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Quarterly ESG Update - Q1 2021

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Net outcome

With vaccination programs speeding up, 2021 can become a year of strong recovery for the global economy. This is already anticipated by equity markets, currently at record levels. We can only overcome this Covid-19 pandemic when no one is left behind, so support is especially needed for those in the lower-income countries. And this is how a just transition should take place. We take a holistic approach, such as responsible mining and respect for human rights in the production of solar panels, which includes the full supply chain. Of course data availability, transparency and accountability is key in financial markets, to support our due diligence process and integrate ESG indicators. We used Artificial Intelligence to measure whether companies add to, or destroy, societal value, and to map the net outcome to the UN Sustainable Development Goals. Due to our stringent exclusion policy, our ESG integration and focus on 'best-in-class', the majority of the a.s.r. investment products for our clients promote environmental or social characteristics (i.e. SFDR article 8). We'll keep you updated on the next steps and implementation of the EU Regulations, Technical Standards and Delegated Acts at a.s.r. asset management.

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

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Impact

The societal impact of our investments

In our ESG Quarterly for Q3 2020 we announced that we were starting a pilot with fintech Util, to attempt to measure the net SDG impact of our investment universe and our portfolios in listed equities and bonds. After a few months of intensive collaborations across our investment teams we are pleased to share the results of this analysis. We have developed insights into our proprietary assets, which we invest on behalf of our parent company, ASR Nederland, as well as the three ESG focused investment funds we launched in 2017.

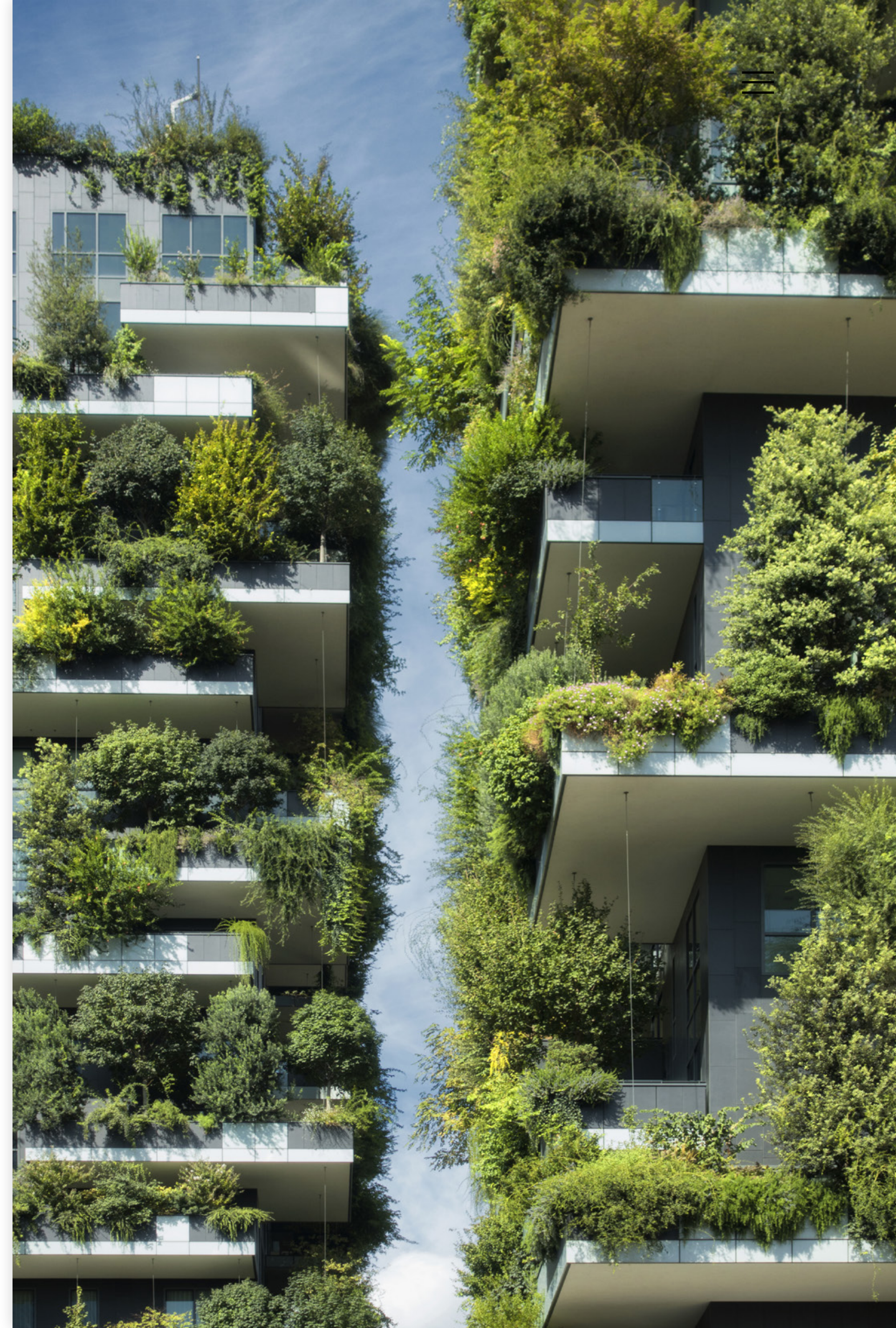
What the analysis showed is that, in general, impact on 'ESG' thematics seems more diluted across diversified portfolios, while those selected for specific outcomes appear to show more concentrated impacts. This seems intuitive, but for such a broad concept as 'sustainable investing' or 'ESG' it is useful to be able to quantify the nuance and trade-offs through complementary data.

For a complete write up please download and read our white paper *Lost in data?* which is available on our website.

To be read alongside that write up, a brief additional word on methodology. There is no shortage of impact measurement technology firms and approaches. Quantifying the societal benefits of financial products is a growing area of interest for (institutional and retail) clients, civil society organizations and regulators trying to steer (private) capital towards certain outcomes. The approach we took here is to look at 9,000 product and service categories of 50,000 companies within the analytical universe, and map those through a dataset of 120 million peer-reviewed publications, to over 2,000 sustainability concepts (aggregated up into the Sustainable Development Goals). The resulting correlations and causalities provide directional output whether companies add to, or destroy, societal value. The starting point of this analysis is company reported revenue. This is a methodological choice of Util. The downside is that two hypothetically

identical companies, in terms of revenue split between activities, would result in identical 'scores' – and how is an investor to then assess which of the two is 'better' if you don't take into account the operations of the company in terms of how it generates its revenue. Is it a good employer? Does it source its raw materials more responsibly than its peer? Does it perform better on its Scope 1 (direct) emissions?

An additional consideration here is that a recent study by MSCI found that 48 percent of MSCI ACWI IMI constituents (an index covering 8,906 companies across 50 markets) report revenue under a single economic activity. We therefore see a clear role here for the proposed Corporate Sustainability Reporting Directive (CSRD) and its link to the EU Taxonomy to drive more granular revenue reporting of economic activities.



Impact investing metrics – Glennmont & SUSI

As part of our private equity strategy we have been an early investor in the clean energy infrastructure funds offered by Glennmont Partners – one of Europe's largest fund managers in the field of alternative power projects. Committed in Fund I and Fund III we are glad to see the combination of financial returns with societal returns, as evidenced in its most recent Environmental, Social, and Governance Report 2020 (available through the website). Glennmont Funds I, II and III have positively contributed towards the UN SDGs 7, 8, 12 and 13 in a variety of ways over 2020. There are further contributions listed throughout their 2020 report, the key contribution is through the production of clean energy, as highlighted below.

Fund I, Fund II, and Fund III

Goal 7 Affordable and Clean Energy	Goal 8 Decent Work and Economic Growth	Goal 12 Responsible Consumption and Production	Goal 13 Climate Action
1.5 TWh produced over 2020	280+ jobs created over 2020	770,000+ GoO certificates produced	Over 400k gross CO_2 tonnes offset over 2020
Three virtual seminars hosted on the clean energy transition	Zero red traffic lights in H&S indicators across the operational assets	60.8k m^3 water used during biomass energy production over the year	Five important climate change Statements or letters signed

And the focus on Climate change and Energy Transition in the a.s.r. strategic investment policy has also been implemented by a commitment to the SUSI Energy Storage Fund, to diversify our exposure and impact. Investments in energy storage projects enable the development and operation of technologies that enhance the use of renewable energy generation, by storing renewable energy and enabling its use at a future point, be that for household consumption or for the provision of ancillary services to the local grid.

In order to assess the environmental benefits derived from energy storage projects, SUSI has requested South Pole to assess and verify the project's potential to deliver avoided emissions, in accordance with the World Resources Institute's Greenhouse Gas (GHG) Protocol. Avoided emissions are "emission reductions that occur outside of a product's life cycle or value chain, but as a result of the use of that product". South Pole's indicator is labelled as the potential for avoided emissions (PAEs), see below the reported numbers as per December 2020.

Summary of fund's annual impact

Fund	Estimated Annual PAEs for 2020 (tCO2e / year)	Estimated PAEs from acquisition to Dec. 2020 (tCO2e / to date)	Estimated PAEs across fund's life (tCO2e / fund lifetime)	Estimated PAEs across technology's life (tCO2e / tech. lifetime)*
Energy Storage	52,590.45	72,643.92	1,848,224.06	1,854,027.98

We continue to seek out new investing opportunities to deliver on our mandate of impact investing with a target of EUR 1.2 billion by year-end.

Climate

Implementing SFDR Level 1

On the 10th of March one of the many EU Regulations, part of the European Green Deal and its associated Action Plan for Financing Sustainable Growth, came into effect. For financial market participants familiar with the mammoth undertaking which Brussels is attempting, the Sustainable Finance Disclosure Regulation ("SFDR") should be a well-known acronym. Its aim is to develop a harmonized approach to assessing and disclosing how 'green' financial products are.

ASR Asset Management, alongside our colleagues in Real Estate and Pensions, falls within scope of the SFDR and as such we have been working on:

- Amending our precontractual product documentation to include how sustainability risks are integrated and their likely effects on returns.
- Disclosing whether the AIFs that we manage are labelled as "promoting environmental or social characteristics" ("Green Product", art. 8 SFDR) or as a "sustainable investment" ("Dark Green Product", art. 9 SFDR), or as "not integrating any kind of sustainability into the investment process" ("Grey Product", art. 6 SFDR).
- Disclosing on our website our due diligence policy with respect to the principal adverse impacts of our investment decisions on sustainability factors.

Due to our stringent exclusion policy, our ESG integration and focus on 'best-in-class' we have classified all our investment products as products that promote environmental or social characteristics (i.e. art. 8) except for:

- The Loyalis ZZP Pensioen product, which partly invests in 'grey' index trackers and does not offer the client a selection due to its lifecycle approach. We intend to remedy this situation in the short term.
- The ASR ESG IndexPlus Institutional Europa Aandelenfonds, which is a product with a sustainable objective and as such is classified as Art. 9.
- The ASR ESG IndexPlus Institutional Euro Staatsobligatiefonds, which also seeks to achieve a sustainable objective and is also classified as Art. 9.

The interpretation and implementation of the SFDR is complicated. It touches many other, yet to be finalized, EU Regulations, Technical Standards and Delegated Acts. As such, it's a moving target and a few months after the 10 March deadline we can already see different approaches, interpretations, and strategies because of this phased implementation approach.

At ASR we are not new to responsible or sustainable investing, and we will continue to focus on optimizing our policy and practice. An example of how we try to innovate in our approach to sustainable investing is provided elsewhere in this Quarterly when looking at SDG impact measurement.

CO_2-footprint of our investments

At the end of the first quarter of 2021 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. In the first quarter of 2021 we were able to increase the carbon footprint calculation, due to higher percentages for equities and credits. During this quarter we further integrated the carbon measurement for external clients into our systems.

The a.s.r. ESG fund range includes 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. At the end of the first quarter of 2021 the carbon emission of the credit fund is still well below the benchmark. The carbon emission per million euros of invested capital slightly decreased for the ESG Equity fund. The fund is optimized according to a best-in-class method based on the scores that companies achieve on carbon intensity, energy transition and total ESG policy. The carbon emission remains well below the benchmark. The emissions of the sovereign bond fund showed a slight decrease in carbon emissions.

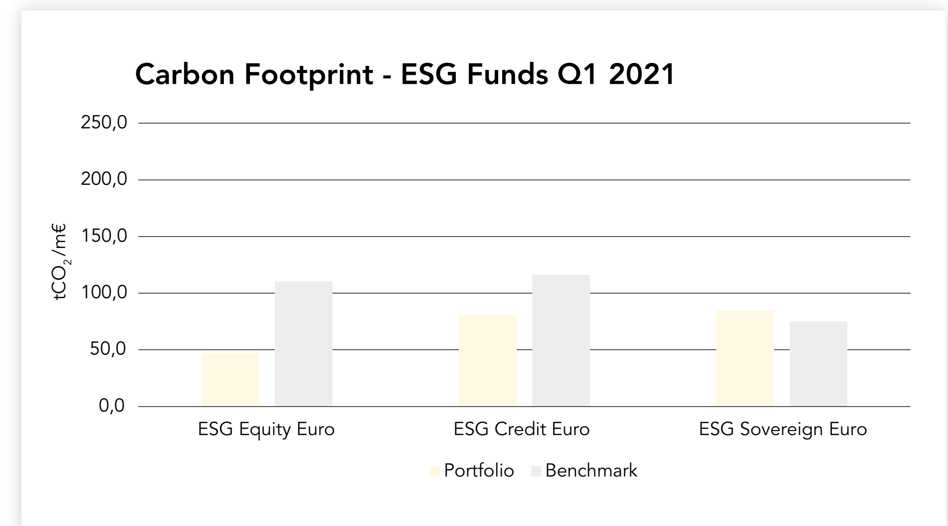
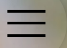


Figure: Carbon emissions for ESG equity, ESG credit and ESG sovereign fund at the end of March 2021. The carbon footprint is calculated on a "best effort" basis with the available and most recent data from reliable sources, including Vigeo Eiris. The results may show a changing course because the portfolio 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

A fair and equitable response to Covid-19

We have supported a global investor statement calling for an effective, fair and equitable global response to Covid-19. Different studies have found that leaving lower-income countries without access to vaccines amid the COVID-19 pandemic will cause significant economic damage that puts decades of economic progress at risk – for both emerging markets and advanced economies alike. But above all, we recognize a strong moral argument to leave no one behind. Uneven global access to health technologies (from vaccines and monoclonal antibodies to diagnostics and medical oxygen) will have an impact on the trajectory of the pandemic and global economic activity in the coming years.

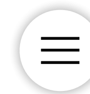
We have therefore called upon world leaders in the G7, G20 and ACT-Accelerator Facilitation Council to finance the ACT-Accelerator in full and deploy adequate funding to ensure fair and equitable access to COVID-19 tools globally. Also, we ask to with the Access to Medicine Foundation on this issue and engage (bilaterally and/or via existing collaborative initiatives) with our investee healthcare companies to promote industry actions supporting the mission and operations of the ACT-Accelerator (e.g., cross-industry R&D partnerships, equitable pricing strategies, voluntary licensing agreements). Furthermore, we recommend that governments and international organisations explore the feasibility of innovative finance mechanisms for national and global COVID-19 responses, for example social bonds for COVID-19 programs. These mechanisms could build on the strong response by capital markets to ESG-labelled debt issued in 2020.

Modern Slavery

Modern slavery is a widespread problem which has a significant economic impact globally. The exploitation of people through forced labour and sexual slavery has been fueled by a growing number of global migrants in search of prosperity, more complex supply chains (brought about by globalisation) and weak enforcement by regulators.

We believe that businesses have a key role to play in tackling this issue by making their own supply chains more robust. Not only do investors have a responsibility to do their best to prevent human rights violations in their investment portfolios from a responsible business conduct perspective, investee companies may suffer significant brand and reputational damage if human trafficking is found in their business and no effort has been made by the company to provide remediation.

In the UK, The 2015 Modern Slavery Act was a landmark piece of legislation, requiring all companies over a certain size operating in the UK to report in detail on their approach to finding and eliminating modern slavery within their supply chains. Given the systemic nature of modern slavery and the serious risk it poses to businesses and investors, we expect all UK businesses covered by the Act to meet the reporting requirements of the Modern Slavery Act. The quality of reporting under the Act can serve as an important marker for how seriously senior management are taking this risk. a.s.r. has therefore signed and supported the engagement with non-compliant FTSE 350 companies who have failed to meet the reporting requirements of section 54 of the Modern Slavery Act 2015.



More news

Due diligence - Uighurs

Following recent coverage on the plight of the Uighur ethnic communities in the Xinjiang region in northwestern China, and the link between Dutch pension funds and several Chinese investee companies using forced labor in the production of clothing and technology products, we re-visited our own policy and due diligence process. To start, China was already excluded in our country screening, due to their lack of democratic freedom. Which means we do not hold Chinese government debt or invest in Chinese state-owned enterprises. We are allowed to invest in companies operating in China or registered in China, which then are screened thoroughly through our investment analysis (which can result in an exclusion based on ESG considerations).

As we do not wish to be associated or linked with gross violations of human rights, the a.s.r. due diligence process includes the full supply chain, although facts and figures can be difficult to be verified. It is estimated that the Chinese 'poverty alleviation and resettlement programmes' relocated at least 80,000 Uighur workers from Xinjiang to 27 factories in eastern China between 2017 and 2019. And research suggests that more than half a million people from Uighur and other Turkic Muslim minority groups in Xinjiang have been coerced into picking cotton. This could imply that the supply chains of more than 80 global brands in the basic materials, consumer goods, industrials and technology sectors may be involved in human rights violations. Especially Xinjiang's cotton industry and rising solar energy technology sector is connected to a broad program of assigned labour in China, including methods that fit well-documented patterns of forced labour.

The a.s.r. sustainable investment policy has been developed and updated in line with international standards, such as the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance on corporate duties of care. Therefore we exclude companies that are involved in human rights violations, which could be the case when a company's production or supply chain is based in the Xinjiang region.

More information?

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