



ACTIAM Sustainable Investment Policy

D: Sustainable Investment Instruments

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 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.

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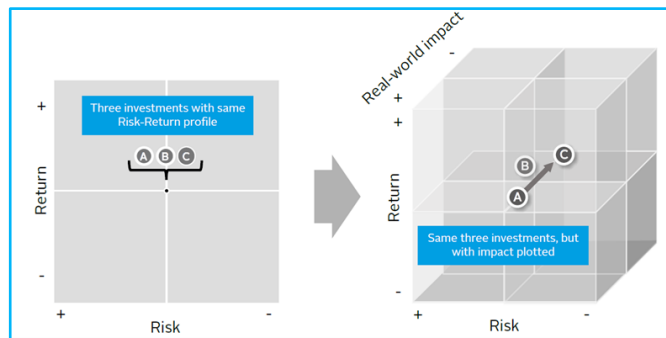
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1 Introduction

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 Sustainable Investment Policy. The aim of ACTIAM’s sustainable investment 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 the document “ACTIAM Sustainable Investment Policy - A: Sustainable Investment Framework” for a further description. ACTIAM encourages companies to manage their material risks and opportunities in such a way that they operate within or move towards this safe and just zone. It is well researched that entities that perform well on financially material environmental, social and governance (ESG) issues have a better financial performance.¹ ACTIAM therefore moves away from a traditional two-dimensional risk and return model, but adopts a three-dimensional model that also considers entities’ impacts in the real world - see Figure 1.

For this, ACTIAM uses a set of sustainable investment instruments such as screening, selection, ESG scoring, engagement and voting. ACTIAM actively selects and monitors investee entities on compliance with its policies.² A proprietary selection approach has been developed to determine which entities comply with the sustainable investment criteria and are eligible for investment in certain classes of products. In addition, an ESG-scoring methodology has been developed to steer investments towards a higher level of sustainability, by separating leaders from laggards in the investable universe. Moreover, as an active owner and lender, ACTIAM makes significant effort to stimulate investee entities to operate more sustainably, in this way achieving change in the real world. ACTIAM integrates this real-world impact into its voting and engagement approach, encouraging companies and governments in ACTIAM’s investment portfolio to change their behaviour and products such that they make the transition towards the safe and just operating zone and holding them accountable if there is lack of progress.³ In other words, ACTIAM aims to achieve a sustainable portfolio by realising a sustainable society.

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



Source: Principles for Responsible Investment, 2018

This policy document describes the range of instruments ACTIAM has at its disposal, as well as general guidance for their use. ACTIAM applies these 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.

Section 2 of this document describes the context for the use of these sustainable investment instruments. Sections 3 gives a list of additional instruments used to support the ACTIAM Sustainable Investment Policy or add to the strength of active ownership.

This document is part of the ACTIAM Sustainable Investment Policy. The other documents are the following:

- **A: The overarching Sustainable Investment Policy**, describing the backgrounds and basic principles of the Sustainable Investment Framework and categorization of companies.
- **B: The Fundamental Investment Principles**, describing the basic socio-ethical principles to which all entities in which ACTIAM invests have to comply with.
- **C: The Material Sustainability Drivers**, discussing how ACTIAM considers materiality of ESG related topics into its investment decisions.

¹ 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.

² “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.

³ See the ACTIAM Sustainable Investment Policy for a more detailed description of how ACTIAM envisions the role of companies and governments in this transition.

2 Instruments

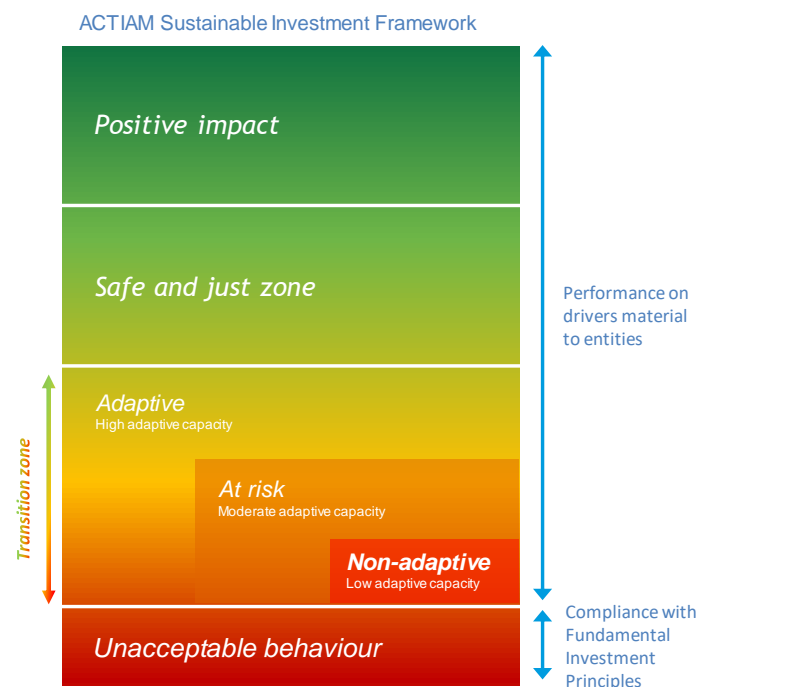
ACTIAM has developed a selection procedure and ESG scoring methodology to steer investments towards sustainability and as active owner holds engagements with companies and votes at general meetings to stimulate companies to act more sustainably. The basis for these instruments is a proprietary screening framework, used to categorize all companies in the investable universe. These instruments are discussed one by one below. For an overview on how those tools fit together see also Annex I.

2.1 SCREENING

ACTIAM uses a proprietary Sustainable Investment Policy framework to categorise on a quarterly basis all entities based on their sustainability performance and potential. This framework combines the concepts of planetary boundaries and social foundations to a model that can be applied to investment considerations. The three other policy documents - describing the Sustainable Investment Framework (A), the Fundamental Investment Principles document (B) and the Material Sustainability Drivers documents (C) - explain the backgrounds, principles and methodologies to categorize entities in one of the categories illustrated in Figure 2.

- **Positive impact:** Entities taking the opportunities to make a positive and intentional contribution to 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 operating in the boundaries of the Safe and Just Zone and who sufficiently manage the risks they are exposed to by the ongoing transitions, but do not create intentional positive impact
- **Transition zone - adaptive:** Entities (still) operating outside the boundaries of the safe zone, but having concrete and verifiable strategies to end up in the safe zone within an acceptable time frame. They demonstrate the adaptive capacity to prepare themselves for the material and operational risks that the transitions bring about. It is expected that these companies will continue developing to reach the required pathway towards the safe zone;
- **Transition zone - at risk:** Entities operating outside the planetary boundaries, not operating on the required transition pathway and having unmanaged risks. They are considered at risk as they lack the adaptive capacity to prepare themselves for the material risks that the transitions bring about and therefore are vulnerable to operational risks. Yet, with some extra effort, they may develop this capacity and reduce their risks.
- **Transition zone - non-adaptive:** Entities operating outside the planetary boundaries, far removed from the required transition pathways, and lacking the capacity to bring risk management up to standards. These entities are considered non-adaptive as they lack sound management strategies on the material topics, are exposed to high risks and therefore run serious operational risks in the short- to medium-term.
- **Unacceptable behaviour:** Entities not complying with the ACTIAM Fundamental Investment Principles and therefore exhibiting unacceptable behaviour. These principles contain a list of socio-ethical principles that reflect the bare minimum to which companies in which ACTIAM invests have to comply.

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



Grievance and remedy in the ACTIAM Sustainable Investment Policy

Due diligence

The OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business & Human Rights are among the core instruments of the ACTIAM Fundamental Investment Principles. ACTIAM expects all investees to comply with the principles as described in these instruments. Through its due diligence process, ACTIAM screens on a quarterly basis whether companies in the investable universe are involved in adverse impacts related to human and labour rights, the environment, corporate governance or other adverse impacts to society, either through their own operations or their value chain.⁴ For this, investee policies to avoid, prevent and mitigate adverse impacts are investigated. To the extent that the necessary information is available, it is also investigated how companies manage controversies or adverse impacts they have been involved in. For this, it is considered which grievance mechanisms are followed and which remedy actions are taken. The results of the due diligence process, which are always presented to and formally approved by an independent ESG Committee, determine whether the investee company complies with the ACTIAM Fundamental Investment Principles and is investible in one of the ACTIAM funds - see section 2.2 of this document. Decisions related to engagements and divestments are communicated through the quarterly ESG reports.

Grievance & remedy

As an institutional investor, ACTIAM does not cause or contribute to potential adverse impacts of its investees. It may, however, be linked to potential adverse impacts through its business relationships. Due to these links⁵, ACTIAM considers it is its responsibility to build and exert its leverage to the extent possible to stimulate investees to take their responsibility and prevent and mitigate adverse impacts where risks may arise. For this, an important component of responsive engagements is to request investees to organise grievance and remedy mechanisms for the various stakeholder groups that may be negatively impacted by actions of the investee company or in their value chains.⁶ In this sense, through responsive engagements and voting behaviour at annual general meetings, ACTIAM participates in dialogues or mediation processes regarding adverse impacts, as laid down in the OECD Guidelines and UN Guiding Principles. Results and progress of these processes are communicated in the quarterly ESG report and the ACTIAM half year and annual reports.

Next to directly engaging with the company, ACTIAM may also collaborate in industry-wide initiatives targeting certain adverse impact issues or sustainability themes and / or stimulate companies to learn from one another. Examples of industry-wide initiatives are related e.g. to living wage, environmental stewardship, plastics use and deforestation. As a last resort, ACTIAM may divest from companies to stop linkages with persistent adverse impacts. As divestment does not solve the adverse impact, this option is only adopted if responsive engagement proves to be unsuccessful within a reasonable timeframe or if engagement is expected to be unsuccessful from the start.

The due diligence process is the principal way in which ACTIAM encounters actual or potential adverse impacts. ACTIAM also invites stakeholders to raise concerns to the ACTIAM Sustainability & Strategy team regarding involvement of investee companies in adverse impacts that require remedy. New evidence will be evaluated and if the investee is indeed found to violate the Fundamental Investment Principles, action will be taken and discussed with the stakeholders that raised concerns. As discussed above, potential actions include engagement, voting at shareholder meetings and divestment. Concerns related to ACTIAM's involvement to adverse impacts can also be brought to ACTIAM's attention through the Dutch National Contact Point for the OECD-Guidelines for Multinational Enterprises, which is part of the Dutch Ministry of Foreign Affairs and which is the official Dutch institute to address specific incidents related to the OECD Guidelines. The NCP can assist the involved parties to find a solution in order to avoid further escalation.⁷

⁴ Companies that do comply with the ACTIAM Fundamental Investment Principles are not involved in adverse impacts - see policy document [b-actiam-fundamental-investment-principles.pdf](#). The characteristics used to screen how companies consider adverse impacts in the value chain are described in policy document [c-actiam-material-sustainability-drivers.pdf](#).

⁵ Due to this link, ACTIAM is generally not responsible for addressing the adverse impacts itself nor is it expected to provide remedy.

⁶ Grievance mechanisms should be aligned with Principle 31 of the UN Guiding Principles and be legitimate, accessible, predictable, equitable, transparent, compatible with OECD Guidelines and be based on dialogue and engagement with a view to seeking agreed solutions. This also implies that the outcome of any such remedy mechanism should be that the negative impact should be addressed timely and effectively, putting the rights-holders central. For more information, see OECD (2017), "Responsible business conduct for institutional investors: key considerations for due diligence under the OECD Guidelines for Multinational Enterprises", OECD, or UN General Assembly (2017), "Report of the Working Group on the issue of human rights and transnational corporations and other business enterprises 18-07-2017, A/72/162", United Nations General Assembly.

⁷ See www.oesorichtlijnen.nl/ncp for a description of the NCP procedures.

2.2 ESG INTEGRATION

2.2.1 Selection

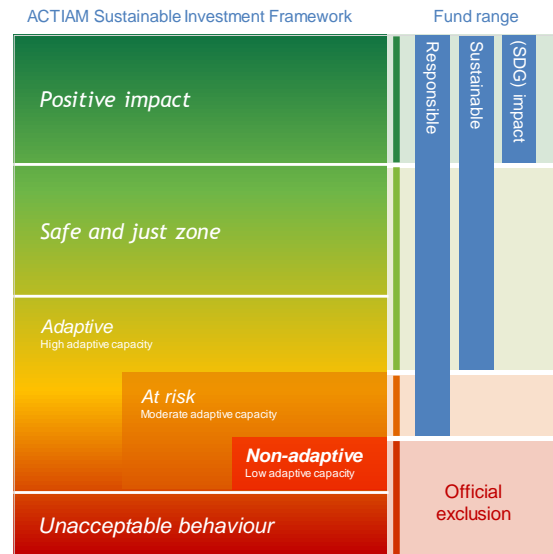
Selection refers to the choice to include or exclude entities from an investment universe. Selection is the first step that is taken after screening and can be applied in a way that fits the purpose of a specific portfolio. On the one hand, it is used to avoid exposure to unethical behaviour by investees. On the other hand, it is used to reduce sustainability risks of the portfolios. As illustrated in Figure 3, the categorization described in the previous section determines in which product range each company fits.

- Companies classified as ‘positive impact’ qualify for the **impact fund** range.
- Companies classified as ‘adaptive’ or in the ‘safe and just zone’ qualify for the **sustainable fund** range but not for the impact fund range.

Companies classified as ‘at risk’ qualify for the **responsible fund** range but not for the sustainable and impact fund range.

Companies classified as ‘non-adaptive’ or ‘unacceptable behaviour’ are **excluded** from all ACTIAMs products.

Figure 3: ACTIAM’s Sustainable Investment Framework and the investment universe



Exclusion due to unacceptable behaviour or non-adaptiveness

Exclusion of an entity due to unacceptable behaviour or non-adaptiveness means ACTIAM will no longer invest in the company or sovereign bond - the company is excluded for all fund strategies. The main purpose of this instrument is to avoid exposure to unacceptably high (financial) risks from organisations and sovereigns. 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 ESG Committee with the advice to be excluded from investment.⁸ 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.⁹ The investigation phase is concluded with an advice towards the ACTIAM ESG 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.

Similarly, if entities are categorised as non-adaptive, ACTIAM deems them to be a significant risk to society and to investors, and also presents them to the ACTIAM ESG Committee with the advice to be excluded from investment. 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.

If a decision to exclude is made, this will be applied to all products, including passive investment products and mandates. Any existing exposure to the company or sovereign issuer will be brought back to zero following a strict governance process. Screening of excluded companies and sovereign issuers is done on an 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.

⁸ The ACTIAM Selection Committee formally approves or rejects ESG policies and exclusion decisions. This committee consists of the director of Risk Management, the director of Product Management & Development and the director of the ACTIAM Sustainability & Strategy team as well as an independent ethics specialist that reviews and challenges ESG decisions.

⁹ 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.

Exclusion of 'at risk' entities from the sustainable and impact investment solutions

The sustainable fund ranges of ACTIAM contains entities that are classified as 'adaptive' or that already operate in the safe zone. Entities that are classified as 'at risk' on one or more of the material drivers are, in principle, not investable in these fund ranges of ACTIAM. These entities are deemed to create significant risk to society and investors and do not fit in the sustainability profile of the fund range, that only allows for companies that already reached or are close to the 'safe and just zone'. The at risk companies are also presented to the ESG Committee with the advice to give them an 'at risk' status and exclude them from the sustainable and impact fund ranges. For the at risk entities, ACTIAM investigates whether engagement with the entity could improve its adaptive capacity and result in a shift from an 'at risk' to an 'adaptive' status within two years. If this is judged to be feasible, an engagement trajectory is initiated and change objectives are defined. If the change objectives have not been reached within two years, the entity will be excluded from the sustainable fund ranges of ACTIAM.

Positive selection

Some of the sustainable and the positive impact fund ranges of ACTIAM have even stricter selection criteria, further limiting the entities that are available for investment. Some of ACTIAM's sustainable funds include only those entities that are considered adaptive and that are not involved in activities such as nuclear energy, fur or conventional weapons. ACTIAM's impact fund range is dedicated to entities that deliver solutions for challenges such as climate change or that contribute towards achieving global goals such as the Sustainable Development Goals. Based on additional screening criteria, the investment universe for these funds can be determined.

ACTIAM also 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.

2.2.2 ESG scoring

Besides determining the investable universe for fund ranges, ACTIAM further differentiates entities based on their sustainability performance. ACTIAM uses a proprietary ESG scoring system that allows for a further integration of relevant company-, sector- and country-level ESG information into the investment decision-making process. Next to financial information, the portfolio managers use the ESG scores to optimise the sustainability performance of their funds and mandates.

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 to optimise investments based on these ESG scores. Active portfolios have specified targets for their overall ESG scores compared to the benchmark's ESG score. ACTIAM distinguishes between an ESG score for companies and for countries.

ACTIAM ESG Company Score

The ACTIAM ESG Company score ranges between 0 and 100 and consists of three elements:

- **Company score:** The company score assesses a company's ESG performance relative to its industry peers. The company score combines a base score that is based on key environmental, social and governance issues that are relevant for the sector and a materiality score that captures the materiality and ESG risk to the sector and/or company. The base score is largely based on research by an external data provider. The materiality score captures the seven Material Sustainability Drivers of the ACTIAM Sustainable Investment Framework. Over time, when particular drivers, such as those related to fossil fuel use, become more material given the required transition, weights of these drivers will become higher leading to lower company scores for laggards and higher company scores for frontrunners.
- **Sector score:** The company score reflects ESG performance of companies relative to their peers. However, some sectors are generally closer to 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 company score, reflecting the average sector performance on the material drivers compared to other sectors. Adding the sector scores allows for a between-sector comparison of companies.
- **Analyst 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 for portfolio managers.

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 the textbox below.

Using ACTIAM ESG scores as an additional selection tool for the sustainable fund ranges

Positive selection

The sustainable fund range of ACTIAM only contains entities that are in the ‘adaptive’, ‘safe-and-just’ or ‘impact’ zones of the ACTIAM Sustainable Investment framework and that have an ACTIAM ESG company score that exceeds 20. The target of these funds is that the weighted average ESG score of the fund outweighs the benchmark. By readjusting the final ACTIAM ESG company scores, specific companies can become (in)eligible or less interesting for investment in these fund ranges. This can be justified in specific cases and follows a set process.

At risk companies

Investment in companies that are considered at risk, i.e. with only a moderate adaptive capacity, is in principle limited to ACTIAM’s responsible fund ranges. To realise this restriction for the active investment funds, the ACTIAM ESG score of companies that are identified as ‘at risk’ will be limited to 20. With these companies an engagement may be initiated with the objective to move them towards the adaptive zone. The ESG score downgrade will be lifted if the engagement is successful and the screening process no longer identifies the company 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.

ACTIAM ESG country score

Similar to the ACTIAM ESG company scores, 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:

- **Country 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.
- **Theme score:** Based on issues that are important for staying within the planetary boundaries, a theme score is calculated, which ranges between -20 and 20. This includes greenhouse gas emissions, water management, deforestation and others. Leadership on these issues means ACTIAM’s sustainability targets such as no net loss of biodiversity can be attained, which also has significant social implications.
- **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.

2.3 ACTIVE OWNERSHIP

Through voting and engagement, ACTIAM can encourage companies to move upward within the ACTIAM Sustainable Investment 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.¹⁰

The ultimate goal of active ownership 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.

¹⁰ 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 and engagement instruments are used in a complementary way; any interaction between the two instruments is further detailed below.

Alignment with international stewardship principles and codes

ACTIAM's active ownership strategy is based on internationally recognized stewardship principles. There are several stewardship codes and principles that are relevant for an active ownership strategy. For this strategy, ACTIAM principally considers:

- 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): 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 integrated the principles of this code into the Sustainable Investment Policy 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 and 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.
- The principles of grievance and remedy as laid down in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business & Human Rights. Given ACTIAM's link to potential adverse impacts caused by or contributed to investee companies, ACTIAM builds and exerts its leverage in its engagements to the extent possible to stimulate investees to take their responsibility and prevent and mitigate adverse impacts where risks arise.

2.3.1 Voting

- **Voting at Annual General Meetings or Extraordinary General Meetings:** As a shareholder of a company, ACTIAM has the right to vote at Annual General Meetings (AGM) or Extraordinary General Meetings (EGM).¹¹ 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 resolution 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 and As You Sow).
 More information on how ACTIAM executes its voting rights can be found in the voting policy document which is separately published on the ACTIAM website.

¹¹ ACTIAM executes its shareholder rights attached to voting and 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.

- **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.

2.3.2 Engagement

Starting an engagement means entering into a dialogue with an entity to influence its behaviour in light of the sustainable transition. Engagements are longer-term trajectories with predetermined objectives. ACTIAM tracks the progress 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 regularly collaborates with other organisations in the execution of these engagements.

- **Responsive engagement**

ACTIAM starts a responsive engagement with those companies that exhibit ‘unacceptable behaviour’ - see section 2.1 for the classifications - if an assessment of the policy violations and the nature of the company provide sufficient reason to believe that entering into dialogue with the company will be fruitful. For these engagement trajectories, change objectives will be agreed upon with the company and through regular interaction changes are monitored and suggestions are given on how to realise change and, if necessary, provide remedy to stakeholders adversely impacted. If these engagements are not successful within two years, exclusion may follow.

- **Proactive engagement**

All other engagements are given a proactive status i.e. the company complies with the ACTIAM Fundamental Investment Principles, but an assessment of the company’s behaviour provides reason to believe that the company can reduce its sustainability risks by improving its management capacity on one of the material drivers and move upward in the ACTIAM Sustainable Investment Framework. In addition, proactive engagement may also be based on the wider goals and ambitions ACTIAM has set and focus on potential solution pathways. Solution pathways are development directions that create opportunities for companies while addressing the challenges of staying within the planetary boundaries, and building social foundations. The specific topics for engagement are discussed jointly with the company.

Figure 4: Solution pathways identified by ACTIAM

Table 1 - Solution pathways		
	Innovation	(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.
	Circularity	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.
	Leadership	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.

- **Collaboration in engagements**

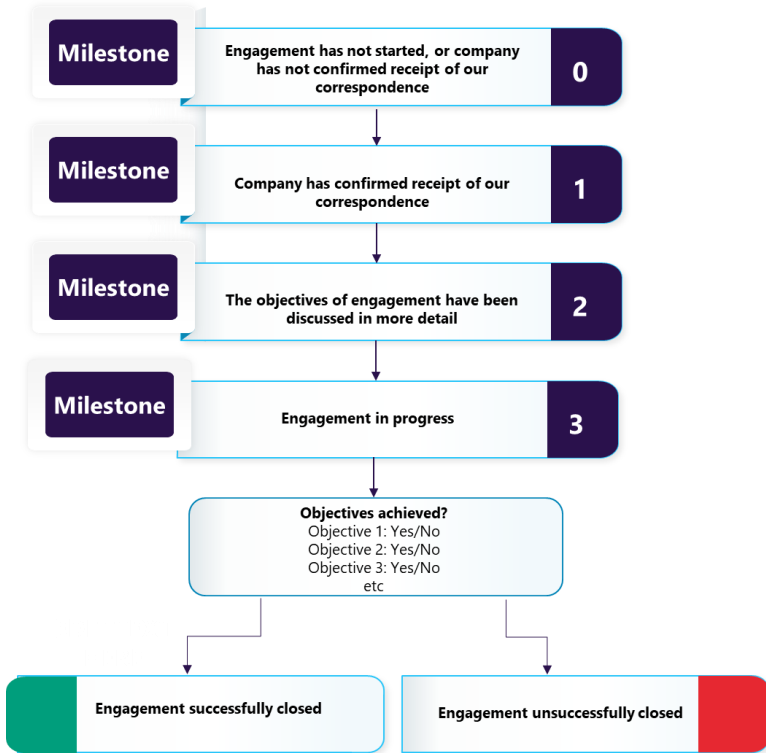
When possible, ACTIAM seeks collaboration in its engagement programme, for example through the UN Principles for Responsible Investment (PRI). These collaborations can be created in response to a controversy of one company or set up through NGOs and other partnerships to address a sector-wide topic of engagement. In addition, ACTIAM regularly seeks 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.

- **Tracking progress of engagements**

The progress of dialogues is tracked by using a milestone system and tracking the performance of companies on predetermined and specific objectives. Progress is monitored, recorded and reported to clients on a quarterly basis at minimum and is based on the ACTIAM milestone system, see Figure 5.

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 does not. 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 the textbox below on the escalation strategies.

Figure 5: Overview of milestone system for engagement progress



Timelines of engagement

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 correspondence (Milestone 0)
2	1-3 months	Establish first contact (Milestone 1)
3	3-6 months	Discuss objectives in more detail (Milestone 2) Responsive engagement: 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	Responsive engagement: If engagement is successful, meaning the company made progress on objectives and now complies with ACTIAM’s policies, the case for changing the status to ‘adaptive’ - making them available for all sustainable fund ranges - is brought towards the ACTIAM ESG Committee. If the engagement is unsuccessful, meaning there was no progress and the company still breaches ACTIAM’s policy, the case is brought towards ACTIAM’s ESG Committee. In that case, exclusion is proposed for the case that had been classified as ‘unacceptable behaviour’ or ‘non-adaptiveness’. Companies that had been classified as ‘at risk’ will receive an ESG score of maximally 20, which will make them not investable for sustainable fund ranges. 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 ESG Committee, with specific timelines. Proactive engagement: If the engagement is successful, engagement is closed and a final assessment is made. 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.

Escalation strategies in case of unfruitful engagements

There are several steps that ACTIAM can take if an discussions with the company are 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.
- **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. To push for change, ACTIAM has the following options
 - 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.
 - Speak at a shareholder meeting: ACTIAM can choose to visit the shareholder meeting and explain its position, asking the company to improve its performance.
 - (Co)file 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.
- **ESG scoring:** the ESG scores of companies with which ACTIAM conducts responsive engagements can be downgraded to avoid the active sustainable funds from investing in these companies.
- **Exclusion:** if a responsive engagement is 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.

Use of third-party services

ACTIAM uses third-party services for some of its active ownership activities. 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.

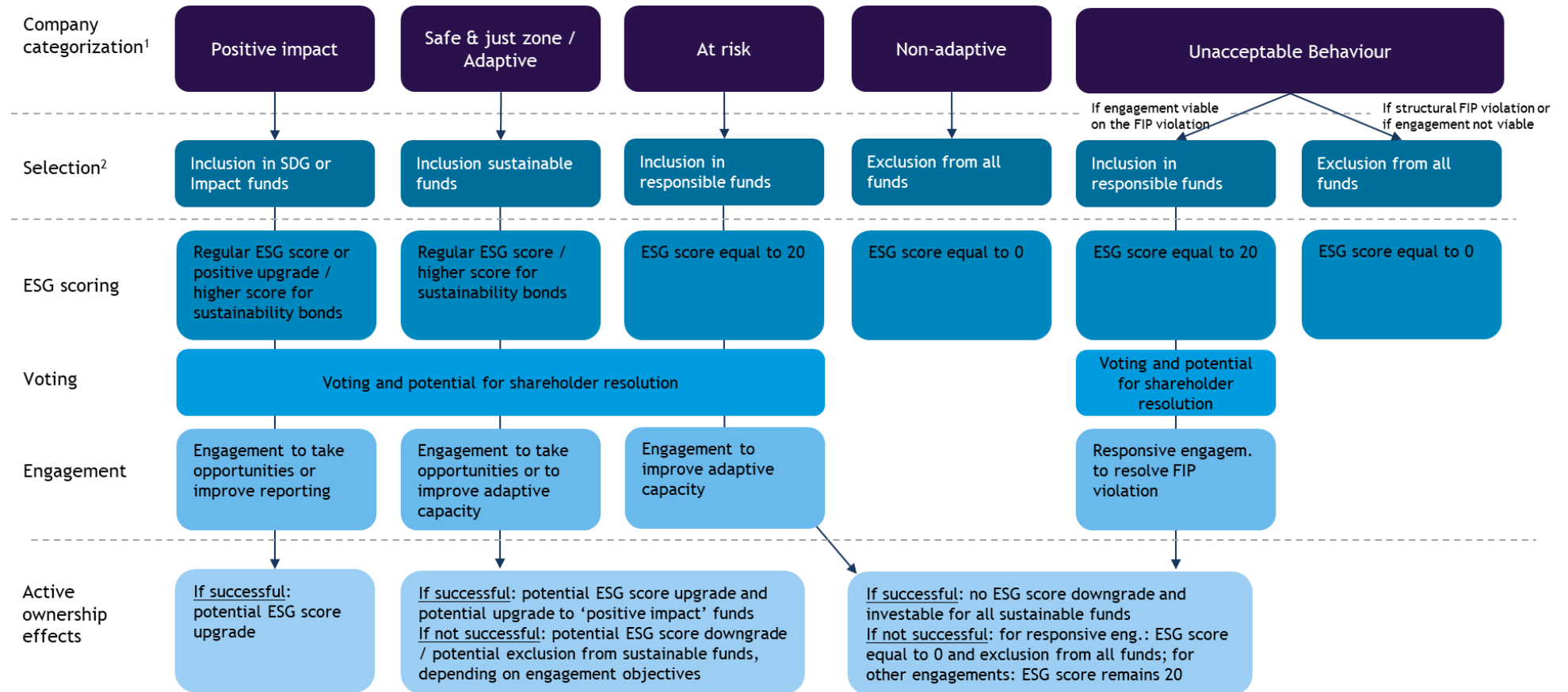
3 Supporting tools

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 (4) 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 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.

ANNEX I: Overview of screening process and application of tools



¹ This scheme presents the screening process and tools applied for companies.

² The fund range shown gives the highest fund range for which a company with a certain screening status can be selected; so, companies included in the impact funds are also investable in a responsible fund, but not vice versa.

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