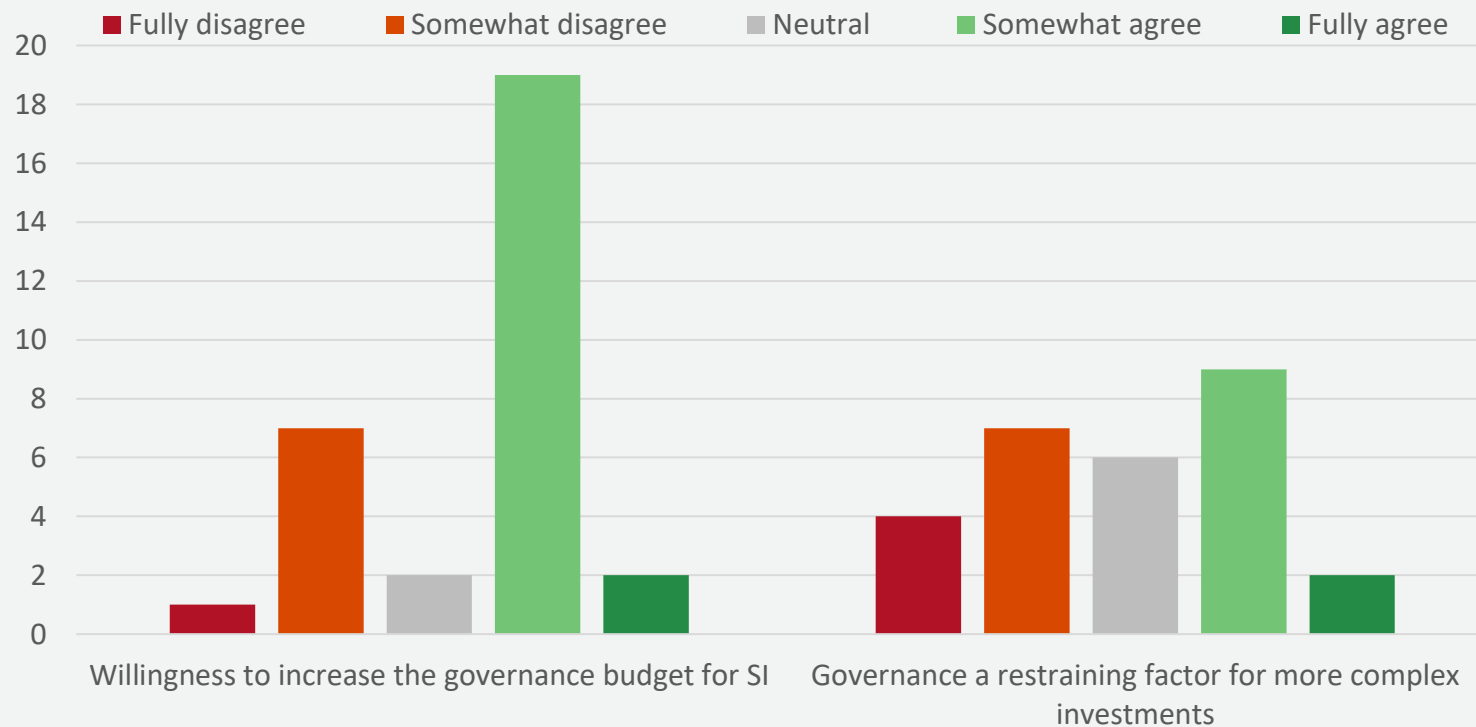
There are **different opinions on the highest impact (and perceived risk) segments** - like Venture Capital a/o emerging markets - but **interest seems higher than before**. More **knowledge and governance budget** is often mentioned as required to consider such steps.

** such as Venture Capital in Europe or Emerging Markets



Sustainability is a core value, but how do we govern it?

There is a willingness to increase governance budget for more complexity a/o sustainability



Pension funds content with current governance, but open to changes

Overall, pension funds are content with current governance structures, often including a dedicated ESG specialist and internal challenges. Currently, the new pension system or **WTP takes a lot of governance** time and leaves little room for stepping-up or deepening sustainability efforts to increase effectiveness. This may change.

Regardless of fund size, the survey reveals that **governance can be a restraint for more complex, high impact investments** and systemic engagements/field building. Most funds are willing to **increase the governance** budget for sustainability, but smaller funds remain tight. There is a louder call to show your true (green) colors and make realistic impact claims to participants. **Sustainability as a core value** increasingly translates into **ESG alignment requirements** for managers and governance time.



Broad awareness of the effectiveness of instruments and what is needed for further improving engagements

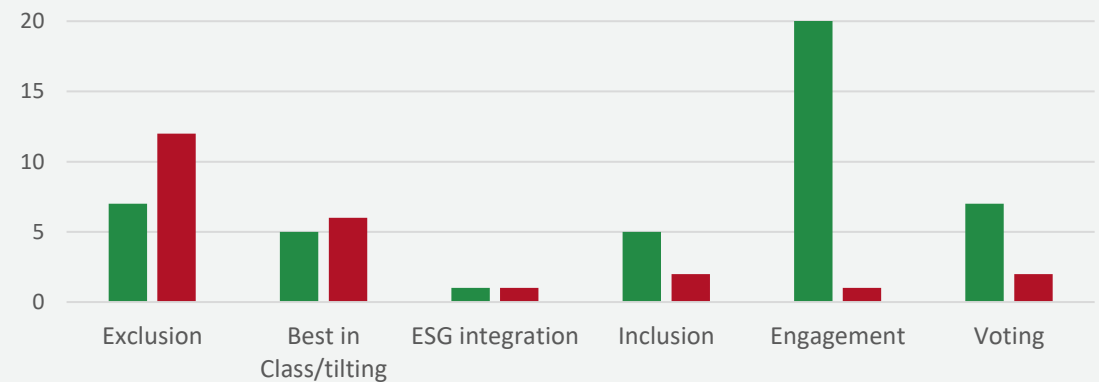
Next level engagement: broader and deeper

Respondents consider **Impact and engagement** as most effective in terms of real impact. They note that definitions of impact differ among funds, which makes comparison hard. **Active ownership instruments** are considered most effective, particularly **engagement**. Pension funds find **the context and combination** of instruments important, instead of evaluating each instrument on its own.

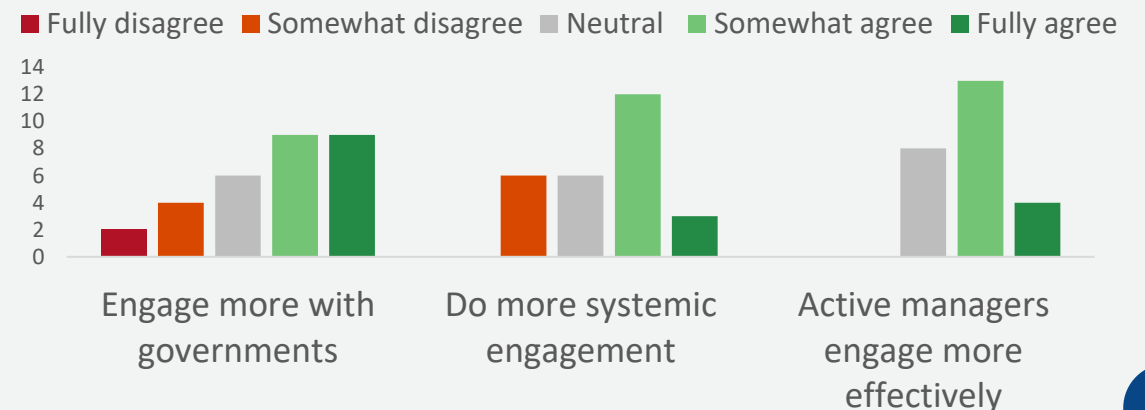
Yet, as effectiveness is **hard to measure or isolate**, there is a reluctance to spend more – now assumed to be on average EUR 100K - on engagement. **Efficacy** could increase **by more scale or collaboration or more focus** and in-depth knowledge from more sophisticated, active managers. The survey results show broad support for broader, systemic/government engagement and recognition of an active manager’s engagement skills. **Barriers** that pop up in conversations are how to effectively organize this, to ensure aligned goals and reluctance to high portfolio concentration and tracking error.

Pension funds also express **worries** about the declining efficacy of instruments, such as big anti-ESG blocks when it comes to voting or becoming labeled as an activist shareholder neglecting its fiduciary duty.

Most / Least effective instruments in terms of real impact



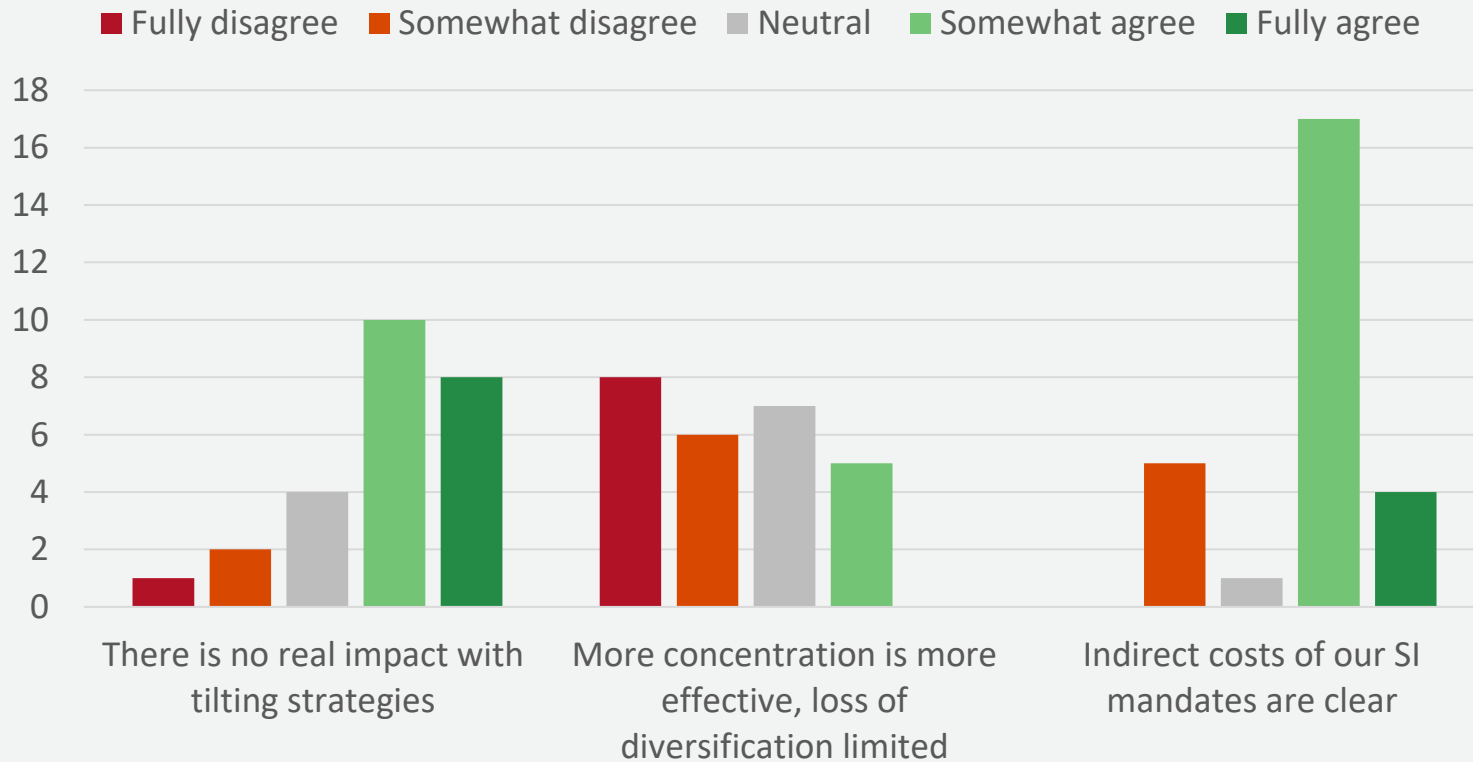
Quality and engagement methods drive effectiveness



Impact potential is not the only consideration

Exclusion, ESG integration and low carbon portfolios may contribute to other goals

Low effectiveness of tilts a/o more concentration but other factors also matter



Not only about impact; risk management, signaling, participant preferences also key

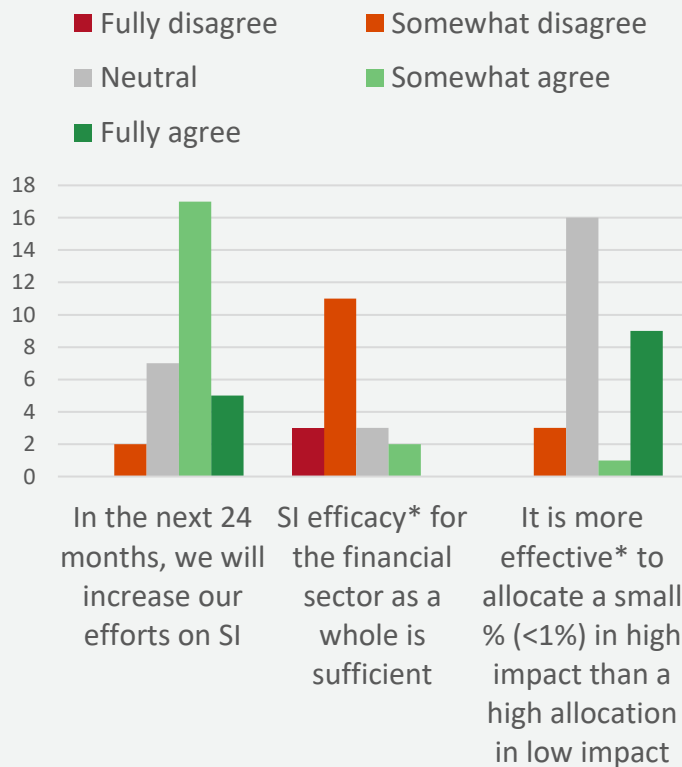
It is also not all about impact, **reputation, participant preferences and good stewardship also matter. Stewardship** is not a luxury, but a shareholder **responsibility**.

Pension funds have **mixed feelings on exclusion**: they consider it very **effective if there is critical mass** and it is important for signaling and ESG risk management. Funds do not expect **tilting strategies** to change the world, but it is easy to explain to participants: it gives a **better feeling** without hurting risk-return. They find custom BMs useful for operational purposes and evaluation. It gives more insight in the **indirect costs** and performance effects of sustainability mandates. They see **room for more portfolio concentration but not to the extreme**: diversification and preserving the ALM risk-return profile remain key.



Many allocate to sustainable options within current SAA, but deep impact buckets on the rise

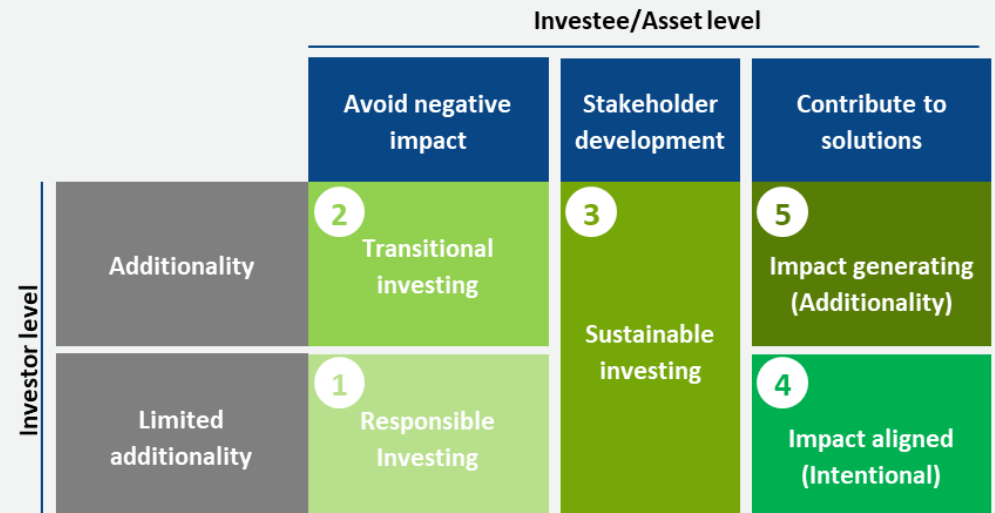
Openness to deeper impact...



* In terms of real world impact

...but also aware of many impact definitions and impact washing

The survey shows that pension funds use **varying definitions of impact** and are aware of impact washing. **GIIN's definition** remains widely used, emphasizing financial returns, intentionality, and measurable impact. Other definitions focus more on concepts such as Theory of Change, additionality, or contribution. Overall, these differing interpretations make it difficult to compare impact allocation targets across pension funds. **Impact approaches depend** on the role funds aim to play and the preferences of their participants. Some funds establish a **dedicated impact** allocation—sometimes allowing some flexibility on the risk-return profile—while others seek more impactful investments within their existing strategic asset allocation (**SAA**).

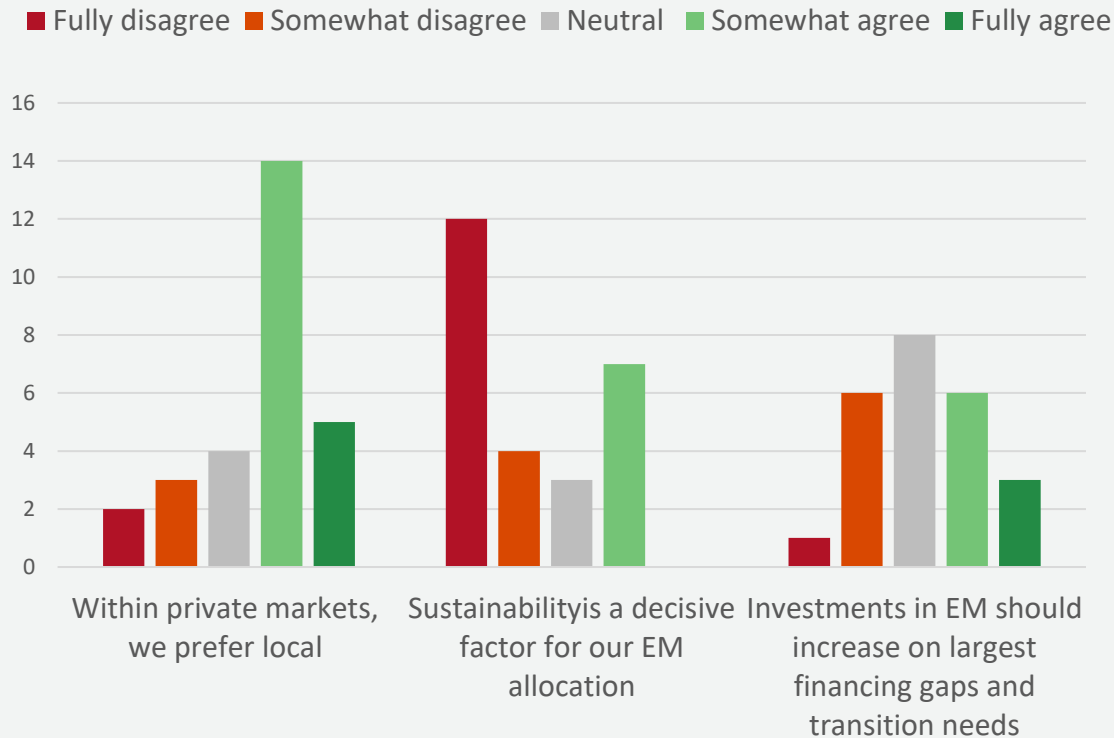


Source : GIIN. What are impact investments?
Brest, P., & Born, K. (2013). When can impact investing create real impact.



Clear preference for local impact, but aware of EM needs

Preference for impact in backyard, EM needs are recognized but no action



Most funds investigate impact and have yet to define their focus and approach

As earlier indicated, **private** markets are in scope for **real impact** investing. Pension funds show a preference for **local and adjacent markets** as these provide more visibility and are more familiar. Most are still in an exploratory phase and in the process of specifying their impact policy or exploring the themes they want to focus on.

The **higher impact potential of emerging markets** is recognized: pension funds are well aware of its funding gaps and capital scarcity, which is further increased by the US AID withdrawal. Also, there is increasing unease about high US dependency. Yet **sustainability is often no decisive factor** in regional allocation. Another factor is “unknown makes unloved”, but some are open to a **de-risked approach** or concessionary capital. Other pension funds remain reluctant on emerging market investments on data issues, governance, legal uncertainties or other risks that they do not see rewarded.



Literature review



Introduction and outline

Research topics: Governance, sustainability in future mandates, ESG alignment and impact in private markets

The focus of the literature review is on the following three themes.

First, we explore how the new pension system and sustainability goals shape **governance frameworks**. We also discuss geopolitics which can cause pension funds to recalibrate their position and role as a universal owner.

Second, we investigate how sustainability **influences the structure of future investment mandates**, including the choice between active and passive management, the degree of portfolio concentration, geographic allocation, the role of stewardship and ESG alignment of investment partners.

Third, the chapter addresses **the role of private markets** in achieving meaningful sustainability impact and real-world outcomes.

The structure of the literature report is based on the hypotheses on the right which are linked to the investment instruments.

Research Hypotheses

1. More effective sustainable investing requires **good governance** and participants' support¹
2. Sustainability will fundamentally **reshape** future investment **mandates**
 - a) A re-evaluation of the value-add of **active** management in terms of governance oversight, engagement and capital allocation²
 - b) More impact (contribution) in public markets through **deeper a/o more systemic engagement**³
 - c) More impact per EUR by a **regional reallocation** between emerging and developed markets⁴
 - d) More explicit requirements on the **sustainability alignment** of investment partners: **sustainability as a core value**
3. Achieving real-world impact requires a bigger role for **private markets**⁵



New Pension System adds complexity, good governance key

The new pension system poses new governance challenges

Maatman et al. (2024) argue that the transition to the Dutch new pension system fundamentally alters the governance requirements¹ of pension funds. **Financial risks shift increasingly to participants** and pension contracts become more rule-based. Pension funds lose discretionary power but remain fully accountable for execution quality. This creates significant governance challenges, including **increased operational complexity**, stronger **dependence on outsourcing** chains, and heightened demands for **digital resilience and participant communication**. With geopolitics as an additional challenge. All in all, this requires an upgrade of existing governance structures, particularly mechanisms for participant representation and accountability.

The pursuit of dual goals requires good governance and accountability

Bauer et al. (2026) state that the pursuit of both a good pension and a better world **lacks a good foundation**. Accountability is hard due to the uncertain nature and potential trade-offs with risks, returns and costs. Citing various studies², they highlight:

- **Limited Effectiveness of Exclusions:** no major or even counterproductive impact on WACC³
- **Financial Risks of Concentrated ESG Portfolios:** risks include missing winners or undesired tilts
- **Impact Investing in Private Markets:** They refer to critical studies on returns and the “win-win” narrative. Also, data issues restrain performance and risk assessment
- **Uncertainty About Participant Support:** Biases and financial illiteracy may blur true underlying ESG preferences⁴

Suggested remedies for better governance

Maatman et al. (2024) advocate a reorientation of governance toward **operational control, professionalization, and stronger internal capabilities**, combined with **enhanced participant influence**. Central is the introduction of a strengthened stakeholder body with real corrective powers, alongside improved internal supervision.

Bauer et al. (2026) suggest a **broader definition of fiduciary duty with prioritization** of goals. **Clear benchmarks and decision rules** when financial and impact objectives conflict. This includes proper **accountability and tracking**, board diversity and outside perspectives. Also, **fair and open communication** - also on uncertainties - as well as **carefully designing participants surveys** and their outcomes, are key.



Geopolitics to shape pension portfolios: what role to play?

Key takeaways from the lecture of Prof. dr. Kees Koedijk at the Summit

With high US dependency, pension fund portfolios are prone to US policy changes as proposed by Project 2025

US exposure has become very **dominant** in Dutch pension fund portfolios¹ with large investments in US assets and wide use of US technology, trading platforms, office applications, data, indices e.g. The US faces big challenges on sustainability, both financial and non-financial. It has an unsustainable debt position and large physical climate risks, high energy demand and social inequalities. Project 2025 is a transition blueprint² that feeds US politicians on how to act and widely supported by >100 conservative organizations.

In short, Project 2025 advocates a **move** away from multilateralism to **US sovereignty**. It focuses on energy dominance, deregulation, fair and free trade and a very conservative social vision. These views are deeply rooted and not only tied to the Trump administration. The question is not if but when policy changes will trigger shifts in sector rotation, inflation, FX rates and sustainability pathways and affect pension portfolios. Proactively lowering US exposure entails early mover risk, while a wait-and-see approach can result in negative momentum. Governance could structure such decisions.

Draghi report: Europe's solution to strengthening its competitiveness and autonomy

In Europe, the Draghi report acts as a catalyst for change. Its open economy and high reliance on critical external supplies make **Europe very sensitive** to outside dynamics and climate change³. There is also a large innovation gap with the US and China. All in all, Europe needs to transition and increase its autonomy.

This requires an acceleration in the **capital markets union** with **high quality Eurobonds and reduced systemic Euro risk**. **Less regulatory hurdles** such as the EU Inc. Model also contribute to this. An improved environment for European private markets with new (blended) financing structures should foster innovation and transformation in **core** sectors like infrastructure, defense/security, (clean) energy and technology.

A lot is happening in Europe, **and pension funds** can play a **crucial role** in this transition and strengthening by increasing strategic allocations to European assets and higher participation in public-private structures.

¹ See p.59 note 3; ² See notes 1 and 4 for policy blueprints for Europe and the US; ³ See notes 2, 5-7 on climate change exposure



Impact in public and private markets:

Key findings from academics and industry bodies

01 Active vs. passive management

- Know Your Investment, concentration risk and FOMO
- ESG preferences and alignment
- Good stewardship

02 Sustainability as a trigger for more emerging markets allocations?

- Emerging markets impact potential and financing gaps
- Main barriers to EM allocations
- Potential remedies

03 Private markets

- Key impact levers in private markets
- Potential barriers
- Governance and what approach?

04 Next level engagement: targeted, deeper a/o more systemic

- Real world impact and engagement
- Key success factors and amplifiers of engagement efforts
- Main barriers
- Next (system) level engagement

05 ESG alignment: what to look for?

- Separating beliefs from preferences
- Quotes from asset managers about ESG as a core value

→ Preview to next section: key takeaways from asset managers

This section summarizes our key takeaways from the interviews with asset managers and the input they provided us with.



A “best of both worlds” approach: active and passive?

More concentration, discretion and Know What Your Own vs. scale, rules and low cost

Sustainability has become an integral part of mandates via screening, sustainability targets and active stewardship. This can be implemented by **active or (semi) passive**¹ management.

The conventional wisdom on the value of active management is (too) negative², referring to higher fees, concentration risk, lack of persistence of alpha and tracking error. On the positive side, Eumedion³ argues that **active strategies and more focused portfolios** enable investors to “**Know What They Own**” and practice **good stewardship**. Also, active managers have the ability to “walk the talk” and to integrate **forward-looking** views.

Passive strategies offer low cost, broad diversification and reliable market exposure. These can also integrate sustainability through screens or tilts, but this lowers diversification a/o increases systemic risk exposures⁴.

Regulation highlights importance of alignment with beliefs, preferences and risk attitude

Regulation emphasizes legitimacy or **alignment with the investment beliefs⁵ and risk preferences of the pension fund and its participants**. These requirements apply to any implementation strategy: active and passive.

In their well-known meta-analysis on ESG and returns. Friede et al. (2015) show that most studies report a **positive or neutral effect of sustainability factors on performance**. But the devil is in the detail. Studies show a need for large scale to **meaningfully affect** real-world outcomes but also a risk of counterproductive effects⁶. Bessembinder⁷ shows that equity returns can be very skewed and driven by a small set of “**superstar firms**”. Screening causes a fear of missing out (“FOMO”) on winners. A recent follow-up on FOMO risk⁸, confirms the - sometimes hidden - concentration risk in strict sustainable and thematic strategies.

Our takeaways: preferences and resilience key, satellite approach could work well

Smaller, concentrated portfolios **require resilience** as they can experience longer and deeper periods of relative underperformance. Especially if winning sectors or companies are not all (fully) included. There should be no pressure to abandon the strategy at the wrong moment.

Reference indices can also be concentrated with big movers and choices about weight, in/exclusion and rebalancing. Including hidden costs from market movements triggered by rebalancing portfolios at the same time.

An alternative is to **combine the best of both worlds**: active and passive. This preserves the overall (ALM) risk-return profile and enables pension funds to go **deeper and express their (participant’s) identity**.



Engagement approach a key success factor for real impact

Effectiveness of engagement in driving real world impact remains underexplored

Active ownership¹ takes **multiple forms**, including private dialogue, voting, signaling, and legal action². A well-known meta-analysis³ shows strong evidence that engagement improves ESG scores and financial performance, but its **translation into real-world impact remains unclear a/o indirect**⁴.

Improvements often remain at the level of disclosure or ratings, with limited evidence of tangible outcomes such as reduced emissions or biodiversity impact. **Measuring real-world impact is challenging** due to attribution issues, data limitations, and the gap between correlation and causality. In addition, there can also be indirect spillover effects via board seats to other companies.

Key success factors engagement: resources, persistence and a targeted approach

Academic literature on success factors⁵ of engagement **finds that effective engagement depends on several conditions**: sufficient resources and persistence; investor credibility, expertise, and local knowledge; focus on financially material topics; and targeting companies that are willing to change. Timing is critical—engagement is most effective when aligned with companies' investment cycles rather than governance calendars.

Additionally, **credible escalation strategies**⁶ (e.g. voting or shareholder resolutions) increase influence and prevent engagement from becoming largely symbolic. **Especially when supported by collaboration** among investors with complementary strengths a/o when a company's **reputation** comes into play.

Key barriers and need to broaden scope to the system level

Key barriers⁷ include the free-rider problem, difficulties in measuring success, limited access to relevant data, and resistance from large shareholders, particularly in the context of ESG backlash. **Reluctance to escalate** engagement further - institutional investors prefer to remain in private dialogue rather than being vocal – also weakens effectiveness.

Moving forward, collaborative engagement can mitigate these challenges by pooling resources and increasing leverage. Beyond firm-level engagement, greater real-world impact may **require a system-level or field building approach**⁸—shaping market norms, policies, and data frameworks—so that multiple channels of influence reinforce each other and drive meaningful change.



Will sustainability trigger higher EM allocations?

Sustainability rationale emerging markets clear but underinvestment persists

Literature¹ increasingly highlights emerging markets (EM) as a critical component of sustainable investment strategies, particularly in relation to global development and climate objectives. **EM will account for around 50% of global energy demand and CO₂ emissions** by 2050. There is a huge exposure to climate change, but they are unable to fund it² by themselves. Apart from high real-world impact potential, EM can add to portfolio diversification by their different exposures to macro-economic cycles and secular trends vs. developed countries.

Yet, EM allocation remains low³. SPIL finds an average **EM allocation of 4–9%, mostly comprising listed** assets or equities and bonds. Barriers for institutional investing in EM – factual and mental – persist⁴.

Barriers: risk misperception, technicals, rigid mandate frameworks and mental

Firstly, EM carry **specific risks**, such as currency, data issues, (geo)political and technical market factors. **Their underdeveloped and less efficient public markets** result into higher sensitivity to capital flows, especially from abroad.

ESG scoring or generic benchmark approaches can unintentionally **bias portfolios toward developed markets**. They reward **current scores rather than potential** improvement which is high in EM.

Rigid SAA frameworks and mandates requiring long track records and large deal size can also act as a barrier. It also requires more governance.

Last but not least, there are **mental barriers**, such as higher risk perception (unfamiliarity) and home bias (higher visibility in the backyard).

Possible solutions to trigger more EM allocation

Both empirical research and practitioners suggest several remedies for more EM capital flows:

- The use of **de-risked strategies** such as Blended Finance or insured credit
- **Outsourcing the selection and due diligence** to local experts
- **Incremental** changes in allocation
- **Investing in governance** to facilitate learning and getting more familiar
- **Currency risk** can be addressed by providing hard currency capital a/o hedging. This comes at a cost, including a lower real impact vs. local currency funding. Injecting institutional capital into public markets also promotes more market stability
- Using **more forward-looking** sustainability benchmarks that reward transition potential.



Sustainability as a core value?

Looking at participant and manager intentions, as opposed to just labels and scores

Proper design of dialogue is key for effectively engaging with participants on value / values

Our interviews with pension funds indicate that **communication and engaging** is on top of mind, particularly with members. A structured and inclusive approach increases communication effectiveness.

Cooper and Bauer (2024)¹ have investigated the innovative governance concept of the **deliberative mini-public** and how this could be used within a pension fund context. They discuss key **design principles** of the so-called “Deelnemersdialoog”. This should ensure **meaningful representation** of the various members and facilitate good interaction and group dynamics.

Global survey among active equity PMs finds that financial materiality prevails

Edmans et al. (2026)² conducted a **global survey** among 509 **active managers**, both traditional and SI labeled. They indicated whether, how and why they consider a firm’s Environmental & Social (ES) performance. And how it translates into their decisions on stock selection – including tilts-, voting and engagement.

Financial materiality is the **key motivation** for **both type of investors**, citing fiduciary duty. Only a minority is willing to sacrifice returns for better ES performance. **Constraints** - fund mandates, firmwide policies e.g. - were another important driver, while the **impact** dimension was seen as less important. Similar to Bauer et al. (2023)³, they argue it is important that asset owners find a way **to separate sustainability beliefs from preferences** of their asset partners and their participants.

Sustainability as a core value: be careful with benchmarking, qualitative input key

There are various **industry standards⁴** for **measuring responsible investment** behavior, such as UN PRI scores, ShareAction report on voting on E&S issues, the VBDO benchmark (ranking Dutch Pensionfunds), GRESB scores (rating real estate portfolios). In the appendix, we have included a list of additional questions a/o criteria for assessing sustainability as a core value of the pension funds.

Key is **how to prevent these benchmarks from becoming a tick-the-box** exercise with focus on words (read: policy) rather than deeds. Also, Goodhart’s law could show up: when a measure becomes a target, it ceases to be a good measure. Good measurement, validation and comparison among investors or time periods also remain a challenge and may require significant resources.



Private markets: high impact potential but conditional

governance quality, enforceability and lifecycle are key

Private markets offer several levers to drive real-world impact...

Private markets research¹ implies high potential for real-world impact². Key levers are its **concentrated ownership, long-term focus, and direct investor involvement** as an active partner instead of being an anonymous capital provider.

Impact is primarily driven by **governance quality, alignment of incentives, and enforceability** of sustainability objectives. Investors can exercise influence through board representation, contractual rights, and lifecycle engagement—from due diligence and deal structuring to monitoring and exit. **Embedding sustainability** in governance, incentives and financing conditions, combined with strong pre-investment screening (“walk-away power”³), significantly increases the likelihood of achieving real-world outcomes.

... but also barriers to overcome

Despite this potential, **several barriers⁴** limit impact in private markets. **Mismatches in ticket sizes and high costs a/o subpar returns** restrict access to smaller or early-stage opportunities. **Information a/o data barriers** also exist, such as **information asymmetry, limited transparency** and difficulties in gathering data and **measuring (additional) impact**.

LP-GP dynamics⁵ can also erode effectiveness. These include governance and incentive **misalignment between investors**, free-rider problems and shareholder coordination issues.

Last but not least, **mental barriers**—such as perceived complexity, long time horizons, and uncertain business models—hinder allocation to high-impact investments.

Our key takeaways: private markets provide high impact but require governance budget

To unlock impact, investors should **strengthen governance and oversight** capabilities, ensuring sustainability is embedded contractually and operationally across the investment lifecycle.

A **phased approach**—starting with smaller investments and scaling over time—can help overcome complexity and build expertise, despite higher initial costs. Also, **de-risking structures** (e.g. blended finance⁶, national investment banks) could further mobilize capital toward high-impact but riskier opportunities.

Ultimately, combining private and public market strategies is necessary: private markets deliver high impact per euro at smaller scale, while public markets provide scale with lower impact intensity.

¹ See p.67 for full reference list on private markets ² see p. 66 for full reference list on impact and p66 notes 1,2 and 7 for private market cases ³ See p.67, note 10; ⁴ See p.66, notes 3-4 and p.67, notes 3-5, 9,11,13, 14 (the PRI modules seek to address data issues); ⁵ See p. 67, notes 6,9, 12; ⁶ See p. 67, notes 4 and 5



Asset manager insights: sustainability in public markets



Key takeaways asset managers in public markets

Asset owners set managers' agendas, act accordingly

- Co-create: tell managers **what real impact you aim for**, and ask how they can be more effective
- The **combination of in-depth company knowledge and sustainability expertise** is very powerful

Public companies have high internal investment capacity to make impact

- Public companies have **high impact potential hidden in capex and R&D**
- Public companies are **important for decarbonization**, both as high emitters and scaling up solutions.

ESG backlash not all doom but also a reality check

- More focus on **financial materiality** improves effectiveness; go beyond mere reporting and ticking the box
- **Collaboration** can come under pressure

Be aware of unexpected tilting outcomes

- **Clarity** on how different sustainability choices may affect performance
- Be aware of **indirect costs and data issues** (quality, transparency e.g.)

Consider the best of both worlds: combination of active and passive

- **Passive** portfolios are better positioned for **systemic** engagement (scale)
- **Concentrated portfolios** are better positioned for **targeted company** engagement

It helps managers when clients are vocal and walk the talk

- **Join as asset owner** the engagement conversations **and challenge**
- **Escalate** if not productive
- Be **coherent** in your message



Backlash not all doom, it also fuels more clarity and action

Less vocal due to legal risks, but still high conviction of financial materiality

The **US exposure to sustainability events is high** and translates into both financial and non-financial (physical, legal, etc.) risks. The case for **financial materiality remains firm**: climate, a just transition and biodiversity remain on top of mind. It is a **fiduciary duty to protect** financial assets against these risks and to grasp the opportunities it brings.

Anti-sustainability is most pronounced at the federal level. Clear **differences by region and investor type**: democratic states, family offices, foundations, endowments are more pro-ESG.

Clarity and prioritization key for buy-in on sustainable investment decisions

The silver lining of the **ESG backlash** is that it triggers a **reality check**. It requires more explicit and realistic objectives, definitions, and desired outcomes. And a focus on ESG alignment of their asset managers and ESG service providers.

Also, **private assets** are **more in scope** for impact investing. Being closer to the assets enables higher real impact. Also, private markets seem **less on the radar of anti-ESG** than public markets where the SEC has created barriers for filing proposals on sustainability.

Not only talking and reporting, also acting on sustainability

There is a **lot** about **sustainability on paper** in terms of policies and reporting. We also **need to act on it** and dare to escalate if not productive.

Position on various scenarios, **rethink net zero**. Next to decarbonization, also include climate adaptation.

In Europe, **ESG alignment** of asset managers with their clients becomes more mainstream. Including manager engagement or even a shift away if they stay or move too much out of sync.



It is time to fundamentally rethink indices: customization aimed at more impact contribution

Co-creation and active choices to better capture financial and sustainability goals

In listed markets, **both scale-driven and targeted impact approaches via engagement and SDG-focused portfolio construction** are necessary.

Co-creation and early involvement are key for alignment with the client's specific sustainability¹ and broader investment goals, when aiming for an optimal balance between risk, return, sustainability and efficient implementation. The latter includes the flexibility **to implement index changes** without large unforeseen costs if and when alternative scenarios or preferences are evolving. For instance, it is increasingly becoming clear that decarbonization is lagging and we should prepare for more adaptation and physical risks.

All in all, this requires a deep understanding of **the dynamics between traditional financial and sustainability factors**².

As input, data is key in driving capital and change

Data is key input for the index construction process. Traditional data sources are often monopolized and dominated by US data providers. **Current market practice** highly relies on backward-looking (carbon) data. This structurally biases portfolios toward technology and hence the US. By design, this diverts **capital away from regions and sectors where transition potential is highest** and most needed, **especially Asia and emerging markets**.

It is time **to fundamentally rethink data**. The new generation of data should be based on the most recent academic research and insights, data practitioners, **forward-looking metrics and open methodologies**.

Forward-looking metrics facilitate regions in transition

Robeco has developed an **SDG investment framework** based on proprietary data and shares the scores publicly. It is reviewed by an independent academic advisory board and can also be used to **implement specific sustainability goals**. For example, with a focus on health, nature or climate. The framework includes **forward-looking climate and biodiversity metrics** that can be used to direct capital to companies that are currently high emitters but have **credible plans to reduce their footprint**.

If sustainability goals and potential are used as a **primary input** in the index construction process, this will drive a regional reallocation (and a reduced allocation to US equities).



Underinvestment in active management harms innovation

High impact potential hidden in capex and R&D spending of public companies

Public companies deploy vast sums of capital through R&D and growth capex—**far more than private markets**. This is critical for securing future productivity growth and innovation.

We see a tendency of ignoring this **huge scale of internal investments and** hence its **impact potential**. Active managers are able to perform a thorough assessment how these investments may pay off and shape the company's future.

Good stewardship requires engaged, long term and active asset managers

The investment industry is currently **under-resourced in stewardship**¹, increasing the risk of de facto “**ownerless corporations**.” This increases vulnerability and may also **harm** companies in their **long-term strategies and innovation**.

Good governance and oversight requires **long-term engaged shareholders** that provide **stability, informed voting, and patient support in achieving a corporate's strategy**. That requires **more than just sustainability expertise**.

Tailormade approach and in-depth knowledge more effective

Passive managers and stewardship service providers focus, by their very nature, on a **limited** number of E,S and G issues. The approach is often thematic covering a whole sector or value chain. While this has value, sector and company specialists of an active manager with a **concentrated portfolio** can offer a more **tailored approach** focusing on the topics that are material for a specific company, taking into account its specific business model, financial situation and market conditions.

For asset owners **requiring a very diversified portfolio** linked to a broad index, a concentrated active mandate can be **an addition (satellite)** on top of a core passive mandate.



Manager alignment key. Be vocal and address systemic risks

Leveraging the scale from passive and in-depth knowledge from active strategies

L&G's combination of **both index** and **active** strategies delivers scale and **in-depth knowledge**, both of which matter to companies. It also allows for combining different strategies, as index strategies cannot always simply **divest** and active managers **cannot cover a full universe** by themselves.

We have **one cohesive** responsible investing **framework** that oversees both public and private markets. Alignment between active research and stewardship also ensures a **consistent engagement message*** with focus on **significant issues**. This increases effectiveness.

Shareholder base sets tone at the top

Listed companies account for a large share of global emissions. Significant **real-world climate impact** (and potential returns) can be achieved by engaging with those companies that **have the capacity to decarbonize**. These **engagements** are not only about risk management, but they are also about **impactful solutions and growth opportunities**.

Global political developments can trigger a **different tone** in the **boardroom**. It is therefore important to have an asset manager with expertise in navigating these challenges through its long-standing engagements with companies.

Be vocal what systemic risks to address and what message your manager conveys

Support for a consistent approach to engaging on systemic risks requires a shareholder base that adopts a long-term horizon and willingness to go **beyond ticking the box**. As an investor, be **vocal** on the **systemic risks** you want to address: a **cohesive message** benefits effectiveness and **catalyzes others**. Leverage via public media is high.

As scale is important, **it does matter which index manager you use**. Company boards tend to treat each block **managed by an asset manager as one**, as they cannot identify stakeholders to engage with beyond those on their shareholder register. So even if you have selected an outside engagement manager, **indirectly** you are still **strengthening the message of the index manager** and have to make sure that this is aligned with your views.



Sustainability is a driver of long term returns

A clear economic rationale for pursuing more sustainability in listed markets

We analyze a long-time horizon in which **systemic risks affect financial** performance twofold: by **risk mitigation and new opportunities** for meeting new business needs, such as the huge energy demand. Economic necessity is a powerful market force. We believe assessing financially material **environmental, social and governance** risks is an **integral** part of the investment process, **not an overlay**.

We are **more effective** and able to allocate resources **when** clients clearly articulate their priorities and ambitions. This goes beyond regulatory (SFDR) classifications.

Actively managed portfolios and engaged clients increase effectiveness

Active management combined with a **deep understanding of an issuer** allows for **more targeted engagement**, security-level analysis, and prioritization. **Effective engagement** is not in the number but **in the quality of questions**.

We have developed **proprietary sustainability tools** that allow us to analyze sustainability risks and resilience at the issuer level. This is **not just for reporting, but also for better conversations** with companies and clients, clearer trade-offs, **and realistic decision points** with clients.

Real change comes from within, not regulation. Also keep challenging

Real change comes from within, not from top-down sustainability regulation or marketing plans. Assess sustainability claims within the broader integrity of the asset manager, not in isolation.

We have found **more valuable engagements require prioritization and an escalation** process. Separating active ownership from portfolio management dilutes effectiveness. This is also the risk in collaborative engagement, unless it clearly enhances access and objectives are well-aligned.

Be consistent.

Disclosure and disclaimer.

Market conditions are extremely fluid and change frequently.

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Dare to act: ample opportunities despite ESG backlash

ESG backlash is also a reality check and strong signal of ongoing engagements

The **ESG backlash** is **not only negative**, but it also triggers a reality check on which engagement goals are realistic and viable for a company and where value chain or government engagement might be more appropriate.

Also, it more clearly **distinguishes the “doers” from the “talkers”** among asset managers and owners.

In our experience, **most** asset managers, while they might have withdrawn from net zero commitments, **continue to engage directly** with investee companies on material ESG issues. **It sends a strong signal**, and companies take that very seriously. In that respect, the current situation is not as bad as one might think, despite less room for US based managers to be vocal about it.

Collaboration not always adding value, stay targeted and efficient

While **collaborative engagement** can be **useful** to share knowledge (and for smaller managers to get access to management), there are **also disadvantages**. Such as coordination issues, somewhat different views and therefore less focused / in depth conversations with companies.

Our **US roots and scale gives access to board level**, which is not always available for smaller asset managers and owners. Be smart and efficient with a company's time with **a targeted approach**, a focus on materiality and more specialists at once. **Combining** the knowledge and different perspectives of **active and passive** investing is highly valuable.

Dare to act and to reconsider your engagement approach

Individual company engagement has its limits, as a single company cannot change on its own if that would result in a competitive disadvantage. A **systemic approach** to change an industry or even a value chain takes longer but can be more effective. For these systemic engagements we can work with industry bodies to increase our impact. **Asset owners** that use our Reo® service **can strengthen the engagement by** considering **escalation strategies** and going beyond ticking the box.

We see great opportunities for **achieving positive impact in both listed** (e.g. social bonds) **and non-listed** assets. It can be challenging to kickstart these, as investors do not always want to be the first mover.



Asset Managers: Sustainability in Private markets



Key takeaways asset managers in private markets

Same theme (e.g. natural capital) can be high or low impact

- Depends on specifics, impact is **not absolute but context dependent**

Deep impact is more tailored

- Knowledge/Due diligence, time, **detailed impact criteria** are key
- A **separate impact bucket** gives more flexibility

Contributing to financing at scale

- Maybe **less additional but is needed**
- Some pension funds have requirements on **minimum ticket sizes** or **maximum fund participation**

No credible path to net zero without emerging markets

- **Huge Transition** financing need in EM
- Not all EM are high risk. Also, **de-risking** structures like blended finance, insurance e.g.
- **Use local parties** for network and expertise

There is financial & non-financial additionality

- It's **not only** providing **capital**, also about knowledge and network

Ample opportunities to realize market-based risk-return and impact

- **More impact** implies **moving up the risk-return** curve
- Long-term horizon provides **resilience for absorbing volatility** a/o early mover risk (survive two valleys of death)

Nature based investing: from purely financial to high impact

Natural capital: not a single theme, but a wide range of return, risk and impact

Natural capital is very diverse as investing in existing well-managed timberland is clearly different from financing regenerative agriculture or ecosystem restoration, in addition to geographical specificities.

This diversity makes segmentation essential and product tailoring to **investor objectives — from purely financial exposure to impact-driven strategies**. As a result, a thorough client intake and due diligence are key for alignment between expectations and outcomes..

Investors **increasingly seek climate impact and biodiversity** outcomes in Nature Based Investing (NBI).

Systemic change requires patience and (concessionary) capital

Effective **impact requires targeted approaches** and often moving beyond individual properties to address surrounding ecosystems.

Systemic change demands larger investments in regenerative agriculture and ecosystem restoration worldwide. This may **start locally but needs to be scaled broadly**. This is where institutional investors like pension funds can play a clear role. Especially as investors **increasingly seek measurable climate impact and biodiversity** outcomes.

Higher additionality is generally expected in emerging markets, but a tension with risk and return may exist there. **Blended finance may be needed but often remains difficult** to implement as some DFI's¹ are cautious.

Knowledge, impact rigor, and dedicated allocation are key

Successful investments in natural capital **require strong governance, clear budgets, and robust impact frameworks**. Misperceptions around physical risks and illiquidity persist, as does the challenge of distinguishing genuine impact from “buzzword” claims. Transparency, third-party audits, and detailed sustainability reporting are key.

The main barrier to scaling up this asset class though, is the **absence of a dedicated natural capital bucket** in strategic asset allocations of most investors.



Asia infrastructure a pragmatic entry point with track record

No credible path to net zero without transition in Asia

There is a huge demand for power in Asia, a desire to move away from coal, and a high exposure to physical climate risk. **Governments cannot fund these challenges alone;** private capital is essential.

Direct funding of real assets and infrastructure - energy, transport, social and digital - has a tangible effect on economic development and decarbonization. **Impact** potential is structurally **high** as it affects **large populations** in Asia.

Not all emerging markets are high risk, while Asian infra offers attractive spreads

Project finance for real assets and infrastructure is a well-established practice in many Asian markets. Both foreign and local banks and investors are active, with **ample primary and secondary deals**. **Spreads and the infra debt market cycle** compare **favorably** to the very competitive OECD markets.

Regulatory improvements and offshore structures have **mitigated legal uncertainties**. Working with experienced **local parties and anchor investors** like IFC further mitigates risks, including ESG.

Contributing to financing at scale: a pragmatic entry to impact in Asia

While AEW's Asian infra proposition may not be the investment with most "additionality" per Euro, **contributing to financing at scale** while realizing above OECD spreads can be a **pragmatic entry** to impact in Asia.

Being an **early mover** in these selected emerging market regions, provides additional value.



Insured credit: a de-risked approach to emerging markets

A scalable and de-risked approach to more EM exposure

Insured credit enables investors to **finance real-economy projects**. Such as healthcare, education, electrification, water sanitation, SME financing and infrastructure, often in emerging markets.

The strategy can be **tailored to the investor's risk-adjusted return needs**. It can be offered in the form of a fully insured product whereby all credit risk of the loan being financed is transferred to a pool of A/AA rated insurance companies, an uninsured product, or a blend of both. It can also be aligned to investors' sustainability goals, while ensuring that investments meet minimum ESG standards and demonstrate no material adverse sustainability impacts.

Impact without sacrificing risk adjusted returns

In Aegon's approach **financial rationale** comes **first, impact** characteristics **follow**. The ESG screens provide a floor, not a guarantee of high additionality/contribution.

Impact is context-dependent. Road infrastructure projects can be more impactful in emerging than in developed markets.

Pre-investment, Aegon **engages with originators** whereby it can de-select those projects that do not meet sustainability requirements or specific investor needs. With an extensive network of originators deployment is not a constraint and a portfolio can be scaled up quickly.

Take time to familiarize with the product and structuring governance

More structured products like insured credit require **specific expertise and internal buy-in**. Investors must be comfortable separating project location from ultimate credit exposure to insurers. **Outsourcing** to parties with strong insurance and local expertise could be a **more efficient use of governance** budget.

Data availability and quality can be a challenge in private and/or emerging markets. Therefore, it is important for investors to focus on those managers who can actively engage with issuers (or originators) and are able to continuously push for improvements in reporting standards.



Change starts early with a first step, not with size

High additionality: early stage moves in not yet institutionalized markets

Real impact should not be put on par with ESG. **Real impact** involves intentional, outcome-driven investments which could have positive but also negative ESG side effects.

Noaber offers **high-additionality, early-stage** impact venture capital for health and healthcare solutions. They invest upstream in market segments that are **not yet institutionalized** i.e regulatory frameworks, reimbursement structures, clinical guidelines and operational standards are still under development.

Early stage requires a long breath, exceeding the typical VC fund horizon

With their early stage investments, Noaber is **pushing through** the necessary **groundbreaking changes** that no one else is focusing on. Causing change that otherwise would not occur².

Meaningful healthcare **innovation follows development cycles of up to 15–20 years**, exceeding the typical VC fund horizon and including valleys of death. It requires **patience and conviction to reap the full but high real impact** potential. First believing, then seeing.

Governance budget a/o complexity restrain private markets allocations

In early-stage healthcare innovation, robust **quantitative impact evidence often lags capital deployment**. This **complicates reporting and accountability** within institutional governance structures. A coherent and investable framework¹ linking impact intentionality, additionality and long-term financial value could address this.

Asset owners seeking real-world impact must **allow for broader evaluation criteria**, as standard metrics fall short. It also starts with a first step, no matter how small, and learning along the way.

¹ Noaber uses its Quadruple Aim framework: improving health, reducing healthcare costs per capita, improving the healthcare experience of patients, and work experience of healthcare professionals

² Walkate & Falko (2025) use this CC2 criterium for classifying real impact



Growing impactful companies requires capital and support

Helping impactful companies grow requires capital and support

Technological innovation will play a crucial role in addressing global challenges such as the low-carbon transition, rising healthcare demand, and the growth of AI.

Across the UK and Europe, hundreds of innovative and revenue-generating private firms - including many “unicorns” - are disrupting traditional business models through unique technologies and intellectual property. However, these companies often face a funding **gap** in **later-stage growth** rounds, **limiting** their ability to **scale up**. This is where we step in.

Unlike boutique impact managers, we can benefit from the **back-up by a large mainstream manager** with deep pockets for scaling up, broad knowledge, frameworks and an institutional network.

Bridging Europe’s Growth PE funding gap, while making returns and impact

M&G Catalyst focuses on investing in **growth-stage private enterprises** that combine commercial potential with meaningful societal and environmental outcomes. The strategy supports companies aligned with future-economy themes.

Given the **geopolitical tensions**, we expect **increasing interest from European** asset owners who have historically been reluctant to invest in growth PE. **Also, US based impact** investors - often family offices, endowments and foundations - are turning an eye to European Growth PE. They are witnessing a less favorable scientific research and energy transition environment in the US. This growing interest among fellow investors is important, as it provides more liquidity in the market and increases the potential for secondary buyouts.

Intentionality and measurement is important, beware of impact washing

Not all global challenges **can be solved by market-based** return seeking investors alone, but there are more than enough opportunities to achieve both **financial returns and impact**. This double goal distinguishes us from other mainstream PE players - we do sometimes co-invest – for which M&G’s investee companies also qualify. We expect the companies to **intentionally contribute** to solving global challenges **and measure** and manage impact. If the intention is not there, management can easily change course or make price/market offerings that do not contribute to solutions.

Asset owners should carefully assess the impact potential, as **impact washing** is not uncommon. Making products that can be linked to an SDG is not enough. We have several examples where we encouraged companies to come with more affordable solutions so more people could benefit.



Wrap-Up, evaluation and next steps



Wrap-up and evaluation

Sustainable investing is financially material, but real impact is lagging

This research examined the current **effectiveness and real-world impact** of sustainable investing, in the context of a new pension system and evolving megatrends. We have interviewed 31 pension funds in the Netherlands, conducted a literature review and interviewed asset managers and their SI specialists. In addition, we have also organized an event to further discuss our findings.

All in all, the key message is clear: **Sustainability is financially material and part of fiduciary duty but not automatically delivering real-world impact.** Sustainable investing does not necessarily harm or improve risk-return, but the “win-win” narrative requires nuance and a stronger foundation. Distinguish **value from values**.

Sharper choices and clarity drive effectiveness and legitimacy

A **more explicit strategy** - covering financial and real-world objectives, priorities, time horizon, and the role as an asset owner - enhances both effectiveness and legitimacy.

Clear definitions, metrics, and active **stakeholder engagement** are essential.

Focus on where the impact actually happens: leverage the scale of public markets

Public markets are not a primary impact engine but **offer scale and influence**. Impact per EUR is limited, but increases with persistence, active ownership, a targeted approach and alignment with partners.*

Look for additionality or high impact in private markets

Private markets and concentrated ownership offer the greatest potential for real change.

Allocations should **focus on high-impact** opportunities rather than labeled products, as not all impact is equal. **De-risked** solutions may lower the entry barrier but typically reduce impact. **Strong governance** is needed to select and monitor these investments effectively.



Wrap-up and evaluation

Strengthen governance to match ambition

Despite increasing complexity, sustainability has not yet led to major governance changes.

The dual objective of delivering a good pension in a livable world can create tensions, requiring governance to evolve. This includes:

- **Clear mandates and expectations** on goals, priorities, and conditions
- Effective **challenge and escalation** mechanisms
- **Active stakeholder participation** and engagement

Ensure legitimacy through well-designed participant engagement

Legitimacy is **essential but challenging**, due to low response rates, potential biases and limited financial literacy.

It requires investment in:

- Clear and relevant **communication**
- **Well-designed participant input processes** that enable meaningful dialogue and support prioritization

Geopolitics affect sustainability pathways consider your regional allocation

Dutch pension funds remain **highly exposed to the US**, where sustainability developments are increasingly shaped by policy shifts.

Europe is moving toward greater **integration** with a focus on sustainability and innovation, while **the US** shows more signs of **isolationism and anti-ESG** sentiment. At the same time, emerging markets present growing funding gaps and transition opportunities.

This calls for a reevaluation of regional asset allocation.



Next steps: topics (some of) pension funds would like to collaborate on

Strengthening governance, Europe, engagement

- Investing in a stronger and more sustainable Netherlands and European Union
- Developing ESG data availability & quality
- Systemic engagement, for example with governments or across entire value chains
- Evaluation and monitoring of engagements (of managers, providers, fiduciary managers)
- Sustainability Governance models

Note: also look for support of pension funds outside the Netherlands



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Appendix I Worksheets



Reflection and discussion topics

As a follow-up, pension boards can reflect on the following in their meetings:

- What constitutes a **good pension in a livable world**, how do we substantiate it?
- **What role** do we want to play in **Europe and globally**, given geopolitics and capital scarcity?
- How explicit are we about **prioritization and trade-offs in risk, return, impact and costs** towards our participants?
- Where do we aim to create **real impact**, and where do we accept **alignment** only? And how do we **define and measure** this?
- What **implementation approach** do we take?
 - Dedicated impact buckets or within the SAA framework?
 - Which (combination of) instruments?
 - Active a/o passive management?
 - Where collaborate a/o take a systemic approach?
- Are our **governance, resources, and partners** sufficient for our ambitions, well-aligned and including checks and balances?
- How do we properly organize **participant engagement**, and induce more and better information from them?



Measuring alignment on sustainability – internal and external - to increase effectiveness of SI

Our survey revealed a quite negative view on the effectiveness of the financial sector in realizing real world impact. This could be one of the reasons why alignment on sustainability becomes a more important or even decisive factor in the selection and evaluation of asset managers, data providers, fiduciary partners and voting and engagement providers.

Alignment moves beyond ticking the box and raises a variety of questions like:

- “ Do we have **clear investment mandates**, covering financial and real-world objectives, priorities, time horizon, and our role?”
- “ Are **sustainability/ESG data and voting proposals unbiased**, validated and well-founded without political interference? ”
- “ Is the **effectiveness of our sustainability strategies diluted** by other stakeholders and our **reputation and credibility at risk**? ”
- “ Do we **need to reallocate from the US to other regions** (emerging markets, Europe) to stay on course with sustainability? ”
- “ Are we **willing to invest more in strengthening Europe** and preserve its strategic autonomy and competitiveness? ”
- “ What are the true underlying **preferences** of our participants and how do we **properly measure** these? ”
- “ Are **external asset managers and ESG service providers well aligned** with our own sustainability goals and ambition? ”



Alignment of external parties: what to look for?

We also asked asset managers on their views on sustainability as a core value and what they consider critical in this respect. These are summarized below:

- Investment in **truly understanding** the client's sustainability goals, **well before RFPs** are sent out
- Investment in **stewardship**, go beyond ticking the box and make **claims specific** and tangible in engagements
- Investment in **building proprietary data and frameworks**, including independent validation and ongoing improvement
- **Interaction between ESG/sustainability and investment teams**. They should not act standalone but complement each other
- **On attitude: look for patience and resilience** to volatility. Long-term commitment is **key for lasting change**
- **On attitude: look for guts, creativity, active involvement and entrepreneurship**. This is key for pushing necessary groundbreaking changes
- **A twofold approach to engagement**: it is not only about changing what goes wrong, but also about accelerating positive change
- **Distinction of impact vs ESG**: Impact is quite different than ESG, there can be tradeoffs!
- **A granular approach to impact**: this is not about investing in either public or private markets, but **about life cycle stages**
- A global presence and **rich diversity** of perspectives, cultures, and expertise, including regulatory intelligence as **sustainability factors can be interpreted and prioritized differently across regions and societies**



Appendix II

Reference list by topic



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