Food Markets in Dutch

Dutch Banks and Pension Funds in Agricultural Derivatives Markets

Rens van Tilburg

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Colophon

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About SOMO
SOMO is an independent research organisation. In 1973, SOMO was founded to provide civil society organizations with knowledge on the structure and organisation of multinationals by conducting independent research. SOMO has built up considerable expertise in among others the following areas: corporate accountability, financial and trade regulation and the position of developing countries regarding the financial industry and trade agreements. Furthermore, SOMO has built up knowledge of many different business fields by conducting sector studies.

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Summary

The effect on prices of increased financial investments in commodity derivatives markets—especially those for staple foods—has been the subject of fierce debate since 2008. Financial investments in (agricultural) commodities increased dramatically after 2004, followed by unprecedented price rises of these commodities that led to food riots and an increase in hunger and undernourishment in developing countries, where people spend up to 80% of their income on food.

As food prices reached new record heights in 2011, this debate flared up again. Unlike in 2008, a large number of academic studies examining the effect of financial investments are currently available. Although the research has found mixed results, the overall picture is that the dramatically increased financial investments in (agricultural) commodity markets do affect prices, both in futures and in spot markets. The academic and policy discussion focuses primarily on determining how strong and enduring this effect is. Both farmers and food processors have asked policymakers to curb excessive speculation. Civil society organisations have called upon financial institutions to refrain from investing in derivatives markets for staple foods or in commodity derivatives altogether.

In order to make an informed dialogue possible between Dutch financial institutions and civil society organisations this report aims to provide a better understanding of the activities of large Dutch financial institutions in the (agricultural) commodity derivatives markets. SOMO has examined the activities in agricultural derivatives markets of the three largest Dutch banks and three largest pension funds, covering almost 90% of the Dutch banking sector and approximately 60% of all pension savings. With the exception of one, all financial institutions have cooperated with SOMO in reviewing the data collected and by providing additional information.

It turns out that all—albeit to varying degrees—are active in the commodity derivatives markets, including those for staple foods. With investments in agricultural commodity derivatives totalling approximately 5 billion euro, Dutch pension funds are substantial players in the market. Especially asset manager PGGM, and its owner and main client, pension fund PFZW, stand out with 7% of their portfolio invested in commodity futures, compared to 2-3% for most other pension funds. Among banks, Rabobank (including Robeco) has with a distance the biggest exposure in agricultural commodity derivatives markets while ABN AMRO is an important actor as a provider of clearing services (no. 3 globally), with a market share of around 10% in important agricultural futures markets.

Although the discussion has continued for three years now—none of the three banks has any publicly stated corporate social responsibility policy with regard to these activities. The same is true for the pension funds and asset managers, with the exception of PFZW, which put a position paper on its website during the course of this research.

SOMO concludes that financial institutions should either refrain from investing in staple food derivatives, as it is a potential threat to humans' right to affordable food to which they all subscribe. They should also provide more transparency about their activities and a clear argumentation in which they explicitly address the studies that find financial investments distort the world food market. Only in this way is a well-informed dialogue possible about this highly complex and important matter.

1. Introduction

1.1. Aim of the report

The role of financial investors in commodity derivatives markets, especially in agricultural commodity derivatives markets, has been fiercely debated since 2008. In a recent report SOMO concluded that there now is enough evidence of the distorting effect of these financial investments on futures and sport prices for policymakers to curb these financial investments according to the precautionary principle as high food prices have such devastating consequences for the poorest in this world, that spend up to 80% of their income on food.[1]

However, not only policymakers have a role in this matter. From a corporate social responsibility perspective also private financial institutions have a duty in upholding human rights, including the right to affordable food. Having a relatively large financial sector, the Netherlands could be a significant player in this field as well.

To date, no systematic information is available regarding the role Dutch financial institutions perform related to (agricultural) commodity markets. Therefore, for civil society organisations working in the field of food and development it is not clear whom to involve in a dialogue on this matter. The current report seeks to fill this void by listing the activities of large Dutch financial institutions in the (agricultural) commodity derivatives markets.

The world food markets are, with the number of hungry people in the world on the rise again, clearly having great problems. Or, as 19th century English slang would say: 'these markets are in Dutch',[2] alluding to the problem of having to face stern reprimands of 'a Dutch uncle'. This report investigates how 'Dutch' these problems really are.

1.2. Scope and method of the research

SOMO has decided to focus this research on the largest banks and pension funds in the Netherlands. The financial institutions examined are the three largest banks of the Netherlands (i.e., ING, Rabobank, and ABN AMRO) and the three largest asset managers of Dutch pension funds (i.e., APG, PGGM, Mn Services). As both the banking and pension market in the Netherlands are highly concentrated, by focusing on the top three players in the market, we are able to cover a fairly large share of the market. The three banks account for 87% of the Dutch banking market as measured by saving

1 R. van Tilburg and M. Vander Stichele, Feeding the Financial Hype; How Excessive Financial Investments Impact Agricultural Derivatives Markets, SOMO, November 2011.

2 http://www.answers.com/topic/in-dutch

deposits.[3] The three largest pension asset managers of the Netherlands account for approximately 60% of all Dutch pension savings.

We examined the publicly available information in financial institutions' annual reports and websites. In addition, SEC filings in the US have been analysed as media articles. This information has been sent to the concerned financial institutions for review to verify that this information is correct and to provide additional information where appropriate. Except for Mn Services, all financial institutions did so, which SOMO gratefully acknowledges given the short time span and specifically busy period at the end of the year.
Investments in farmland or the physical trade of agricultural commodities ('illiquid commodities') fall outside of the scope of this report. This is not to say that no discussion occurs about the possible negative effects of these kinds of investments on food safety, as certainly such discussion does exist.

Furthermore, the information available is not always so specific that we can identify the food derivatives; therefore, in some cases, we also indicate the involvement of commodity derivatives (including energy and metals) or even commodities in general (derivatives and the more illiquid assets like land or the physical commodity).

This report does not contain a full overview of the academic and policy literature on the discussion related to the effects of financial investments for the functioning of commodity derivatives and sport markets. A more comprehensive study can be found in the SOMO report 'Feeding the Financial Hype'.[4]

1.3. Structure of the report

The next chapter (chapter 2) briefly sketches the history and current standing of the debate on the possible effects of increased financial investments on the functioning of commodity derivatives and spot markets. The next two chapters (chapter 3 and 4) provide an overview of the activities in (agricultural) commodity derivatives markets of the three largest Dutch asset managers of pension funds and banks as well as their CSR policies and position on the matter. The report ends with a discussion of the results—and what, according to SOMO, the CSR requirements are to meet a civil society perspective. The appendix includes fact sheets with all the (agricultural) commodities-related activities of individual financial institutions that SOMO has been able to identify.

3 J. W. van Gelder and A. Herder, Eerlijke bankwijzer- 11e update, Profundo, 5 October 2011.
4 R. van Tilburg and M. Vander Stichele, Feeding the Financial Hype; How Excessive Financial Investments Impact Agricultural Derivatives Markets, SOMO, November 2011.

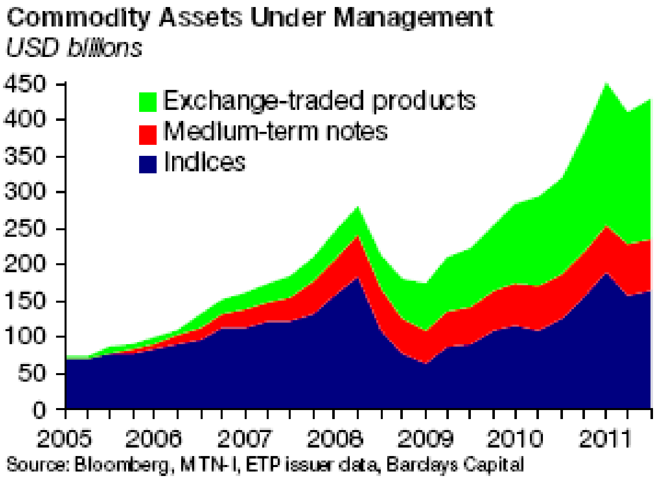
2. Financial investments in (agricultural) commodity derivatives markets

2.1. 2004: Rising financial investments and rising food prices

Agricultural derivatives markets[5] allow farmers and food processors ('commercial parties') to reduce their exposure to the risk of price fluctuations ('hedging'), which is an important function in agricultural markets, where prices can fluctuate heavily. Food derivatives markets also play an important role in 'price discovery': Futures prices are used to determine prices in the physical ('spot') market and make investment decisions. For derivatives markets to work well, some financial speculation is often welcome to provide liquidity, making it easier for commercial parties to find a counterpart for their desired trade.

However, during the last decade, purely financial speculation in commodity derivatives markets, including derivatives of food commodities, has increased dramatically. Total commodity assets, invested mostly through derivatives, have grown from a negligible amount a decade ago to less than US$100 billion in 2005 and more than US$400 billion at the time of this writing (see figure 1).

Figure 1. Commodity assets under management worldwide, 2005–2011 (US$ billions)



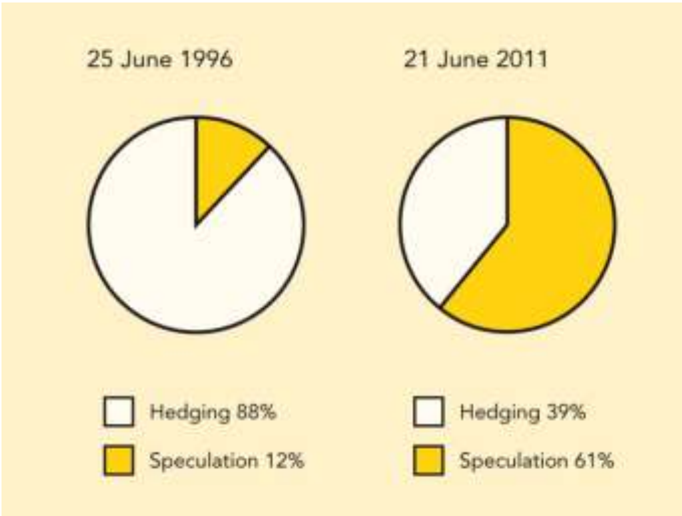
Source: Bloomberg, MTN-I, ETP Issuer Data, Barclays Capital

Source: IIF, 2011

5 The term derivatives refers to both futures and options traded at public exchanges, and so called 'over-the-counter' (OTC) trading between private parties ('off-exchange')

As a result, financial speculators have become the dominant party in many agricultural derivatives markets, holding the majority of the contracts, compared to only 10-20% prior to 2000 (see figure 2). The Washington based NGO Better Markets has compared the positions of hedgers and speculators for several agricultural commodities at the CBOT. They find that where, historically, physical hedgers have constituted about 70% of the market, nowadays speculators account for about 70% or more of these markets.[6] In the CBOT wheat market, for instance, the share of speculators[7] grew from 12% in 1996 to 65% in 2008.

Figure 2. Market share of hedgers and speculators in the Chicago wheat futures market



Source: WDM 2011, based on Better Markets 2011 and CFTC 2011.

During this period, the price volatility in futures and spot markets has intensified unprecedentedly, with food prices reaching record levels in 2008 and 2011. As people in the poorest nations spend up to 80% of their income on food (compared to only 10% in developed countries), rising food prices directly increase poverty and undernourishment for millions of people. After declining for several decades, the number of undernourished people has in recent years started to rise again. Children can suffer the consequences of even temporary undernourishment for the rest of their lives. Increased volatility has also caused the cost of hedging to rise, resulting in farmers and food processors finding themselves exposed to ever larger price risks. As a result, farmers are less likely to increase the food supply in response to the incentive of higher (but also more unpredictable) food prices.

6 Better Markets, Letter to the CFTC on Position Limits for Derivatives, Washington DC, 28 March 2011, p.2.
7 Defined as trading by non-commercial parties – in recent definitions of CFTC a combination of CIT (commodity index traders) and 'Non-commercial no CIT' (see Better Markets, Letter to the CFTC on Position Limits for Derivatives, Washington DC, 28 March 2011, p. 12, footnote 5).

2.2. 2008: Start of debate on causality

In 2008, headlines related to increasing hunger and food riots due to the rising price of food were published alongside advertisements of banks for financial products offering a chance to 'profit' from this price development, thereby fuelling a fierce debate about financial investments, especially in food derivatives.

Martin Schultz, leader of the Socialists in the European Parliament, called for a ban on agricultural futures markets. The Dutch social democratic Europarliamentarian Ieke van den Burg called these "morally condemnable investments". The Dutch social democratic parliamentarian Harm-Evert Waalkens called upon Dutch banks like Rabobank and ABN AMRO to take responsibility and develop a CSR policy for food.[8]

In the US, Senator Lieberman introduced the Commodity Speculation Reform Act in 2008, stating that: "Each trip to the gas station or grocery store puts a strain on family budgets. We are not, as some continue to argue, witnessing the ebb and flow of natural market forces at work. We are instead seeing excessive market speculation at work and that is why our government must step in with new laws to protect our economy and our consumers."[9]

The issue was also taken up by some financial institutions. For instance the Swiss bank Sarasin wrote in a research paper: "because of the persistent short-term market uncertainties and the significant social impacts we recommend steering clear of investments in wheat and corn for the time being, both of which are very important staples for feeding the population of developing countries […][10]

However, what was missing in the discussion about the role of financial speculation in driving prices up in 2008 was relevant empirical evidence. In recent years, world food markets have also been affected by other fundamental changes and shocks, such as the increased use of crops for energy production, extreme weather events, and a strong rise in demand. Consequently, the contribution of the increased financial investments remained unclear.

After the escalation of the financial crisis in 2008, food prices fell sharply as did financial investments in commodity derivatives markets; with this, the public debate also seemed to dissipate.

8 M. Rotteveel, Stop Voedselspeculatie, De Pers, 8 May 2008, http://www.depers.nl/binnenland/200198/Stop-voedselspeculatie.html

9 See http://lieberman.senate.gov/index.cfm/issues-legislation/environment-and-energy

10 E. Plinke et al., Commodities – still a responsible investment? Sarasin Research Paper, June 2008.

2.3. 2010-11: Evidence on the table

With financial investments in commodity derivatives markets on the rise again in 2010 and 2011 as well as prices of commodities, including those of food, the debate about the role of financial investments in driving prices up has returned.

Figure 3. FAO index of world food prices

Source: FAO

However, unlike in 2008, this time an increasing number of academic studies are on the table demonstrating that the increased financial investment in commodity derivatives is one of the contributing factors to the volatility in futures and spot markets and, consequently, the recent price hikes.

Although this research does not point in one uniform direction, according to research by SOMO, weighing the evidence, increased speculation does more harm than good. Substantial evidence exists to indicate that the increased financial speculation can be labelled 'excessive speculation', as defined in US law, undermining the orderly working of derivatives markets instead of contributing to it.
Financial speculation brings no clear advantages, and high food prices have a devastating impact on the most vulnerable populations. With food prices on the rise again, according to SOMO, governments must act decisively to prevent a recurrence of the situation in 2008.[11]

Although some observers still state that no relation exists between financial investments in food futures markets and rising prices for food,[12] there seems to be a consensus that

[11] R. van Tilburg and M. Vander Stichele, Feeding the Financial Hype, SOMO, November 2011.
[12] S. Irwin and D. Sanders, The Impact of Index and Swap Funds on Commodity Futures Markets, OECD,

at least some relationship is present, although more research is needed to determine how the causality works exactly and how strong the effect is. In a joint study published in May 2011, the FAO, IMF, World Bank, OECD, and others concluded that: “While analysts argue about whether financial speculation has been a major factor, most agree that increased participation by non-commercial actors such as index funds, swap dealers and money managers in financial markets probably acted to amplify short term price swings and could have contributed to the formation of price bubbles in some situations.”[13]

This report is the latest in a series of recognitions from official bodies of the influence of financial speculation on food prices. Earlier, a World Bank study,[14] the FAO,[15] and the UN Special rapporteur on the right to food, Olivier De Schutter,[16] found financial speculation to be “amongst the main factors” playing “a key role” and the only explanation for a “significant portion” of the global food price rises in 2007 and 2008. Similarly, an investigation by the US Senate took the view that the price of US futures had been influenced by excessive speculation.[17]

The view that we are witnessing ‘excessive’ levels of financial investments is also expressed by some of the same commercial market participants whom the derivatives markets ought to serve. Paul Polman, CEO of food processor Unilever, stated in early 2011 that “Speculation is pushing up food prices and threatening society's long-term interests.”[18] Also farmers representatives have expressed such views, like Padraig Walshe chair of the European farmers’ association Copa-Cogeca: “Prices should reflect the economic reality, not the excesses of speculators. The extremes of the market should be regulated.”[19]

Financial investors also seem to be increasingly aware of the relationship between their investments and volatility in the markets, as stated in the report of a recent investors’ conference hosted by the UN Global Compact and UN Principles for Responsible Investment (UNPRI): “investors themselves clearly recognize that in the short term their actions impact prices and contribute to higher volatility”.[20] As a result, the UNPRI has published guidelines for responsible investments in commodities.[21]

2010 and Institute of International Finance, Financial Investment in Commodities Markets: Potential Impact on Commodity Prices and Volatility, IIF Commodities Task Force Submission to the G20, September 2011.

13 FAO et al., Price Volatility in Food and Agricultural Markets: Policy Responses, May 2011.

14 J. Baffes and T. Haniotis, Placing the 2006/08 Commodity Price Boom into Perspective, World Bank Research Working Paper 5371, Washington DC, 2010.

15 FAO, Final report of the committee on commodity problems, 2010.

16 O. De Schutter, Food commodities speculation and food price crises: Regulation to reduce the risks of financial volatility, UN Special Rapporteur on the Right to Food, 2010.

17 US Senate Permanent Subcommittee on Investigations, Excessive Speculation in the Wheat Market, Washington DC, 2009.

18 Radio Netherlands Worldwide, Unilever: Stop food speculation, 16 January 2011.

19 AGD, “Copa-Cogeca wants to rein in speculation on derivatives markets”,1 February 2011, p. 9.

20 D. Imbert and I. Knoepfel, Agri-investing for the long term: The investment case for responsible investments in agriculture (Zurich, onValues, January 2011). http://www.onvalues.ch/images/publications/agri-investing_meeting_report_2011.pdf

21 http://www.unpri.org/commodities/

2.4. The Dutch debate

The role of financial investments in the recent price increases has also been debated in the Netherlands in both the media[22] and in Dutch parliament. At the beginning of 2011 both the Dutch parliament and the Ministry of Economic and Agricultural affairs (ELI) held hearings on the topic.[23] Several parliamentarians pressed the Dutch government to take a stance on the matter to reduce excessive speculation, as is done in the US.[24] Thus far the Dutch government has insisted that there is “little evidence of a causal relationship” between increased financial speculation and the increase in food prices,[25] although it is acknowledged that the OECD did find “a possible influence”. However, according to the Secretary for Agriculture: “Economists do not agree on the strength of this influence: is it a material effect or only of relevant significance?”[26]

With regard to the investments in agricultural commodity derivatives of Dutch pension funds, the Dutch government has indicated that it is up to the pension funds themselves to explain their decisions in this regard.[27] As this letter on ‘investments in agricultural commodities’ only covered pension funds—and only on an overall basis, without specifying for individual pension funds what kind of investments they have made and what CSR policies they have in this field—this SOMO-report adds to this information on the separate financial institutions and their CSR policies in this field. For the Dutch banks, no overview of their activities in (agricultural) commodity derivatives markets has been available thus far.

[22] See, for instance, C. Vos and P. de Waard, “Speculatie verstoort voedselmarkt”, Volkskrant, 15 January 2011 and C. Vos, “Voedsel duur vanwege schaarste”, Volkskrant, 21 January 2011, L. van der wal, “Is het wel ethisch, speculeren met voedsel”, NRC Next, 5 december 2011.
[23] Dutch Parliament document, Tweede Kamer, 21 501-32, nr. 474, 12 April 2011.
[24] Dutch Parliament document, Tweede Kamer, 31 532, nr. 63, 26 May 2011.
[25] Dutch Parliament document, Tweede Kamer, 21 501-32 nr. 469, 21 March 2011.
[26] Dutch Parliament document, Tweede Kamer, 31 532, nr. 63, p. 19, 2011.
[27] H. Bleker, Beleggingen in agrarische grondstoffen, brief aan Tweede Kamer, 17 November 2011.

3. Activities of Dutch pension funds in (agricultural) commodity derivatives markets

The large Dutch pension funds belong to the biggest funds in the world, with the Algemeen Burgerlijk Pensioenfonds (ABP, governmental and educational pension fund) being the third biggest pension fund in the world—after the governmental pension funds of Norway and Japan—and Pensioenfonds Zorg en Welzijn (PFZW, pension fund for the care and welfare sector) also ranking within the top ten global pension funds measured by their assets. The management of the assets is outsourced to independent (although in these cases wholly owned) asset managers. APG manages the assets of (and is owned by) ABP; the same is true for PGGM with PFZW and for Mn Services with Pensioenfonds Metaal and Techniek (PMT), Pensioenfonds van de Metalektro (PME), and Bedrijfspensioenfonds voor de Koopvaardij (BPFK). APG, PGGM, and Mn Services in 2010 managed 271, 105, and 70 billion euro, respectively; taken together, this accounts for almost 60% of the total Dutch pension savings of approximately 750 billion euro.[28]

3.1. Overall investments in commodity derivatives

Considerable differences exist among these three asset managers with regard to their involvement in (agricultural) commodity derivatives. PGGM stands out. Not only was it one of the first pension funds globally to start investing in these markets in 2000,[29] investing 7% of total assets in this market, it is also one of the most heavily involved institutional investors. For instance, APG has invested around 3% of its portfolio in commodity derivatives and Mn Services just over 2%. PGGM's high percentage of commodity investments is due to the investment strategy of its largest client, PFZW. Smaller clients like the Stichting Pensioenfonds Cultuur and Pensioenfondsarchitectuur invest respectively 2,4% and 3,5% of their assets in the PGGM Commodity Fund (of total commodity investments of 2,8% and 3,7% of the total portfolio, respectively).

Table 1: Overview of pension asset managers in commodity derivatives, 2010

	APG	PGGM	MnServices
Total assets under management (billion euro)	271	105	70
Main pension fund clients	ABP	PFZW	PMT, PME
share of total assets invested in commodity derivatives	3%	7%	2%

The percentage of assets invested in commodity derivatives has fluctuated over time. After devoting 4% of its assets to commodity derivatives in 2000, PGGM kept this

[28] H. Bleker, Beleggingen in agrarische grondstoffen, brief aan Tweede Kamer, 17 November 2011.
[29] J. Beenen, "Commodities as a Strategic Investment for PGGM", in: Deutsche Bank, An Investor Guide to Commodities, April 2005.

percentage roughly constant until 2008. After losing more than 3,1 billion euro in 2008, PFZW raised the share of its portfolio invested in commodity derivatives to 7%. The opposite happened at Mn Services, where the pension funds strongly reduced their commodity investments (after peaking at 7,6% for PME in 2008) in the post-crash era to an average of just over 2%. Losing 46% on its commodities-related investments in 2008, ABP has kept its share in its portfolio roughly constant at 3%.

Taken together the pension assets invested in commodity derivatives markets of the pension funds researched totalled just under 17 billion euro in 2010. Given that this number is derived from around 60% of all Dutch pension savings, DNB's estimate that Dutch pension funds total 20 billion euro[30] is either on the low side or indicates that the assets under management with this 'big three' are invested to a relatively greater extent into commodity derivatives compared to the rest of the Dutch pension funds.

However, based on the total funds invested in commodity derivatives, estimated to be over 400 billion dollar by Barclays Capital, it is clear that the contribution of the Dutch pension funds is substantial with around 5% of the global total.

3.2. Investments in agricultural commodity derivatives

In order to estimate how much of the commodity derivatives investments are in agricultural commodities and discuss the possible effects of these investments on the market, we need to look into more detail how the investments are actually made.

PGGM and APG informed SOMO that most of the trading in commodity derivatives is done internally by these asset managers themselves. Their strategy consists of buying long positions in commodities, roughly mirroring the Standard & Poors Goldman Sachs Commodity Index (S&P GSCI). As the aim is to have a fixed percentage of the portfolio invested in commodity derivatives, they tend to hold more contracts when prices decrease and fewer when prices increase.

PGGM's commodities exposure is attained using both Total Return Swaps (bought with the big investment banks, currently 20%) and futures (currently 80%). The underlying strategic benchmark is comprised of 80% S&P GSCI Petroleum, 10% S&P GSCI Industrial Metals, 5% S&P GSCI Agriculture, and 5% S&P GSCI Livestock.

APG's liquid commodity portfolio consists also of futures with an exposure comparable to the S&P GSCI. Approximately 9.5% of the liquid commodities exposure would be invested in grains and oilseeds such as wheat, corn and soybeans; another 3% would be invested in livestock and approximately 3% in soft commodities like cotton, sugar, coffee, and cocoa.

Mn Services has not provided information about how its commodity derivatives exposure is managed. However, given the existence of a Stichting Mn Services Commodities

[30] H. Bleker, Beleggingen in agrarische grondstoffen, brief aan Tweede Kamer, 17 November 2011.

Fonds, we can assume that like APG and PGGM they trade mostly through this fund. Extrapolating the PME commodities portfolio of 2008, approximately 25% of this investment is related to agricultural products and livestock.

Compared to PFZW's investments through the PGGM commodity fund, which account for the vast majority of its commodity derivatives exposure, smaller amounts are invested in different hedge funds using active trading strategies in, amongst others commodity derivatives:

- Bridgewater Pure Alpha Fund (since 2007, 100-250 million euro);
- Transtrend, (since 2008, 50-100 million euro);
- Lynx AM (since 2009, 50-100 million euro);
- Maple Leaf Macro Volatility Fund (since 2006, 0-50 million euro).

Mn Services and APG do not provide lists of hedge funds in which they invest.

So how much of the total commodity derivatives investments is invested in agricultural commodity derivatives markets? From PGGM and APG, we know that they invest 10% and 16%, respectively, of their commodity derivatives investments is in agricultural commodities, broadly following the S&P GSCI. We do not know Mn Services' share of this amount, but estimate this to be 25%.

For other pension funds we simply have no idea of the share of agricultural commodities in their total commodity portfolio.

The other globally most used commodity index, next to the S&P GSCI, is the Dow Jones UBS (DJ UBS) commodity index. This index has—with 29,2%—a substantially higher share of agricultural commodities, which is why the Secretary of Agriculture has used the mean of S&P GSCI and DJ UBS (i.e., 23,3%) as the number for estimating the total amount of agricultural commodity derivatives held by Dutch pension funds—an estimate he puts at 5 billion euro.[31] As the biggest asset managers (i.e., APG and PGGM) have smaller shares invested, this number may be an overestimation. However, as previously discussed, the DNB's estimation of the total number of commodity derivatives investments by the Dutch pension funds may be on the low side. Therefore, given the information currently available, the 5 billion euro can still be seen as a best guess of the total investments in agricultural commodity derivatives by Dutch pension funds.

3.3. Corporate social responsibility and commodity derivatives trading

During the course of the research, PFZW posted a position paper on its website,[32] stating that its objective in investing in agricultural commodity derivatives is based on its long-term expectation of rising commodity prices. PFZW does acknowledge the existing debate about the consequences of this kind of investments on the prices; however, it

[31] H. Bleker, Beleggingen in agrarische grondstoffen, brief aan Tweede Kamer, 17 November 2011.
[32] PFZW, Beleggen in agrarische grondstoffen, November 2011.

states that volatility in commodity markets can mainly be caused by financial investors that buy into rising markets and sell with declining prices. However, by rebalancing its portfolio, PFZW does exactly the opposite, which according to PFZW dampens the volatility. PFZW is convinced that long-term price developments are determined by real supply and demand.

APG and Mn Services still have no publicly stated policy regarding their activities in the field of commodity derivatives trading. On behalf of its clients, Mn Services did state to SOMO[33] that food price increases have been the result of real supply and demand factors. It does acknowledge that, in certain scenarios, financial investments can influence real prices, such as when physical delivery takes place or when the financial investments are high relative to the futures market, increasing volatility and thus the cost of hedging for commercial parties, such as can be the case in smaller commodity markets. However, Mn Services states that it has looked at the academic research and done its own research without finding such causal relationships for Mn Services' investments. In line with UN PRI recommendations, Mn Services also has a policy to refrain from investing in (asset managers that take) physical supply of commodities or invest in small markets. Mn Services says it will closely monitor future research, especially in the field of actual hoarding behaviour, and adapt its policies to future research findings.

[33] MnServices, e-mail, 16 December 2011.

4. Activities of Dutch banks in (agricultural) commodity derivatives markets

SOMO has looked at the 'big three' of the Dutch banking sector. Based on saving deposits, ING, Rabobank, and ABN AMRO together account for 87% of the Dutch banking sector. Of these banks, ING is clearly the largest, with assets totalling 1241 billion euro; Rabobank follows with 652 billion euro in assets, and finally ABN AMRO, with 380 billion euro in assets. Unlike the US, where asset management is mostly separate from banks, these Dutch banks are large asset managers as well. Again, ING is the biggest, with 330 billion euro of assets under its management (of which 149 billion are proprietary), followed by ABN AMRO with 164 billion euro and Robeco (Rabobank's wholly owned asset manager) with 150 billion euro.

4.1. Trading in (agricultural) commodity derivatives markets

It is generally acknowledged that Dutch banks are not among the biggest traders in commodity futures markets, especially not when it comes to proprietary trading. This field is dominated by the largest investment banks from the US (MorganStanley, Goldman Sachs, Citigroup) and Europe (Barclays, Deutsche Bank, RBS).[34] All three Dutch banks do have their own trading desks and do trade in commodity futures markets. However, they all state that this is solely done for customers. Rabobank and ING explicitly stated that this was only done for customers who try to hedge their commercial risk, meaning not for financial investors. This information cannot be verified by publicly available information.

In interpreting these statements it is important to bear in mind that in practice there is no clear line of distinction between proprietary trading and trading in the interest of clients. There is a sizeable grey area. Also nothing is known about the size of these trades.

4.2. Funds offered that (can) contain agricultural commodity derivatives

All three banks offer investors funds that can be invested in agricultural futures markets, including both their own funds and funds from other banks and asset managers. As no full information is available about the amounts of money invested through these funds and the share invested in commodity derivatives—more specifically, agricultural derivatives the information on this (summarized in the table below) should be interpreted

[34] As measured by their 'value at risk', see B. Scott, Barclays PLC & Agricultural Commodity derivatives, World Development Movement, March 2011, pp. 6-8.

with caution. Note that third-party funds offered by these banks are not included in this table. What does appear to be clear is that Rabobank (including Robeco) has with a distance the biggest exposure in the field of agricultural commodity derivatives markets

Table 2: Overview of investment funds that (can) include agricultural commodity derivatives

	Size of fund (million euro)	(agricultural) commodity in fund description	Size of agri derivatives (million euro)
ING (total)			40
Commodity Enhanced	38,5	Benchmark DJ UBS (34% agri)	12
Alternative Beta	46,4	Can take exposure to commodity indices	0
Sprinters		Only Energy and Metals	0
Structured Products		6 funds with agri commodities	28
Rabobank (total)			<608
Structured products	>80	4 funds with agri commodities	57
Robeco commodities	138	34% agricultural	47
Robeco Mix funds	2000	2,5-5% commodities, 17,5% agricultural	12,5
Transtrend Enhanced Risk	4300	Risk weighted less than 10% agri futures	<430
Harbor Commodity Real Return Strategy	230	Commodity derivatives (DJ UBS), 27% agri futures	61
ABN AMRO (total)			<0,3
Turbo	<0,5	Cacao, soy, sugar, wheat	<0,3
Multi Manager	2200	Can be commodity futures	0

4.3. Clearing services

ABN AMRO is also providing clearing services and is an important global player on agricultural commodity futures markets. To illustrate this, ABN AMRO Clearing Chicago (AACC) states that it is “a top electronic clearer on the CME and CBOT exchanges for several years running. In the first quarter of 2009, AACC cleared nearly 8% of NYMEX volume and 11% of ICE (UK) volume. In the first half of 2009, ABN AMRO Clearing Chicago cleared a monthly average of over 8% of CME/CBOT’s combined exchange volume.”

Having “a top three ranking in every time zone based on turnover and market share, offering clearing services on more than 25 major energy and commodity exchanges around the globe”, ABN AMRO Clearing is profiting from the increased trade in commodity derivatives. In 2010, ABN AMRO experienced an 18% increase year-on-year in non-interest income. Securities and custodian services fees increased to 1095 million euro in 2010 mainly due to the acquisition of Clearing Chicago LLC USA in August 2009 and to the growth of the business in Asia.

Chicago, where the biggest agricultural futures markets are located, is one of three regional headquarters, with Amsterdam and Sydney. The product scope of ABN AMRO

Clearing consists of energy metals and soft (agricultural) commodities, amongst others. In addition to the pure ‘clearing’[35] activity, ABN AMRO also offers “multiple financing capabilities”, like the financing of margins, premiums, and securities, thus “offering customers the ability to optimize use of capital with innovative financing arrangements.”

4.4. Corporate social responsibility and commodity derivatives trading

None of the three banks has any publicly stated policy towards their activities in the field of commodity derivatives trading. Rabobank has stated it intends to publish a position paper on short notice that discusses its vision on agricultural commodity investing and make transparent what Rabobank deems to be responsible types of agricultural commodity investing.

[35] CFTC glossary: “The procedure through which the clearing organization becomes the buyer to each seller of a futures contract or other derivative, and the seller to each buyer for clearing members.”

5. Conclusion

5.1. Dutch in agricultural commodity derivatives markets…

The three largest managers of Dutch pension savings and the three largest banks of the Netherlands are all—albeit to varying degrees—active in the commodity derivatives markets, including those for staple foods. Some belong to the top global players in their field, such as the asset managers APG and PGGM as well as the ABN AMRO bank with its clearing services. Rabobank (including Robeco) has with a distance the biggest exposure in agricultural commodity derivatives markets of the banks. Although the big Dutch banks currently say they do not trade in agricultural derivatives markets for their own account, there is nothing that keeps them from doing so may they see better prospects in those markets in the future.

5.2. … with limited accountability

Despite the discussion about the effect of these investments on the price formation for commodities, and in particular the rising food prices, that has been occurring since 2008, none of these financial institutions has published any related policy or position on their websites or in their annual or CSR reports prior to the start of this research. In our view, the recent position paper of PFZW also does not meet the criterion of a well-informed position, as it does not address recent relevant literature (see the box on the next page)

Researchers changing their views, investors yet to be convinced
During the course of this research PFZW posted a position paper on its website.[36] However, in this paper from November 2011, no reference is made to any of the studies that have appeared since 2008 that found the increased financial speculation to have led to distorted prices. Regarding the statement that it is real demand and supply that determine prices, PFZW refers to a 2008 study of the International Food Policy Research Institute (IFPRI).

However, already in 2009, after studying the market developments of 2008, IFPRI concluded: "Changes in supply and demand fundamentals cannot fully explain the recent drastic increase in food prices. Rising expectations, speculation, hoarding, and hysteria also played a role in the increasing level and volatility of food prices. The flow of speculative capital from financial investors into agricultural commodity markets has been drastic (..) Excessive speculation in the commodity futures market could, in principle, push up futures prices and- through arbitrage opportunities-spot prices above levels justified by supply and demand fundamentals.[37]

By now, much more information has become available during the last few years. In its most recent Global Hunger Index report IFPRI stated that tackling excessive food price volatility requires policymakers to also "regulate financial activity in food markets, and reduce the incentives for potential excessive speculation in food commodities".[38] Recent IFPRI research also found evidence of futures prices to cause spot market prices to move, an effect it has found to increase during recent years.[39]

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36 PFZW. Beleggen in Agrarische Grondstoffen, Position Paper, November 2011.
37 http://www.ifpri.org/publication/when-speculation-matters
38 http://www.ifpri.org/pressrelease/new-global-hunger-index-report-calls-action-curtail-high-and-volatile-

Although PFZW's recent position paper is a welcome start of the discussion, in light of the available knowledge, it is not up to standard. The same holds for the position MnServices has communicated as it states it has "looked at the academic research", and apparently has not found it convincing. However MnServices does not provide the arguments for this conclusion. There is therefore currently no public document available of any of the largest Dutch investors in this field discussing academic studies that find market distorting effects of their financial investments (the macro perspective).

PFZW also presents a micro perspective of their activities in commodity derivatives markets that does not convince SOMO that it is not having any negative effects on the orderly working of food markets. PFZW states that, by regularly rebalancing its portfolio (buying less contracts when prices go up and vice versa), it is damping rather than enhancing price volatility. First of all, this has probably been the strategy used by most institutional investors that entered the commodity futures markets between 2004 and the end of 2008, the period over which academics concluded that these financial investments distorted commodity markets.

What's more, this trading strategy does exactly do what UNCTAD[40] has labelled the 'financialisation' of commodity markets; the fact that financial portfolio considerations are dominating demand and supply in futures markets, rather than a view of the underlying fundamental supply and demand for the commodity concerned. In this case, the rebalancing of pension funds' portfolios may for instance dampen price developments that are warranted by real supply or demand shocks, thereby distorting the price mechanism, repressing price signals needed to restore market equilibrium.

In addition, the strategy of individual pension funds should be seen in the context of an overall increase of financial investments in futures markets. Even if individual pension funds keep the shares of commodities within their portfolio constant, the inflow of new financial investments may very well drive futures prices up as commercial parties need to be drawn to the market at higher premiums.

Finally, although the current strategy for pension funds may be to keep the percentage of their portfolio in (the different) commodity assets stable, this has not been the case over the course of the last years, and thus may not be what will actually happen in the coming years.

5.3. Right to affordable food at stake

Given the gravity of what is at stake, SOMO has recommended bringing financial investments in commodity derivatives markets back to the level they were at prior to 2004, when the role of financial investments was limited and there were no widespread

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prices-and-protec, through "increased capital deposit requirements (margins) when each futures transaction is made, to deter momentum-based speculators" and "stricter position and price limits (and phasing out of existing position limit waivers for index traders)" see p. 43

39 M. Hernandez and M. Torero, Examining the Dynamic Relationship between Spot and Future Prices of Agricultural Commodities, IFPRI Discussion paper, 2010.

40 UNCTAD, Price Formation in Financialized Commodity Markets, 2011.

complaints about the functioning of the commodity derivatives markets. The precautionary principle, as enshrined in the Lisbon Treaty of the European Union, states that public action is warranted when 'sound evidence' exists that harm can be prevented. SOMO concludes that this is the case here. Given the limited information available regarding both the levels and kinds of speculation going on and the real supply and demand of agricultural commodities, waiting for full clarity on causal relationships would be irresponsible. As food safety is clearly a global public good SOMO concluded there is a role for governments to bring back the share of financial investments in agricultural commodity derivatives markets to much lower levels.

5.4. What to expect from financial investors

This report aims to start a dialogue about how Dutch financial actors should assess and review their activities in the field of commodity derivatives. Given that the Dutch financial institutions reviewed here all have corporate social responsibility policies that include respect for Universal Human Rights, including the right to affordable food[41] they should also play a role in eliminating possible breaches of this right.

Financial institutions active in food derivatives markets should at a minimum provide their clients and the public at large with a well-reasoned reply to the many reports that—based on recent research by academics—have concluded that, taking the precautionary principle into account, these investments should be curbed.[42] This means also that they are fully transparent about the way they invest in commodity derivatives markets.

However, financial investors could do more than just (try to) better explain what they are doing and why. Following the precautionary principle also private financial institutions could take steps, given the gravity of the issue at stake (people's right to affordable food), the unclear benefits of the recent financialisation of commodity markets and the fact that both real food markets (with a large part of the world's food reserves labelled either company or state secret) and derivatives markets will continue to be highly opaque in the coming years.

Foodwatch has called on major banks "to take a first precautionary step by refraining from speculation with food commodities like soybeans, corn and wheat in their financial strategies."[43] Given the, still, small part of their portfolio invested in these first necessities of life, this indeed would be a welcome step.

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41 Article 25 of the Universal Declaration of Human Rights contains the right to "a standard of living adequate for the health and well-being of himself and of his family, including food".

42 Recent reports include those published by the World Development Movement (Broken Markets), Oxfam International (Not a game: Speculation vs Food Speculation), Christian Aid (Hungry for Justice), Foodwatch (The Hunger makers) and SOMO (Feeding the Financial Hype).

43 Foodwatch, The Hunger-Makers: How Deutsche Bank, Goldman Sachs and Other Financial Institutions Are speculating With Food at the Expense of the Poorest, 2011.

6. Appendix: Overview (agricultural) commodities-related activities per financial institution

Asset managers (and related pension funds)

- APG (ABP)
- PGGM (PFZW)
- MnServices (PME, PMT, BPFK)

Banks

- ING Group
- Rabobank Group
- ABN AMRO

APG (ABP)

APG carries out collective pension schemes for participants in the education, government (from pension fund ABP) and construction sectors, cleaning and window-cleaning companies, housing corporations and energy and utility companies. APG works for over 30,000 employers and provides for the income of around 4.5 million participants. APG administrates over 30% of all collective pension schemes in the Netherlands.

Assets under management	€271 billion euros (September 2011)[44]

ABP (pension fund)

Governmental and educational retirement system and thereby the largest pension fund of the Netherlands with 2.8 million participants. Owner of APG.

ABP fund assets	€ 235 billion (3Q2011)

Involvement in agricultural commodity derivatives trading

ABP has approximately a 3 percent asset allocation towards liquid commodity exposure. The liquid commodity exposure can be compared to the S&P GSCI index[45]. In 2010 commodity derivatives (underlying value) were 3,2% of the total portfolio of ABP. This percentage is roughly constant over the years since at least 2007. APG's liquid commodities investments returned over 10% between July and September 2010.[46]

Table 3: ABP keyfigures commodities investments, 2007-2010

	2007	2008	2009	2010
Total investment (billions EUR)	217	173	208	237
Underlying value commodity derivatives (billions EUR)	6.7	5.7	6.4	8.2
Commodities related investment as % of total	3,20	2,30	2,80	
ROI commodities related investment (%)	31	-/-46,2	23,2	

Source: Annual Reports ABP 2007-2010

In its annual report of 2010 ABP has introduced two investment "blocks" related to commodities: *Alternative Inflation*, amongst others involving commodity exposure, (through liquid derivatives), and *Illiquid Commodities* (involving private investments in "*natural resources*").

44 www.apg.nl
45 Annual report 2010 ABP, page 118
46 http://www.bloomberg.com/news/2010-10-22/commodities-to-gain-on-emerging-market-demand-apg-asset-says.html

The liquid commodities portfolio is managed internally through investments in futures; the S&P GSCI can be used as a proxy for the sector weightings. Energy is the biggest sector within the S&P GSCI with 71 percent. The grains & oilseeds weighting in the index is approximately 9.5 percent, industrial metals 6.6 percent, and the remainder is in precious metals, soft commodities and meats. The trading strategy followed is that the portfolio is rebalanced in a manner comparable to the S&P GSCI. The exposure is also rebalanced within the context of the total client portfolio. If the return of the commodity portfolio is greater than returns on other asset classes, commodities are likely to be periodically sold (and vice versa) in order to keep the asset allocation constant. According to APG this results in decreasing commodity price volatility in the market.[47]

Within the *illiquid Commodities* portfolio ABP has acquired - effectively – minority participations in various companies/funds which are involved in agricultural production, mining, forestry, oil & gas production and carbon emission reduction projects. A number of these minority stakes are held through (wholly owned) special purpose vehicles as mentioned in the Annual reports.[48]

Commodity derivatives investments as a CSR-issue

No reference is made to the debate on financial investments in the CSR report or website of either APG or ABP. However, APG states that its way of investing (rebalancing by buying less futures contracts when prices rise) dampens rather than enhances price movements.[49]

47 APG, e-mail, 5 December 2011.
48 idem
49 C. Vos, “Voedsel duur vanwege schaarste”, Volkskrant, 21 January 2011.

PGGM (PFZW)

PGGM Asset Management (PGGM) is the second largest asset manager for pension funds of the Netherlands, servicing five Dutch pension funds with total invested assets of € 105 billion (as of October 2011). Its biggest client and owner is Pensioenfonds Zorg en Welzijn (PFZW).

PFZW

Pensioenfonds Zorg en Welzijn (PFZW) is the Dutch pension fund for the care and welfare sector- responsible for the pension policy and the pension capital of more than 2 million existing and former employees in this sector. The pension fund manages € 92 billion worth of assets (April 2010).

Involvement in agricultural derivatives trading

- PGGM was one of the first institutional investors (and PFZW one of the first pension funds[50]) in the world to include commodities in the investment portfolio. In early 2000 it decided to allocate 4% of its assets to commodities, mostly to be invested in passive long only index of rolling commodities futures.[51]
- In 2009 under the flag of PGGM Pooled Asset Funds the (liquid) institutional fund PGGM Commodity Fund has been established.[52]
- The current commodities exposure is attained using derivatives, both Total Return Swaps (Currently 20%) and Futures (Currently 80%). The underlying strategic benchmark is comprised of 80% S&P GSCI Petroleum, 10% S&P GSCI Industrial Metals, 5% S&P GSCI Agriculture and 5% S&P GSCI Livestock[53].
- Next to PFZW also the Stichting Pensioenfonds Cultuur and Pensioenfondsarchitectuur invest respectively 2,4% and 3,5% of their assets in the PGGM Commodity Fund (of total commodities investments of 2,8% and 3,7% as % of total investments respectively) (source: Annual Reports 2010)

50 PFZW, Annual Report 2008, p.30.
51 J. Beenen, “Commodities as a Strategic Investment for PGGM”, in: Deutsche Bank, An Investor Guide to Commodities, April 2005.
52 PGGM, Annual report 2009.
53 PGGM, e-mail, 5 December 2011.

Table 4: PFZW keyfigures commodities investments, 2005-2011

	2005	2006	2007	2008	2009	2010	Sep 2011
investment in commodities (% total assets under management)	5%	4,30%	5%	5,30%	6.8%	7.0%	6,20%
investment in commodities (millions EUR)	3.559	3.513	4.808	3.749	5.844	6.928	6.390
Agricultural commodities		8%	13%	5%			
livestock commodities		3%	4%	5%			
Return on agri investment				-28.9%		26%	
Return on total commodities (millions EUR)	802	-954	1401	-2897	1016		
Return on total commodities derivatives (millions EUR)	727	-951	1218	-3149	297	40	

Source: PFZW Annual reports 2005-2010 and PFZW Kwartaalbericht Q3 2011

The majority of the commodity investments of PFZW is done through the PGGM commodity fund, with smaller amounts invested in different hedge funds using active trading strategies:[54]

- Bridgewater Pure Alpha Fund (since 2007, 100-250 million), an active trading strategy in amongst others commodities
- Transtrend (since 2008, 50-100 million) invests through an automated momentummodel in amongst others commodities
- Lynx AM (since 2009, 50-100 million) invests through an automated momentummodel in amongst others commodities
- Maple Leaf Macro Volatility Fund (since 2006, 0-50 million) trades in volatility in amongst others commodities

Commodity derivatives investments as a CSR-issue

There was no mentioning of its commodity derivatives investments in general, or specifically with regard to food derivatives, in the CSR documents of either PGGM or PFZW. During the course of the research, PFZW posted a position paper on its website,[55] stating that its objective in investing in agricultural commodity derivatives is based on its long-term expectation of rising commodity prices. PFZW does acknowledge the existing debate about the consequences of this kind of investments on the prices; however, it states that volatility in commodity markets can mainly be caused by financial investors that buy into rising markets and sell with declining prices. However, by rebalancing its portfolio, PFZW does exactly the opposite, which according to PFZW dampens the volatility. PFZW is convinced that long-term price developments are determined by real supply and demand.

[54] http://www.pfzw.nl/asp/transparantielijsten/Beleggingsmandaten.asp
[55] PFZW, Beleggen in agrarische grondstoffen, November 2011.

Mn Services (PMT, PME, BPFK)

Mn Services is the third biggest pension administrator and asset manager of the Netherlands. Its main clients are 'Pensioenfonds Metaal & Techniek' (PMT), 'Pensioenfonds van de Metalektro' (PME) and 'Bedrijfspensioenfonds voor de Koopvaardij' (BPFK), which together account for 90% of the assets under Mn Services' management, totaling 70,7 billion EUR (ultimo 2010).[56] PMT, PME and BPFK are also the shareholders of Mn Services. PMT owns the majority of the shares, PME has a 1/6 stake, while BPFK owns just a fraction. Mn Services also administers and manages investments made by 16 other smaller Dutch clients.[57]

Involvement in agricultural derivatives trading

Mn Services has a commodities fund: Stichting Mn Services Commodities Fonds about which no further information is available through MnServices. On basis of the investment specifications PMT, PME and BPFK have provided in their annual reports, we estimate that Mn Services is currently managing at least € 1.5 billion of commodities related investment. Extrapolating from the 2008 PME commodities portfolio, around 25% of this investment is related to agricultural products and livestock.[58] Moreover, as can be seen in the table below, from 2008 on there has been a markedly sharp decrease in commodities related investment, from, on average, 7% in 2007 to 2,2% in 2010. The highest proportion of commodity investments in the portfolio of these pension funds was reached by PME in 2007 with 7,6%.

Table 6: PMT keyfigures commodities investments, 2006-2010

PMT	2006	2007	2008	2009	2010
Commodity investments (billions €)	1	1.6	1.6	0.85	0.74
Proportion of total investment	3,17%	4,60%	5,70%	2,58%	2%

Source: Annual Reports 2006-2010

Table 7: BPFK keyfigures commodities investments, 2008-2010

BPFK	2008	2009	2010
Commodity investments (millions €)	35.7	31.4	35.3
Proportion of total investment	2,80%	2,10%	1,20%
Return on commodity investment	-54,80%	19,46%	17,05%

Source: Annual Reports 2008-2010

56 http://www.mn.nl/portal/page?_pageid=3615,6056372&_dad=portal&_schema=PORTAL
57 http://www.mn.nl/portal/page?_pageid=3615,6056501&_dad=portal&_schema=PORTAL&p_item_id=6367825
58 PME Annual Report 2008.

Table 8: PME keyfigures commodities investments, 2004-2010

PME	2004	2005	2006	2007	2008	2009	2010
Commodity investment (billions €)	0.7	0.98	1.26	1.7	0.86	0.6	0.75
Proportion of total investment	4,35%	5,10%	6,10%	7,59%	4,62%	2,90%	3,30%
Agricultural proportion of commodity investment	11%	10%		15%	19%		
Livestock proportion of commodity investment	6%	5%		3%	6%		
Return on commodity investment	4,40%	45,40%		29,20%		23,30%	21%

Source: Annual Reports 2004-2010

Commodity derivatives investments as a CSR-issue

Mn Services has never earmarked commodity (or food) derivatives investment as a CSR issue. There is no mention of the commodity investments in the CSR reports of PME, PMT or BPFK either. On behalf of its clients, Mn Services states59 that food price increases have been the result of real supply and demand factors. It does acknowledge that, in certain scenarios, financial investments can influence real prices, such as when physical delivery takes place or when the financial investments are high relative to the futures market, increasing volatility and thus the cost of hedging for commercial parties, such as can be the case in smaller commodity markets. However, Mn Services states that it has looked at the academic research and done its own research without finding such causal relationships for Mn Services' investments. In line with UN PRI recommendations, Mn Services also has a policy to refrain from investing in (asset managers that take) physical supply of commodities or invest in small markets. Mn Services will closely monitor future research, especially in the field of actual hoarding behaviour, and will adapt its policies to future research findings.

[59] MnServices, e-mail, 16 December 2011.

ING Group

Assets:	€ 1,241 billion (2Q2011)
Assets under management:	330,2 billion (3Q2011), of which 148,8 billion proprietary
Net income:	€ 3,220 billion (2010)
Employees:	99,345 (2Q2011)

Profile

ING is a global financial institution of Dutch origin offering banking and insurance services in more than 40 countries. Measured in assets ING is the biggest bank of the Netherlands. In 2010, ING earned approximately 17.3 billion euros from retail and commercial banking, with revenue from global insurance services more than double that, at 37.5 billion euros.[60]

Trading in derivatives markets

The Financial Markets (FM) business units make up the global business that manages ING's financial markets trading and nontrading business lines. Since 2007, both trading and client income has increased substantially. After a record year in 2009, income in 2010 normalised but it was still FM's second best year[61]. In 2010, ING Group's total income from ING Commercial Banking's Financial markets division in 2010 decreased by 161 million euros, to 1,106 million euros.[62] According to their Annual Report 2010, the Financial Market Unit showed a strong proprietary trading performance in Brussels and New York.[63]

However, this proprietary trading is a small and declining part of ING's business[64]. "ING has wound-down the proprietary trading book in the US, driven by the new regulatory environment". In 2010 income of proprietary trading was less than EUR 136 million, less than 1% of FM income.

According to ING in this proprietary trading there are no soft commodities included. ING does trade in soft commodity derivatives, but only in the interest of a commercial party.[65]

[60] ING Group 2010 Annual Report.
[61] ING Group 2010 Annual Report, p.40.
[62] *ibid.*
[63] ING Group: *Annual Report 2010*, *ibid.,* p. 40
[64] ING Benelux Conference, 15 September 2011, page 12, http://www.ing.com/Ons-Bedrijf/Investor-relations/Presentaties/Analistenpresentaties.htm
[65] ING, e-mail, 16 December 2011.

Offering of funds containing (agricultural) commodity derivatives

ING does not invest its proprietary assets in agricultural commodity derivatives. ING offers investors several funds that (can) include agricultural commodity derivatives.

Table 9: ING Funds offered that (can) contain agricultural commodity derivatives

	Size of fund (million euro)	(agricultural) commodity in fund description	Size of agri derivatives (million euro)
Commodity Enhanced	38,5	Benchmark DJ UBS (34% agri)	12[66]
Alternative Beta	46,4	Can take exposure to commodity indices	0
Sprinters		Only Energy and Metals	0
Structured Products		6 funds with soft commodities	28[67]

ING (L) Invest Commodity Enhanced

Launched	22 October 2010
Assets under management:	€38.5 million (23-11-2011, $55.5 million)[68]
Performance (return since launch):	-0.15% (22-11-2011)[69]

ING (L) Invest Commodity Enhanced is a mutual fund providing diversified commodity exposure. ING Investment Management has developed a quantitative rule based futures rolling strategy with the aim of outperforming the Dow Jones UBS Commodity total return Index. The fund invests in the same commodity derivatives as the DJ UBS index (27,62% is Agriculture and 5,99% Livestock).

For each of the 19 commodities, the strategy determines, each month, futures contracts that are expected to have a superior return. For the futures contract selection, the fund is supported by an model that takes into account factors like the shape of the futures curve (e.g. in contango vs. backwardation), liquidity, expected added value and relative prices of commodities that belong to the same value chain.

ING IM is prohibited to own commodities futures to prevent possible delivery of the underlying commodity. Instead the fund obtains the right to profits and losses made when commodity futures on the Dow Jones-UBS commodity index are rolled on just before maturity date (for every future sold, one is repurchased). The futures on the index are bought, owned and rolled on by Investment Banks. The fund does not invest in futures itself.[70]

66 ING, e-mail, 16 December 2011.
67 ING, e-mail, 16 December 2011
68 Bloomberg, http://www.bloomberg.com/apps/quote?ticker=INCEPHE:LX
69 ING (L) Invest Commodity Enhanced P EUR Hedged brochure.
70 ING, e-mail, 16 December 2011.

ING (L) Invest Alternative Beta[71]

Launched	16 June 2008
Assets under management	€ 46.43 million (23-11-2011, $ 62.21 million)[72]
Performance	0.42% (22-11-2011)

ING (L) Invest Alternative Beta targets to replicate a broad based hedge fund index (HFRI) using a rule based strategy. The fund has the ability to take short exposures and take exposure to commodity indices.[73] However, ING has stated that since the middle of 2010 there have been no agricultural commodities in this fund.[74]

ING Sprinters (XL)[75]

ING offers several sprinters on energy and metal commodities, currently no Sprinters are offered on agricultural commodities.

ING Structured Products[76]

ING offers several structured products that are based on commodity derivatives, including agricultural derivatives. Positions in ING Bank structured products are[77]:

Table 10: ING structured products containing agricultural derivatives

In EUR millions		food	wheat	corn	rice
ING Liric Grondstoffen 2015	DJUBSCI	5,846	0,74	1,45	0
ING Liric grondstoffen 2017	DJUBSCI	5,846	0,74	1,45	0
ING soft commodity sprint	S&P GSCI	4,4	0,185	0,363	0
3Y USD protected note	corn/cotton/sugar	2	0	1	0
ING soft commodities clicker	S&P GSCI	2,64	0,111	0,218	0
ING soft commodities Coupon note	S&P GSCI	4,4	0,185	0,363	0
166% Participation Commodities Note	DJUBSCI	3,2153	0,407	0,798	0
	Total	**28,3473**	**2,368**	**5,64**	**0**

Third party funds

ING also offers funds from other asset managers (third parties) that include agricultural commodity derivatives.

71 http://www.ing.nl/particulier/beleggen/beleggingsproducten/beleggingsfondsen/fondsenzoeker/index.aspx
72 http://www.bloomberg.com/quote/INALTEP:LX
73 http://www.ingim.com/EU/Funds/Funds/index.htm?fundid=LU0370038324,n/a#
74 ING, e-mail, 16 December 2011.
75 http://ingsprinters.nl/sprinters/grondstoffen
76 http://www.ing.nl/particulier/beleggen/beleggingsproducten/gestructureerde-producten/index.aspx
77 ING, e-mail, 16 December 2011.

Commodity derivatives investments as a CSR-issue

There is no mentioning of its commodity derivatives investments in general, or specifically with regard to food derivatives, in the CSR documents. However, ING has stated to SOMO that due to increasing concern "that too many investments and capital flowing to the market may drive agricultural commodity price increases and volatility." And "Given the importance of the subject, ING is closely following the international debate and actively participates in research studies and dialogue to get a better understanding of any possible correlation between the two." ING promises it "will take appropriate measures if and when investments in commodities derivatives are considered to correlate with agricultural commodity price increases and volatility."[78]

[78] ING, e-mail, 16 December 2011

Rabobank Group

Total assets:	€ 652.54 billion (2010)
Net profit:	€ 2.77 billion (2010)
Employees (FTE):	58.700

Robeco (subsidiary of Rabobank since 2001)

Type:	Asset manager
Assets:	€ 6,9 billion (2010)[79]
Assets under management (Robeco):	€ 149.6 billion (2010)
Net income:	€181.3 million (2010)
Employees	1,528 FTE (2010)

Profile

Rabobank Group is an international financial services provider operating on the basis of cooperative principles. Its focus is on broad financial services provision in the Netherlands and primarily on the food and agribusiness internationally, where it is a global leader in this field. Rabobank offers asset management through its wholly owned subsidiary Robeco.

Trading in (agricultural) commodity derivatives markets

Rabobank is mentioned in a FAO working paper as being an active player in commodity derivatives markets:[80] “In anticipation of this marker growth, the large financial institutions are ramping up their commodity trading capabilities particularly in the derivative side. (..) Rabobank of the Netherlands, once known as a more conservative international agriculturally oriented bank is also very active in commodity derivatives. Rabobank offers a wide range of OTC derivative products to meet the specific hedging needs of its food and agribusiness clients. The range of agricultural commodities covered is comprehensive including commodity price swaps and commodity price options.”

A Full Rating Report issued by Fitch (August 2010) identifies “a small amount of proprietary trading” (without further quantification)[81]. It is therefore unknown how much of this is in agricultural commodities. In a reaction to SOMO (mail dd 9 December 2011) Rabobank has indicated they do not trade commodities derivatives for their own account.

79 Year report 2010, p. 40
80 P. E. McNellis, Foreign Investment in Developing Country Agriculture – The Emerging Role of Private Sector Finance, FAO Commodity and Trade Policy Research Working Paper No. 28 June 2009 http://www.fao.org/es/esc/common/ecg/612/en/mcnellis.pdf (p. 18/19)
81 http://www.rabobank.com/content/images/FItch_August2010_tcm43-33486.pdf

Offering of funds containing (agricultural) commodity derivatives

Rabobank offers investors several funds that (can) include agricultural commodity derivatives.

Table 11: Rabobank Funds offered that (can) contain agricultural commodity derivatives

	Size of fund (million euro)	(agricultural) commodity in fund description	Size of agri derivatives (million euro)
Structured products	>80	4 funds with agri commodities	57
Robeco commodities	138	34% agricultural	47
Robeco Mix funds	2000	2,5-5% commodities, of which 17,5% agricultural	12,5
Transtrend Enhanced Risk	4300	Also active commodity futures, risk weighted 10% agri	430
Harbor Commodity Real Return Strategy	230	Commodity derivatives (DJ UBS) 27% agri	61

Rabobank structured products (Notes)

- Rabo Agri Note[82], 25.000.000 EUR,issued 26-July-2006
  Invests in five agricultural commodities: sugar (30%), corn (30%), wheat (10%), rapeseed (15%), soy (15%). Due to a trigger event on 22 October 2008 there are currently no investments left in soft commodities.
- Rabo Grondstoffen Note juni 2017, 40.000.000 EUR, issued 09-July-2010[83]
  Underlying value is the BNP Paribas Oscillator Commodities EUR Hedged Excess Return Index that invests in commodity futures.
- Rabo Grondstoffen Garant september-08, 5.000.000 EUR, Issued 03-October-2008[84]
  Invests in two agricultural commodities: corn (10%) and soy (20%).
- Rabo Grondstoffen Garant maart-08, 35.000.000, 03-April-2008[85]
  Invests in three agricultural commodities: corn (20%), wheat (20%) and soy beans (20%).
- Rabo Grondstoffen Garant July-07
  Corn (20%)

Robeco Commodities Fund, Managed by Sarasin

Total funds invested: € 138 million, 33% agri commodities: "The Fund will mainly invest in futures on individual commodities, but may also invest in futures on commodity indices, in certificates on individual commodities or commodity indices, and in swaps on individual commodities or commodity indices (together the "Instruments"). Direct

82 http://www.raboglobalmarkets.nl/nl/nl/products/notes/productDetails.do?code=270
83 http://www.raboglobalmarkets.nl/nl/nl/products/notes/productDetails.do?code=278#documents
84 http://www.raboglobalmarkets.nl/nl/nl/products/notes/productDetails.do?code=269#documents
85 http://www.raboglobalmarkets.nl/nl/nl/products/notes/productDetails.do?code=259#documents

investments in commodities are not allowed. The Fund will only take long positions in the instruments. In addition, the Fund may make use of derivative instruments such as currency swaps, forwards, futures and options for currency hedging purposes."[86]

Robeco Mix Investment fondsen

- *Robeco Solid Mix,* EUR 670.000.000, 2,5% commodities
- *Robeco Growth Mix,* EUR 471.000.000, 5% commodities
- *Robeco Balanced Mix,* EUR 912.500.000, 5% commodities
- *Robeco Dynamic Mix,* EUR 155.000.000, 5% commodities

Of the investment in commodities futures (€ 93,7 million) 17,5% is invested in agricultural futures (total €12,5 million in agricultural futures).[87]

Multi-Market Obligations/ Transtrend

Spread protfolio (securities, bonds, foreign exchange, interest and (agricultural) commodities. By taking positions through futures and forward contracts a profit can be made in both rising and declining markets. These funds are managed by Transtrend B.V., a 100% subsidiary of Robeco. Transtrend is specialized in quantitative trading strategies (the Diversified Trend Program). €4,3 billion is invested in the Transtrend Enhanced Risk USD funds.[88]

Transtrend uses an active long/short/neutral strategy based on relevant demand and supply factors (contrary to the passive long only strategy). In agrarian markets it is more often short than long. The strategy aims to sell when the market due to a short term imbalance moves strongly upward and vice versa. Less than 10% of this fund is invested in agricultural commodities, measured by risk.[89]

Harbor Capital

Robeco is owner of the US based Harbor Capital Advisors Inc. It is stated that Harbor Capital Advisors and its subsidiaries do not engage in proprietary trading in commodities. Harbor Capital Advisors serves as the investment advisor to the Harbor Commodity Real Return Strategy Fund. The Pacific Investment Management Company (PIMCO) performs the investment activities of the fund. The fund invests in two primary types of investments: commodities and fixed income securities, primarily inflation protected securities. The commodities exposure is obtained through derivative instruments, primarily in the form of total rate of return swaps that seek to approximate the exposures of an underlying commodity index (Dow Jones UBS Commodity Total Return Index). In addition the fund may hold futures or options contracts on specific commodity instruments. The fixed income securities serve as the collateral for the derivatives investments. The Harbor Commodity Real Return Strategy Fund does not borrow money to leverage the investments in commodities. The Harbor Commodity Real Return

[86] Prospectus Robeco Commodities Fund, p. 8.
[87] Rabobank Group, e-mail, 9 December 2011.
[88] Annual Report 2010 van Robeco, https://www.robeco.com/extranet/f4i/downloadselector/showDocument/1308687_BROC_2011_NL.pdf
[89] Rabobank Group, e-mail, 16 December 2011.

Strategy Fund is marketed only in the U.S. and its territories to financial intermediaries that advise U.S. retail and institutional investors and directly to U.S. retail investors or institutions for retirement accounts and other investment purposes.[90]

As of 30 November 2011, the Harbor Commodity Real Return Strategy Fund (HCRRF) had total assets of $300 million. The exposure to agricultural commodities within the fund would reflect the weighting of agricultural commodities within the commodity index, just under 27% of the fund's total commodities exposure, or about $80 million.91

CSR policies

Rabobank issued its so called "Food & Agribusiness Principles": According to these principles, "the first priority of food & agribusiness chains is to feed the world at a reasonable price with products that are not harmful to the health of people and animals."[92]

The effects of increased speculation in commodity and agricultural commodity markets has not been mentioned or discussed in the Rabobanks CSR reports or on its website. According to Rabobank this is because: "we have not seen any issues being raised by our stakeholders regarding this topic. The uptake of the topic has only become manifest in the 2nd half of 2011."[93] Rabobank has stated it intends to publish a position paper on short notice that discusses its vision on agricultural commodity investing and make transparent what Rabobank deems to be responsible types of agricultural commodity investing.[94]

Transtrend has stated that through its active trading strategy, selling when the market due to a short term imbalance moves strongly upward and vice versa, reduces volatility. Transtrend states it does not want to be the cause of volatility and is aware of its role and responsibility.[95]

[90] Rabobank Group, e-mail, 9 December 2011.
[91] Rabobank Group, e-mail, 16 December 2011.
[92] http://www.rabobank.com/content/food_agri/faprinciples/index.jsp
[93] Rabobank Group, e-mail, 9 December 2011.
[94] Rabobank Group, e-mail, 22 December 2011.
[95] Rabobank Group, e-mail, 9 December 2011.

ABN AMRO

Assets:	€ 379.6 billion (2010)
Assets under management:	€ 164 billion (2010, retail and private banking)
Net income:	loss of EUR 414 mln (2010, adjusted for separation and integration-related items net profit of EUR 1,077 mln)
Employees	26,161 (2010)

Profile

ABN AMRO has strong positions in Dutch retail, private, commercial and merchant banking, and an international focus in private banking, clearing, energy commodities & transportation (ECT) and collateralised finance. ABN AMRO is amongst the top 5 commodity banks globally and is actively expanding its network in this field.[96]

Trading in (agricultural) commodity derivatives markets

ABN AMRO provides financial solutions and support through the full value chain of the energy, commodities and transportation industries amongst which commodity derivatives and clearing. The bank is seeking to grow its merchant banking relationships with ECT clients and is developing its foreign exchange and rates risk management offering, as well as commodity brokerage and clearing services.[97] ABN AMRO does not trade in (agricultural) commodity derivatives for its own account.[98]

ABN AMRO Clearing

ABN AMRO Clearing has a top three ranking in every time zone based on turnover and market share, offering clearing services on more than 25 major energy and commodity exchanges around the globe. 14 offices are staffed by over 700 fte. Regional headquarters are based in Amsterdam, Chicago and Sydney. The product scope consists amongst others of energy, metals and agricultural commodities. Service offering includes:[99]

- Clearing, matching and settlement of derivatives;
- Processing of same-day turnaround transactions;
- Guarantees to clearing houses and exchanges;

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96 ABN AMRO, ABN AMRO re-establishes international presence to support Energy, Commodities & Transportation clients, Amsterdam, Press release, 24 October 2011.

97 ABN AMRO, ABN AMRO re-establishes international presence to support Energy, Commodities & Transportation clients, Amsterdam, Press release, 24 October 2011 and http://www.abnamro.com/en/clients/commercial-merchant-banking/commodities/index.html and http://www.abnamro.com/en/clients/commercial-merchant-banking/ECT/index.html

98 ABN AMRO, e-mail, 13 December 2011.

99 see http://www.abnamroclearing.com/en/index.html

- Financing of margins, premiums and securities.

Higher revenues at ABN AMRO Clearing and Markets resulted in a 18% increase in non-interest income in 2010. Securities and custodian services fees increased (from 865 in 2009 to 1095 million euro in 2010) mainly due to the acquisition of Clearing Chicago LLC USA (ABN AMRO Clearing) in August 2009 and to growth of business in Asia.[100]

ABN AMRO Clearing Chicago (AACC) is a customer-centric clearing provider with multiple financing capabilities, offering customers the ability to optimize use of capital with innovative financing arrangements. Increase trading opportunities in all major world exchanges.

AACC is a top electronic clearer on the CME and CBOT exchanges for several years running. In the first quarter of 2009, AACC cleared nearly 8% of NYMEX volume and 11% of ICE (UK) volume. In the first half of 2009, ABN AMRO Clearing Chicago cleared a monthly average of over 8% of CME/CBOT's combined exchange volume (per respective exchanges).[101]

Offering of funds containing (agricultural) commodity derivatives

ABN AMRO offers investors several funds that (can) include agricultural commodity derivatives. However, currently this is only the case to a very limited extent.

Table 12: ABN AMRO Funds offered that (can) contain agricultural commodity derivatives

	Size of fund (million euro)	(agricultural) commodity in fund description	Size of agri derivatives (million euro)
Turbo	<0,5	Cacao, Soy, Sugar, Wheat	<0,3
Multi Manager	2200	Can be commodity futures	0

Turbo's on soft commodities

ABN AMRO Turbo, through using leverage, these increase the effect of price changes on the investor's return. ABN AMRO offers several turbo's based on commodity futures, amongst which sixteen different turbo's based on futures of cacao, soy, sugar and wheat. Currently all 34 commodity related turbo's contain less than EUR 0,5 million in investments.[102] Assuming an even distribution of these funds over the agricultural and energy and metals commodities this means that the funds invested in agricultural futures through turbo's are between 200 and 300 thousand euro.

[100] ABN AMRO Clearing, Annual report 2010, p.178.
[101] http://www.us.abnamroclearing.com/ and http://www.futuressourcebook.com/ABN-AMRO-Clearing-cp225545.htm
[102] ABN AMRO, e-mail, 13 December 2011.

ABN AMRO Multi Manager

ABN AMRO offers five Multi Manager Funds[103] that invest in other funds amongst which commodities and in options, futures and swaps. Ultimo November 2011 there was 2.2 billion euro invested in these funds of which, despite the stated possibility to do so, nothing was actually invested in agricultural commodity derivatives.[104]

Third Party funds offered

ABN AMRO offers several funds of third parties that can contain (agricultural) commodity derivatives, like the BNP Paribas L1 Dynamic World Inc (up to 4% in commodities) and the Schroder Commodity Hedged Acc (actively managed fund of mainly commodity derivatives, trading strategy based primarily on fundamental analysis complemented with quantitative technical analyses). There is no information available about the total amount invested in these funds and hence about the share of (agricultural) commodity derivatives.

Commodity derivatives investments as a CSR-issue

There is no mentioning of its commodity derivatives investments in general, or specifically with regard to food derivatives, in the CSR documents of ABN AMRO.

[103] http://www.abnamro.nl/nl/beleggen/beleggingsproducten/profielfondsen/introductie.html
[104] ABN AMRO, e-mail, 21 December 2011.