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Quarterly ESG Update – Q1 2022

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War in Ukraine

The first quarter of 2022 has been overshadowed by the Russian invasion in Ukraine. The impact of this war has been felt throughout the whole world, on the political, economic and especially the social aspect. Although a large number of sanctions have already been imposed by the NATO, European Union and the United States, they seem to have very limited impact on Putin's 'special military operation'. At a.s.r. we strive to remain a responsible investor at all times and accordingly, we continuously assess the impact of our investment decisions related to the war. Firstly, we evaluated our (indirect) company exposure in Russia and Belarus. Considering the fact that we already excluded these countries, in line with our country exclusion policy (based on the lack of democratic freedom and a high level of corruption), we could not invest in their sovereign and quasi-sovereign debt. As a result of company exposure assessment, no significant exposures have been identified.

Secondly, we reviewed our current stance with respect to our zero tolerance on armament and weapons: given the war in Ukraine. Should investments in weapons be permitted if they are only used for defense purposes? The defense sector has already been lobbying the European Commission to declare investments in armament as 'sustainable' within the Social Taxonomy, precisely because of their role in security and defense[1]. However, we strongly believe investing in armament and weapons can never be sustainable and more weapons will lead to more violence. Therefore, we will uphold our current exclusion policy and investments in weapons – of any kind – will remain excluded. In this quarterly report we also discuss the role of (Russian) gas as a transition fuel, we refer to the chapter 'Climate'.

1 https://www.responsible-investor.com/eu-defence-body-tenders-for-study-into-arms-industrys-esg-contribution/

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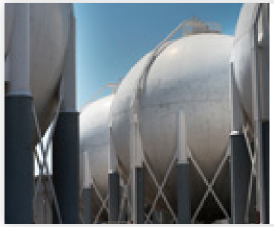

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Impact

Impact Investment 'Vytal'

Since the start of the Covid-19 crisis food delivering companies were able show some excellent financial figures, but the expectation exists that also after the crisis the ordering of food will remain popular[1]. Consumers got used to the 'on demand, anywhere & anytime food' principle, but this convenience goes together with the piling up of disposable packaging. Packaging will be used for about 30-60 minutes, but society can be stuck with it for about 500 years[2]. In Germany the start-up Vytal acknowledged this problem and aims to eliminate the disposable packaging waste.

Vytal developed a platform where companies (restaurants) can easily offer reusable packaging to their customers, which replaces the single-use status quo of plastics. Vytal gets paid per transaction, which is cost competitive or cheaper than single-use, keeping the service free for end users. Besides this, Vytal also measures the eco-impact for all its partners and creates an ecosystem of supermarkets, restaurants, canteens and corporate partners, helping to achieve the necessary convenience level for consumers to make reusables as easy and convenient as single-use.

1 https://www.boerenbusiness.nl/agribusiness/artikel/10890876/maaltijdbezorging-blijft-ook-na-corona-populair
2 https://seriouslygood.com/zo-lang-duurt-afbreken-natuur/

Germany is known for its recycling capabilities and has decades of experience of reusable packaging, therefore it's also not surprising Vytal has its roots in Germany. Vytal reports a return rate of over 99% and an average rental period of 3 days – if the goods are not delivered a fee will be charged and consumers can keep the plates or cups – and with these statistics it even beats the return rates of Germany's bottle deposit system[3]. The Vytal team aims to continuously improve its digital reusable packaging system and make it globally scalable.

At a.s.r. we underwrite the importance of reducing the amount of plastic – we are also signatory of the UN treaty on plastic pollution – and therefore we are happy to announce we are now investing via Rubio Impact Ventures in Vytal.

3 https://www.rubio.vc/portfolio/vytal/

Impact Investment Ecuador Social Housing Bond

a.s.r. has invested in a sovereign social bond issued by Ecuador which provides access to social and public housing. The issuance of $400 million will generate access to decent and affordable housing for more than 24.000 medium – and low-income families. The Ecuadorian government is the first country with this type of issuance and it demonstrates how new forms of financing can be generated to promote social inclusion and equality.

The issuance will serve to boost the government program 'Casa para Todos'. The program's cornerstone is the creation of conditions that promote access to safe, adequate and decent housing. This should be the starting point for people to improve their living conditions and achieve increased social mobility. The program seeks to reduce the social gaps of social inequality and assure the universal access to basic services.

The issuance is backed by a guarantee from the Inter-American Development Bank (IDB) for $300 million, making the operation highly attractive for international investors and reducing the financial costs for Ecuador significantly4.

4 https://www.iadb.org/en/news/ecuador-issues-worlds-first-sovereign-social-bond-support-idb-guarantee

NAB Impact Report

The foundation Netherlands Advisory Board (NAB) on impact investing is an initiative launched in 2020 by several Dutch financial sector players (a.o. a.s.r Asset Management) and is focused on scaling up investments in impact and increasing cooperation in the Dutch impact investing sector[5]. On March 23th the NAB published their impact report of 2021 and in this article we will summarize the most important findings.

Global impact investing is already a trillion-dollar marketplace. The International Finance Corporation (IFC) estimated the market size for total assets of impact investors in 2019 to be $505 billion, using very narrow criteria[6]. In the impact investment market investors are increasingly aligning and measuring their investments with the UN Sustainable Development Goals. These SDGs represent targets for overcoming the most pressing challenges societies face, including poverty, inequality, prosperity, environmental degradation and biodiversity, peace and justice. The average score for achieved SDGs is 65% - where OECD countries have around 78% and emerging and developing countries are still significantly lagging behind.

5 https://www.nabimpactinvesting.nl/about-nab
6 NAB Impact Report 2021

Impact investing must be scaled to close SDG funding gaps, to achieve this $5-7 trillion per year will be required globally. Some sectors, such as the energy sector, have managed to successfully attract significant amounts of investments from traditional investors, many other sectors still lack the attention they need. Also low-income countries lack the financial space to meet the challenges ahead, including recovery from the Covid pandemic and meeting existential threats such as climate change and biodiversity loss.

The Dutch investing market has invested €150-180 billion for impact, which is 4-6% of all Dutch assets under management. Although the sector is growing rapidly and the Netherlands is strongly positioned to become a global leader in impact investing, the impact allocation in Dutch assets under management remains low for a country aspiring to be leading in this field and remains below the 5-7% global average needed to achieve the SDGs. Factors identified by investors as barriers are public sector barriers (Dutch and European regulation), market efficiency barriers and investment culture barriers (short-termism, conservatism, return expectations).

The report gives both recommendations to the government as to investors. For the government, barriers to impact investing should be removed by improving financial and regulatory frameworks. Also new government funds should actively promote an impact investing approach. For institutional investors the recommendation relates to setting ambitious and time-bound portfolio growth targets. Impact investing allocations should be doubled to a minimum of 10% of their assets under management.

Climate

IPCC Report 'Impacts, Adaptation and Vulnerability'

The Intergovernmental Panel on Climate Change (IPCC) is the United Nations body for assessing the science related to climate change, their 195 members contribute from all over the world regarding the impacts and future risks, but also options for adaptation and mitigation[7]. The IPCC report published on the 28th of February may not have received as much attention – because of the war in Ukraine - as it deserved. But the message was nevertheless urgent: authors of this new report stated there is only a brief window to avoid the worst consequences of climate change.

The report is being published in four different parts, this second part is assessing the effects of climate change and how humanity can adapt to these. The most important findings are that 3.5 billion people are highly vulnerable to climate impacts and half of the world's population will suffer severe water shortages at some point each year. One third of the population is exposed to deadly heat stress and in 2050 half a billion people will be exposed to the risk of serious flooding every year.

Rising temperatures and rainfall are increasing the spread of diseases among people, such as dengue fever and in crops, livestock and wildlife. At this moment we already reached a temperature rise of 1.1C, but even if the world keeps heating below 1.6C by 2100 – 8% of today's farmland is expected to be climatically unsuitable. The report also states the protection of wild places and wildlife (biodiversity) is fundamental to cope with the climate crisis, but animals and plants are being exposed to climatic conditions not experienced for tens of thousands of years.

At a.s.r. we follow the outcomes of the IPCC reports with great interest and we are also applying our strategy on these results. Last year we already announced our new fossil fuel strategy, where we have sold investments in coal mining and unconventional oil & gas and are engaging with other fossil fuel and carbon-intensive companies to steer them to being Paris-aligned. We are currently also researching methodologies how to assess the impact on biodiversity and how we can minimize the negative impact and invest in nature-positive companies and projects.

7 https://www.ipcc.ch/about/

The role of gas in the energy transition

At the start of 2022 the main discussion in European ESG-circles was around whether gas-fired power would, and should, be included in the EU green taxonomy; which would classify certain gas-related activities – and investments therein – as 'green'.

At the time, a.s.r. took the position – together with several other Dutch financial institutions – that gas should not be classified as 'green' as its emissions profile does not seem compatible to what is needed to get back to a 1.5 degree pathway. However, in early February the European Commission officially proposed to include certain nuclear energy and natural gas related activities in the sustainable finance taxonomy.

The importance of gas was underscored that same February, when Russia invaded Ukraine and Western countries immediately started considering banning oil and gas imports from Russia. The European dependence on Russian gas was never really questioned – despite some earlier warnings signs – but last month Europe learned the lesson that cutting off Russian gas is easier said than done. The sanctions imposed by the EU and the United States and the threatening of Russia to cut supplies showed how volatile the price of gas is and what the impact is on inflation figures – 9,7% in March this year[8].

8 https://www.cbs.nl/en-gb/news/2022/14/inflation-rate-up-to-9-7-percent-in-march

So what are the alternatives if we completely stop with Russian gas? The United States already presented itself as the solution for Russian gas with President Biden pledging to increase exports of liquefied natural gas (LNG) by 15 billion cubic meters this year and as much as 50 billion cubic meters by 2030 (one third of the current import from Russia)[9].

American LNG companies are happy to fill the gap. But the impact on American society is felt; more than a dozen new American liquefaction projects remain highly uncertain as construction costs rise; US gas prices soar; and climate policymakers pursue a long-term shift away from fossil fuels and their associated emissions[10]. Also, significant environmental downside exists with the extraction of LNG gas; methane leaks – which is 85 times more carbon-intensive than CO_2 over a 20-year period – are not uncommon from gas infrastructure and the full lifecycle carbon intensity of LNG is also something to take into account.

LNG that will be imported by the European Union is produced by the method of 'fracking'. This involves drilling into the earth and directing a high-pressure mixture of water, sand and chemicals at a rock layer to release the gas inside[11]. This composition of chemicals may poison groundwater, pollute the surface water, impair wild landscapes and threaten wildlife. That's also the reason we excluded companies with more than 5% of revenue generated by unconventional activities (a.o. shale oil and shale gas).

The European Commission has recently announced details of a plan to ramp up the EU's renewable energy capacity and reduce the reliance on Russian fossil fuels. The Ukraine war will probably lead to the diversification of energy imports and hopefully speed up Europe's clean energy transition. But besides these developments, the discussion about gas as a transition fuel – whether in liquefied substance or extracted from the still sizeable gas field in the Dutch soil - will most likely persist.

9 https://e360.yale.edu/features/how-u.s.-gas-exports-to-europe-could-lock-in-future-emissions
10 https://www.ft.com/content/6275bd39-0766-4b58-91ba-bc57f03c9d69
11 https://www.bbc.com/news/uk-14432401

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 due to lower investments in the Services and Energy sector.

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 a decrease in carbon emissions per million euro.

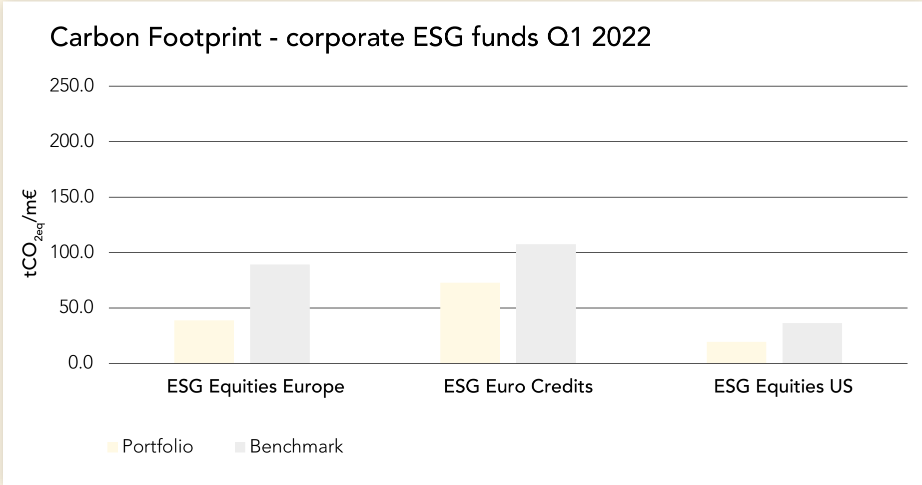

Figure: Carbon emissions for ESG equity (Europe and US), ESG credit and US equity funds at the end of December 2021. The carbon footprint is calculated on a "best effort" basis with the available and most recent data from reliable sources, including Vigeo Eiris. The results may show a changing course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

Climate resolutions

The voting season has started again and this year we noticed an interesting trend at almost all American financial institutions; shareholder resolutions were submitted forcing companies to stop any additional financing for fossil fuel projects. Proponents state that climate change is a challenge that poses risks to the economy, investors and companies' profitability by increasing credit, market, reputation and operational risks.

All proponents refer to the statement of the International Energy Agency (IEA) in 2021 that exploitation and development of new oil and gas fields must stop this year and no new coal-fired power stations can be built if the world is to stay within safe limits of global heating and meet the goal of net zero emissions by 2050[12]. The IEA – previously known as a conservative institution regarding the topic of climate change - has been founded in 1973 during the worldwide oil crisis and its role is focused on maintaining stability of the international oil supply[13].

12 https://www.theguardian.com/environment/2021/may/18/no-new-investment-in-fossil-fuels-demands-top-energy-economist
13 https://theconversation.com/iea-report-worlds-leading-energy-adviser-was-founded-to-protect-oil-supplies-now-it-wants-to-ban-new-fossil-fuels-161247

So far it looks like all similar climate resolutions have failed, garnering around just over 10% of the votes. Despite the failures, the resolutions show that companies are experiencing increased pressure from the inside to make meaningful reforms on climate change. Big banks in America (JPMorgan Chase, Morgan Stanley, Citygroup, Wells Fargo and Bank of America) which recently had AGM's have joined a coalition at last fall's climate conference in Glasgow aligning their financing with reaching net-zero greenhouse gases by 2050. Also more and more commitments are made by banks about restricted financing for Arctic drilling and coal operations.

Despite these pledges, banks are still financing fossil fuel development that ensures they are not aligned with these longer-term targets. At a.s.r. Asset Management we have the right to vote at the AGMs of these companies and for the climate resolutions we did vote in favor of the proposals because we believe these companies can make the real difference in fighting climate change and to keep climate change below 2 degrees Celsius no new fossil fuel projects should be funded.

Update Exit Fossil Fuel Strategy

December 2021 we announced our Fossil Fuel Strategy where we explained how we aim to phase out fossil investments. We identified three different phases of which phase 1 – investments in producers of thermal coal and unconventional oil and gas products such as shale gas, arctic oil and tar sands – has been sold. The size of these investments was around €80 million.

Phase 2 focuses on companies with activities related to conventional oil and gas production. The size of these investments amounts to €300 million. For the companies involved, we will determine during the period 2022-2024 whether their targets are in line with the transition path of the Paris Agreement. If this is not the case, and there is no prospect of the companies committing to these targets during dialogue in that period, we will sell our positions and reinvest in companies that do meet the transition criteria.

The first months of 2022 we have been gaining more insight in the current carbon performance, management and goal setting related to carbon reduction emissions and the net-zero commitments of these companies. The tools which give insight in the progress of companies are the Implied Temperature Rise methodology developed by MSCI and the Transition Pathway Initiative.

The Implied Temperature Rise tool looks at the remaining carbon budget left for the world if we are to keep warming this century well below 2 degrees Celsius[14]. The budget is allocated to about 10.000 public companies, after which the public companies' projected emissions are assessed – based on current emissions and an analysis of their stated reduction targets. Companies whose projected emissions are below budget are said to be 'undershoot', while those whose projected emissions exceed the budget 'overshoot'. This methodology gives a clear insight in the current and future activities of a company and whether they are 'Paris-aligned' or not.

14 https://www.msci.com/our-solutions/climate-investing/net-zero-solutions/implied-temperature-rise

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. The TPI provides independent research which empowers investors to assess the alignment of portfolios with the goals of the Paris Agreement and to drive real world emissions reductions through actions[15]. TPI is seen as the leading corporate climate benchmark. Both these methodologies give proper insight in our 'phase 2 companies' and are great starting point for engagement.

15. https://www.transitionpathwayinitiative.org/overview

More news

Fair Insurance Guide 'Biodiversity'

The Eerlijke Verzekeringswijzer ("The Fair Insurance Guide") looked into the biodiversity policy and actions of the Dutch insurance sector. With this research, the Fair Insurance Guide wants to contribute to, among other things; influencing the intentions of insurers, reducing the negative impact on biodiversity, and reducing the pressure on biodiversity and recovery. a.s.r. scores the highest of the nine assessed insurers with a 10 and is therefore recognized for its current policy on biodiversity and impact investments[16].

The 'Eerlijke Verzekeringswijzer', which has been examining the investment policy of insurers on a number of sustainability criteria since 2013, chose the theme of biodiversity this year with a focus on food systems. When it comes to biodiversity, people often look at relatively well-known deforestation related raw materials, such as palm oil and soy. In this study, however, the Fair Insurance Guide chose to investigate raw materials that hardly receive any attention: maize, salmon aquaculture and cocoa. They examined nine companies that have a major impact on the ecosystems of these raw materials. Insurers were assessed in the survey on their policy (20%), investments (60%) and nature-positive investments (20%) with regard to these sectors.

a.s.r., Achmea and Athora Netherlands belong to the leading group of insurers surveyed. With a final score of 10 out of 19, a.s.r. received the highest score overall, partly thanks to the investments in companies that stimulate biodiversity.

a.s.r. asset management invests in five of the nine companies surveyed. With these companies, a.s.r. practices an engagement which means that a.s.r. encourages companies to improve policies and actions on biodiversity. In addition, a.s.r. invests in companies that can combat biodiversity loss, an example of this is the investment in Novameat, a company that produces plant-based proteins with a meaty structure.

Jack Julicher, CEO a.s.r. asset management: 'We are proud to be recognized by the Eerlijke Verzekeringswijzer for our commitment and engagement to biodiversity. We acknowledge that insurers play an important role in driving the transition to their preservation and restoration. In 2020 we therefore committed ourselves to the 'Finance for Biodiversity Pledge', the pledge with which we put the rapidly declining biodiversity on the agenda of financial institutions. For example, we have taken various steps, both in our own investment process and with various publications, to inform and inspire other financial institutions. This kind of research contributes to keeping biodiversity on the agenda and to stimulate it.'

16 https://www.duurzaam-beleggen.nl/2022/05/19/verzekeraars-moeten-meer-doen-voor-biodiversiteit/

a.s.r. for first time in Sustainable Brand Index

For the first time a.s.r. has been included in the Sustainable Brand Index – Europe's biggest independent brand researcher regarding sustainability. The company SB Insight performs its research in 8 different countries and for every country a Sustainable Brand Index has been developed. a.s.r. has been ranked on the 77th place out of 202 brands.

The index gives a view which brands are perceived by consumers as sustainable. The study is based on macro and microtrends, consumer behavior and brand analyses. From the insurers only CZ scores higher than a.s.r. with the 53th place. Number 1 on the list is 'the Vegetarian Butcher', 'Tony Chocolonely' is second and 'Greenchoice' is followed with the third place.

More information?

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