Dutch pension funds set to pivot from passive to active management

Strong demand for sustainable investments prompts plans to restructure portfolios

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Passive fund assets in the €1.4tn Dutch pension fund market are approaching a turning point, as rampant demand for sustainable investments prompts investors to pivot to active management.

The Netherlands has been one of the fastest-growing markets for passive funds in recent years. The trend is particularly strong among Dutch pension funds, which began allocating to passive over a decade ago and hold 70 per cent of their outsourced equity investments on average in index strategies.

But Paris-based consultancy Indefi predicts passive growth in the Dutch institutional market is about to go into reverse for the first time. According to its research, large pension funds are preparing to restructure their portfolios as they commit to ambitious sustainable investment goals that require a more active strategy.

"We believe passive has peaked in the Dutch institutional market and will start to decline in 2020 because of the rise of sustainable investment," said Ric van Weelden, senior partner at Indefi.

Indefi, which interviewed 15 Dutch pension funds managing €923bn in assets, predicts that a "wave" of pension funds will reduce their exposure to passive assets and build more active, concentrated portfolios centred around impact investing. Such investments treat societal and environmental outcomes as equal to financial returns, or are linked to the UN's sustainable development goals (SDGs).

In July, nine Dutch pension funds managing €800bn in assets legally committed to reduce their carbon footprint when they signed a government-sponsored agreement that aims to halve the Netherlands' emissions by 2030.

"This is a not a long-term goal — it's immediate," said Mr van Weelden. "It can only be achieved through a substantially higher exposure to impact and a shift away from passive." He added that the pension funds' intentions to restructure their portfolios were clear from Indefi's conversations with them, but most of them had yet to finalise their plans.

Several large pension funds have already ramped up their sustainable investment efforts. ABP, the country's largest scheme, has invested €55.5bn in investments linked to SDGs, while PFZW, the Dutch healthcare sector fund, has made €16bn of impact investments.

PGGM, the fiduciary manager for PFZW, said it was "too early" to say if the fund would allocate more towards active investments.

Dutch retail investors are also enthusiastic users of passive funds, spurred by the introduction of a ban on retrocessions on the sale of funds that came into force in 2014. This is expected to continue, since appetite for impact investing is not as strong among retail investors.

According to Indefi, impact and sustainable development investing are set to become the norm in institutional investors' responsible investing efforts, superseding ESG strategies. "ESG 2.0 will be the future of investing in Europe," said Mr van Weelden.