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management

Quarterly ESG Update – Q2 2022

a.s.r. asset management

Greenwashing

Sustainable or 'green' investing has become more popular in the recent years than the traditional way of investing, with assets managed in ESG-labelled funds accounting for almost $2.7tn[1]. But this industry is currently also being attacked over the fact that green certifications are inflated. On June 1st the Chief Executive of DWS had to resign after raids by prosecutors over allegations that the company misled investors about 'green investments'[2]. This may have been perceived as a shock by the market, but especially European and US financial regulators have recently been uncovering more cases of greenwashing by asset managers. This after being accused for not taking sufficient action last years to ensure what the definition 'sustainable' or 'green' or 'greenwashing' actually means.

The definition of 'greenwashing', according to the Corporate Finance Institute, is described as 'when management within an organization makes false, unsubstantiated, or outright misleading misstatements or claims about the sustainability of a product or a service, or even about business operations more broadly'[3]. One would think greenwashing would nowadays be easier to identify because of all the standards and regulation that has/is being developed, i.e. the Global Reporting Initiative (GRI), the Principles for Responsible Investments (PRI) or the European implementation of the Sustainable Financial Disclosure Regulation (SFDR).

At a.s.r. we support the fact that financial regulators should put more emphasis on sustainability reporting and claims. We also believe that the current developments in ESG reporting will lead to better disclosures of companies and more transparency, which we believe is very important because of the dependence of different stakeholders on the actions of financial institutions. We keep striving to improve our sustainability reporting and we demand the same from our investees, by voting for additional (relevant) disclosures by companies, screening companies for controversial activities and giving a lot of importance to our engagement procedures.

Want to learn more about a.s.r.'s sustainable investing? Visit our website.

1 https://www.ft.com/content/1094d5da-70bf-40b5-98f4-725d50620a5a
2 https://www.reuters.com/markets/europe/deutsche-banks-dws-says-stefan-hoops-appointed-new-ceo-2022-06-01/
3 https://corporatefinanceinstitute.com/resources/knowledge/other/greenwashing/

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Impact

Impact Case 'OpenUp'

Psychological well-being can be thought of as a trained body. If you take good care of your body every day, you will have a strong body. A body that can take a beating, a body that recovers quickly and that has a healthy immune system. The same is true for the psyche. If you take good care of your psyche, it will become stronger, more flexible and able to recover after psychological pain.

Mental health issues are a pressing and growing challenge to our society, affecting about 25% of the European population every year. The solutions however, remain largely inaccessible due to an overloaded healthcare system. OpenUp Group BV is the first company in the Netherlands to make mental health accessible to everyone through its two subsidiaries, iPractice and OpenUp.

iPractice is a provider of blended psychological care services, which means that online & chat support is interspersed with offline contact with a certified psychologist. iPractice is a 'regular' psychologist practice (if applicable) reimbursed by the insurer.

OpenUp is a fully digital web/app platform democratizing mental health support, which enables employers to give their employees low-threshold, fast, secure and easy access to certified psychologists and online tools to improve mental wellbeing. As of May 2022, OpenUp serves more than 280 employers and roughly 110,000 employees across the Netherlands and Germany.

A.s.r. invested in Openup via the private equity fund Rubio Fund II.

Impact Investment Hydrogrid

As power prices surge across Europe, HYDROGRID, a leading Austrian tech company providing software for optimal real-time planning & dispatch of hydropower plants, has completed an investment round led by SET Ventures with the participation from existing investor CNB Capital.

The recent surges in power market prices across Europe once again drive the need for intelligent, renewable power generation and storage to lessen the dependency on fossil fuels. With an installed capacity of 1,330 GW and an annual generation of 4,370 TWh globally, hydropower is the largest source of renewable energy there is, accounting for more than 60% of all renewable generation. Moreover, a unique feature of hydropower (pump) storage plants is that they have the capacity to store and release energy as required by the grid, and in this way can act as a 'Green Battery', significantly dampening the reliance on fossil fuel generation. By allowing long-term storage of renewable energy, hydropower provides an 'insurance' of sorts for consumers against sky-rocketing oil and gas prices. However, the full potential of hydropower oftentimes remains untapped due to the lack of digitalization.

HYDROGRID's intelligent real-time software solution closes this capability gap. The fully automated software acts similar to an autonomous driving assistant for cars – weather and power market data are combined with local sensor measurements from the hydropower plant to deliver an optimal power plant dispatch plan in real-time. As a result, power plant operators benefit from a reduced daily operational workload while at the same time increasing their revenues by up to 18% compared to manual operation.

In addition, the solution also provides a positive effect for the power grid as a whole, by dispatching hydropower in line with times of highest demand and thereby providing a mitigating effect on supply shortages and price spikes.

The HYDROGRID Insight solution is currently deployed by power generators across 6 European countries for hydro assets ranging from 1 to 150 MW and is quickly becoming the technology leader in this asset segment, as the industry is moving towards digitalization driven by an increased need to react quickly to changes in the volatile power markets.

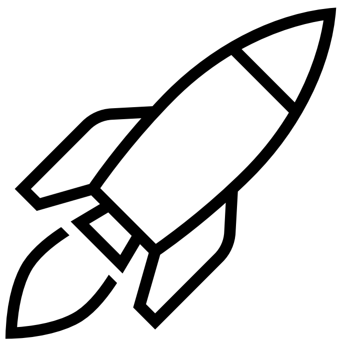
With the current investment round led by SET Ventures with participation from existing shareholder CNB Capital, the company now aims to further strengthen its leading position in Europe. A.s.r invests via SET ventures in these new technologies.

Climate

Investing in the armament industry

In a recent commercial by a.s.r. examples of investments and exclusions within our investment policy are shown. One of the exclusions we show is the arms industry. The image may evoke mixed feelings. That is why we like to explain our weapons policy a bit more.

As an investor, it has proved impossible to ensure that investment products such as weapons are only used for positive purposes, such as protecting freedom and democracy. That is why we do not want weapons in our sustainable investment portfolio. This does not alter the fact that we understand that the Dutch government invests in weapons for defence. It fits in with the mandate and obligations that the Netherlands has as a NATO member. Because a weapon can be interpreted in different ways, we clearly show which companies we do not invest in.



PBAF and the measurement of impact on biodiversity

The Partnership for Biodiversity Accounting Financials (PBAF) – an initiative which a.s.r. Asset Management joined in 2021 – has released its new standard for financial institutions to measure the impact of loans and investments on biodiversity. The PBAF standard 2022 describes by way of requirements and recommendations what is needed to carry out a biodiversity footprint, which is an assessment for financial institutions to measure, manage and report on the negative and positive impact of their loans and investments on biodiversity[4].

The destruction of coral reefs – which are believed to have the highest biodiversity of any ecosystem on the planet –, the significant decrease of pollinators like bees, butterflies and flies, and deforestation in tropical forests. These are all examples of biodiversity loss, which is not only sad because of the disappearing of nature, but also because the world's economic output is strongly dependent on animals and ecosystems: the value of their total economic output is estimated by the World Economic Forum to be $44 trillion – which means half of the world's total GDP is moderately or highly independent on nature and its services, and as a result, exposed to risks from nature loss[5].

4 https://www.pbafglobal.com/newsitem/partnership-for-biodiversity-accounting-financials-pbaf-presents-standard-for-impact-assessment#newsitemtext
5 https://www.weforum.org/press/2020/01/half-of-world-s-gdp-moderately-or-highly-dependent-on-nature-says-new-report/

The new PBAF standard consists of three different documents, being an introductory Q&A, an overview of biodiversity impact assessment approaches and a document with requirements and recommendations on biodiversity footprinting. Five types of impact assessments are distinguished; qualitative information on impact drivers, asset allocation and geospatial biodiversity data, quantified biodiversity footprint and the measuring of actual impact on biodiversity (based on monitoring of actual changes and an attribution of changes to interventions/actions financed).

The agenda on biodiversity is also important in the European context. The EU developed a biodiversity strategy for 2030 – as part of the EU Green Deal – which aims to put Europe's biodiversity on the path to recovery for the benefit of people, climate and the planet. This should lead to establishing a larger EU-wide network of protected areas on land and at sea and will lead to the launch of an EU nature restoration plan. Because biodiversity strengthens the resilience of ecosystems[6], the strategy ultimately aims to build societies' resilience to future threats such as the impacts of climate change, forest fires, food insecurity and disease outbreaks.

At a.s.r. we acknowledge the importance of biodiversity and we are delighted to see the release of the new PBAF standard. Where we have been measuring our carbon footprint for many years now, we believe it's about time to also assess the impact our investments have on biodiversity. That's why we are currently reviewing all the different approaches to ensure we use the one best-suited for us.

6 https://www.weforum.org/press/2020/01/half-of-world-s-gdp-moderately-or-highly-dependent-on-nature-says-new-report/

Climate jargon; what does it all mean?

The Qatar World Cup end 2022 was claimed by its organizers to be the first 'carbon neutral' football event. However, the Carbon Market Watch (CMW), a non-profit organization has examined the organizers' plans and say projected emissions are likely to be underreported[7]. CMW stated that despite the lack of transparency, the evidence suggests that the emissions from this World Cup will be considerably higher than expected by the organizers, and that the carbon credits being purchased to offset the emissions (of all air travel, construction of roads and new stadiums) are unlikely to have a sufficiently positive impact on the climate. How much value must we give to the definition of carbon neutral?

Carbon-neutral is the new gold. Nowadays, more and more companies (and countries) pledge to become carbon neutral, net-zero or even climate positive. 'Carbon-neutrality', 'net-zero' and 'climate positive' are terms that have been around for a while now and are adopted by most global corporations. In 2006 'Carbon Neutral' was even the world of the year according to the New Oxford American Dictionary[8]. But the diversity of phrases and lack of clarity around them can mislead stakeholders. That's why we wanted to perform a deep dive in these definitions.

7 https://www.theguardian.com/football/2022/may/31/qatar-world-cup-criticised-for-problematic-carbon-footprint-promises
8 https://blog.oup.com/2006/11/carbon_neutral_/

Carbon-neutrality refers to the balance between emitting carbon and absorbing carbon emissions from carbon sinks. Or simply, eliminate all carbon emissions altogether. Carbon sinks are all systems that absorb more carbon than they emit, such as oceans, soils and forests. It is impossible to generate zero-carbon emissions, therefore offsetting (mostly by projects) is a viable approach to become carbon neutral. Some examples of offsetting projects are planting trees to absorb carbon out of the atmosphere, or by distributing efficient cooking stoves.

When we are talking about 'net-zero', it's crucial to specify net-zero carbon or emissions. Net-zero emissions refer to the overall balance of greenhouse gas emissions produced and GHG emissions taken out of the atmosphere. Net-zero basically describes the point in time where humans stop adding to the burden of climate-heating gases in the atmosphere, most companies and countries refer to the year 2050 where net-zero must be achieved.

Carbon negative and climate positive are actually similar definitions. This means that a company captures more CO_2 from the atmosphere than it emits. The company then has a negative amount of carbon emissions and therefore positively impacts the climate. An example of a carbon negative country is Bhutan, 70% of the country is covered in trees, which acts as a carbon sink and its (renewable) energy is generated by hydro-electric power[9].

9 https://www.gvi.ie/blog/bhutan-the-first-carbon-negative-country-in-the-world/

So to wrap up some definitions:

Carbon neutral means that any CO2 released into the atmosphere from a company's activities is balanced by an equivalent amount being removed.

Climate positive means that activity goes beyond achieving net-zero carbon emissions to create an environmental benefit by removing additional carbon dioxide from the atmosphere.

Carbon negative means the same thing as "climate positive."

Carbon positive is how organizations describe climate positive and carbon negative. It's mainly a marketing term, and understandably confusing–we generally avoid it.

Climate Neutral refers to reducing all GHG to the point of zero while eliminating all other negative environmental impacts that an organization may cause.

Net-Zero carbon emissions mean that an activity releases net-zero carbon emissions into the atmosphere.

Net-Zero emissions balance the whole amount of greenhouse gas (GHG) released and the amount removed from the atmosphere.

Offsetting means that the carbon emissions generated through an activity (like flying) can be calculated, and then the equivalent amount "paid off" via a scheme which removes carbon from the atmosphere (such as tree planting).

Insetting refers to An investment by a company in the development of an emission reduction project within the perimeter of its supply chain.

Carbon footprint of our investments

The a.s.r. ESG fund range includes euro sovereign bonds, euro credits, European and American equities. While already having a strict ESG policy for the overall investment process within a.s.r. asset management, these ESG funds have additional guidelines on ESG indicators.

At the end of the first quarter of 2022 the carbon emissions of the credit fund are still well below the benchmark. The carbon emissions per million euro showed a slight decrease compared to the Q1 2022.

The equity funds are optimized based on the scores that companies achieve on carbon intensity, energy transition and total ESG policy. The carbon emissions remain well below the benchmark. Both the equity funds showed an increase in carbon emissions per million euro because of lower enterprise values.

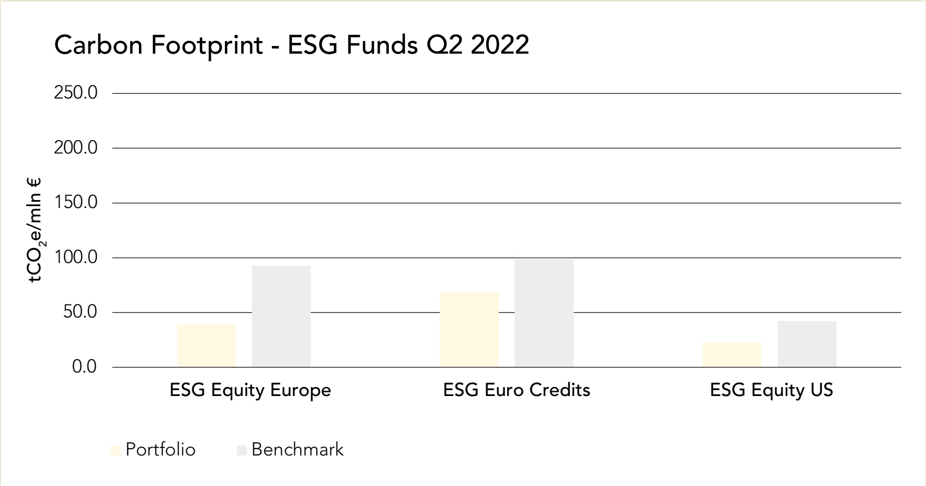


Figure: Carbon emissions for ESG equity (Europe and US), ESG credit and US equity funds at the end of June 2022. The carbon footprint is calculated on a “best effort” basis with the available and most recent data from reliable sources, including Vigeo Eiris. The results may show a changing course because the portfolio data, carbon data and market data are subject to change. The methodology for calculating the carbon footprint is in line with the PCAF methodology.

Active Ownership

FAIRR Investor Letter

a.s.r. signed an investor initiative – managing over $14 trillion – to urge the United Nations to create a global plan to make the agriculture sector sustainable and curb one of the biggest sources of climate-damaging emissions. Food production currently accounts for around a third of global greenhouse gas emissions and is the main threat to 86% of the world's species at risk of extinction, while cattle ranching is responsible for three quarters of Amazon rain forest loss[10].

The IPCC Special Report on Climate Change and Land[11] assessed all pathways that limit warming to 1.5°C or well below 2°C will require land-based mitigation and land-use change. While the environmental degradation caused by food systems is multifactorial, evidence shows that even if fossil fuel emissions were eliminated immediately, food systems alone would make it impossible to reach 1.5°C, and sustainable diets play a key role. Additionally, agriculture is also highly vulnerable to climate change impacts, which has implications for food security.

Last year, a FAIRR initiative study showed the emission reduction plans of the G20 countries were lacking targets to reduce agricultural emissions. Therefore the investor letter will be addressed to the director general of the U.N.'s Food and Agriculture Organization, Qu Dongyu, who's agency is

10 https://www.reuters.com/business/sustainable-business/exclusive-global-investors-write-un-urge-global-plan-farming-emissions
11 https://www.ipcc.ch/srccl/chapter/summary-for-policymakers/

considered best-placed to take the lead on creating a rod-map to ensure better planning and concrete actions in order to bring down carbon emissions related to agriculture.

A central roadmap with key milestones can help investors align portfolios and engage with portfolio companies to minimize environmental impacts and exposure to climate and biodiversity risk. It should be clear to companies and other stakeholders in the sector, what volume of emissions must be mitigated to limit warming to 1.5°C, and the role each subsector must play in this mitigation. The International Energy Agency's Net Zero roadmap has proven valuable in demonstrating the pathway for the energy sector. A similar pathway is now needed for agriculture. Investors have already played a crucial role in accelerating the energy transition in recent year and, with the right tools, investors can support a global food system transition.

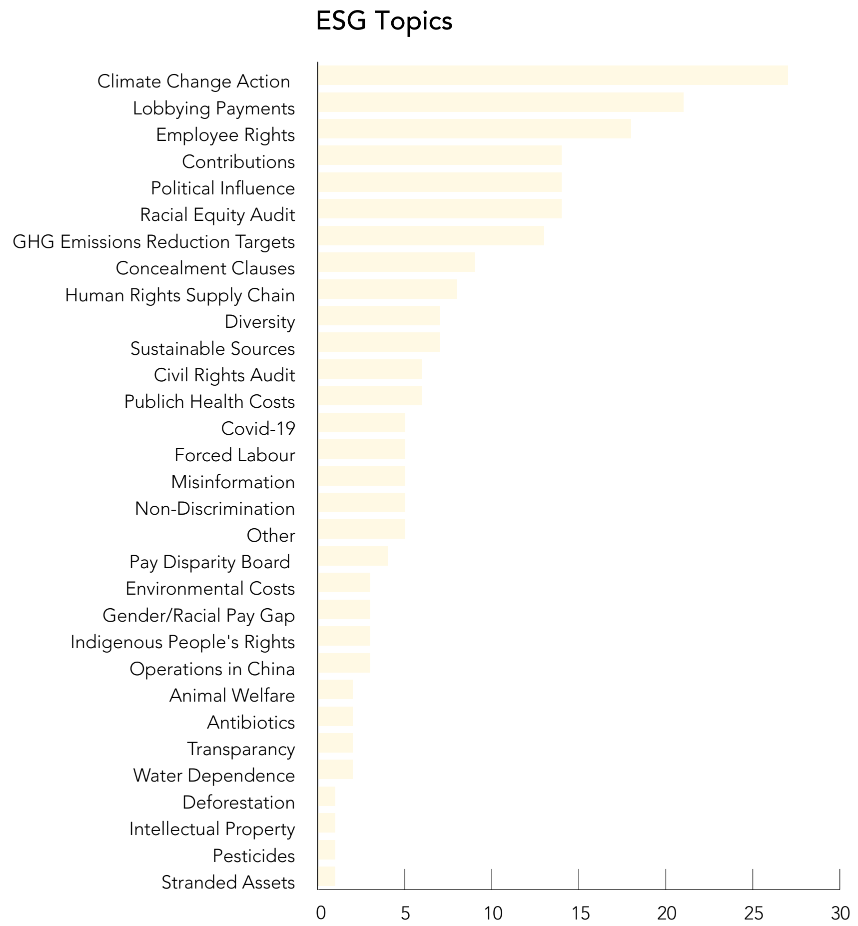
We recognise the financially material risks of the food system, from climate change, biodiversity loss, malnutrition, and antimicrobial resistance to the the material impacts that food system activities have on the environment. Accordingly, we urge the FAO to produce a global roadmap to 2050 that mitigates these risks and sets a standard for the industry. It is crucial that this roadmap aligns with the Paris Agreement's goal while ensuring the protection and restoration of nature, and achieving food and nutrition security goals.

ESG Resolutions

As a responsible institutional investor we believe it's important to exercise our voting rights. We are making use of a proxy advisory service, which advises a.s.r. on the basis of the voting conduct guidelines described in our voting policy. Hereby we want to provide some more insight in the 217 proposals related to Environmental, Social or Governance topics. Our voting behavior is a translation of our SRI Policy which complies with the UN PRI, UN Global Compact, UN PSI and the Dutch 'Code Sustainable Investing'.

The biggest number of shareholder resolutions related to climate change action, differencing from 'the adoption of Fossil Fuel Lending polices consistent with the International Energy Agency's (IEA) Net Zero 2050 scenario' to 'aligning employees' retirement plan options with the company's climate goals'. Regarding the Environmental topics, the reporting and adoption of GHG reduction targets (on both the long and short term) and additional focus on sustainable sources (responsible packaging or switching to renewable materials) were popular subjects.

On the Social aspect, we acknowledged the number of proposals related to employee rights. This related to the health of workers, the protection of independent contractors and even the protection of rights of Freedom Association an Collective Bargaining (which is not very common in for example America). Shareholders also filed resolutions to consider more pay disparity between Board Executives or the CEO and the other employees.



The topics 'Lobbying payments', 'Political influence' and 'Contributions' (both charitable and political) were also mentioned frequently, and these resolutions were all only submitted at American AGM's. The demand for more transparency from shareholders and reporting on political influence can be easily explained given that total lobbying spending in the United States was estimated to be $3,73 billion[12]. Industries with the biggest spenders include pharmaceuticals, insurance, business innovation and the oil and gas industry.

Ceres Valuing Water Finance Initiative

In June a.s.r. signed the Valuing Water Finance Initiative, which is a new global investor-led effort to engage corporate water users and polluters to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems[13]. The initiative will call on companies to better protect water systems. The initiative will call in companies to meet a set of soon-to-be released Corporate Expectations for Valuing Water that align with the United Nation's 2030 Sustainable Development Goal for Water (SDG 6) and the actions laid out in the Ceres Roadmap 2030.

We are facing an existential and multi-faceted threat to our freshwater resources, even in the Netherlands – which is also known as 'Netherlands Waterland' – we are confronted with shortages of drinking water[14]. In addition to the danger this poses to human and ecosystem health, the global water crisis is also a systemic, far-reaching, financial risk to nearly all economies.

12 https://www.statista.com/statistics/257337/total-lobbying-spending-in-the-us
13 https://www.ceres.org/water/valuing-water-finance-initiative
14 https://fd.nl/politiek/1440473/nederland-heeft-nu-al-te-weinig-drinkwater-p1f2cabEvHGP

The water crisis is exacerbated by climate change, making it even more urgent to drive capital market actors – including large institutional investors and major corporations – to address water issues.

The Valuing Water Finance Initiative will drive large-scale change in corporate water practices via key partnerships, first-of-its-kind research, and institutional investor engagement. Using new research and analysis as a foundation, Ceres co-developed – with members of the Valuing Water Finance Task Force, and other investor and NGO partners – a set of clear action steps that companies should take to improve water stewardship. In 2022, the Valuing Water Finance Initiative will launch an investor-led campaign shaped by these action steps to move companies on their water use via investor engagement.

More news

Mies Ligtenberg recently joined our ESG team as a responsible investment advisor. She has a financial background and almost 5 years of experience in the pension industry, both as a consultant and as an investment specialist (she held the latter position at the pension department of a.s.r.). After two years of telling about and explaining our sustainable investment policy to consultants and clients, she wanted to be more involved in developing and drafting the ESG content. Mies will work on engagements, reporting, impact investing and all other topics that will be relevant for the ESG team. In addition, she is halfway through following the 3-year VBA Investment Management program at the VU, TIAS and Neyenrode.

More information?

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