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# FUNDAMENTAL INVESTMENT PRINCIPLES COMPANIES

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# 1. Introduction

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The purpose of this memorandum is to describe ACTIAM's Fundamental Investment Principles (FIP) for companies, as well as the consequences for companies in ACTIAM's investment universes that fail to comply.<sup>12</sup> These principles constitute the parameters of our investments.

Environmental, social and governance (ESG) issues covered by ACTIAM's Fundamental Investment Principles are:

- Human rights
- Fundamental labour rights
- Corruption
- The environment
- Weapons
- Client and product integrity
- Animal welfare

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<sup>1</sup> With respect to their procurement, we expect companies in which we invest to adhere to the criteria in this policy paper. We also expect them to use these criteria in their contracts with subcontractors and suppliers.

2. ACTIAM has a separate Fundamental Investment Principles for sovereigns, subnational and supranational entities.

## 2. Implementation of the Fundamental Investment Principles

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Our Fundamental Investment Principles are foremost based on international treaties, conventions and best practices, including the UN Global Compact (see appendix for a comprehensive list of the international mechanisms we consult). Because these international mechanisms are considered universal, the standards underlying our Fundamental Investment Principles go beyond personal and cultural differences. In our investment policies, we take social discussions and the nature and extent of social consensus into account.

Compliance with our principles will be assessed based on two main criteria:

1. Repeated or systematic involvement in activities covered by our principles, as well as failure to sufficiently remedy such involvement.
2. Inadequate preparedness to prevent this involvement from occurring in the future. A company is considered to have taken insufficient measures to prevent ongoing or future involvement, when either of the following conditions is met:
  - a) The company lacks coherent management systems, which include the following components:
    - Management principles;
    - An operational policy through which these principles are implemented;
    - Adequate procedures to assess, mitigate and address risks;
    - Systems for monitoring and tracking risks and risk management steps, as well as implementation of the operational policy;
    - Sufficient training and education to help staff, subcontractors and suppliers in the adequate implementation and execution of the policies;
    - Mechanisms to encourage frequent feedback to management; and
    - Regular (public) reporting<sup>3</sup>
  - b) The company demonstrates no credible implementation and/or enforcement of above-mentioned management systems.

As responsible investors, we will evaluate whether to exclude companies only once it becomes clear we will not be able to persuade them to change their behaviour. Thus, prior to exclusion, we assess whether engagement may be a helpful tool in remedying any real or potential violation. Where engagement is either not an option or not successful, the ultimate consequence may be exclusion from our investment universe. When we do decide to exclude a company and investments have already been made, these assets will be sold at short notice. This may also apply to companies that are not directly involved in violations of the Fundamental Investment Principles, but where aggregate findings of their behaviour or activities raise serious ethical questions.

When assessing companies and their subsidiaries and/or affiliates, we use the following criteria to determine whether a subsidiary or affiliate should receive the same assessment as his parent or receive a separate, individual judgement. A company and its subsidiaries or affiliates generally receive the same assessment if (1) a company owns more than 50% of the voting shares of the subsidiary or affiliate, (2) the two organisations are not listed independently, (3) the two organisations have a similar geographic or operational profile, and (4) have a largely comparable ownership or governance structure. In all other cases, the company and their subsidiaries and/or affiliates receive an individual assessment.

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<sup>3</sup> ACTIAM expects companies to report adequately on sustainability issues. For example, through a sustainability and / or annual report based on the GRI G4 Sustainability Reporting Guidelines and any sector-specific modules, if applicable.

## 3. The Principles

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### 3.1 HUMAN RIGHTS

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Protecting human rights is first and foremost a state responsibility. Yet, the **UN Guiding Principles on Business and Human Rights**, endorsed unanimously by the UN Human Rights Council in June 2011, also underline the corporate responsibility to respect human rights. This responsibility, which is also affirmed in **Principles 1 and 2 of the UN Global Compact**, requires companies to avoid causing or contributing to adverse human rights impacts through their own activities, and to prevent, mitigate or remedy human rights impacts directly linked to their operations, products or services.

The responsibility of entities to respect human rights refers, as a minimum, to the core internationally recognised human rights, contained in the International Bill of Rights (composed of the **1948 Universal Declaration of Human Rights**, the **1966 International Covenant on Civil and Political Rights**, and the **1966 International Covenant on Economic, Social and Cultural Rights**). Depending on the circumstances, entities may need to consider additional universal human rights standards, for instance relating to the protection of the human rights of specific groups, such as indigenous peoples, women, persons with disabilities, and migrant workers and their families.

ACTIAM supports these views on companies' human rights responsibilities and considers violations of these international mechanisms to be in violation of our principles.

Besides these, ACTIAM excludes companies from its investment universe for which sanctions have been ordained by international organizations acting within the rule of law, such as United Nations and the European Union. Sanctions are compelling tools used in response to violations of international law or human rights. Specifically, it involves companies listed below.

List of EU-sanctions:

- Annex to EU regulation No 269/2014
- Annex to EU regulation No 512/2014/CFSP
- Annex to EU regulation No 833/2014

### 3.2 FUNDAMENTAL LABOUR RIGHTS

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Fundamental labour rights include the effective abolition of child labour and the elimination of all forms of forced labour, as well as the freedom of association, the effective recognition of the right to collective bargaining and the elimination of all forms of discrimination in respect to employment. ACTIAM is guided by international norms on these issues and we consider violations by companies or their key suppliers of the following conventions to be in violation with our principles:

#### Child labour

- Convention on the Rights of the Child, 1989
- Minimum Age Convention, 1973 (ILO Convention No. 138)
- Worst Forms of Child Labour Convention, 1999 (ILO Convention No. 182)
- Principle 5 of the UN Global Compact

#### Forced labour

- Abolition of Forced Labour Convention, 1957 (ILO Convention No. 105)
- Forced Labour Convention, 1930 (ILO Convention No.29)
- Slavery Convention, 1926
- Supplementary Convention on the Abolition of Slavery, the Slave Trade, and Institutions and Practices Similar to Slavery, 1956
- Principle 4 of the UN Global Compact

## Employee Rights

- Freedom of Association and Protection of the Right to Organise Convention, 1948 (ILO Convention No. 87)
- Right to Organise and Collective Bargaining Convention, 1949 (ILO Convention No. 98)
- Equal Remuneration Convention, 1951 (ILO Convention No. 100)
- Discrimination (Employment and Occupation) Convention, 1958 (ILO Convention No. 111)
- Convention Concerning Occupational Safety and Health and the Working Environment, 1983 (ILO Convention No. 155)
- Principles 3 and 6 of the UN Global Compact

This principle also addresses the right to just and favourable conditions of work as defined in **Article 23 of the Universal Declaration on Human Rights**, and **Article 7 of the International Covenant on Economic, Social and Cultural Rights**. This includes the right to fair wages and equal remuneration; to safe and healthy working conditions; to equal opportunities; and to rest, leisure, reasonable limitation of working hours and periodic holidays with pay.

## 3.3 CORRUPTION

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Forms of corruption include: bribery, extortion, fraud, collusion, money laundering, embezzlement illegal political contributions, nepotism and certain facilitation payments. ACTIAM considers involvement in corruption, as defined by the following mechanisms, to be in violation of our principles.

- UN Convention Against Corruption, 2003
- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, 1997
- OECD Guidelines for Multinational Enterprises, 2011
- Principle 10 of the UN Global Compact.

## 3.4 THE ENVIRONMENT

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ACTIAM does not wish to be involved in activities that cause serious environmental damage through pollution, biodiversity loss, or the depletion of natural resources. We seek guidance from the following instruments of international environmental norms and best practices, as well as environmental laws and regulations, when determining whether a company is in violation with our principles.

- Rio Declaration on Environment and Development, 1992
- The Earth Charter, 2000
- Principle 7 of the UN Global Compact
- IFC Performance Standards on Social & Environmental Responsibility, 2012
- Het Klimaatakkoord van Parijs (UNFCCC), 2015

Companies unwilling to phase out the most carbon-intensive assets, products or processes could be in violation of our principles. Criteria to determine whether companies are in violation of our principles, as well as distinct best practice guidelines, are further specified in ACTIAM's position papers. For instance, ACTIAM does not invest in companies that have over 15% of their total revenue resulting from thermal coal. Furthermore, our guidelines prohibit us from investing in companies involved in particularly harmful activities including mountaintop removal mining, riverine tailings disposal, illegal logging, and extraction activities in protected areas. Such areas include those covered by the **International Union for the Conservation of Nature (IUCN) Protected Areas Categories I through IV**, the **1972 UNESCO World Heritage Convention**, and the **1971 Ramsar Convention on Wetlands**.

## 3.5 WEAPONS

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ACTIAM does not invest in companies involved in the production, development, sale, or distribution of controversial weapons or related services or components that are essential or specialised. This includes companies holding a stake (and/or voting powers) of 10% or more in another company that is involved in controversial weapons business. Essential components or services are crucial for the functioning of the weapon, such as sub-munitions, fuses, guidance mechanisms, and warheads. Specialised components or services are those that are specifically developed and provided for the controversial weapon and thus are not considered dual-use.

ACTIAM further excludes investments in companies that are involved in controversial arms trade. This concerns the trade of conventional weapons, including the provision of related services, with countries and non-state actors subject to United Nations Security Council, or the Council of the European Union arms embargoes.

ACTIAM considers weapons controversial if they are forbidden under international law and banned by international conventions or treaties, or if they violate fundamental humanitarian principles when they are used. Such humanitarian principles include the principles of proportionality, which requires the prevention of unnecessary suffering, and distinction, which requires that military and civilian targets are distinguished.

ACTIAM considers the following weapons to be controversial:

- Anti-personnel mines: as defined by the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction, 1997;
- Biological weapons: as defined by the Convention on the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction, 1972;
- Chemical weapons: as defined by the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction, 1993;
- Cluster weapons: as defined by the Convention on Cluster Munitions, 2008;
- Nuclear weapons;
- Conventional weapons equipped with white phosphorus or depleted uranium.

In addition to the conventions listed above, ACTIAM considers the following international conventions when applying this principle:

- Treaty on the Non-Proliferation of Nuclear Weapons, 1968
- Comprehensive Nuclear-Test-Ban Treaty
- Protocol for the Prohibition of the Use of Asphyxiating, Poisonous or Other Gases, and of Bacteriological Methods of Warfare, 1925
- Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May be Deemed to be Excessively Injurious or to Have Indiscriminate Effects, 2001
- Article 36 of Protocol I Additional to the 1949 Geneva Conventions, 1977

Finally, ACTIAM excludes all production of non-military firearms and the sale of (hand)guns to consumers. In democratic countries the state (as opposed to citizens) has a consciously chosen monopoly on violence. We wish to protect this monopoly.

### 3.6 CLIENT AND PRODUCT INTEGRITY

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ACTIAM considers involvement in the following activities to be in violation of our principles:

- Withholding, falsifying or twisting information of essential importance to consumers, business relations, shareholders, employees, or other stakeholders;
- Product safety or quality lapses that threaten human or environmental health. These include the production of tobacco, pornography and offering gambling, lottery and competitive games. Companies with a turnover of 10% or more of these products and/or services are excluded from our investments.

### 3.7 ANIMAL WELFARE

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ACTIAM considers involvement in the following a violation of our principles and does not invest in companies with serious involvement in the following activities or behaviours:

- Animal welfare abuses without demonstrable actions taken to improve the living conditions of animals;
- The trade of species (and plants) covered by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES);
- Animal testing for cosmetic and household products, unless the company is required by law to test the product on animals.

Furthermore, ACTIAM takes into account of the following international conventions:

- Convention on the Conservation of Migratory Species of Wild Animals, 1979
- UN Straddling Stocks Agreement, 1982

Finally, specific themes that are important for establishing a coherent animal welfare policy are further elaborated in ACTIAM's policy papers.



## 4. Appendix

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List of international mechanisms consulted:

- Abolition of Forced Labour Convention, 1957 (ILO Convention No. 105)
- Aquatic Animal Health Code, 1995
- Comprehensive Nuclear-Test-Ban Treaty
- Convention Concerning Occupational Safety and Health and the Work Environment, 1981 (ILO Convention No. 155)
- Convention on Cluster Munitions, 2008
- Convention on International Trade in Endangered Species of Wild Fauna and Flora, 1973
- Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May be Deemed to be Excessively Injurious or to Have Indiscriminate Effects, 2001
- Convention on the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction, 1972
- Convention on the Elimination of All Forms of Discrimination Against Women, 1979
- Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction, 1993
- Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction, 1997
- Convention on the Rights of the Child, 1989
- Discrimination (Employment and Occupation) Convention, 1958 (ILO Convention No.111)
- Earth Charter, 2000
- Equal Remuneration Convention, 1951 (ILO Convention No. 100)
- European Union Sanctions policy, 2016
- Forced Labour Convention, 1930 (ILO Convention No.29)
- Freedom of Association and Protection of the Right to Organise Convention, 1948 (ILO Convention No.87)
- Indigenous and Tribal Peoples Convention, 1989 (ILO Convention no. 169)
- IFC Performance Standards on Social & Environmental Responsibility, 2012
- International Covenant on Civil and Political Rights, 1966
- International Covenant on Economic, Social and Cultural Rights, 1966
- International Principles for Responsible Shrimp Farming, 2006
- IUCN Protected Areas Categories System
- Minimum Age Convention, 1973 (ILO Convention No. 138)
- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, 1997
- OECD Guidelines for Multinational Enterprises, 2011
- Protocol for the Prohibition of the Use of Asphyxiating, Poisonous or Other Gases, and of Bacteriological Methods of Warfare, 1925
- Protocol I Additional to the 1949 Geneva Conventions, 1977
- Ramsar Convention on Wetlands, 1971
- Right to Organise and Collective Bargaining Convention, 1949 (ILO Convention No. 98)
- Rio Declaration on Environment and Development, 1992
- Slavery Convention, 1926
- Supplementary Convention on the Abolition of Slavery, the Slave Trade, and Institutions and Practices Similar to Slavery, 1956
- Sustainable Agriculture Standards, 1997
- Terrestrial Animal Health Code, 1968
- Treaty on the Non-Proliferation of Nuclear Weapons, 1968
- UN Convention Against Corruption, 2003
- UNESCO World Heritage Convention, 1972
- UN Global Compact, 2000
- UN Guiding Principles on Business and Human Rights, 2011
- Universal Declaration of Human Rights, 1948
- Voluntary Principles on Security and Human Rights, 2000
- Verbond van Verzekeraars Code Duurzaam Beleggen, 2012 BIJLAGE 9
- Worst Forms of Child Labour Convention, 1999 (ILO Convention No. 182)

## 5. Disclaimer

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