# Quarterly ESG Update - Q3 2020

a.s.r. asset management

39869_1120

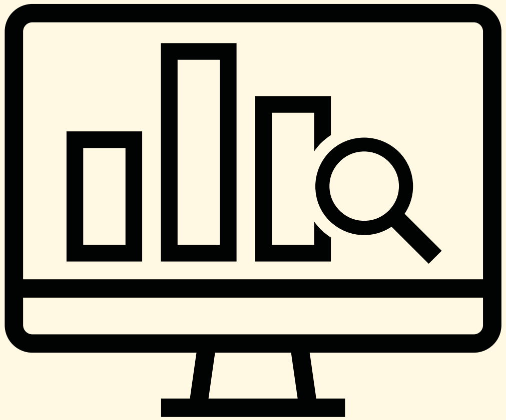
# Data

Probably you're all reading the daily data updates of the new Covid-19 infections, in your city, country or worldwide. The statistics are very worrying, as the second wave proceeds and the pandemic still isn't under control. The good news should come from clinical trial phase 3 data in the race to find a vaccine, where the WHO is working in collaboration with scientists, business, and global health organizations to speed up the pandemic response. We're still learning how to model these data and forecast the impact for the next months and years, including the probabilities and uncertainties.

Also managing our clients' investment portfolios is based on input data, qualitative analysis and modelling. We've learned that using non-financial indicators, like ESG data, adds value to generate financial returns, better risk management and at the same time generate a positive impact for society. As show cased in previous editions of this quarterly, we've integrated ESG guidelines in the investment process, added climate scenarios to the strategic asset allocation analysis and also set long term targets to decarbonize the investment portfolios. Despite the fact that non-financial data availability and quality is still challenging, ESG data indicate the most material and salient topics to exclude companies or for an engagement dialogue to influence companies in the right direction.

The financial sector depends more and more on technology and data processing. We congratulate Dmitriy Silov, portfolio manager fixed income at a.s.r. asset management, who received the AM top 25 insurance talent award for adding open source software en state-of-the-art programming in the investment process. And we're using machine learning to provide our systems the ability to automatically learn and improve from experience. Finally, we'll keep you updated on our participation in a new initiative, using artificial intelligence for impact measurement.

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



# In this update

# Climate and Energy Transition

## Climate change: Optimal choices in strategic asset allocation are a must

To limit the increase in global average temperature to 1.5 °C above pre-industrial levels requires immediate action. We have therefore formulated carbon reduction targets for our investment portfolio. Besides using carbon data in the portfolio construction process and entering into a dialogue with our investee companies to urge them to set science based targets (SBTs) themselves, we believe that scenario analysis is essential. Therefore, we started to integrate climate scenarios into our Strategic Asset Allocation (SAA) and published the first results in our Annual Report 2019. The UN PRI has asked a.s.r. to provide a case study on our process, which is shared on their asset owner resources website.

Empirical research shows that over a longer time horizon (10+ years) more than 80% of returns and risks are the result of Strategic Asset Allocation (SAA). Over that long-time horizon climate-related risks will have a significant impact on macroeconomic risk drivers and therefore on the risks and return of the portfolio.

A strong climate-risk management from the start of the investment process is therefore a must for long term investors. Of course, this top-down perspective should be complemented with a bottom-up approach for portfolio construction including climate exclusions, engagement and impact investing supported by analysis of ESG profiles, carbon footprint or Value-at-Risk.

The combination of the top-down and the bottom-up approaches provides a deeper understanding of the determining factors to help construct winning and resilient portfolios in the medium/long term. Want to know more about how we have quantified climate risks in our portfolios? The full case study can be found here.

## CO2-footprint of our investments

At the end of the third quarter of 2020 we were well on track for our target of measuring the carbon emissions for at least 95% of the a.s.r. investment portfolio (for own account) by 2021. During the third quarter of 2020 we again were able to increase the coverage of the carbon footprint calculation, due to higher percentages for equities and credits. In the fourth quarter of 2020 we will further integrate the carbon measurement for external clients into our systems.

In 2017, a.s.r. launched an ESG fund range including euro sovereign bonds, euro credits and European 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. These guidelines resulted in ESG funds with a lower absolute carbon footprint.

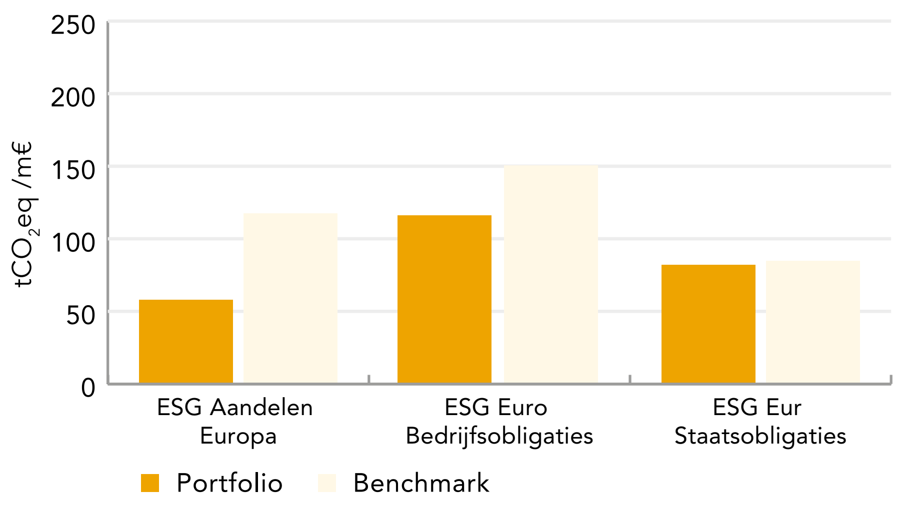



*Figure: Carbon emissions for ESG credit, ESG equity and ESG sovereign fund end of June 2020. The carbon footprint is calculated on a "best effort" basis with the available and most recent data from reliable sources, including Vigeo Eiris. The results may show a changing course because the portfolio data, carbon data and market data are subject to change. The methodology for calculating the carbon footprint is in line with the PCAF methodology.*

## What's the societal impact of our investments?

Within the financial sector in general, but especially within the sphere of sustainable and impact investing, there is a growing body of work around measuring the societal impact of one's investments or loans. And as a self-proclaimed conscious capitalist, or responsible investor, we are always on the lookout for new methods and initiatives that can aid in the objective quantification and communication of our investment beliefs, approach and performance.

Traditionally qualitative in nature, based for instance on narrative, policy or case studies, the recent exponential growth in data and data processing has given the financial sector more and more capabilities to translate data into insights and knowledge[1]. One of the newest developments in this space of impact measurement is the use of Artificial Intelligence and Machine Learning to tie non-financial performance insights to sustainability concepts.

We have recently started a pilot with fintech Util, to attempt to measure the net SDG impact of our universe and portfolios in listed equities and bonds[2]. The prospect of complementing our ESG data collection with a non-correlated source, which is built on peer-reviewed academic literature, is quite exciting --- both from a portfolio construction and holistic impact perspective. We will keep you informed on the outcomes and learnings of this pilot.


[1] *Principles-based impact measurement (for, among others, investments) has a long history of methodological development, with approaches such as Social Return on Investment (SROI), Social Impact Assessment (SIA) or Sustainable Return on Investment (S-ROI) all contributing to the practice of quantifying (or monetizing) externalities or intangible value.*

[2] *See also www.util.co*

# Active Ownership

## Sustainable sourcing of natural resources

We are increasingly dependent on the mining of minerals and other natural resources to speed up the energy transition. For example cobalt or lithium are used for the production of electric vehicles, but mining of these materials is at the same time prone to human rights and environmental risks.

a.s.r. participates in a UN PRI led engagement program on the responsible sourcing of cobalt in the production chains of car manufacturers. a.s.r. has taken the lead on the engagement with Tesla. While a frontrunner in the sector when it comes to phasing out the use of cobalt, the company still sources the material. We will ask the company to provide more clarity on their timelines for phasing out the mineral and current sourcing due diligence. Also, the responsible sourcing of alternative materials will be on the agenda.

Besides human rights risks, mining companies are facing many environmental risks as well. In a newly launched engagement program, together with IUCN and VBDO, we will call on mining companies to improve their water management practices. Bad water management leads to loss of biodiversity and other ecological disasters, often with disastrous consequences for local people. In the coming years, other environmental challenges will be addressed as well.

## Letter to Government of Indonesia

Most engagement activities are focused on the companies we invest in. However, sometimes we also participate in engagement with governments, when we see the need and opportunity. This was the case with our recent talks with the Government and Central Bank of Brazil, where we expressed our concerns about the high rates of deforestation and forest fires in the country.

Last month, we have also reached out to the Government of Indonesia, together with 35 other investors, representing over 4 trillion USD in AuM. In a letter, we have expressed our concerns about the proposed deregulation of environmental protection in the Omnibus Bill on Job Creation. With the letter we aim to start a constructive dialogue with the Indonesian Government on how to prevent a set back in the protection of natural resources, while still being able to deliver the business reform aimed for with the proposed legislation.

Both engagement initiatives underline the work we had already been doing to promote good environmental and social practices in tropical production chains, such as with the Platform Living Wages Financials and the DNB Working Group on Biodiversity.

For a more detailed of our engagements and voting visit our website

## Voting

In Q3 2020, a.s.r. exercised its voting rights as a shareholder at 105 Annual General Meetings. At 38 of these meetings a.s.r. voted against management or withheld from voting. Most ESG related proposals were be related to transparency on political contributions and to linking executive pay to sustainability criteria such as ESG performance.

# Other news

## a.s.r. asset management receives highest scoring in UN PRI assessment

a.s.r. has been awarded the highest score A+ on most elements of the 2020 UN PRI sustainability assessment, including Strategy & Governance. On all elements we have scored above sector average and on 3 categories improved from an A to an A+ score.

| AUM | Module Name | Your Score | Your Score / Median Score |
|---|---|---|---|
| | 01. Strategy & Governance | A+ | A |
| **Indirect - Manager Sel., App & Mon** | | | |
| < 10% | 02. Listed Equity | A+ | A |
| < 10% | 03. Fixed Income - SSA | A+ | B |
| < 10% | 04. Fixed Income - Corporate Financial | A+ | A |
| < 10% | 05. Fixed Income - Corporate Non-Financial | A+ | A |
| < 10% | 07. Private Equity | A+ | A |
| **Direct & Active Ownership Modules** | | | |
| 10-50% | 10. Listed Equity - Incorporation | A+ | A |
| 10-50% | 11. Listed Equity - Active Ownership | A | B |
| 10-50% | 12. Fixed Income - SSA | A+ | B |
| 10-50% | 13. Fixed Income - Corporate Financial | A | B |
| 10-50% | 14. Fixed Income - Corporate Non-Financial | A | B |

## a.s.r. has signed Finance Biodiversity Pledge

The Finance Biodiversity Pledge is an initiative by a group of European financial institutions, and was launched at the United Nations General Assembly on September 25th. Signatories ask world leaders to take action and stop and reverse biodiversity loss in the next decennium. As financial institutions, we will take our role and start measuring the impact – both negative and positive- of our business on biodiversity and set targets to reduce negative impact by 2024 latest.

## 5 star Morningstar rating ESG Equity US fund

We are proud that Morningstar has awarded the ASR ESG US Equity fund with 5 stars and our ASR ESG EU Equity fund with 4 stars, based on a 3 year track record. This puts both ASR ESG index plus funds in the top segment of investment funds in the world, looking at achieved returns (Morningstar Risk Adjusted Return (MRAR)). Both funds also score high on sustainability, receiving 4 globes which puts them in the top 22,5%. This Morningstar Sustainability Rating measures the sustainability of a portfolio by looking at sustainability risk-scores of the individual companies.

# More information?

Contact us at:
raquel.criado.larrea@asr.nl
marjolein.meulensteen@asr.nl
joost.notenboom@asr.nl
jos.gijsbers@asr.nl



**a.s.r. asset management**
Archimedeslaan 10
3584 BA Utrecht

www.asrvermogensbeheer.nl