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# Sustainable Investment Instruments

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## 1. Introduction

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It is ACTIAM's mission to deliver relevant investment solutions, optimising longer-term financial, environmental and social returns. To achieve this, ACTIAM invests all assets under management according to its sustainability policies, also referred to as Environmental, Social and Governance (ESG) policies. The aim of ACTIAM's sustainability strategy is to stimulate companies and states (sovereign issuers) to operate within the safe and just operating zone or move towards this safe zone. In the safe and just zone, society does not overshoot planetary boundaries and does not fall short on universal social and governance norms - see ACTIAM's overarching Sustainability policy for a further description. To realise this, ACTIAM uses a set of sustainability instruments such as impact measurement, ESG scores and active ownership.

This policy document describes the range of instruments ACTIAM has at its disposal, as well as general guidance for their use. As such, the document includes for example information on how ACTIAM executes its shareholder rights attached to voting shares in general meetings of companies and how we execute shareholder engagement in line with the Shareholder Rights Directive II (SRD II). The SRD II is a European Union (EU) directive which sets out to strengthen the position of shareholders and to ensure that decisions are made for the long-term stability of a company. Sections 2 and 3 of the document describe the context for the use of these instruments and sections 4 to 6 give more detailed descriptions of the different instruments and their use.

## 2. Scope

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ACTIAM applies sustainable investment instruments to all assets under management and to all asset classes. The specific approach may differ across asset classes depending on the suitability of an instrument. Any limitation to the use of instruments in specific asset classes will be identified in the respective section of this policy. For ACTIAM's approach to third-party solutions, please see ACTIAM's policy on external investment solutions.

### 3. Objectives

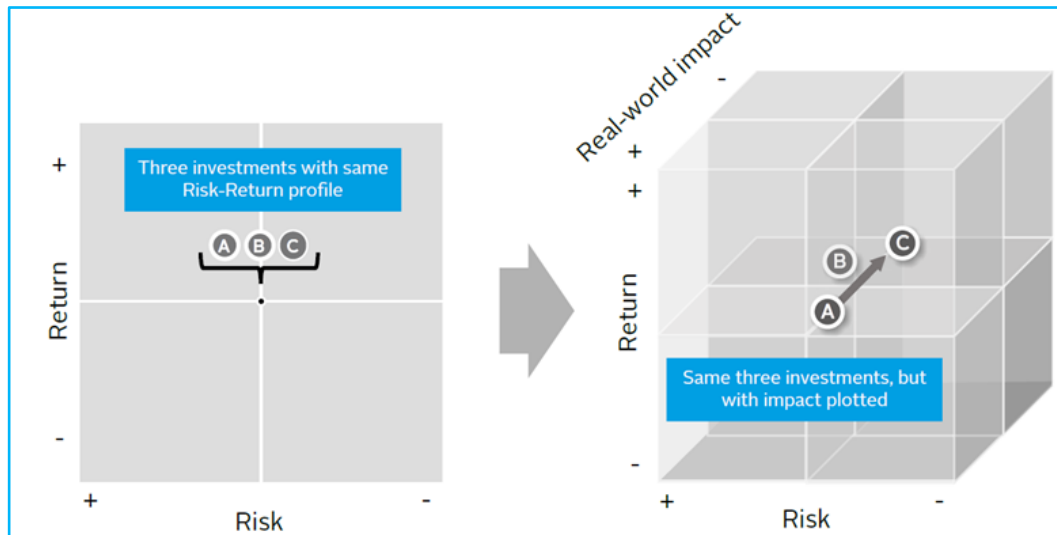
ACTIAM is an active owner and lender, meaning investee entities are actively monitored on compliance with policies and significant effort is made to move entities towards sustainable behaviour. While ACTIAM employs instruments to create sustainable portfolios, a large focus of ACTIAM’s work is on achieving change in the real world. To realise the transition towards a safe and just operating zone, companies and governments in ACTIAM’s investment portfolio need to change their behaviour and products.<sup>1</sup> In other words, ACTIAM aims to achieve a sustainable portfolio by realising a sustainable society.

As an investor, ACTIAM has several instruments for sustainable investment at its disposal. The purpose of the instruments varies but can generally be divided into three categories:

- To determine the investable universe, in other words which entities are eligible for investment in which products? (Screening and selection.)<sup>2</sup>
- To steer investments towards more sustainability, by identifying leaders from laggards in the investable universe (ESG scoring)
- To move entities towards operating in the safe and just zone or to creating positive impact (voting and engagement)

It is well researched that entities that perform well on financially material environmental, social and governance (ESG) issues have a better financial performance.<sup>3</sup> ACTIAM therefore moves away from a traditional two-dimensional risk and return model, towards a three-dimensional model that includes entities’ impacts in the real world, as displayed in Figure 1. ACTIAM integrates this real-world impact into its investment approach, stimulates entities to change their practices, and holds them accountable if there is lack of progress.

Figure 1: Three-dimensional model combining risk, return and impact



Source: Principles for Responsible Investment, 2018

<sup>1</sup> See the ACTIAM Sustainability Policy for a more detailed description of how ACTIAM envisions the role of companies and governments in this transition.

<sup>2</sup> “Entities” is a collective term for organisations that ACTIAM can invest in, e.g. companies, other issuers of bonds such as supranational organisations, states, and state-owned companies, or specific projects.

<sup>3</sup> See e.g. Khan, M., G. Serafein and A. Yoon (2018). Corporate sustainability: first evidence on materiality. *The Accounting Review*, 91(6), pp. 1697-1724.

As a guidance to achieve the desired impact, ACTIAM translated its Sustainability Framework into concrete targets for the investment portfolio:

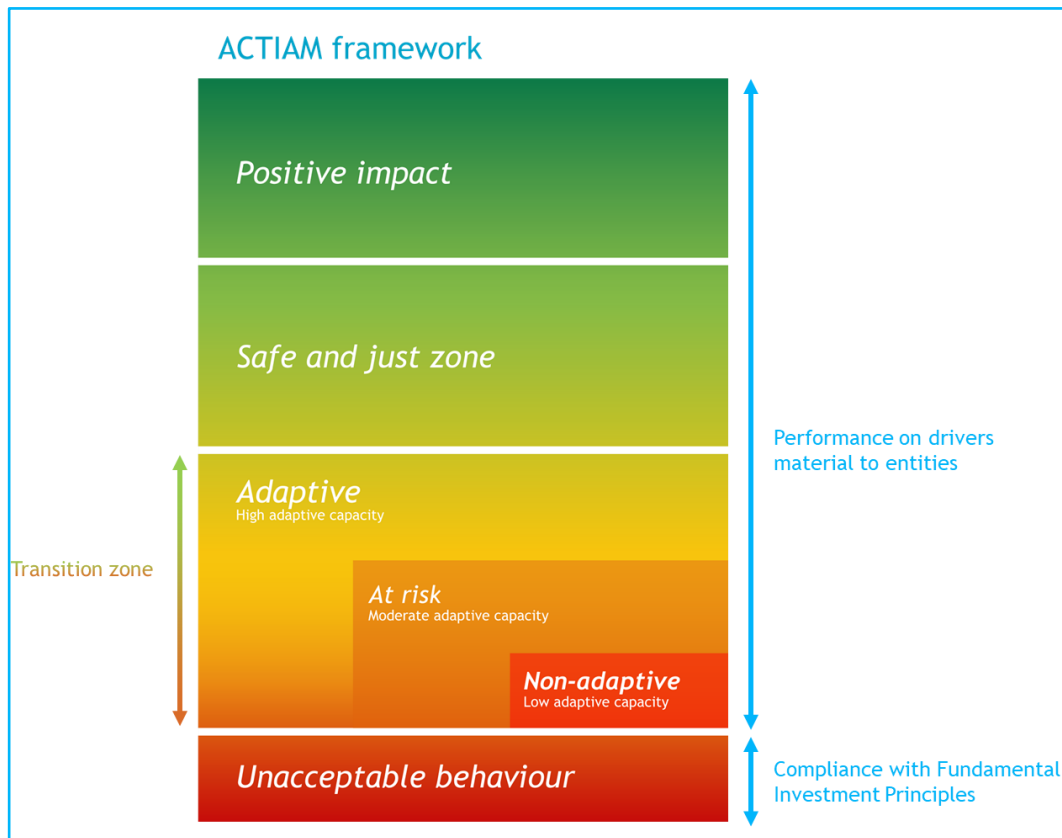
- For **fossil fuel use**, by 2030, ACTIAM's portfolios should be on the transition pathway that follow the Paris Agreement to keep global warming to well below 2°C. In order to achieve this, the greenhouse gas intensity of ACTIAM's investments needs to be reduced by at least 30% compared to 2010 levels.
- For **water use**, ACTIAM aims to achieve a water-neutral investment portfolio by 2030. By that time, half of the world will face severe water stress if water is not used more efficiently.
- For **land use**, ACTIAM aims to reach a situation of zero net biodiversity loss and zero net deforestation in its portfolios by 2030. Deforestation is one of the major causes of biodiversity loss, also impacting water availability and climate changes.
- For **chemical and hazardous waste management**, no international pathway has been designed to remain within planetary boundaries. Therefore, until science-based pathways are determined, ACTIAM monitors whether companies adapt their processes towards a circular business model and whether their emissions of chemical substances remain within the earth's carrying capacity.
- For the three social and governance drivers (**management of social and human capital and organisational behaviour & integrity**), the main objective implies that by 2030 ACTIAM only invests in companies that comply with principles of corporate social responsibility and in sovereigns that protect their citizens by respecting internationally agreed human and labour rights. Bad behaviour of entities on these indicators cannot be compensated by investments in activities that have a positive impact on a social factor.

## 4. Instruments

### 4.1 SCREENING

ACTIAM uses a proprietary Sustainability Framework to categorise all entities based on their sustainability performance and potential, as illustrated in Figure 2. This framework combines the concepts of planetary boundaries and social foundations to a model that can be applied to investment considerations. The model distinguishes different kinds of behaviour and impact, ranging from unacceptable behaviour (e.g. producing controversial weapons) to having a positive impact (e.g. generating renewable energy.)

Figure 2: ACTIAM’s conceptual framework of the safe and just zone for humanity



ACTIAM uses a range of sources to determine the appropriate category for entities. This research is done on a bi-annual basis. A more detailed explanation of the model, the concepts of planetary boundaries and social foundations, the relevant material drivers and how the research is conducted is given in ACTIAM’s Sustainability Policy and Sustainability Drivers documents.

### 4.2 SELECTION

Selection refers to the choice to include or exclude entities from investment portfolios. Selection is the first step that is taken after screening and can be applied in a way that fits the purpose of a specific portfolio, as illustrated in Figure 3 below.

#### Exclusion

Exclusion of an entity means ACTIAM will no longer invest in the company or sovereign bond. The main purpose of this instrument is to avoid exposure to unacceptably high (financial) risks from organisations. It is therefore best applied to practices and products that ACTIAM deems unacceptable and to those entities that are not adaptive, i.e. face high risks with insufficient management of these risks. Excluding an entity from investment requires careful consideration, as it means ACTIAM loses much of its opportunity to influence the course of behaviour of the entity.

Entities that structurally violate ACTIAM's criteria of unacceptable behaviour, the Fundamental Investment Principles, will be presented to the ACTIAM Selection Committee with the advice to be excluded from investment.<sup>4</sup> If a decision to exclude is made, this will be applied to all products, including passive investment products. Any existing exposure to the company or sovereign issuer will be brought back to zero following a strict governance process.

Violations that are of an incidental nature will be subject to an investigation phase. During this phase, which is limited to three months, ACTIAM will look into the nature of the incident and the viability of engagement as a measure to address the issue.<sup>5</sup> The investigation phase is concluded with an advice towards the ACTIAM Selection Committee regarding status (include or exclude from investment) and tools that should be applied, e.g. whether to conduct responsive engagement, adjust the ESG score, or take other measures. The success of an engagement will determine next steps, which is detailed under section 4-D of this document.

Finally, if entities are categorised as non-adaptive, ACTIAM deems them to be a significant risk to society and to investors. As there is very limited capacity to make the transition towards business conduct categorised as being in the safe and just zone, engagement is unlikely to be successful. Therefore the entities that fall into this category are also presented to the ACTIAM Selection Committee with the advice to exclude from investment.

Screening of excluded companies and sovereign issuers is done on a bi-annual basis. If this research shows that the entity is no longer violating the criteria for exclusion, the entity may (re)enter ACTIAM's investment universe, subject to regular screening and monitoring.

## Positive selection

Some product ranges have even stricter selection criteria, further limiting the entities that are available for investment. ACTIAM's sustainable fund range includes only those entities that are considered adaptive, and those already operating in the safe and just zone or delivering positive impact. ACTIAM's impact fund range is dedicated to entities that deliver solutions for challenges such as climate change. These entities contribute towards achieving global goals such as the Sustainable Development Goals. Based on the screening, the investment universe for these funds can be determined. How these fund ranges relate to the ACTIAM Sustainability Framework is displayed in Figure 3.

### ■ Off-benchmark investments

Some entities deliver significant positive impact, but are not included in the relevant benchmark of a fund. Some active investment products have the flexibility to include so called off-benchmark entities. ACTIAM provides added value by seeking off-benchmark sustainable and positive impact-entities that match the sustainability and financial criteria for the specific fund.

### ■ ACTIAM Impact Investment

ACTIAM has a dedicated impact investment team that offers non-listed positive impact products. The selection of entities and projects for these funds is another form of positive selection. Investments are carefully selected based on their contribution to the energy transition, financial inclusivity and other SDGs. Additionality is an important factor in these investments, meaning the investment will realise an improvement compared to a 'business as usual' scenario. The impact that is generated by these non-listed investments will therefore contribute to achieving a safe and just world.

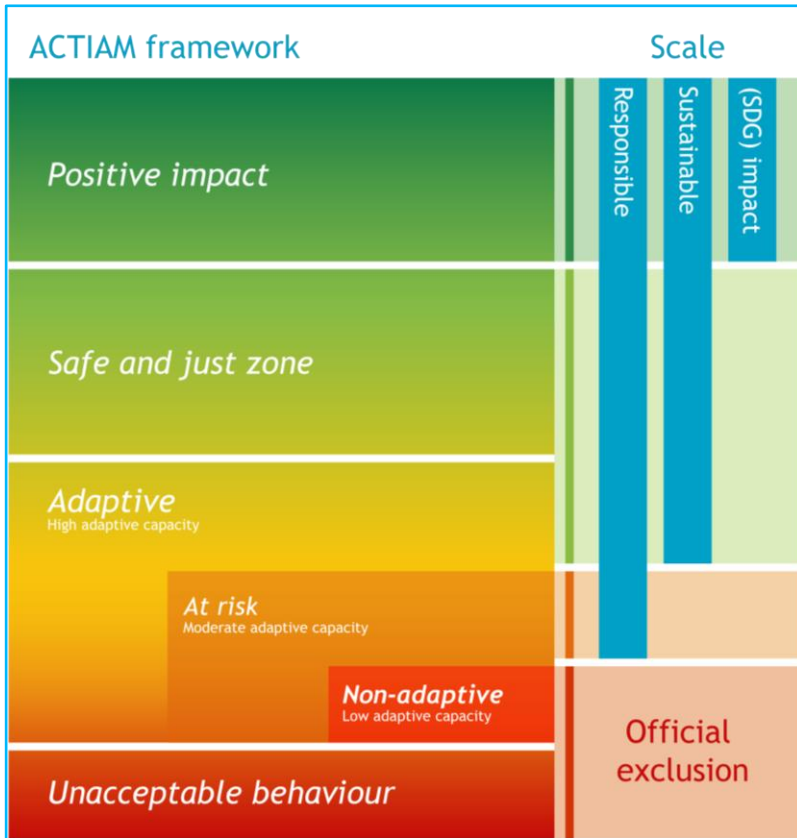
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<sup>4</sup> The ACTIAM Selection Committee formally approves or rejects ESG policies and exclusion decisions. This committee consists of ACTIAM board members, the director of the ACTIAM Sustainability & Strategy team and an independent ethics specialist that reviews and challenges ESG decisions.

<sup>5</sup> Research into the nature of the incident should determine whether the incident occurred despite sufficient precautions and efforts by the company, or whether the incident is a result of more structural deficiencies in how the company deals with environmental, social and governance issues. Advice regarding the viability of engagement is based on the governance and ownership structure of the company, any history of engagement and the company's response to that, the regulatory and geographical context in which it operates, public responses of the company to the incident, and whether there is credible reason to believe that the company can change its conduct, products or services.



Figure 3: ACTIAM’s Sustainability Framework and investment universe



### 4.3 ESG SCORING

After determining the investable universe for fund ranges, a next step is further differentiating entities based on their sustainability performance. ACTIAM uses a proprietary ESG scoring system, which is added to the results of the screening process for companies that remain in the investable universe. The scoring system allows integration of relevant company- and country-level information into the investment decision-making process. This integration allows ACTIAM to optimise the sustainability performance of funds and mandates. It is also one of the key components that portfolio managers use to make investment decisions. Active portfolios also have specified targets for overall ESG scores. ACTIAM ESG scores are calculated for all entities, regardless of the fund range. However, it is especially of use in active investment products, as these have more room for ACTIAM to optimise investments based on these ESG scores. The ACTIAM ESG score ranges between 0 and 100.

The ACTIAM ESG score for companies consists of three elements:

- **Base score:** ACTIAM reviews companies on environmental, social and governance aspects that are relevant to the sector and/or company. This review is carried out by an external data supplier. A decisive factor for the scores is the risk exposure versus the company’s management of the relevant aspects.
- **Sector score:** The base score is calculated on performance of companies relative to peers. However, some sectors are generally closer or further away from the safe and just zone. For this reason, a positive or negative sector score, ranging from -20 to 20, is added to the base score, reflecting the average sector performance on the material drivers.
- **Analysts score:** The analyst score, ranging from -20 to 20, allows a further distinction between leaders and laggards at ACTIAM’s discretion. This can be desirable in some cases. For example, sectors can be defined quite broadly. Sectors that have a generally negative impact can include companies with a more positive impact. In these cases, the analyst score can balance out a negative sector score. This will favour investment in the specific company as opposed to other companies in its sector. Giving a higher analyst score can also be justified if the positive solutions that a company provides are not reflected well enough in its ESG score. Increasing the analyst score is a tool to make investment in these companies more attractive.

In specific cases, there may be reason to alter the total ESG score in a positive or negative way. The ESG score will then essentially function as an additional tool for selection. A further explanation for this process is given in Textbox 1 below.



### Using ACTIAM ESG scores as an additional selection tool

By readjusting the final ACTIAM ESG scores, specific companies can become (un)available for investment in fund ranges. This can be justified in specific cases and follows a set process.

- **At risk companies**  
In case of companies that are considered at risk, i.e. there is moderate adaptive capacity, investment is limited to ACTIAM's responsible fund ranges. To realise this restriction, the ACTIAM ESG score of companies that are identified as 'at risk' during the screening process will be limited to 20. The limitation will be lifted if the screening process no longer identifies the companies as at risk, but as adaptive or operating in the safe and just zone.
- **Positive impact bonds**  
Entities in transition towards a safe and just zone may issue bonds that specifically target activities such as renewable energy, energy efficiency measures, job creation, social housing, and regenerative agriculture. The funds that are raised by issuing such a bond are earmarked or ringfenced to specifically finance these positive impact activities. Although such impact is favourable and crucial for the world to transition to a safe and just zone, it is likely not reflected in the overall ESG score of the entity. The specific bond therefore warrants a separate ACTIAM ESG score that reflects those activities. ACTIAM assesses the credibility of the positive impact bond. If it is deemed credible and contributing to positive impact to the environment or society, the ACTIAM ESG score of the positive impact bond will be raised to 75, 85 or 100, depending on whether the issuer of the green bond aims to make its business model more sustainable. The higher score makes the bonds more attractive for investment and will make the bond available for investment in sustainable fixed income bond ranges.

Likewise to the ACTIAM ESG scores for companies, ACTIAM calculates an ESG score for countries (referred to as sovereigns in this document.) These scores are used in the investment process for sovereign bonds. After screening sovereigns on the Fundamental Investment Principles, a further distinction in sustainability can be made by using the ACTIAM ESG scores for sovereigns. These scores range between 0 and 100 and consist of three elements:

- **Base score:** The base score is a representation of sovereigns' sustainability profiles, based on indicators including management of natural resources, living standards, political governance and others.
- **Thematic score:** Based on issues that are important for staying within the planetary boundaries, a thematic score is calculated, which ranges between -20 and 20. This includes GHG emissions, water management, forest depletion and others. Leadership on these issues means ACTIAM's targets for society such as no net loss of biodiversity can be attained, which also has significant social implications.
- **Population growth pressure:** Population growth is one of the main sources of pressure on natural resources, a driver of many social and environmental challenges. To signal future pressure on the issues reflected in the thematic score, expected population growth of a country is taken into account.

## 4.4 ACTIVE OWNERSHIP

Through voting and engagement, ACTIAM can encourage companies to move upward within the ACTIAM Sustainability Framework towards the safe and just zone or to have positive impact. These tools are less appropriate for sovereign bonds as opportunities for engagement with sovereigns are scarce and voting is only possible for companies of which ACTIAM holds stock (equities). In addition, investors need to be careful about interfering with democratic processes.<sup>6</sup>

The ultimate goal of these instruments is to create impact in the real world. ACTIAM wants to achieve its targets by making sure that entities actually change their behaviour. Moreover, it is ACTIAM's belief that companies that change their behaviour as a response to ACTIAM's voting and engagement initiatives will also have lower sustainability-related risks. Voting and engagement instruments are used in a complementary way; any interaction between the two instruments is further detailed below.

<sup>6</sup> In rare cases, engagement with sovereigns emitting bonds may be considered if it is expected that dialogues with policy makers may lead to behavioural change. This may focus on sustainability risks of the bonds or on compliance with fundamental governance principles. This is further discussed in chapter 5.

## Voting

As a shareholder of a company, ACTIAM has the right to vote at Annual General Meetings (AGM) or Extraordinary General Meetings (EGM). ACTIAM exercises this right to vote and aims to vote at all shareholder meetings of the companies in clients' portfolios. ACTIAM established extensive guidelines to form the basis for voting decisions, taking into account sustainability, internationally recognised best practice guidelines and material themes for investments. ACTIAM has more stringent requirements for companies in sectors considered to be high-risk in terms of drivers identified such as fossil fuel use. Dissatisfaction with a company's practices can be communicated by voting against management proposals such as remuneration reports and re-election of directors. Because of the large amount of shareholder meetings that ACTIAM can vote at, an external service provider is commissioned to cast the votes based on ACTIAM's policies or specific instructions.

### ■ Filing or co-filing shareholder resolutions

In addition to the regular voting process, shareholders have the right to file resolutions at shareholder meetings. This can be done by a lead filer and one or multiple co-filers. While management resolutions are traditionally focused on governance issues, shareholder resolutions tend to focus on environmental, social as well as governance issues. ACTIAM recognises and supports the strong contribution that shareholders make to shaping general meeting agendas by filing proposals. The criteria for filing shareholder resolutions differ across markets, so this option tends to be used more in some markets than others.

Filing shareholder resolutions is usually considered an escalation strategy, which means it is ideally preceded by a dialogue between the company and (one of) the filers. ACTIAM uses the opportunity to (co)file shareholder resolutions if its or another investor's engagement has not led to the desired results and where the ask is in line with the vision of transitioning to the safe & just zone. Collaboration on filing shareholder resolutions is mainly sought through platforms such as UN PRI and ClimateAction100+ and through NGO networks (such as Ceres).

More information on how ACTIAM executes its voting rights can be found in our voting policy.

### ■ Securities lending

For several reasons, investors can choose to lend their stock to other investors. However, when transferring stocks, the investor also transfers voting rights to the lender. ACTIAM chooses to stay away from securities lending for its investments.

## Engagement

Starting an engagement means entering into a dialogue with an entity to influence its behaviour. Engagements are longer-term trajectories with predetermined objectives. ACTIAM tracks the performance of these dialogues. Next to these longer-term dialogues, ACTIAM speaks with companies about their sustainability on an ad hoc basis, e.g. in one-off meetings, at events or to clarify ACTIAM's position on certain issues. Engagement plays a key role in the process of achieving change in the real world. Entities have an incentive to listen to investors, as they are providers of capital or owners of their organisation.

ACTIAM conducts different forms of engagement and collaborates with other organisations in the execution of these engagements. An overview is given in Figure 4.

Figure 4: Execution of engagements



■ **Status: responsive and proactive engagement**

ACTIAM categorises engagements in proactive or responsive engagements. As discussed in section 4-B, responsive engagements are the result of an incidental violation of the Fundamental Investment Principles and set up if there is reason to believe that entering into dialogue with the company will be fruitful. If these engagements are not successful, exclusion may follow. All other engagements are given a proactive status i.e. the company does not violate the Fundamental Investment Principles. Proactive engagement is conducted based on the drivers that ACTIAM has identified as material, in combination with solution pathways.

■ **Focus on solution pathways**

Solution pathways are those directions that create opportunities for companies while addressing the challenges of staying within the planetary boundaries, and building social foundations.

ACTIAM identified three solution pathways:

Table 1 - Solution pathways		
	<b>Innovation</b>	(Disruptive) innovation is crucial to achieve a safe and just world. Some transitions cannot be achieved based on incremental improvements alone. Companies that deliver innovative products or services that address social and environmental challenges therefore represent an investment opportunity.
	<b>Circularity</b>	Current production processes are often based on linear models of extraction, production and disposal. Circular production, where no materials go to waste but are reused or recycled to the highest value possible, is therefore a key function of a sustainable society. This includes 'closing the loop' of chemicals and nutrients.
	<b>Leadership</b>	Leadership is not only key to deliver the most successful products and services, but also to protect a brand's reputation and attract the most talented and best suitable employees. Leadership means showing the best practice possible, including stakeholders in dialogues, and proving that the company is valuable to society as a whole.

Proactive engagement conducted by ACTIAM focuses on the opportunities that these solution pathways represent. The specific topics for engagement are laid out in ACTIAM's strategic plan. Because ACTIAM expects that companies will enjoy financial opportunities based on these solution pathways, the ACTIAM ESG score of companies that are proactively engaged on the solution pathways can also be increased to reflect those opportunities.

■ **Collaboration in engagements**

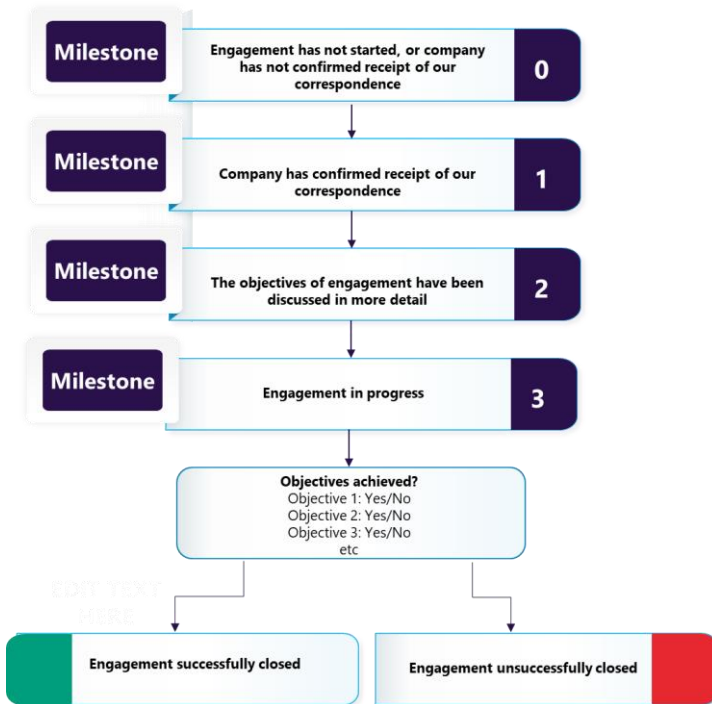
When possible, ACTIAM seeks collaboration in its engagement programme, for example through the Principles for Responsible Investment (PRI). These collaborations can be created in response to a controversy of one company or set up through NGOs and other partnerships to address a sector-wide topic of engagement. In addition, ACTIAM sometimes seek to collaborate with other investors to create more leverage towards a company. Collaboration can be sought for any type of engagement, be it responsive or proactive, but progress is monitored, recorded and reported to clients based on the ACTIAM milestone system laid out in Figure 5.

■ **Tracking progress**

The progress of dialogues is tracked by using a milestone system and tracking the performance of companies on predetermined and specific objectives. The system is visualised in figure 5. Progress is updated on a quarterly basis at the minimum.

Active ownership specialists in ACTIAM's Sustainability & Strategy team will determine relevant objectives at the start of an engagement and conduct a baseline study to see which objectives the company meets and which it doesn't. During and at the end of an engagement, ACTIAM monitors whether the company makes the expected progress. The level or lack of progress is a factor in deciding follow-up steps. See described in Textbox 2 on escalation strategies and Textbox 3 on interaction with other instruments.

Figure 5: Overview of milestone system for engagement progress



**Timelines**

ACTIAM determined preferred timelines for engagement. These give an indication of the process, but can be amended if internal or external developments call for ACTIAM to do so. The general aim is to see progress on the objectives within two years. An overview of the preferred timelines is given in Table 2 below.

Table 2 - Preferred timelines for engagements

Step	Timeline	Description
1	Start of engagement	Engagement has not started, or company has not confirmed receipt of our correspondence (Milestone 0)
2	1-3 months	Establish first contact (Milestone 1)
3	3-6 months	Discuss objectives in more detail (Milestone 2) <b>Responsive engagement:</b> If a first discussion has not taken place within 6 months, refer to step 5.
4	6-24 months	Engagement is in progress (Milestone 3); progress on objectives is tracked.
5	24 months	<b>Proactive engagement:</b> If the engagement is successful, engagement is closed and a final assessment is made to measure impact. If engagement is unsuccessful, a discussion is held to see whether next steps need to be taken, such as amending the ESG score of the company. <b>Responsive engagement:</b> If engagement is successful, meaning the company made progress on objectives and now complies with ACTIAM’s policies, the case for ‘inclusion’ is brought towards the ACTIAM Selection Committee. If the engagement is unsuccessful, meaning there was no progress and the company still breaches ACTIAM’s policy, the case for exclusion is brought towards ACTIAM’s Selection Committee. If there is partial progress and reason to believe the company will improve in the near term, the case for prolonged responsive engagement will be brought towards the Selection Committee, with specific timelines.



## Escalation strategies in case of unfruitful engagements

There are several steps that ACTIAM can take if an engagement is not reaping the expected results.

- **Seek allies:** find other investors to join the engagement and increase leverage.
- **Make a public statement:** ACTIAM can draft a public letter or investor statement, preferably with other investors, calling out the company on its performance and the need for improvement.
- **Vote against management proposals** at a shareholders meeting. For example, ACTIAM can vote against remuneration reports or appointments. In these instances, ACTIAM will seek to share concerns and the intention of voting against the resolution with the company.
- **Speaking at a shareholder meeting:** ACTIAM can choose to visit the shareholder meeting and explain its position, asking the company to improve its performance.
- **(Co)filing a shareholder resolution:** this option can be very effective but it is also a complicated, time-consuming and sometimes costly process. If there is an opportunity to co-file an existing resolution, this option is preferred.
- **Reducing exposure:** in case of an active investment proposition, ACTIAM can also consider reducing the size of its investment or limiting exposure to responsible funds.
- **Exclusion:** ACTIAM can decide to exclude companies from investment if the (responsive) engagement did not have the expected results, i.e. the company did not improve its performance.



## How engagements feeds into other instruments

ACTIAM's instruments are closely interlinked to make sure they are all aligned to achieving change in the real economy, thereby attaining ACTIAM's sustainability targets.

- **Exclusion:** if a responsive engagement deemed unsuccessful, ACTIAM can decide to exclude the company from investment. This equals a selection decision, as exposure to the company will be reduced to zero for all of ACTIAM's products.
- **ESG scoring:** the ESG scores of companies with which ACTIAM conducts responsive engagements are downgraded.
- **Voting:** based on the companies with which engagements are conducted, a list of focus companies is compiled. The voting choices for the AGM's/EGM's of these companies will be more closely monitored to ensure consistency. ACTIAM may withhold support for management resolutions and/or support shareholder resolutions. Additionally, ACTIAM may choose to (co)file shareholder resolutions.

## 5. Supporting tools

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ACTIAM can employ a range of other instruments to support its message or add to the strength of active ownership.

- **Impact measurement:** ACTIAM actively works on developing methodologies for impact measurement. Measuring impact is important for multiple reasons: (1) it is a way of validating the use of other tools, in other words by measuring impact it becomes clear whether the use of tools has been effective, (2) it provides insight into the course towards sustainability targets, (3) it can point to ‘hot spots’ that contribute disproportionately to negative impacts, and (3) it provides more transparency and accountability towards clients and society.

There are two important challenges to impact measurement, which are data availability and data quality. Data availability refers to the existence of relevant and useful data on topics that ACTIAM integrates into the investment process, for example on the financially material drivers. Sometimes data exists, but it also needs to be available in such a way that ACTIAM can integrate it into the investment process. When relevant data is available, the issue of data quality is an important consideration. The data needs to be reliable and a good reflection of what it is supposed to measure. ACTIAM actively contributes to data availability, data quality and methodologies for impact measurement by engaging with data providers, collaborating with academics, governments and other investors.
- **Shareholder litigation:** Shareholders can choose to take legal action against companies. This can be a long and resource-intensive process. ACTIAM does not independently litigate against companies but may choose to join a lawsuit in case in case of damages from wrongdoing of the company.
- **Public statements:** Usually in collaboration with other investors or organisations, ACTIAM has the opportunity to publicly make a statement about certain products, practices or controversies. The topics addressed are very broad in range. ACTIAM will participate in such statements if: the statement is in line with ACTIAM’s vision and mission; the issue, sector or region addressed is relevant to ACTIAM’s investments; if ACTIAM itself is able to adhere to the requested standards; and if ACTIAM will be able to safeguard potential follow-up actions if included in the statement.
- **Dialogue with policy makers:** According to the International Corporate Governance Network’s principles, “investors should engage with policy makes on issues that affect responsible investment and corporate governance.” ACTIAM holds such dialogues in various ways. ACTIAM is a member of several organisations that can help achieve policy changes, participates in stakeholder dialogues or other forms of feedback held by policy makers and can publicly express its opinions. These efforts can address responsible investment directly, e.g. minimum criteria or guidance for investors, or the sustainability issues that play a role in the investment process, e.g. climate policy. To install change at a government level, ACTIAM can also raise issues during discussions with treasury departments of governments issuing sovereign debt. These activities need careful considerations as it should not interfere with democratic processes.
- **Working groups:** ACTIAM is a member of a wide range of working groups. These working groups may not be direct ways of executing active ownership, but they can contribute to ACTIAM being a more effective active owner. For example, if ACTIAM participates in a working group that will help improve a method of impact measurement, it allows for better targeting those actions in active ownership that will increase positive impact. Similar to investor statements, ACTIAM’s criteria for joining a working group are: the aim of the group is in line with ACTIAM’s vision and mission, and participation will help towards this vision and mission; there is a direct link to ACTIAM’s investments / investment policy and the expected results of the group will improve ACTIAM’s investment practices, for example through better insights or better data; there have sufficient time and resources to be an active participant in the group; and the group is either innovative or includes major and relevant stakeholders to make sure it is not a fringe effort and results will have the desired effect.
- **Using ACTIAM’s voice in the public arena:** ACTIAM regularly has the opportunity to express its vision and mission in the public arena. For example through conferences, webinars or interviews. Publicly stating ACTIAM’s sustainability goals, policies and practices will clarify what is expected of companies and sovereigns. Sharing expertise can also bring the sector forward and therefore stimulate sustainability. ACTIAM cannot participate in all events to which it is invited, so a weighted decision is made, among other things depending on the goal of the event, the topic, distance and costs involved, the audience and the other participants.
- **Partnerships with other organisations:** Like participation in working groups, ACTIAM may choose to partner with organisations that can contribute to achieving the sustainability goals. For example, a not-for-profit organisation can provide ACTIAM with relevant information to include in its investment approach, and they may benefit from the expansion of influence. Naturally, this kind of collaboration can only occur if ACTIAM and the other organisation’s goals and vision are aligned and the benefits (financial or sustainability-wise) match or outweigh the resources invested.

## 6. Use of third party services

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ACTIAM uses third party services for some of its active ownership activities. As explained above, ACTIAM uses a proxy voting services provider to cast votes according to the ACTIAM voting policy. A third party is also engaged to conduct part of ACTIAM's engagements, with a focus on responsive engagements. These engagements are set up and monitored in the same way as engagements conducted by ACTIAM's Sustainability & Strategy team. If there is no existing dialogue with a company, ACTIAM has the opportunity to set up a bespoke engagement. Regular calls are held between ACTIAM and the service provider. In addition, ACTIAM is able to see status and progress of engagements 24/7 through an online platform. This ensures that the engagements that are outsourced to the service provider are conducted and assessed in line with internally conducted engagements.



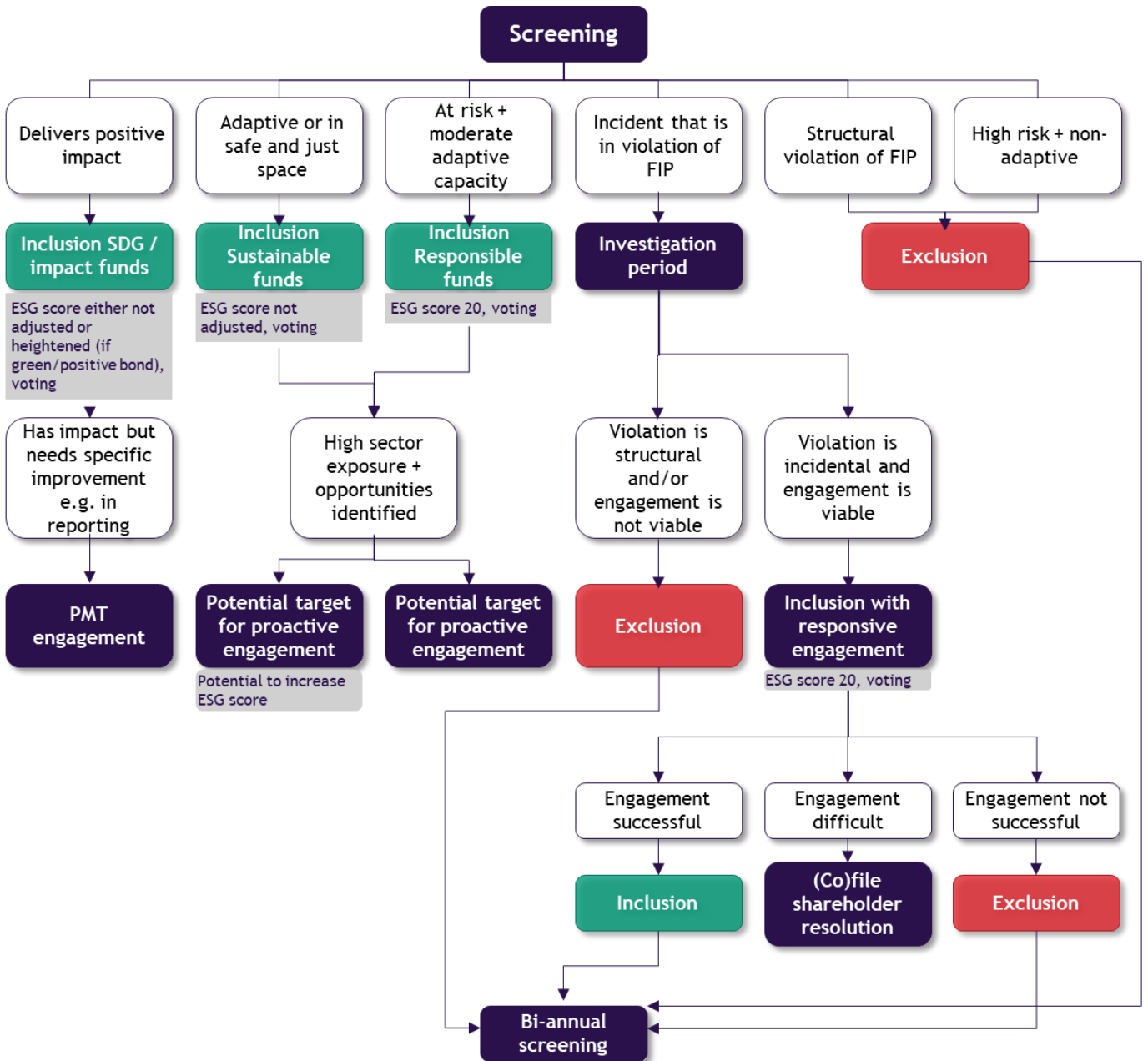
## ANNEX I: Alignment with stewardship principles and codes

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There are several stewardship codes and principles that are relevant for an active ownership strategy. For this strategy, ACTIAM principally consulted:

- **The UN-supported Principles for Responsible Investment (PRI):** ACTIAM is a signatory to the PRI and therefore supports and endorses the six guiding principles. These principles are: (1) We will incorporate ESG issues into investment analysis and decision-making processes; (2) We will be active owners and incorporate ESG issues into our ownership policies and practices; (3) We will seek appropriate disclosure on ESG issues by the entities in which we invest; (4) We will promote acceptance and implementation of the Principles within the investment industry; (5) We will work together to enhance our effectiveness in implementing the Principles; (6) We will each report on our activities and progress towards implementing the Principles.
- **The Dutch Stewardship Code (adopted 20 June 2018):** this stewardship code entered into force on 1 January 2019. Although it applies to Dutch listed companies, it contains some principles that are relevant for active ownership and can be applied to all investments. ACTIAM consulted the Code and integrated principles into this strategy when possible and relevant.
- **The Global Stewardship Principles of the International Corporate Governance Network (ICGN):** the Global Stewardship Principles are a set of stewardship responsibilities for investors. Principles 4 and 5 are the most relevant for active ownership, namely: (4) Investors should engage with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients and should be prepared to collaborate with other investors to communicate areas of concern; (5) Investors with voting rights should seek to vote shares held and make informed and independent voting decisions, applying due care, diligence and judgement across their entire portfolio in the interests of beneficiaries or clients.

ANNEX II: Overview of screening process and application of tools



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