ACTIAM Sustainable Investment Policy

A: Sustainable Investment Framework

April 2021

Preface

ACTIAM delivers investment solutions to its clients with the objective to optimise longer-term financial, environmental and social returns. To guide these investment solutions, ACTIAM has developed a Sustainable Investment Framework. This framework is outlined in four documents, where each describes a unique component of the framework and how it contributes to ACTIAM's investment solutions.

The set of Sustainable Investment Policy documents describe in detail how we integrate sustainability risks[1] into our investment decision-making process. They also describe how we identify and prioritise principal adverse impacts on sustainability factors for all of our investment decisions[2].

The documents are distinct but interact and build off on each other. The first document contains the general Sustainable Investment Framework. As illustrated below, the subsequent documents elaborate on the approach and application of this framework.

Sustainable Investment Policy documents
A: Sustainable Investment Framework This document describes the general Sustainable Investment Framework. This framework guides ACTIAM's decisions for investing in companies and countries that operate within the planetary boundaries to help create a sustainable society, while at the same time generating long-term financial returns for ACTIAM's clients. This framework forms the basis of ACTIAM's Sustainable Investment Policy. The more detailed delineations on how this framework is interpreted and implemented are worked out in the other documents.
B: Fundamental Investment Principles This document outlines the social-ethical principles ACTIAM believes companies and countries need to comply with: the ACTIAM Fundamental Investment Principles. These principles form the foundational layer of the general Sustainable Investment Framework. Companies and countries that do not comply with these principles and that are unable or unwilling to improve their behaviour are considered unacceptable for investment.
C: Material Sustainability Drivers Building from the ACTIAM Fundamental Investment Principles, the adaptive capacity of companies to prepare for a sustainable society is assessed. This is done for seven Material Sustainability Drivers. These drivers are used as guidelines for determining how companies are responding to challenges in society, policy and the market that are driven by the sustainability transitions. This document describes the drivers, the ambitions formulated for each and how company behaviour to each driver is measured.
D: Sustainable Investment Instruments This document describes the range of instruments and activities that ACTIAM uses to implement the Sustainable Investment Policy.

[1] Our definition of sustainability risks is aligned with that of the EU Sustainable Finance Disclosures Regulation (SFDR) as we assess the sustainability risks that could cause a material negative impact on the value of an investment.

[2] We consider sustainability factors for all of our investments as defined by SFDR, which are environmental, social, and employee matters, respect for human rights, anti-corruption and anti-bribery.

Contents

1 Introduction

Society is at a crossroad. It is widely acknowledged that current economic behaviour is putting the planet and society in danger. Climate change, increasing inequalities in prosperity, security concerns, environmental degradation and resource scarcity are among the global challenges society and economies worldwide face. In the coming decades, governments, businesses and NGOs taking their responsibility, will initiate a global economic transition towards a more sustainable society, a society that operates within social and environmental limits.[3] This transition towards for example a low-carbon and water-neutral society, will alter market conditions, government policies and demand patterns. Businesses able to follow this transition can reap the benefits of new market opportunities, whereas others will lag behind.

ACTIAM believes that the financial sector has the fiduciary duty to lead the transition towards a sustainable society. This transition provides new development opportunities for the companies and sovereigns – from here onwards called entities – in which the financial sector can invest. It is also necessary to meet human needs, for both current and future generations. ACTIAM recognises the ever growing evidence that entities performing well on financially material environmental, social and governance (ESG) issues have a lower risk profile and better financial performance than entities performing less well on these issues.[4] For that reason, ACTIAM delivers investment solutions to its clients with the objective to optimise longer-term financial, environmental and social returns. These solutions reduce material ESG risks of the investments and create attractive and enduring financial value to ACTIAM's clients as well as sustained social value to society.

This document presents ACTIAM's Sustainable Investment Policy. The policy gives a holistic and forward-thinking view on the roles of investors to guide the transition towards a sustainable society in which entities can prosper while respecting social and environmental limits, now and in the future. ACTIAM considers how the transitions are material to the entities in which it invests and to its clients. It focusses on behavioural change of the entities. It stimulates them to prosper while operating within the planet's safe and just operating zone for humanity – see section 2. In this way, ACTIAM encourages the entities to prepare for the new challenges they are facing. At the same time, ACTIAM contributes to paving the pathway towards a sustainable society while creating added value to its clients. This policy, therefore, contributes to impact beyond ACTIAM's portfolios, as it also creates impacts on the real economy and real world. Furthermore, this policy is also client-centred, considering how the transition towards a sustainable society creates long-term financial returns for ACTIAM's clients but also environmental and social returns for society.

In chapter 2, it is discussed how ACTIAM focusses its objectives on the elements of the safe zone that are material to the entities in which ACTIAM invests. In chapter 3, it is discussed how ACTIAM assesses the extent to which entities operate within and contribute to the safe zone. Chapter 4 discusses the instruments ACTIAM uses to reach its objectives and how the concept of the safe and just zone impacts the investment strategies of ACTIAM. Finally, chapter 5 describes how ACTIAM provides full transparency on its policies and on-the-ground impact of its investments and how it manages the Sustainable Investment Policy procedures.

This report discusses the general Sustainable Investment Framework. The details of the framework are discussed in more detail in the three other documents that jointly with this document form ACTIAM's Sustainable Investment Policy.

Those are:

- ACTIAM Sustainable Investment Policy - B: Fundamental Investment Principles
- ACTIAM Sustainable Investment Policy - C: Material Sustainability Drivers
- ACTIAM Sustainable Investment Policy - D. Sustainable Investment Instruments

[3] See for example challenges as formulated by the Global Risks Report 2019 from the World Economic Forum (www.weforum.org/reports/the-global-risks-report-2019), the World Economic Forum Globalization 4.0 agenda (intelligence.weforum.org), UN Environment's 6th Global Environment Outlook (www.unenvironment.org/global-environment-outlook) and the research initiative 'The World in 2050' (www.twi2050.org).

[4] 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. Sustainability topics are financially material if they are likely to affect the financial condition of companies.
Giese, G., Z. Nagy, and L.E. Lee (2020). Deconstructing ESG ratings performance: risk and return for E, S and G by time horizon, sector and weighting. MSCI ESG Research.

2 Towards a safe and just zone

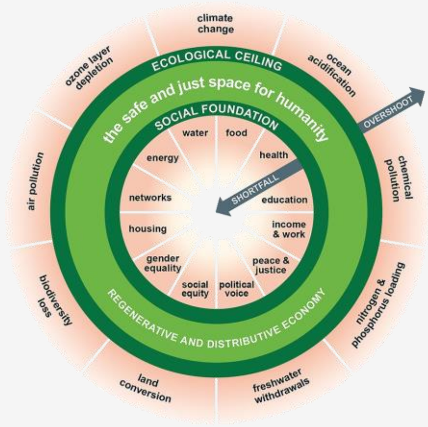
2.1 THE SAFE AND JUST OPERATING ZONE AS GUIDING CONCEPT

From the investment belief that responsible and sustainable investment strategies create attractive and enduring financial value to clients as well as sustained social value to society, ACTIAM adopts the safe and just operating zone for humanity as its guiding concept – see the textbox below. The safe zone is a concept that describes a state where entities generate financial returns, without negatively impacting their surroundings. In this safe zone, entities operate within the planetary boundaries and respect the social foundations. They are, for example, climate neutral, do not contribute to deforestation, provide their employees with a safe working zone, are not involved in bribery and do not source their raw materials from controversial suppliers. Various international agreements and science-based initiatives outline transition pathways for companies and sovereigns to follow to make the transition towards the safe zone.

The safe and just operating zone for humanity

The safe and just zone for humanity – in short, the safe zone – is a reproduction of a sustainable society that combines the frameworks of the Planetary Boundaries (Rockström et al., 2019) and the doughnut economy (Raworth, 2018). On the one hand, it conceptualises that in a sustainable society environmental pressures do not overshoot planetary boundaries. On the other hand, it argues that in a sustainable society wellbeing does not fall short on minimum universal social and governance norms affecting people's health and wealth, for current and future generations and for nearby and distant regions – see figure 1.

Figure 1: The safe and just zone for humanity in the doughnut economy.



Rockström et al. distinguish nine planetary boundaries, reflecting the earth's carrying capacity to maintain the planetary life support systems essential for human survival and to maintain resilient production and livelihoods. Through human behaviour, some of the boundaries are already crossed or are on the way to be crossed, endangering future growth and prosperity. Companies that respect these boundaries do not exceed the earth's carrying capacity.

The doughnut economy outlines the challenges society currently faces. On the one hand, the doughnut argues that one of the global challenges is to reach a situation that does not overshoot the planetary boundaries. On the other hand, it argues that in many cases there is still a shortfall on social norms and values. Many companies and sovereigns insufficiently respect the social foundations of society. Yet, these foundations are necessary to reach a level of well-being every human being deserves. Moreover, these foundations are agreed upon in various international treaties and agreements.

Operating within the safe and just zone implies that society reaches the Sustainable Development Goals of the 2030 Agenda for Sustainable Development, adopted by all United Nations Member states in 2015 – see figure 2. It also implies that social-ecological resilience is reached, meaning that social, economic and environmental systems are resilient to hazardous trends or shocks without losing their essential functions and structure (IPCC, 2014. Climate Change Synthesis Report).

Figure 2: The 17 Sustainable Development Goals of the 2030 Agenda for Sustainable Development

Sovereigns and companies can positively contribute to the social foundations of society by creating conditions – related for instance to education, income, labour and union rights, health and nutrition – that empower people and allow them to prosper, build and maintain a sustainable society. Similarly, they can respect the ecological ceiling by sustainably using natural resources avoiding further depletion, engaging in restoration efforts, focussing on recycling, avoiding greenhouse gas emissions, etc.

Through their investment decisions, investors can make a choice. They can maximise short term profits while pushing the world closer to earth system thresholds. Alternatively, they can support the development of solutions to material environmental and social problems, keeping humanity within its 'safe and just zone', while creating added value to companies and clients and safeguarding long term financial returns.

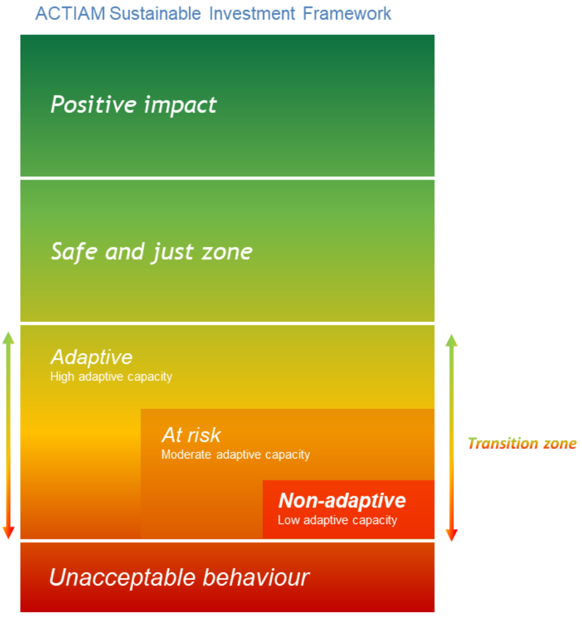
2.2 SUSTAINABLE INVESTMENT FRAMEWORK

ACTIAM bases its strategic investment decisions on the concept of the safe zone. It is ACTIAM's belief that the transition towards a sustainable society will speed up and that those that do not follow these developments eventually will lose, either due to market forces, government policies or technological disruption. Entities that are lagging behind create ESG-related financial risks to ACTIAM's portfolios. To support the necessary transition towards a sustainable society, ACTIAM aims to bring its investment portfolios within the safe zone or on the internationally agreed pathways towards that zone by 2030.[5] It does so not only to reduce material sustainability risks of its own portfolios, but also to try to have impact to the real world.

To do this, ACTIAM assesses whether the entities in which they invest have the adaptive capacity to manage their material risks and opportunities in such a way that they operate in or move towards the safe zone. The assessment determines whether the entity has already reached that point, is on the required pathway or is far removed from preparing for the upcoming transitions. It is measured a) how their business model, industry of operation and behaviour exposes them to risks of not operating in the safe zone and b) how well their adaptive capacity is developed to manage these risks and make the required transitions. Entities that are highly exposed to certain risks but that have a high adaptive capacity, i.e. that are making the necessary changes towards a sustainable society, are already closer to the required transition pathway than entities with a moderate risk level but that have a moderate or low adaptive capacity indicating they lack the capabilities to further move towards the safe and just zone.

Based on the assessment, each entity is categorised into one of the following categories – see figure 3:

Figure 3: ACTIAM's conceptual framework of the safe and just zone



- **Positive impact:** Entities taking the opportunities to make a positive and intentional contribution to one or more of the Sustainable Development Goals while operating within the planetary boundaries. Through their positive contribution, the entities expand the safe and just zone and create positive impact;
- **Safe and just zone:** Entities that sufficiently manage the risks they are exposed to by the ongoing transitions, operate within the boundaries of the safe zone, but do not intentionally create positive impact;
- **Transition zone - adaptive:** Entities (still) operating outside the boundaries but having concrete and verifiable strategies to end up in this zone within an acceptable time frame are considered to be adaptive. They demonstrate the adaptive capacity to prepare themselves for the material and operational risks that the transitions bring about. It is expected that these entities will continue developing to reach the required pathway towards the safe zone;
- **Transition zone – at risk:** Entities operating outside the boundaries, not operating on the required transition pathway and having unmanaged risks, are considered at risk. They currently lack the adaptive capacity to prepare themselves for handling the material risks that the transitions bring about and therefore are vulnerable to operational risks. Yet, they demonstrate some acknowledgement of the risks that they face and with additional effort, they may develop this capacity and reduce their risks;
- **Transition zone – non-adaptive:** Entities operating outside the boundaries, far removed from the required transition pathways, and lacking the capacity to bring risk management up to standards, are considered non-adaptive. These entities lack sound management strategies on their material issues, are exposed to high risks and therefore face significant operational risks in the short- to medium-term;
- **Unacceptable behaviour:** Entities that do not comply with ACTIAM's ethical and social values and norm – see section 3.1 and the document "ACTIAM Sustainable Investment Policy - C: Material Sustainability Drivers".

[5] The aim is in line with the objectives of the Dutch SDG Investing Agenda, which has been signed by ACTIAM (see www.sdgi-nl.org). This initiative aims among other things to make SDG investments the 'new normal'. ACTIAM has adopted 2030 as reference year because in that year the UN 2030 Agenda for Sustainable Development ends and the Sustainable Development Goals will be evaluated.

For this categorisation, ACTIAM measures and acts upon the material behaviour of entities that causes pressures on the planetary boundaries and the social foundations.[6] From the planetary boundaries and the social themes that jointly define the safe and just zone, ACTIAM deduces seven behavioural drivers that reflect how entities put pressure on these themes; four drivers representing environmental behaviour and three drivers reflecting social and governance behaviour.[7] These drivers are presented in figure 4. For companies, the drivers reflect their own behaviour. For sovereigns, they reflect the policies, laws and regulations that have an impact on how authorities, companies and civilians behave towards the safe zone.

Figure 4: ACTIAM's material sustainability drivers

	Drivers	Relation to the planetary boundaries and social foundations
	Fossil fuel use	Management of fossil fuels use, impacting among other things climate change, air pollution, energy availability and human health
	Water use	Management of freshwater use in water scarce areas, impacting among other things water availability, water quality, health and food production
	Land use	Land conversion management especially for agricultural purposes, impacting climate change, biodiversity loss, and water flows but also local communities and inequalities.
	Chemicals and waste management	Management of toxic and long-lived chemical substances and (hazardous) waste and plastics, impacting the environment and human health.
	Organisational behaviour and integrity	Actions to create an ethical business environment, impacting community networks, justice and work conditions. For companies this refers to their own business model, but also to how they treat companies up- and downstream in their value chain. For sovereigns this refers to how they govern human, civic and political rights.
	Social capital management	Actions to maintain the license to operate on which businesses and sovereigns depend, impacting human rights, community relations, social equity and access and affordability of for instance health care and finance.
	Human capital management	Activities related to labour and union rights, employee health & safety and labour practices, impacting educational opportunities and income and gender inequality.

2.3 TARGETS

Based on the aim to have ACTIAM's portfolios operate within or on the pathway towards the safe zone by 2030, ACTIAM defines targets per driver which all have, directly or indirectly, both a social and environmental impact. These targets denote the required behavioural changes to reach the safe zone. [8] ACTIAM's investment solutions are designed in such a way that they contribute to these long-term targets.

- For fossil fuel use, ACTIAM has set the target to achieve net-zero greenhouse gas emissions across all assets under management by 2050 in order to limit global warming to 1.5 degrees in line with the Paris Climate Agreement. To achieve this, intermediate goals have been formulated to reduce greenhouse gas intensity with 50% in 2030 and with 75% in 2040 compared to 2020.
- For water use, ACTIAM aims to achieve a water-neutral investment portfolio by 2030. It is predicted that by that time, half of the world will face severe water stress if water is not used more efficiently.

[6] Note that ACTIAM does not measure to what extent the planetary boundaries or social foundations are crossed, but the behaviour that causes companies or sovereigns to cross or operate within the boundaries. This provides the information that is necessary to change the behaviour that causes them to operate outside of the safe zone. This also provides inputs in ACTIAM's active ownership strategy to propose changes to company behaviour.
[7] These drivers are specific enough to cover the options entities currently have to reduce the pressures for the challenges of today. They are also broad enough to incorporate newly emerging pressures causing new and currently unknown challenges. If deemed necessary, new drivers can be added to the conceptual framework.
[8] As discussed in chapter 1, the safe zone is made up by the planetary boundaries and sustainable development goals. The planetary boundaries are defined in Steffen et al. (2015) Planetary boundaries: guiding human development on a changing planet. Science, 347 (6223). For the targets set by the SDGs, see sustainabledevelopment.un.org.

- 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.[9]
- For chemicals and waste management, no international pathway has been designed to remain within planetary boundaries.[10] Therefore, until science-based pathways are determined, ACTIAM aims to move towards an economy with zero waste by 2050, with an intermediate aim to reduce waste with 50% by 2030. To move towards this point, ACTIAM expects companies to adapt their processes towards a circular business model that prevents as much as technically feasible chemicals and (hazardous) waste problems.
- For the three social and governance drivers (management of social and human capital and organisational behaviour & integrity), no internationally agreed targets have been set yet. In its investment strategies, ACTIAM aims to invest in companies that provide transparency about how they stimulate good corporate behaviour, good human capital management and good social capital management. [11] Poor behaviour of entities on these indicators cannot be compensated by investments in activities that have a positive impact on another factor.

For the drivers that are not quantifiable as of yet, ACTIAM participates in working groups to develop methodologies for measuring the impact of financial products and searches for novel data sources that help to reliably measure entities' impacts on the safe zone and the materiality of the themes for the entities.[12] For example, ACTIAM participates in the EU Business @ Biodiversity Platform to identify the financial risks from corporate behaviour resulting in biodiversity loss. In the meantime, proxy measures are adopted in order to be transparent about the choices made. In this way, ACTIAM tries to be transparent about the impacts of their investment choices.

[9] Currently, ACTIAM puts emphasis on the no net deforestation target instead of on the no net biodiversity loss targets. There are still no reliable approaches to measure the level of biodiversity loss of investment portfolios. For that reason, ACTIAM participates in working groups to develop scientifically grounded methods to measure the impact of company behaviour on biodiversity loss and its materiality for companies.
[10] For that reason, ACTIAM participates in the Investor Working Group on Plastic Pollution from the Principles for Responsible Investment and the Plastic Solutions Investor Alliance to learn about approaches to influence company behavior regarding plastics use and pollution.
[11] Globally, there are several guidelines for good corporate social responsibility, such as the PRI principles for Responsible Investment or the principles of the UN Global Compact.
[12] For example, ACTIAM participates in the Platform Carbon Accounting for Financials (PCAF), the Science-Based Targets Initiative (SBTI), the Platform Biodiversity Accounting for Financials (PBAF), the EU Business & Biodiversity Network and the Biodiversity Working Group of the Dutch Platform for Sustainable Finance. Moreover, ACTIAM has strategic partnerships with Satelligence to develop new measures for the drivers.

3 Approach

ACTIAM determines in two steps in which category an entity falls. Firstly, it is assessed whether a company or sovereign complies with ACTIAM's Fundamental Investment Principles – the base line of ACTIAM's investments. Those who do not comply, exhibit unacceptable behaviour and are categorised in the bottom category in figure 3. Secondly, for companies passing the first test, a company's adaptive capacity for each of the material drivers determines their categorisation.

3.1 FUNDAMENTAL INVESTMENT PRINCIPLES

The assessment starts with a screening of all entities in which ACTIAM intends to invest on ACTIAMs Fundamental Investment Principles. These are based on ethical and social norms and values, irrespective of whether these are material to the entity or not. Entities that systematically breach these Fundamental Investment Principles are excluded from investment.

The principles are defined by the ethical and social principles that are fundamental to good citizenship and good (corporate) governance. Among other initiatives, they follow international treaties such as the *UN Global Compact*, the *UN Guiding Principles on Business & Humanity* and the *OECD Guidelines for Multinational Enterprises*. The principles for sovereigns are agreed upon in international treaties, conventions or best practices such as the *Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights* or sanctions agreed upon by the *United Nations Security Council* or *European Union Arms Embargoes*.

Non-compliance with the Fundamental Investment Principles is interpreted as socially or environmentally unacceptable and implies that the entity's behaviour is in conflict with basic principles of corporate social responsibility, of fundamental rights or of global governance norms. The principles and underlying standards are considered universal and fundamentally extend beyond personal and cultural differences. Non-compliance with these principles, next to being ethically unjust or socially unacceptable, provides reputational and therefore financial risk to companies and investors. For both reasons, ACTIAM does not wish to invest in companies and sovereigns that are systematically violating the Fundamental Investment Principles.

The Fundamental Investment Principles are clustered in three themes that apply to all companies and to sovereigns. These are presented in figure 5.

Figure 5: ACTIAM's Fundamental Investment Principles

Theme	For companies	For sovereigns
	Principles related to humans & humanity	
	1. Compliance with basic human rights 2. Compliance with basic labour rights 3. No involvement in controversial weapons, no production and sale of civilian firearms and no provision of military equipment to military regimes	a. Uphold and protect fundamental human rights b. No involvement in controversial arms trade
	Principles related to society	
	4. Compliance with international sanctions 5. No systematic involvement in fraud, corruption and tax evasion 6. No significant involvement in products or businesses doing harm to human (mental) health or animal welfare	c. The notice and the application of the principles of good governance and anti-corruption efforts
	Principles related to the environment	
	7. No systematic involvement in severe environmental damage	Idem as c.

Environmental principles for sovereigns are part of their good governance principles. These especially relate to government effectiveness and regulatory quality to properly manage protected areas, implement international environmental agreements and prevent illegal activities severely damaging natural resources and the environment.

The Fundamental Investment Principles and the international agreements on which they are based, are discussed in more detail in the document "ACTIAM Sustainable Investment Policy – B: Fundamental Investment Principles". These principles reflect current views and agreements on ethical and social principles that are fundamental to good citizenship and good (corporate) governance. These principles will be evaluated regularly. If new principles emerge, they may be added to the ACTIAM Fundamental Investment Principles.

3.2 MATERIAL SUSTAINABILITY DRIVERS

For the entities complying with the Fundamental Investment Principles, ACTIAM assesses their adaptive capacity for managing their exposure to the material risks of not operating in the safe zone. Also their capacity to capitalise on opportunities for operating within the safe or in the positive impact zone is part of this. Integrating material ESG information in the assessment leads to better-informed investment decisions and better risk-adjusted returns in the long run. Research of Harvard Business School shows consistent outperformance for companies focussing on the financially material ESG-topics for them.[13] This approach is applied to all entities and for investments in all asset classes. The textbox "Materiality for companies" discusses which drivers are material to each company.

Materiality

Not all global challenges are equally relevant to each company. The challenge may not have an effect on their operations or results, or the company may not be able to influence the challenge. For that reason, for each company, only the material drivers are considered, i.e. that matter to them from a long-term financial point of view.

Drivers are material to a company if their behaviour exposes them, and thereby their investors, to significant risks. Two types of risks are considered. First, a declining carrying capacity of the planet and a weak social basis leads to **physical risks**. Examples of such risks are water scarcity or extreme rainfall events due to climate change, loss of soil productivity due to overexploitation and increasing health problems, social unrest or poverty due to growing inequality. In addition, the call for a more sustainable society leads to changes in government policies and consumer demand that will speed up the transition towards cleaner and more responsible production methods and modes of operation. This creates **transition risks** for those who do not adapt and continue to operate unsustainably. Companies that do not adapt, will fall behind or will be surpassed by others who adapt more quickly. Examples of transition risk include those resulting from the shift towards a low-carbon economy, the increasing non-acceptance of fraud, breaching labour rights, or deforestation.

It differs per sector which drivers are material to a company. Following the Global Industry Classification Standard (GICS) sector division, the table below shows which drivers are material for a sector. This table is further elaborated on in the document "ACTIAM Sustainable Investment Policy – C: Material Sustainability Drivers".

Table 1: Materiality matrix for the seven material sustainability drivers to the various sectors.

Sectors	Business drivers						
	Fossil Fuel use	Water use	Land use	Chemicals & Waste Management	Organisational Behaviour & Integrity	Human Capital Management	Social Capital Management
Consumer discretionary	●	●	–	–	●	●	●
Materials	●	●	●	●	●	●	–
Financials	–	–	–	–	●	●	●
Consumer staples	●	●	●	–	●	–	●
Health Care	–	–	–	●	●	●	●
Real estate	●	●	–	–	●	–	●
Industrials	●	●	–	●	●	●	●
Communication services	–	–	–	–	●	●	●
Information technology	●	●	–	●	●	●	●
Energy	●	●	●	●	●	●	●
Utilities	●	●	●	●	●	●	●

● = Material for most companies in the sector
– = Not likely to be material for any of the companies in sector

[13] Khan, M., G. Serafein and A. Yoon (2018). Corporate sustainability: first evidence on materiality. The Accounting Review, 91(6), pp. 1697-1724

Based on the assessment per driver, each entity is categorised into one of the remaining five categories of the Sustainable Investment Framework presented in figure 3 in section 2.2:

- Positive impact
- Safe and just zone
- Transition zone - adaptive
- Transition zone – at risk
- Transition zone – non-adaptive

The decision to be categorised in one of the categories depends on:

- the entity's **risk exposure** of operating outside the safe and just zone, indicating to what extent an entity is vulnerable to the ESG risks of operating outside the safe zone. Examples of assessment criteria include the carbon intensity of the products and services a company provides, location of operations, the nature of those operations and the nature of its operations and its supply chain.
- its **adaptive capacity** to make the transition towards operating within these limits, which is based on strategies, policies, targets, implementation and demonstrated performance of companies and sovereigns to manage the risks from operating outside the safe and just zone. Higher scores on adaptive capacity indicate greater capacity to manage exposure risk.

Exposure and capacity are assessed for each driver if material to a company. An entity highly exposed but with a high adaptive capacity can still be categorised in the category "adaptive". Similarly, an entity with medium to high exposure but lacking any management capacity can be categorised as non-adaptive. For example, companies still dependent on coal, an activity that brings about high transition risks due to society's transition towards a low-carbon society, fall in the category non-adaptive. For these companies to be categorised as adaptive, they should phase out coal and move towards renewable energy sources. As not all entities face the same material sustainability risks, they are assessed only on the drivers that are material to them – see textbox 'Managing risk exposure and opportunities'.

For each driver, thresholds are assigned to define the borders between categories. These thresholds define for a given exposure level, the adaptive capacity an entity needs to demonstrate to be considered as operating for instance in the safe zone or in the adaptive zone. For instance, they reflect that a utility company needs a higher adaptive capacity for their fossil fuel management than a financial services company to be classified as 'adaptive' as their exposure to the low-carbon transition is much higher. For several of the planetary boundaries, scientifically based threshold levels have been determined. Thresholds for the social foundations follow from the SDGs. Thresholds that have not been set scientifically are based on the best available knowledge.

Not all of the required transitions are at the same stage. The planetary boundaries 'climate change' and 'loss of biosphere integrity' have been crossed already and require an immediate transition on the drivers fossil fuels use and land use. Therefore, threshold levels can vary between the drivers. This depends on the degree to which the respective boundaries have already been crossed and the transition that is required to operate within the safe and just zone. For that reason, the thresholds for fossil fuel use and land use are more stringent than some other drivers. Over time, when the transition progresses, threshold levels can change. The application of thresholds is based on assessments using the best available data about the urgency of the transition and the materiality of each related driver. Moreover, as new data becomes available, new measurement methods are developed, or innovations allow for new updates, threshold values will be redefined. In this way, entities are stimulated not to stand still but continue to innovate.

Next to assessing capacities to manage the material risk exposure to the drivers, ACTIAM separately assesses the preparedness to manage physical risks resulting from climate change. Some physical risks including the increase of extreme weather events, cannot be mitigated by a company's adaptive behavioural capacity. These physical risks are a result from externalities due to climate change and are therefore treated in a similar way as the other financial risks that impact companies. By using data on physical climate risks these risks are reflected in the ACTIAM ESG score of an entity. More information on the ACTIAM ESG score can be found in the next section.

To come to a unique categorisation per entity, weights are assigned to each driver which reflect its materiality to the entity. An entity's overall category assessment is determined by the lowest scoring driver from those which have the highest weights. At least four times per year, ACTIAM evaluates whether entities are to remain in the same category. Especially for companies falling in the lowest categories, the quantitative assessment is always followed by a fundamental analysis. The approach of the materiality assessment is discussed in more detail in the document "ACTIAM Sustainable Investment Policy – C: Material Sustainability Drivers".

Managing risk exposure and opportunities

- **Fossil fuel use:** To mitigate climate change, economies are in transition towards a low-carbon future. Most economies are still highly dependent on fossil fuels (coal, oil, gas) through the dominant role of these fuels in global energy systems. However, the use of renewable energy gains traction and an increasing number of sovereigns, companies and investors are phasing out coal from their energy mix. These changes create risks for entities that remain reliant on fossil fuels, especially those with a high carbon content. Transition pathways have been designed for many sectors and for governments, indicating the pace at which they can reduce their greenhouse gas emissions. Entities in the 'safe zone' have already reached the net-zero target or follow the pathway limiting global warming to 1.5 degrees. Those in the 'adaptive zone' have not reached the required pathway yet. The pace with which they reduce their emissions is still too low, but they have the adaptive capacity to reach that pathway soon. Many coal-dependent companies will not be able to make the transition and end up in the 'non-adaptive zone'. Entities in the 'positive impact zone' develop for instance novel renewable energy solutions that do not depend on fossil fuel inputs or substantially reduce the use of fossil-based inputs.

- **Water use:** Due to climate change many regions will become water stressed in the near future. In such regions, economic activities that are water-intensive not only cause large impacts but also run high risks of insufficient water availability. This may directly lead to large operational and financial risks to entities. Entities in the 'safe zone' do not use more water than the environment can replenish and/or keep pollution levels below the carrying capacity of the water system. Those in the 'adaptive zone' are in the process of aligning their water intensity with the carrying capacity of the environment in which they operate. Entities in the 'positive impact zone' deliberately invest in improved water saving, water purification technologies, or protection and restoration of water bodies.

- **Land use:** Land is converted for human use all over the planet. Forests, grasslands, wetlands and other vegetation types have primarily been converted to agricultural land. Moreover, mining activities and unconventional fossil fuel explorations – such as tar sands, shale oil and gas and arctic oil exploration – have substantial impacts on landscapes and biodiversity. This land-use change is a driving force behind the serious reductions in biodiversity, and it has impacts on water flows and on the biogeochemical cycling of carbon, nitrogen and phosphorus. Deforestation and biodiversity loss not only create risks due to their impact on water availability, climate change and soil fertility. It is also the cause of social unrest, environmental lawsuits and reputational damage, all of which create substantial risks to entities if they do not adapt their behaviour. Entities in the 'safe zone' do not contribute to deforestation, refrain from doing irreversible damage to the land resources they use and maintain soil fertility. Those in the 'positive impact zone' also contribute to reforestation, soil regeneration and biodiversity protection/restoration. The 'non-adaptive zone' includes for instance opencast mining, tar sands and shale oil exploration and deforestation activities that irreversibly destroy large pieces of land and biodiversity.

- **Chemicals and waste management:** Emissions, dumping and mismanagement of toxic and long-lived materials such as chemical pollutants, (micro) plastics, e-waste, heavy metals and radioactive materials are among the key human-driven changes to the planetary environment. Many of these compounds have irreversible effects on living organisms, on the physical environment and on landscapes. Impacts on water quality, water availability and soil fertility create risks for particular sectors. Social unrest and health issues directly impact entities if they do not take sufficient action. Entities in the 'safe zone' manage their toxic pollutants, plastics and other types of waste such that they do not irreversible damage the environment. Those in the 'positive impact zone' go a step further and adopt the principles of green chemistry or adopt a circular economic approach to avoid negative or create positive impact. Those in the 'at risk' zone have difficulties changing their governance model towards cleaner and more circular business models.

- **Organisational behaviour & integrity:** Entities not complying with principles of organisational social responsibility run risks. Controversies related to fraud, bribery, tax evasion, a lack of compliance to rules and regulations and unethical business practices may lead to reputational risks, lawsuits and consumer bans. Moreover, entities run risks through their linkages to companies up- and downstream in the value chain. This may relate to reputational risks if suppliers do not support the same ethical and integrity standards. The borders between the zones depend on the strategies, programmes and track record on stimulating socially responsible behaviour and a business culture based on high ethical standards.

- **Human capital management:** Human capital management activities focus on labour rights, employee health and safety measures, development and availability of appropriately skilled personnel and appropriate diversity and inclusion practices (no discrimination). Insufficient human capital management directly creates operational and reputational risks to entities and may harm their operations. Entities in the 'safe zone' have a clear strategy, initiate programmes to reduce human capital risk exposure and have a good track record on managing risks and opportunities. Those in the 'non-adaptive zone' lack such a forward-looking approach and are usually characterised by several controversies. Entities in the 'positive impact zone' provide solutions to reduce exposure risks related e.g. to human capital development or health & safety.

- **Social capital management:** The license to operate of entities depends on how they comply with human rights, how much they invest in customer privacy and data security, how they manage (cyber) security risks, how they interact with the communities in which they operate and how their actions impact product quality and safety but also access and affordability of basic goods and services such as health care, social services and finance. Insufficient preparedness to consider social capital issues creates reputational risks such as negative publicity, protest, lawsuits and declining support for their operations.

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4 Sustainable Investment Instruments

ACTIAM is an active owner or lender, pursuing change in the real economy and stimulating companies to move towards the safe and just operating zone. This can be achieved with a mixture of instruments. The instruments can be divided into three categories according to the goals of the instruments as shown in figure 6.

Figure 6: ACTIAM's Sustainable Investment Instruments

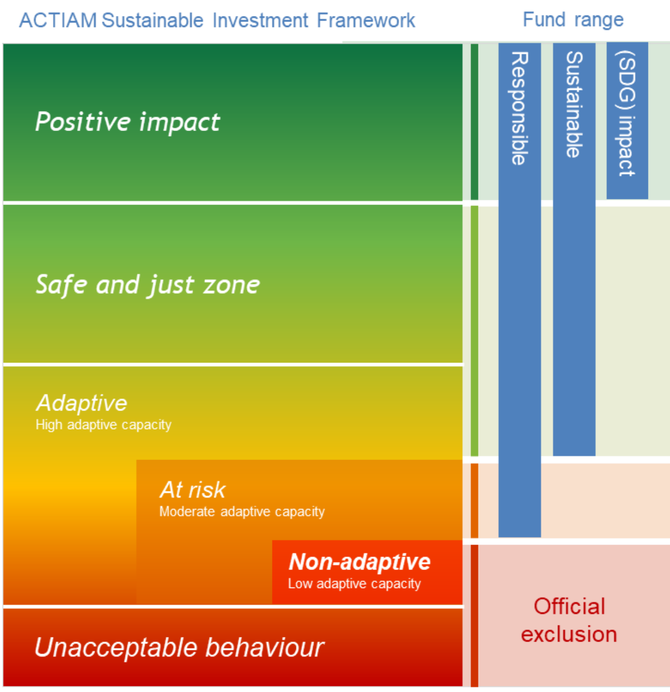
Instruments		Description
	Selection	Screen the investment universe on their compliance with the ACTIAM Sustainable Investment Policy and select for which of the investment products they classify.
	ESG scoring	Include ESG factors in investment decisions, with an explicit approach to risks and opportunities on financial material drivers.
	Active ownership: voting & engagement	Exercise active ownership through voting and engagement with underlying companies and engaging with policy makers, NGOs and investor working groups.

For more information about the sustainable investment instruments, see the document "ACTIAM Sustainable Investment Policy – D: Sustainable Investment Instruments".

4.1 SELECTION

As described in the previous sections, by using multiple data sources, ACTIAM determines where entities fall within the Sustainable Investment Framework. The position of an entity in this framework, determines for which investment product ranges entities qualify or whether they are excluded from ACTIAM's investment universe. Figure 7 gives an overview of the investment product ranges ACTIAM distinguishes.

Figure 7: Investment product overview



First, entities in the 'positive impact zone', making an intentional and measurable positive contribution to sustainable development or to the Sustainable Development Goals (SDG), while at the same time operating within the safe and just zone, qualify for the **(SDG) impact product range**. This product range includes ACTIAM's impact investing products and SDG strategy. The impact is created both through listed as well as non-listed companies:

- Through the impact investing funds (private debt), ACTIAM intentionally seeks to generate positive, measurable social and environmental impact alongside a financial return. ACTIAM develops and manages funds that focus on impact investments, with a focus on individual themes such as: financial inclusion of individual entrepreneurs, access to finance for SME entrepreneurs in developing markets and investments in projects and companies contributing to lower fossil fuel use.
- Through the listed impact funds, ACTIAM optimises financial returns while creating positive social and ecological impact on one or more SDGs while operating within the safe and just zone. As such, the fund not only invests in accordance with the SDGs, but also within the limits of the planet. ACTIAM selects the 'best in class' companies on SDG-performance though which they actively contribute to a socially just world and a sustainable environment.

Second, entities that operate within the 'positive impact zone', the 'safe and just zone' or the 'adaptive zone' qualify for the **sustainable product range**. These entities either already respect the planetary boundaries and social foundations or are taking the necessary steps to make the transition. Especially the entities still operating in the 'adaptive zone' must demonstrate to have the right policies, targets and programmes to make the transition towards the safe and just zone.

Third, the **responsible product range** includes entities in the 'positive impact zone', the 'safe and just zone', the 'adaptive zone' or the 'at risk zone'. This product range also contains the entities in the 'at risk zone' who operate outside the safe and just zone but who may be capable of making the transition upwards. Through engagement, these entities are stimulated to improve their adaptive capacity and fasten the transition towards the safe zone.

Entities can be **excluded** from investments if they are categorised in the 'non-adaptive zone' or in the 'unacceptable behaviour zone'. Entities in the 'unacceptable behaviour' zone, fail to comply with the ACTIAM Fundamental Investment Principles. As responsible investors, ACTIAM only excludes entities once it becomes clear they cannot be persuaded to change their behaviour. Prior to exclusion, in an investigative period ACTIAM assesses whether engagement may be a helpful instrument in remedying any actual or potential violation and whether companies are prepared and capable of preventing comparable violations from occurring in the future. If engagement is not an option or unsuccessful, the consequence will be exclusion from the investment universe. For sovereigns, non-compliance automatically leads to exclusion given that engagement with sovereign entities is generally not feasible.[14] Moreover, companies that operate in the 'non-adaptive' zone will also be excluded from the investment universe. These companies pose a significant risk to society as well as a financial risk to ACTIAM's portfolios by not having the capacity to make the transition towards the safe zone.

The approach to determine minimum requirements for an entity to be categorized in one of the zones in figure 7, and therefore to be eligible in a certain fund range, is discussed in section 3. For an individual financial product, additional requirements can be added. For instance, for specific theme funds, such as climate or water funds, additional requirements can be formulated on contributions to climate change or on water use.

4.2 ESG INTEGRATION

ACTIAM uses a proprietary ESG scoring system to further integrate relevant ESG information into the investment decision-making process. This information allows ACTIAM to optimise the sustainability performance of funds and mandates. ESG scores are determined for companies and for sovereigns. The ACTIAM ESG score for companies consists of three elements:

- **Company score:** The company reviews on the risk exposure and the adaptive capacity for the material drivers are combined into an ESG base score.
- **Sector score:** To consider that some sectors are generally closer to or more removed from the safe zone, a quantitative positive or negative sector score is estimated reflecting the average sector performance for the drivers.
- **Analysts score:** The analyst score allows a further distinction between leaders and laggards at ACTIAM's discretion. This can be desirable, if a company is considered a true sustainability champion or a true laggard. A score of an issuer can be upgraded if the issuer provides positive solutions that contribute to a sustainable society or when, due to its product orientation, it clearly has a lower risk than the rest of the sector, due to which a potential negative sector score is unjustified for this specific company. In addition, it can be upgraded if it meets the criteria of a positive impact bond (see textbox below). Similarly, the ACTIAM ESG Company Score can be downgraded the Company Score does not sufficiently reflect the material ESG risks of the company.

Positive

Green and social bonds are issued by companies, governments or supranational financial institutions to generate proceeds earmarked for investments in projects with a positive environmental and/or social impact, such as wind parks, light rail or educational programmes. These bonds are therefore an instrument to create positive impact and contribute to the much-needed transition to a sustainable world. ACTIAM actively invests in green and social bonds, in this way enhancing the Dutch SDG Investing Agenda. It has developed a separate policy and methodology for evaluating this asset class and assigning an ACTIAM ESG score to the positive impact bond.

[14] 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.

Likewise, ACTIAM also calculates an ESG score for countries (referred to as sovereigns in this document.) These scores are used in the investment process for sovereign bonds. These scores consist of three elements:

- **Base score:** The base score is a representation of sovereigns' sustainability profile, 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 and social foundations, a thematic score is calculated. This includes greenhouse gas emissions, water management, forest management and others.
- **Population growth pressure score:** 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.

Details of the ACTIAM ESG Scoring methodology are published in a separate document on the ACTIAM website.

4.3 ACTIVE OWNERSHIP

Voting and engagement are two instruments that allow ACTIAM to stimulate improvement and upward movement of companies to a higher category within the Sustainable Investment Framework.[15] Starting an engagement means entering into a dialogue with a company to influence its behaviour. It can be conducted either as a response to specific incidents or done proactively to steer companies towards the safe and just or positive impact zones. ACTIAM starts individual engagement dialogues with companies, but in many cases, collaborative engagements conducted jointly with other asset managers, can be just as effective. During an engagement process, clear targets are set and milestones are formulated in order to monitor change related to the related behavioural drivers. Engagements focus on encouraging companies to take advantage or sustainability-related opportunities, while also addressing the challenges of staying within the planetary boundaries and building social foundations. They can relate to creating innovation opportunities, creating circular production processes, or taking a leadership role as company. For the engagements that are conducted in response to a potential breach of the Fundamental Investment Principles, or due to insufficient adaptive capacity, the companies may improve sufficiently over the course of the engagement to be reincluded in the investment universe. Unsuccessful engagements with companies that violate ACTIAM's Fundamental Investment Principles may lead to exclusion.

Voting is an instrument that is at ACTIAM's disposal specifically for companies of which ACTIAM is a shareholder. Management and shareholder resolutions presented at Annual or Extraordinary General Meetings provide an opportunity to express how satisfied ACTIAM is with the company's performance and press for changes if needed. In many cases, ACTIAM actively initiates or supports shareholder resolutions that aim to stimulate companies to speed up the company's transition towards the safe zone.

In addition to voting and engagement, ACTIAM applies other instruments to stimulate companies to transition to the safe and just zone. For example, ACTIAM participates in investor statements to denounce practices, controversies or products. Moreover, ACTIAM participates in numerous investor working groups or partners with other organisations to jointly advance sustainable investment and sustainable behaviour of companies. For a full view of the ACTIAM active ownership activities, see the document "ACTIAM Sustainable Investment Policy – D: Sustainable Investment Instruments".

[15] 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 equities. As indicated earlier, in rare cases where policy dialogues with sovereigns are deemed promising, ACTIAM will support such initiatives.

5 Internal and external governance

5.1 TRANSPARENCY

It is the objective of ACTIAM to show its clients how their investments are deployed. For example, how many entities were helped with access to financial resources, which basic needs were supported, which climate risks does the portfolio have for a range of possible climate scenarios and which ecosystems have been restored through the investments? To provide full transparency to stakeholders, ACTIAM has developed a dashboard that provides insight into both financial returns and environmental and social impact. The dashboard offers integrated portfolio information on items such as concentration risk and financial returns but also of water and carbon footprint, Sustainable Development Goals (SDG) allocation and sustainability risks resulting from a range of future scenarios. The dashboard is used by ACTIAM's portfolio managers for their company and sector analysis and for learning about company's sustainability risks. It is also used by ACTIAM's clients to get a better understanding of the allocation and impacts of their investments. ACTIAM is also using forward looking climate change scenario analysis to assess the risks and opportunities of its investments at the portfolio level. ACTIAM is fully transparent on the holdings in its investment funds.

ACTIAM is constantly searching for and developing real impact data. Those data help to make better informed investment decisions, provide transparency on the impact of the investments and are used to measure progress on ACTIAM's targets. More detailed impact data will help to optimise asset allocation such that investment opportunities can be selected that have the largest positive social, environmental and financial impact. If data are not available, ACTIAM enters strategic partnerships with parties that are capable of developing such data, such as Satelligence for new data about company's contributions to deforestation. Moreover, ACTIAM participates in numerous working groups to develop new methodologies and integrate new innovative data sources in the Sustainable Investment Framework. Examples are the Platform for Carbon Accounting Financials (PCAF) and the Biodiversity Working Group of the Dutch Platform for Sustainable Finance,

ACTIAM considers transparency and accountability a key aspect of fulfilling its fiduciary duty as an investor. For that reason, besides disclosure of the impact of the investments through the dashboard and for instance the water and carbon footprints, details are disclosed on the implementation of the instruments used (screening procedure, exclusions, engagements, voting) - see figure 8. These documents are also publicly available on the website of ACTIAM.

Figure 8 – Overview supporting documentation

5.2 INTERNAL GOVERNANCE

ACTIAM has implemented procedures and internal controls to ensure compliance to its policies. In this approach, different departments and committees have their own specific duties and responsibilities.

The ACTIAM's Sustainability & Strategy team is responsible for policy development, drafting an annual strategic action plan and for the proper execution of the available instruments. The team consists of approximately 10 FTEs. In the development and execution of its policies, the team is fully independent and reports directly to the Chief Executive Officer of ACTIAM.

To ensure compliance with the policies, decisions are challenged by independent committees within ACTIAM:

- **ESG Committee:** Changes to the Sustainable Investment Policy and the categorisation of entities are proposed by the ACTIAM's Sustainability & Strategy team but not implemented before formal approval from ACTIAM's ESG Committee (ESGC). This committee consists of the director of Risk Management, the director of Product Management & Development and the director of the Sustainability & Strategy team as well as an independent ethics specialist that reviews and challenges the proposed decisions. The ESGC meets at least four times a year.
- **ESG score Committee:** The ESG score Committee (ESCOM) decides on the implementation of the Sustainable Investment Policy through the ACTIAM ESG scores, worst offenders, positive selection and green bonds. The ESCOM monitors whether the right companies are selected as worst offender, for positive selection or for green bond and subsequently receive the right premium on the ACTIAM ESG score. In addition, the ESCOM monitors the methodology by which the ACTIAM ESG scores are determined. The ESCOM consists of the directors of the Equities team, the Fixed Income team and the Sustainability & Strategy team.
- **Audit:** Implementation and results of the ACTIAM Sustainable Investment Policy are part of the ACTIAM Annual Report. This report for instance contains information about the impacts, voting and engagement results, developments of the ACTIAM ESG scores and an overview of the entities excluded for the responsible and sustainable product ranges. This report is audited by an independent external party.

To be transparent about the potential implications of climate change for investments, ACTIAM follows the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Governance	Strategy	Risk Management	Metrics and targets
- The Sustainability & Strategy team directly reports to the CEO of ACTIAM. - ACTIAM staff has ESG-related KPIs and remuneration depends on ESG-related targets. - Decisions about the ACTIAM Sustainable Investment Policy and about divestments from issuers that do not comply with the policy are taken by an independent ESG Committee, containing a.o. a board member and an independent ethics professor.	- Climate-related risks and opportunities play a pivotal role in investment decisions. The ACTIAM Sustainable Investment Policy describes how the short-, medium- and long-term risks and opportunities are considered. - The expected impacts of the Sustainable Investment Policy on climate risks of the ACTIAM funds are assessed through a scenario analysis annually. The results are reported in the annual report. If risks are not sufficiently mitigated, policies may be strengthened.	- Compliance to the ACTIAM Sustainable Investment Policy is screened periodically. Companies are categorized according to their capacity to prepare for the ongoing sustainability transitions. Companies that lack this capacity are classified as creating too high risks, and are therefore not allowed in the ACTIAM funds. - Companies that need an extra stimulus to better prepare for the sustainability transitions are engaged, with the objective to strengthen their preparedness to the transition and reduce their sustainability-related risks.	- ACTIAM has defined a range of sustainability-related targets that guide its policy. These targets are related for instance to climate, water and deforestation. Progress on the targets is continuously monitored and reported in client reports and in the annual report. - The ACTIAM Sustainable Investment Policy describes which metrics are used to assess the capacity of issuers to prepare for the sustainability transitions and contribute to the ACTIAM sustainability targets. - Greenhouse gas emissions (scope 1, 2 and 3), energy intensity, water use and a range of other metrics are disclosed to clients through an ESG dashboard.

Appendix: Abbreviations

ESCOM : ACTIAM ESG Score Committee

ESG : Environmental, Social & Governance

FIP : Fundamental Investment Principles

PBAF : Platform for Biodiversity Accounting for Financials

PCAF : Platform for Carbon Accounting for Financials

SDG : Sustainable Development Goals of the United Nations

ESGC : ACTIAM ESG Committee

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