Quarterly ESG Update – Q3 2021

a.s.r. asset management

Change

Whether you like it or not, our world is in constant change and we don't know what the future will bring. The outlooks for 2022 are published these days by eminent economists, probably most of them will be wrong. Will inflation spike again next year, Covid-19 fade away and COP27 surprise us in a positive way?

We're not totally in control of everything, but we can manage change by guiding it into the right direction. The flow of capital just needs to be redirected to create real world impact, by financing sustainable businesses, impact entrepreneurs or social enterprises. The a.s.r. investment policy includes sustainable guidelines to avoid any adverse impacts and create positive outcome, combined with long term targets such as carbon reduction or budgets for impact investing. Or we influence companies in an engagement dialogue, to mitigate controversies or improve their standards. In this quarterly we again present some great articles how a.s.r. asset management is investing in a more sustainable future. We can change our future and contribute to a positive outcome for 2022, for the years thereafter and next generations.

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

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Impact

Real world impact

Almost every financial institution is currently engaged with ESG related topics and striving to make decisions that will either generate positive or minimize the negative impact in this area. However, what is the actual impact of any new decision on a global level, also known as "the real world impact"?

Decreasing the CO_2 emmissions of one portfolio and 'cleaning' the balance sheet from more carbon-intensive investments will definitely lead to a decreased negative impact of the portfolio itself. However, this doesn't accurately account for the total world impact of this decision. For example, selling our share in a carbon-intensive company will make our portfolio less carbon-intensive, but if a different investor buys those shares, the world impact is equal to zero.

According to VBDO[1] (Dutch Association of Investors for Sustainable Development) research, insurers and institutional investors pay too little attention to this topic. Given the great challenges we are facing related to climate change and biodiversity loss, it is essential that investors assess their impact on a world-scale and make it measurable. Achieving a portfolio where the "real world impact" aligns with its responsible investment policy is not an easy task, mainly because new aspects of responsible investing must be measured which have not been measured before.

1 https://www.vbdo.nl/2021/07/van-risicobeheersing-naar-werkelijke-impact/

So how does a.s.r. asset management incorporate the approach of measuring the 'real world impact'? For all our investment decisions we rely on our SRI policy, which is frequently updated based on new accessible information and developments. During our Investor Update in December, we will announce new carbon reduction targets and a fossil fuel exit strategy. Here we seek the balance between divesting from the most polluting companies, financing companies that show the right ambitions and pace at Paris aligned targets and our influence as an investor through engagement. Engagement is very important tool for us to keep striving for impact at the companies we invest in.

Impact Investment 'Fairphone'

In 1998 a Dutch TV program interviewed random people on the street about whether they would be interested in having a 'mobile' phone instead of having a 'fixed' connection at home. None of the respondents saw the use of having one. Today, in 2021, the number of smartphone users in the world is estimated to be around 6,4 billion, which translates to 80,69% of the world's population owning a smartphone. The smartphone made the whole world connected and it seems impossible to imagine a world without smartphones.

Besides all the benefits perceived from having a smartphone, the external environmental effects of producing smartphones are generally not taken into account. For the production of a smartphone irreplaceable materials like gold, cobalt and lithium need to be extracted. Production chains in which pollution and human rights violations are a major risk. Most smart-phones are also produced in a way they have to be replaced every two years, without recycling the device, generating toxic waste and squandering materials. Three Dutch entrepreneurs decided they wanted to change the unsustainable way of using and producing smartphones, which led in 2013 to the foundation of the social enterprise Fairphone.

Fairphone produces smartphones which are designed for longevity, easy to repair and have modular upgrades. The goal of Fairphone is to create phones which hardware lasts as long as possible and to provide the support to keep its software up to date, this way, a phone doesn't have to be re-placed every two years. By encouraging reuse and repair of their phones, Fairphone moves one step closer to a circular economy. They go straight to the source to make sure a positive change is created and the mined minerals are produced in a responsible way. In their supply chain they listen to their workers and create better working conditions with employee representation, income and growth opportunities2.

a.s.r. has been invested in Fairphone via PYMWYMIC Fund 1 since several years and we have been cooperating in making supply chains more sustain-able, by promoting the Fair Cobalt Alliance in our engagements. With our impact investments, engagements and sharing of best practices we aim to make a real impact in the real economy.

2 https://www.fairphone.com/en/impact/?ref=header

Climate

Investor Agenda COP26

A record of 733 institutional investors from around the world, including a.s.r. asset management, with more than US$52 trillion in assets under management, have signed an ambitious statement to governments ahead of COP26, calling for a number of measures that would help avoid catastrophic temperature rise and manage climate risk[3]. These include measures to end fossil fuel subsidies, phase out thermal coal-based electricity, and mandate climate risk disclosure.

The investors argue that the right policies would unlock the trillions of dollars of investment needed in solutions to the climate crisis. This includes policy signals in line with efforts to limit temperature rise to no more than 1.5-degrees Celsius, including significantly stronger 2030 nationally determined contributions (NDCs), credible commitments to net-zero greenhouse gas emissions by mid-century, and the development of just transition plans for affected workers and communities. It also calls on governments to avoid public investment in new carbon-intensive infrastructure in their COVID-19 economic recovery plans.

The statement evidences the overwhelming investor support for mandatory climate risk disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). "As owners of (or those representing owners of) companies, we need access to adequate information on how these companies are assessing and managing the risks and opportunities presented by climate change".

3 https://theinvestoragenda.org/press-releases/27-october-2021/

Update NZAM Progress Report

The Net Zero Asset Managers initiative (NZAM) is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with efforts to limit global warming to 1.5°C . The initiative was launched in December 2020 with a.s.r. asset management being one of the initial 30 signatories, and is convened by six investor networks:

- AIGCC (Asia)
- Ceres (North America)
- IGCC (Australasia)
- IIGCC (Europe)
- UN PRI (global)
- CDP (global)

To date, the initiative has 220 signatories, including a.s.r. asset management, representing over USD 57 trillion in AUM. The initiative is open to any asset manager globally that is also a current member of one of the Network Partners. The commitment is designed to be 'methodology neutral' and asset managers may choose the most appropriate target methodology for their business and asset mix.

We signed the commitment because we feel it is important to be transparent about emissions' reductions 'claimed' by the financial sector – both real world emissions and portfolio, or financed, emissions, which are used to 'steer' investment decisions. There is still lots of discussion about methodologies, from measurement of portfolio emissions (for all asset classes) to following Paris-aligned decarbonization paths and strategies.

Within our submission we highlighted that we have chosen 2015 as our baseline year for our 2030 carbon reduction targets (for our proprietary assets in listed equities, credits, and sovereign debt) instead of 2019 – a recommended starting point, as 2015 is the year we have started to implement our climate strategy. We also hinted to our upcoming Investor Update in December, where we expect to update our current sustainable targets – broadening its scope and its reduction ambition – while providing more detail on our strategy to realize real world positive climate impacts through a combination of sector policy, active ownership and Taxonomy--aligned (green) investing.

Carbon footprint of our investments

At the end of the third quarter of 2021 we continued progressing on our year-end target of measuring at least 95% of the carbon emissions of the a.s.r. investment portfolio (for our own account).

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 third quarter of 2021 the carbon emissions of the credit fund are still well below the benchmark. The carbon emissions per million euro showed a slight increase due to higher allocations in the Basic Industry and Energy sector.

The equity funds are optimized based on the scores that companies achieve on carbon intensity, energy transition and overall ESG policy. The carbon emissions remain well below the benchmark. Both the equity funds showed a decrease in carbon emissions per million euro over the last quarter.

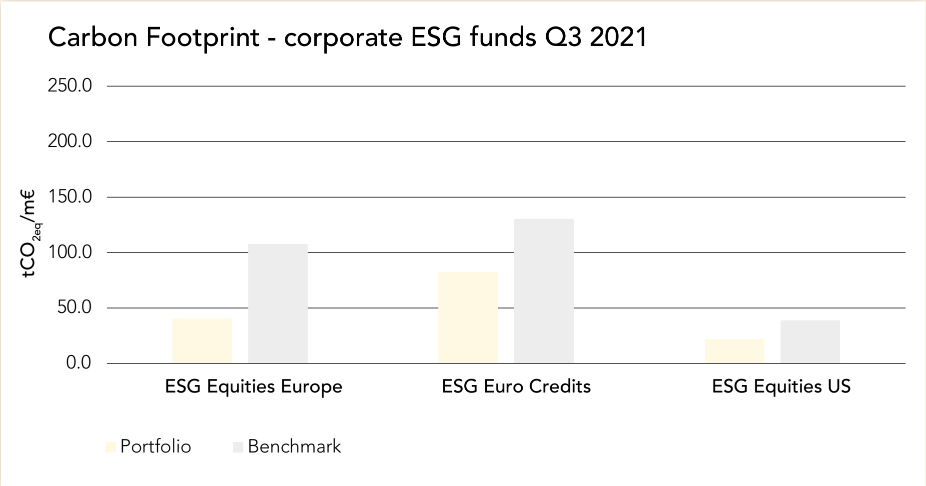

Figure: carbon emissions for a.s.r. ESG equity (Europe and US) and euro credit funds at the end of September 2021. The carbon footprint is calculated on a "best effort" basis with the available and most recent data from reliable sources, including Vigeo Eiris. The results may show a changing course because 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

Biodiversity engagement in the soy industry

Soy, also referred to as 'the king of beans', is a very popular commodity because of its nutritional value and is therefore an important material for the production of meat and dairy. Soy is produced in temperate and tropical regions – Argentina, Brazil and the United States produce around 80% of the global demand. Soy farms are expanding especially in Brazil at a rapid pace, which comes at the cost of the loss of fragile ecosystems such as rainforests and savannahs. Soy farms make extensive use of agrochemicals and fertilizers to reduce labors costs and optimize production, but these chemicals are a major source of nutrient pollution in rivers, lakes and estuaries. The deforestation of the Amazon in Brazil also leads to large emission of greenhouse gasses, which is the main contributor to climate change. Therefore, the cultivation of soybeans goes together with significant climate- and biodiversity risks.

Within the International Agreement on Responsibe Business Conduct for the insurance sector, we have started a collective engagement project with three international food processing companies . The main goal is to contribute to the halt of deforestation in Brazil resulting from the soy production. Besides promoting the sustainable use of soy, the working group also focusses on boosting a systematic change. Relevant topics include: decreasing the demand for soy, creating more focus on the local production of cattle feed and stimulating the transition to plant-based protein meals instead of meat proteins (meat substitutes based on soy have a significantly

lower land use and carbon footprint). In addition to the engagement procedures, the working group also aims to develop a framework to help insurers implement the theme ‘biodiversity’ in their responsible investment policies.

The first meetings have already been held and will continue next year, together with the participants of the RBC covenant for the pension sector. At this moment a group of 20 insurers and 5 pension funds – with a total assets under management of € 927 billion – are backing up the engagement.

Platform Living Wage Financials on Sugar

The Platform Living Wage Financials (PLWF), whose assets under management and advice total over EUR 2.6 trillion, is an investor coalition that encourages collaborative efforts to work towards improved standards of living for workers and farmers in global supply chains. We have been engaging with companies to address the non-payment of living wages and incomes in the agro & food, retail sector to garment, from own employees to the most salient supply chains.

On October 28th the fourth annual PLWF seminar took place at Triodos Bank in Zeist. The 2021 report with assessment results was published and can be found here. a.s.r. participated in a panel on sugar: the sugar supply chain is seen as one of the key and salient supply chains in regards to living wage and living income. Therefore a.s.r. worked together with Bonsucro – a global multi-stakeholder non-profit organisation that exists to promote sustainable sugarcane production, processing and trade around the world – and CNV International and we developed a roadmap on this topic, where the following strategy is discussed:

- For the short term we want to bring a living wage in the sugarcane sector. The new version of the Bonsucro production standards aim at more sustainability in the global international sugar value chain.
- For the long term the developed roadmap should be a useful tool for companies to move living wage forward in the sugar supply chain. The roadmap should stimulate collaboration between plantations, factories, traders and buyers of sugarcane products.

a.s.r. has used its influence as investor to call on Bonsucro members to vote in favor of integrating living wage into the new certification standard. The roadmap will be used in our ongoing and new engagements.

More news

New colleague

Paul van der Weijden recently joined our ESG team as a responsible investment advisor. He has a financial background as an auditor at EY. After two years of financial audit he decided to focus also on the audit of non-financial information and became both, sustainability and financial auditor (one of his clients at EY was a.s.r.). After his experience at EY, Paul worked two years for ASN Impact Investors as a sustainability investment analyst where he got very intrigued by the world of responsible investments. a.s.r. was therefore a very welcome next step, as it enables him to combine his financial, sustainability and a.s.r. experience (gained during his time as auditor). Paul will work on impact investing, SRI policy, SFDR and all other topics that will be relevant for the ESG team.

More information?

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