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Quarterly ESG Update – Q3 2022

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Separating E, S and G?

ESG investing has exploded recent years, a total of $35 trillion is monitored through one ESG lens or another[1]. The main idea of ESG find its roots in the fact that firms should not only be based on their financial performance but also on their environmental and social record and their governance. The financial newspaper the Economist recently started a discussion about the effectiveness of ESG criteria, according to the Economist there are currently three problems with ESG investing; it does not provide coherent guide for investors and firms to make trade-offs that are inevitable in society, ESG is not being straight about incentives (polluting the environment is often very profitable for companies) and the various scoring systems of ESG ratings have gaping inconsistencies.

The E, S and G should be unbundled and the focus should only be on the E. The E is an all-encompassing term, including biodiversity, water, scarcity and so on. Therefore the E should not stand for environmental factors, but only for emissions, as emissions are having the biggest impact on the environment. Although we recognize the challenges for measurement, we don't believe we should simply leave out the S and G in our investing decisions. Topics like human rights and governance cannot be ignored, and by simply focusing on the reduction of emissions, the easiest way to achieve carbon reductions in a portfolio is to divest from carbon-intensive companies. The 'real world impact' is in this case equal to zero.

We believe that the biggest polluting companies are also the companies that can take a leading role in the energy transition. As a responsible investor we are engaging many of these companies and we focus on the development and improvement of realistic transition plans, in line with the Paris Agreement. The unclarity around ESG criteria will also be (partly) resolved by the upcoming EU legislation in the name of the SFDR (financial products) and the CSRD (sustainability reporting for companies).

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

1 https://www.economist.com/leaders/2022/07/21/esg-should-be-boiled-down-to-one-simple-measure-emissions

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Impact

Impact Investment RIFT

The need to switch away from gas and towards alternative and clean sources of heating is higher than ever, especially if you imagine that more than 40% of global CO2 emissions originate from energy-intensive industries. Despite the increasing pressure put on decarbonizing these energy-intensive industries (think: district heating, process industry and electricity generation), businesses are struggling due to a lack of (clean)technologies which fit their needs and do not cost a fortune.

RIFT (Renewable Iron Fuel Technology) – a company originated from the Technical University Eindhoven - is developing new technology to use iron powder as a circular fuel to generate heat with no direct CO2 emissions, which will function as a sustainable alternative compared to fossil fuels. Iron powder has the capability to store energy and when this is combusted, heat is created and the residual powder is generated into iron fuel which can be used to create heat again. RIFT is developing industrial-scale boilers which will directly replace gas-fueled boilers and save significant amounts of CO2 emissions per year.

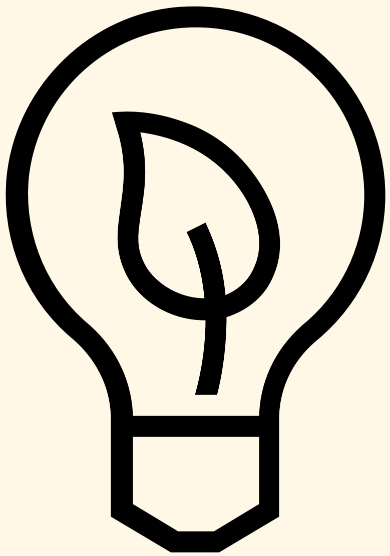
Next to Rubio Impact Investors, BOM (Brabantse Ontwikkelings Maatschappij) and the Energy Transition Fund Rotterdam also Bill Gates joined the investment. RIFT is currently testing a prototype of their technology at an existing district heat facility and the heat is currently being used by Dutch households in the neighborhoud. Altough it's an early-stage technology, many people believe iron fuel may become the next breakthrough in cleantech energy solutions.

a.s.r. invested in Rift via the private equity fund Rubio Fund II.

Impact Investment Acuity Brands

For our impact portfolio we are constantly scanning for companies which contribute positive to society. One of the companies that we identified as an impact investments is Acuity Brands in the Listed Equity category. For this investment category we make use of the PRI Impact Investing Market Map. The Market Map provides a methodology to begin identifying impact investing companies. The financial conditions to classify as an impact investment are based on each theme and rely on a benchmark of company revenues in MSCI, FTSE or Bloomberg indexes[2].

Acuity Brands is a market-leading industrial technology company which aims to solve problems in spaces and light. Their operations are divided in two different segments; Acuity Brands lightning and Intelligent Spaces Group. With their solutions Acuity helps reducing the energy demand of her customers and thereby their carbon footprint. Currently 85% of their revenue can be related to the theme Green Buildings (minimum requirement according to the UN PRI Market Map is 50%). Acuity Brands has a positive impact on SDG 11: Sustainable Cities and Communities.



2 https://www.unpri.org/thematic-and-impact-investing/impact-investing-market-map/3537.article

Brambles

Another listed equity investment that has been added to the impact investment portfolio is Brambles. Brambles is the parent company of CHEP and active in more than 60 countries. Their most important activity relates to pooling solutions for the supply chain: they currently have a packaging network existing out of 360 million reusable units like pallets, containers and crates. This contributes to more sustainable production and consumption with more efficient supply chains. This directly leads to CO2-reductions, water savings, waste savings, and the avoiding of cutting down trees for single use practices.

The main mission of Brambles is to keep promoting their ''share and reuse model" and increase the number of customers that participate in the ''Zero waste world". Over the year 2021 the total avoided CO2 emissions accounted up to 2,4 million ton, 3,16 billion liter of water was saved and 3,2 million trees were not cut down because of reusing pallets.

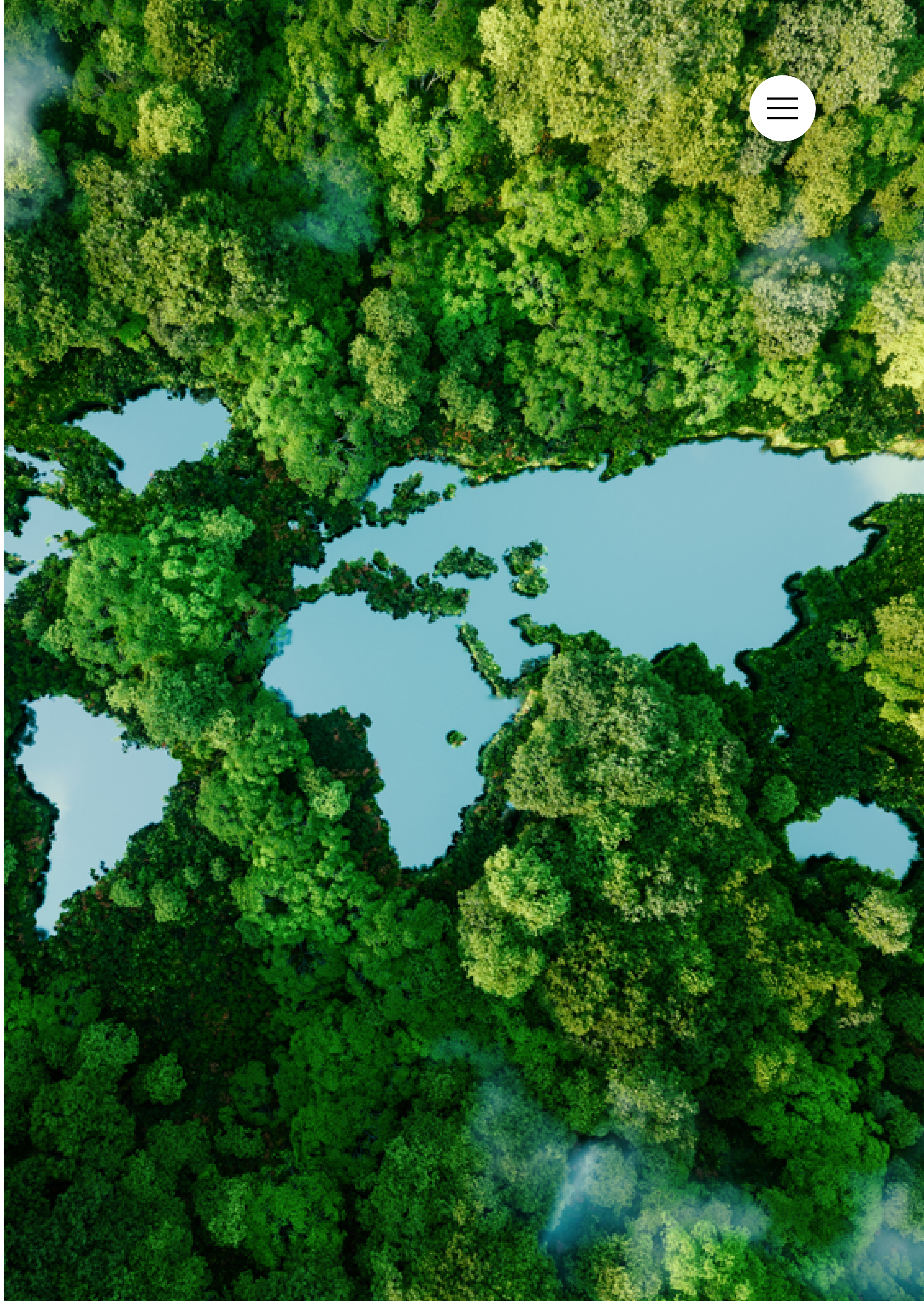
Climate

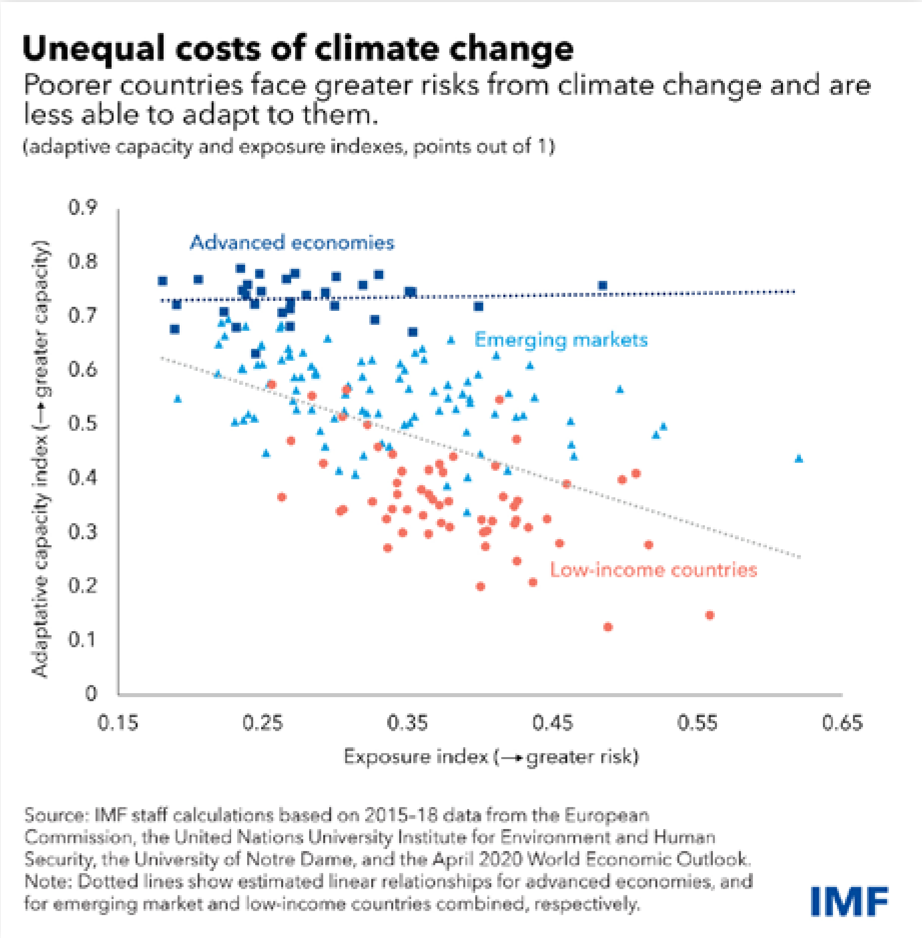
"Loss and Damage" funding and nature investing at COP27

This summer Pakistan has been tormented by extremely heavy monsoon rains, which led to the death of almost 2000 people and caused at least $40 billion in damages[3]. Scientists have warned climate change is the primary factor behind intense flooding in recent years, arguing warmer weather and stronger storms have accelerated flooding and sea level rise. The Pakistani prime minister already announced that COP27 in Egypt – starting November 6th – will be the stage where the compensation of climate change impact should be discussed.

Fact is that all countries, both rich and poor, have to adapt to climate change. But the countries that are most heavily exposed to climate change, are generally thze less developed countries in the world. Research from the International Monetary Fund (IMF) shows that low-income and emerging economies are more exposed to climate change, but they lack the funding to effectively adapt (see graph). Developed countries also owe their comfortable position due to the greenhouse gasses that have been emitted to boost their economies and make the transition to more digital economies – where more polluting industries could be transferred to developing countries. Developed countries are actually responsible for 79% of historical carbon emissions[4]. This is one of the reasons Pakistan wants the developing world to make up for the damage caused by the floodings.

3 https://www.forbes.com/sites/brianbushard/2022/10/19/record-flooding-40-billion-of-damage-in-pakistan-as-monsoons-devastate-south-asia/
4 https://www.cgdev.org/media/who-caused-climate-change-historically





Bron: https://www.imf.org/en/Blogs/Articles/2022/03/23/blog032322-poor-and-vulnerable-countris-need-support-to-adapt-to-climate-change

The so called ''Loss and Damage" funding for developing countries will – similar to previous years – be one of the most important topics to discuss. Rich countries have maintained their reluctance to accept financial responsibility for climate change caused by industrial activity, but developing countries are stepping up their demand. They are aiming for the creation of an international loss and damage finance facility at COP27[5].

Earlier rich countries agreed upon mobilizing $100 billion a year in support of poorer countries by 2020, but research show they fell short at $83.3 billion. In Glasgow at COP26 rich countries rejected the proposal for a loss and damage facility, although they agreed to start a dialogue on this topic. Anything included in the final COP27 agreement will require unanimous approval of more than 190 parties to the Paris Agreement. Reaching unanimous agreements has always been difficult at the COP, but this year might be particularly difficult due to the geopolitical context. Inflation, surging energy prices and Russia's invasion in Ukraine will not make the COP necessarily easier, but the final success of COP27 will mostly be depending on to which extent a certain form of ''Loss and Damage" can be realized for developing countries.

Another important topic on the COP27 will be investing in nature. Natural habits have the ability to absorb and store carbon and by protecting, restoring and better managing our lands and wetlands one third of the emissions reductions could be realized to keep global warming within climate safe boundaries[6]. Natural habits like coral reefs, mangroves and forests are also the best defense mechanisms against storms, foods and erosion and the protection of coastal communities.
Currently less than 10% of all climate funding flows to nature-based solutions. Therefore negotiations with government and business leaders will also be directed towards advocating for natural climate solutions.

At a.s.r. biodiversity is also an important topic, to read about our ambitions and plans we refer to the next paragraph about Biodiversity.

5 https://www.ft.com/content/3195ce2f-d4b3-4f9d-b6d4-6a05aa3da01a

6 https://www.nature.org/en-us/what-we-do/our-priorities/tackle-climate-change/climate-change-stories/cop-climate-change-conference/

Biodiversity

Natural climate solutions are also under the attention of the Dutch central bank (DNB). In September, DNB and the OMFIF Sustainable Policy organized a conference on the relevance of biodiversity loss for the financial sector and vice versa, and on the role of public and private financing in the conservation of biodiversity[7]. Three main conclusions of this conference were the following:

1. Although biodiversity loss seems like a 'local' issue, the loss of biodiversity can have far-reaching impact on the global financial system. Central banks and supervisors should include the risk of biodiversity loss in their long term risk analysis, but the responsibility and ability to tackle the issue is closely connected to governments. Subsidies for biodiversity threatening activities should be eliminated and clear and reliable transition plants should be implemented to balance demand and supply for ecosystems.
2. Climate change and biodiversity risks are interrelated and require an integrated approach. The Taskforce on Nature-related Financial Disclosures[8] (TNFD) emphasized these elements cannot be assessed separately anymore and need to be combatted by financial institutions with holistic policy measures.
3. Biodiversity is a very complex issue, which cannot be translated into only one indicator (like for example climate change). Despite the fact the issue is complex, this may not lead to a passive and waiting approach. Biodiversity data (which already is available) must be structured, interpreted and used for a standardized approach for measuring biodiversity.

7 https://www.dnb.nl/algemeen-nieuws/nieuwsbericht-2022/drie-conclusies-van-onze-biodi-versiteitsconferentie/
8 https://www.ngfs.net/en/about-us/governance/general-information

At a.s.r. we have conduced a study which aims at examining and comparing different biodiversity impact assessment (BIA's) approaches for financial institutions, which are specifically suitable for a.s.r. Multi-criteria analysis (MCA) has been applied to support decision-making in situations where possible ways of actions have to be compared on various different criteria, this way we have been able to understand which criteria are important for us. Based on this assessment the following criteria seemed to be most relevant for applying a BIA; the availability of company-specific data, consistency of results over time (to minimize volatility), uptake by peers, user friendliness and the ability of the BIA to measure positive impacts.

These criteria have been applied to different BIA's, we focused on 7 different methods, which cover biodiversity aspects like land use, climate change, pollution, direct exploitation and invasive species:

- Corporate Biodiversity Footprint (CBF)
- Biodiversity Footprint Financial Institutions (BFFI)
- Global Biodiversity Score for Financial Institutions (GBSFI)
- Biodiversity Impact Analytics powered by the Global Biodiversity Score
- Species Threat Abatement and Restoration (STAR)
- Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE)
- Global Impact Database: Biodiversity Impact Data (GID)

Next year we are hoping to make some first steps with actually choosing one of the above methods and perform individual company biodiversity assessments.

Carbon Footprint

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 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 Q2 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 a very small increase in carbon emissions per million euro because of lower enterprise values.

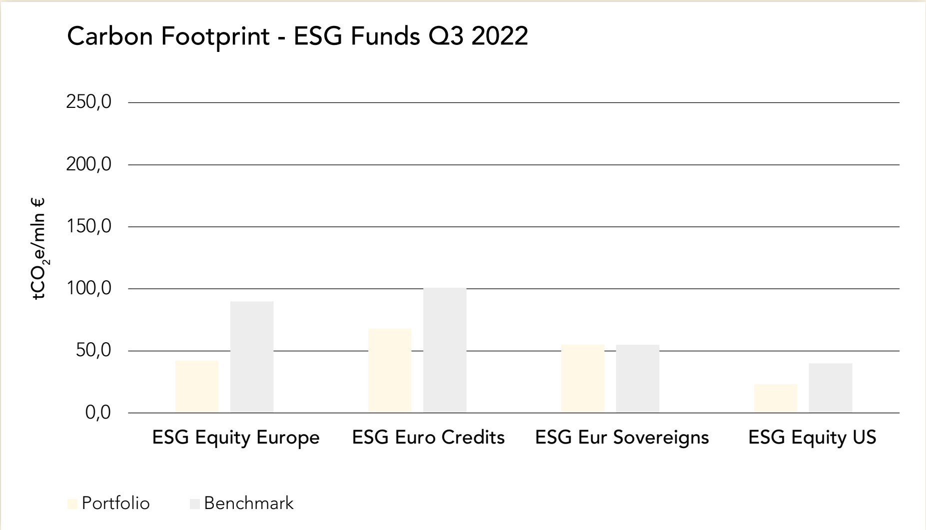


Figure: Carbon emissions for ESG equity (Europe and US), ESG Credits and Sovereigns funds at the end of September 2022. The carbon footprint is calculated on a "best effort" basis with the available and most recent data from reliable sources, including Vigeo Eiris. The results may show a changing course 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

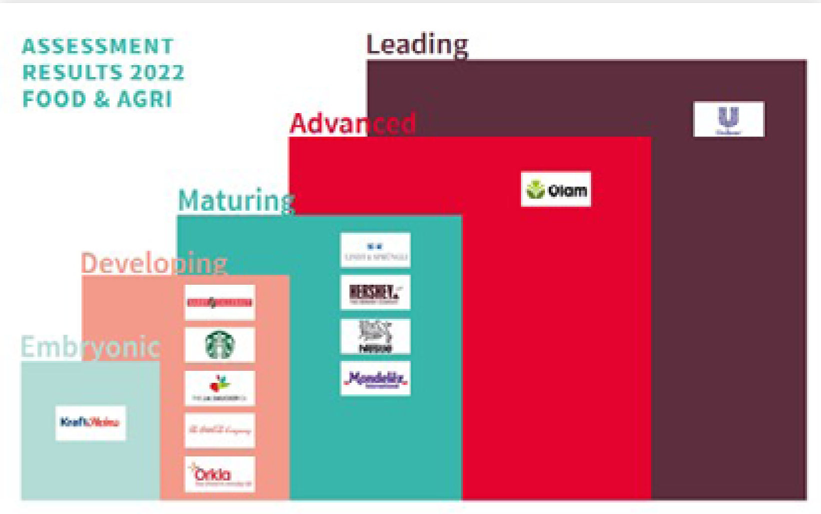
PLWF assessment 2022

a.s.r. is a member of the Platform Living Wage Financials (PLWF), an investor coalition with over € 6,5 trillion of assets under management that encourages and monitors investee companies to enable living wage and incomes in their global supply chains. The PLWF was officially launched in September 2018 with the idea to establish a collaborative investor initiative on the 'S' of ESG. PLWF members recognize the systemic issue of underpayment in supply chains.

What is a living wage and living income? It is a wage that allows workers to afford a decent standard of living for him- or herself and his or her family. It is not the same as a statutory minimum wage! The concept knows many definitions (such as the widely accepted one by the Global Wage Coalition) but all agree that a living wage should be enough to provide for food, water, housing, education health care, transportation, clothing and other essential needs, including provision for unexpected events. A living wage is locally specific as it depends on the costs of living in a particular place and should be earned in a regular work week. The concept of living wage applies to hired workers (for example in the garment industry) and the concept of living income applies to self-employed workers (for example smallholder farmers).

The benefits of living wage and living income are clear. Being able to earn that and sustain a decent standard of living is not only a human right but benefits businesses and society. It contributes to a more stable workforce, more resilient value chains and can have a multiplier effect on local economies and social-economic opportunities.

Each year, the PLWF publishes a report which presents the annual assessments of investee companies on living wage and living income. The 2022 PLWF report shows that the overall progress on the topics remains slow. Less progress is seen as desirable while the aftermath of Covid and the rampant inflation make living wages and living income even more important. There is an increase in the wage gap analysis performed, however it is still lacking effective implementation. Another finding was the weak complaint and remediation mechanisms for human rights grievances within agricultural & food- and food retail sector. a.s.r. will remain committed to the PLWF, which tries to increase its focus on what is really happening on the ground.



The Dutch Climate Coalition

Earlier this year, a group of like-minded Dutch investors decided to collaborate in engaging with oil and gas companies. a.s.r. joined this so-called Dutch Climate Coalition (DCC). The goal of our coalition is to obtain real-world impact; absolute reduction of carbon emissions. Therefore, we want oil and gas companies to prove their commitment to the Paris Agreement objectives. Below we present an overview of all the oil and gas companies in our portfolio with whom we have started our engagement process.

Company	Status
Ampol Ltd	Engagement Call 20-07-2022 - Follow up after publication Sustainability Report
Equinor ASA	Engagement Call 07-09-2022 + follow-up letter sent on 11-10-2022
Galp Energia	Engagement Call 29-09-2022
Inpex Corp	Engagement Call 20-09-2022
Repsol SA	Engagement Meeting 22-09-2022
TotalEnergies SE	Engagement Call 19-10-2022
Valero Energy Corp	Engagement Call 25-08-2022
ENI Spa	Engagement Call 15-09-2022
Neste Oyj	Engagement Call 24-08-2022
OMV AG	Engagement Call 6-09-2022 + follow-up letter sent on 11-10-2022

Although we believe the current energy crisis emphasizes the need to diversify away from fossil fuels, we acknowledge that the path to net zero is complicated and requires a nuanced, pragmatic, yet still ambitious approach that involves both the supply and demand side of energy.

The DCC supports the objectives of the investor collaboration network of the Institutional Investors Group on Climate Change (IIGCC) and the Climate Action 100+ (CA100+) engagement initiative. These objectives include corporate commitments to reducing greenhouse gas emissions across the value chain consistent with the Paris Goals, a strong governance framework with oversight of climate change risk and enhanced corporate disclosure in line with the Task Force on Climate-related Financial Disclosure (TCFD) recommendations. DCC primarily targets oil and gas companies but will as well increasingly focus on the demand side of fossil fuels.

Other news

Fair Insurance Guide

The Fair Insurance Guide has assessed the investment policy of the largest insurance groups active in the Netherlands for the eighth time. Of all insurers in this survey, a.s.r. with an average score of 8.9 in the lead with its investment policy.

This seventh policy update concerned 16 insurance groups: a 'core group' of eight insurers that have been included in the benchmark for some time and a group of eight 'newcomers' who were assessed for the first time during the expansion of the Fair Insurance Guide in 2021. On the basis of 14 themes, it was investigated whether, and if so which important principles from authoritative national and international sustainability standards insurers have included in their investment policy.

In policy and practical studies, the Fair Insurance Guide shows the extent to which insurers contribute to a socially just and sustainable world through their investments. In the policy studies, the investment policy and business operations of insurers are systematically compared and assessed. For a specific theme, practical studies assess whether an insurance group's investments are in line with national and international guidelines for sustainability and corporate social responsibility (CSR).

Sustainalytics Rating

Sustainalytics has proclaimed a.s.r. as most sustainable insurer worldwide in the July 2021 update. a.s.r. tops the list of the 276 considered insurers. In addition, with this rating a.s.r. ranks within the 1% most sustainable companies in the world.

Sustainalytics, a Morningstar company, measures how well a company manages its financially material ESG-risks (Environmental Social Governance), relative to peers. This gives the company an assessment of the ESG risks within individual companies.

This assessment takes into account a.s.r.'s sustainability policy, how this policy is applied in practice and how it is integrated into the service provision. The approach to risks is also assessed, looking at both climate risks and, for example, risks related to data privacy and cybersecurity.

According to Sustainalytics, a.s.r. has a negligible risk for several ESG criteria relevant to insurers, including Human Capital Issues, Business Ethics and the integration of ESG in insurance products and the managed investment offering.

More information?

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