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ACTIAM is a responsible fund and asset manager that offers products with an added value for institutional investors. We believe that:

- The key to successful investing is creating value;
- We have to create value for more stakeholders than the providers of capital alone to ensure good financial performance;
- Any enterprise that considers the interests of all stakeholders is a better managed company, and therefore represents a natural investment proposition for long-term investors.

A company’s stakeholders are not just its investors, but also its employees, customers, suppliers, the community and the environment. Stakeholders should be looked after in a way that they want to continue to contribute to that enterprise’s future. Companies earn their license to operate by taking into consideration their financial and non-financial interests. At ACTIAM we believe we can make an impact by changing the behavior of the companies we invest in, as such exercising our rights to influence the way businesses we invest in are managed. This is what we call ‘active ownership’. Our active ownership strategy consists of three areas: engagement, voting and exclusion. The three areas are not used separately but are connected and used to reinforce one another.

Research on the impact of engagement shows that the return on assets, profit margin, asset turnover, and sales over employees ratios improve significantly one year after successful engagements, as compared to the unsuccessful ones. Selecting the company and topic for engagement is a well thought of process where we look at two things: 1) has a major controversy occurred which is a (potential) violation of our Fundamental Investment Principles and 2) engagement fits in our focus themes and it is material for the company. We will explain both in more detail in the second part.

This paper is set up as followed. In the second part we go deeper into the three different areas of active ownership: engagement, voting, exclusion, and ESG scores and how they work together. In the third part we will show how we can use our rights as a shareholder, on behalf of our clients. In the fourth part we provide more detail on the way we measure progress and impact.

The policy addresses how ACTIAM executes its shareholder rights attached to voting shares in general meetings of companies and how we execute shareholder engagement in line with the Shareholder Rights Directive II (SRD II). The SRD II is a European Union (EU) directive which sets out to strengthen the position of shareholders and to ensure that decisions are made for the long-term stability of a company.

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1. Our active ownership policy is focused on companies.
Active ownership

Our active ownership strategy consists of three main elements. First of all, exercising our right as shareholders to vote at the AGM (or EGM) of a company. Secondly, we can start a constructive dialogue with a company, called engagement. And thirdly, as a last resort we can exclude a company from our investment universe. All three elements can be used simultaneously, for instance to reinforce one another, or separate. Below, each element is explained in more detail. As a fourth option we can use ESG scores in certain funds when selecting companies. We will explain this in more detail in section 2.4.

2.1 VOTING

Proxy voting represents the most basic form of ACTIAM’s engagement activities. Accordingly, ACTIAM exercises the voting rights attached to our clients’ holdings to reflect their interests, and aims to vote at all shareholder meetings of the companies in our clients’ portfolios. Accordingly, ACTIAM has developed a responsible voting policy, which is based on internationally recognized best practice guidelines in the areas of corporate governance and responsible investment.

ACTIAM has adopted the International Corporate Governance Network’s (ICGN) corporate governance principles as our overarching guideline on governance best practice. These principles are internationally recognized as the best practice standard in corporate governance circles. The ICGN principles reflect and endorse the OECD Principles of Corporate Governance, as well as additional guidance developed by the ICGN.

Based on these guidelines, ACTIAM has developed a general voting policy which covers typical shareholder meeting agenda items across the markets covered by ACTIAM’s voting service. When assessing the governance of individual companies, ACTIAM will also follow, where appropriate, market-specific best practice as presented in country codes and other recognized best practice guidelines.

To increase the impact of our active ownership activities related to our focus themes climate, land and water, ACTIAM will link voting choices to engagement activities in two ways. First, ACTIAM has more stringent requirements for companies in sectors considered to be high-impact or high-risk in terms of our focus themes. Specifically, when it comes to supporting management proposals at general meetings, ACTIAM applies additional sustainability requirements in relation to board structure, elections of directors, remuneration, risk management and corporate restructurings. Secondly, ACTIAM will periodically evaluate how engagement companies are responding to our engagement efforts and how the companies are progressing on the issues identified during engagement. To this end, ACTIAM chose 60 engagement companies that it will closely follow in the coming years. ACTIAM may withhold support for management resolutions when companies are insufficiently responsive or not making enough progress, speak at a company’s AGM, follow up any votes against management with a letter to the company and potentially (co-)file a resolution.

2.1.1 VOTING ON SHAREHOLDER PROPOSALS

Alongside our general voting policy, we recognize and support the strong contribution that shareholders make to shaping general meeting agendas by filing proposals. We have accordingly developed wide-ranging guidelines on voting on shareholder proposals. As shareholder proposals focus not only on governance topics, but also on social, environmental and ethical issues, these guidelines use our Fundamental Investment Principles as an organizing framework. ESG issues covered by our principles are:

- Human Rights;
- Fundamental Labour Rights;
- Corruption;
- The Environment;
- Weapons;
- Animal welfare;
- Client and Product Integrity.

3 In case we have excluded a company, we are not a shareholder anymore and therefore we have no voting rights. A company can however be in the process of becoming excluded and exercising our voting rights at that point can be an increased means of pressure. This way both can still be used simultaneously.
These principles constitute the parameters of our investments and are intended to minimize the risk that we are involved in unacceptable activities. Among the range of subjects addressed by the guidelines, there are special sections on shareholder proposals related to ACTIAM’s focus themes of climate, land and water. This mirrors not only our desire to promote best practice in these areas, but also the growth in activism on climate change, water management and sustainable land management in the wider investment community.

To increase the impact of our active ownership activities, ACTIAM might publicly declare support for shareholder proposals or add our name as a co-filer. When considering co-filing, ACTIAM will take into account the following factors:

- whether the resolution is in line with ACTIAM’s FIP and the focus themes of climate, water and land;
- whether ACTIAM has engaged with the company before or supported a similar resolution previously;
- whether the company has been unresponsive to investor engagement efforts or made progress too slowly in addressing the issue.

ACTIAM will also consider filing shareholder resolutions on our own initiative in cases where a company has been unresponsive to engagement efforts or did not make enough progress on an issue that ACTIAM has raised during intensive engagement.4

Filing shareholder resolutions

Next to voting on resolutions, ACTIAM also (co-)files shareholder resolutions in cases where a company has been unresponsive to engagement efforts or did not make enough progress on an issue that ACTIAM has raised during intensive engagement. ACTIAM both files shareholder resolutions individually or together with others investors (co-filing). Collaboration on filing shareholder resolutions is mainly sought through collaboration platforms such as UN PRI and ClimateAction100+ and through NGO networks (such as Ceres). More information on how ACTIAM executes its voting rights can be found in our voting policy.

For more information on possible conflicts of interest with regards to our active ownership activities, see our conflicts of interest policy.

2.2 ENGAGEMENT

Starting an engagement means we start a constructive dialogue with the company in order to influence the company’s behavior. At ACTIAM we conduct engagement in two ways:

2.2.1 PROACTIVE ENGAGEMENT

In the case of proactive engagement, we engage with a company before problems arise. This often concerns companies that face certain risks, but have limited policies in place or have yet to implement them. Or companies that can potentially make a positive contribution. When selecting companies for this type of engagement we focus on the three focus themes that have been developed by ACTIAM: climate, water and land. ACTIAM selects the companies/sectors where these themes are the most material. As proactive engagements are not focused on a violation of ACTIAM’s Fundamental Investment Principles they can take much longer than responsive engagements (explained below). Objectives for proactive engagements in general focus on trying to alter a business strategy into a more sustainable strategy. For each focus theme we have developed a separate active ownership strategy which outlines, among other things, the high impact sectors, focus for engagements and voting strategy.

2.2.2 RESPONSIVE ENGAGEMENT

When a major controversy has occurred which has violated our Fundamental Investment Principles, we will start a responsive engagement with the company.5 Compliance with our principles will be assessed every quarter and is 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 are met:

4 Filing a shareholder resolution ourselves is difficult and might not always be practically feasible, especially in countries outside the Netherlands. We therefore always strive to work with local investors / groups.
5 Such as serious environmental damage or human rights violations
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.

B) The company demonstrates no credible implementation and/or enforcement of above-mentioned management systems.

With a responsive engagement our goal is to work closely with the company towards remedying the issue at hand and developing a long-term strategy to minimise the risk of a similar incident happening in the future. In collaboration with the company in question, we take a critical look at their strategy policies, risk analyses, implementation, the training and education of employees, complaints procedures, transparency and reporting. We continue to monitor these elements with a critical eye. These types of engagements are relatively short term and can last around 2 years. Where engagement is 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.

2.2.3 HOW DO WE PERFORM ENGAGEMENTS?

There are different ways we can do an engagement, this is not set in stone but decided on, on a case by case basis. As a team we can only do a limited amount of engagements and in order to use our knowledge in the best way we have decided to focus the engagement done by our engagement team on the three focus themes. For all the other engagements we have hired an external provider to do the engagements on our behalf. All engagement are monitored closely which we explain in more detail in the section four.

When the engagement is done by ACTIAM's in-house engagement team, we can do this individually or collectively with other investors. The latter is done through official channels like the PRI or Eumedion or through informal investor networks. Collaborating with others has our preference as we than can efficiently reach out to more companies and we represent a large group of investors.

Collective engagements are usually planned and structural collaborations in which all investors take on part of the burden. 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, we sometimes seek to collaborate with other investors to create more leverage towards a company. All these forms of cooperation are recorded internally in the same structural manner (via milestone system in access) and reported to our clients.

2.3 EXCLUSION

ACTIAM sees excluding a company as a means of last resort, we will always first evaluate whether we are able to change a company’s behavior. Where engagement is either not an option or not successful, the ultimate consequence may be exclusion from our investment universe. Next to that there are certain products (i.e. production of nuclear weapons, riverine tailings disposal etc.) and activities that will lead to immediate exclusion. The full set of exclusion criteria and the list of excluded companies can be found on our website.

Below you will find our decision tree that illustrates how we come to the different statuses of a company. It starts with our entire universe and ends up with the following decision: exclusion, inclusion, proactive engagement or responsive engagement.
### Possible time schedule:

<table>
<thead>
<tr>
<th>Milestone</th>
<th>KPI</th>
<th>TIME PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>New engagement/objectives finalized</td>
<td>Q1 20x1</td>
</tr>
<tr>
<td>1</td>
<td>Issue(s) identified</td>
<td>Q2 20x1</td>
</tr>
<tr>
<td></td>
<td>Initial communication sent to the engagement company</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Dialogue established</td>
<td>Q2 / Q3 20x1</td>
</tr>
<tr>
<td></td>
<td>a. Initial meeting - introduction and purpose of engagement explained to the company,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. and/or follow-up communication i.e. objectives discussed with company in more detail</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Company commits to address the engagement objective</td>
<td>Q3 / Q4 20x1</td>
</tr>
<tr>
<td></td>
<td>a. Acknowledgement of materiality and /or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Timeline can be established</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Company develops a strategy to address the engagement objective</td>
<td>Q4 20x1 / Q1 20x2</td>
</tr>
<tr>
<td></td>
<td>a. Measures agreed and /or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Targets/ outcomes in place</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Issue(s) resolved/ strategy effective</td>
<td>Q1 20x3</td>
</tr>
<tr>
<td></td>
<td>a. Ongoing effectiveness of agreed measures and/or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Agreed outcomes have materialised</td>
<td></td>
</tr>
</tbody>
</table>

#### 2.4 ESG SCORE

In order to integrate ESG in our investment process and steer towards a more sustainable portfolio, ACTIAM has developed an ESG score. The ESG score is a way to measure the sustainability of a company and potential opportunities and risks, with an emphasis on our focus themes. The ESG score is used across asset classes and entails both qualitative and quantitative data. Portfolio managers need to outperform the benchmark with regards to the ESG score which ensures that they have to include the ESG performance of a company when deciding to underweight or overweight ACTIAM’s position in a company.  

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6. This time schedule is an example and is highly dependent on how a company responds to our asks.

7. This only holds for the active funds.
Ways to use our rights as a shareholder

The previous discussed elements can be used at different stages in our dialogue with a company, depending on the responsiveness of a company. At a minimum we can exercise our right as shareholder at an AGM/EGM of a company. ACTIAM will strive to vote at every possible AGM/EGM of the companies in our universe and on all the proposed resolutions (shareholder and management). Furthermore, we can decide to start an engagement with a company to further discuss relevant issues and try to move the company in a different direction or ensure an issue is properly resolved. ACTIAM will periodically evaluate how engagement companies are responding to our engagement efforts and how the companies are progressing on the issues identified during engagement. When companies are non-responsive (or leading us on), we have several options to put pressure on a company. Although this is always a case by case assessment, some general steps will be presented here.

First of all we can collaborate with other investors to increase our leverage, make public investor statements or address our concerns to the board of directors of a company. If this does not evoke any reaction of the company we can vote against the board of directors at the next AGM. In such case we will always send a letter to the board of directors explaining the reason of our course of action and offer them a last chance to discuss the issue at hand with us.

Our next option would be to (co-)file a shareholder resolution on the issue at hand. This can however be a very difficult and costly process in several markets, especially if you’re small shareholder. Next to that a lot of lobbying needs to be done to get the item on the agenda and accepted by a majority of the shareholders. So whenever we want to go into this direction we will look for local partners. When a shareholders resolution does make it onto the agenda and is accepted by a (super)majority of the shareholders, the company is forced to deliver the ask.

As mentioned before, as a last resort we have the option to exclude a company. Although this is not something we are eager to do, as the issues at hand is usually not solved by us divesting. But sometimes letting the company know that the company is on our watchlist and that they might be excluded from our investment universe is enough pressure to get something done.

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8 This is obviously not set in stone as in some cases it can make sense to skip some of these steps or use them in a different order.
9 Instead of for instance the IR or CSR department.
Measuring progress and impact

To track the progress of the engagements we have developed a milestone system ranging from zero to five. The milestone system helps us to define which engagements are on track and which engagements are lagging. The progress of the engagements is published in our quarterly reports on our website. Furthermore we look at relevant business specific impact metrics to provide us with an indication of actual progress made.

When looking at our voting behavior we are implementing two means of measuring the impact:

- ACTIAM tracks the impact of our stringent requirements for companies in sectors considered to be high-impact in terms of our focus themes;
- ACTIAM has set up a database to track and analyze voting behavior related to shareholder resolutions.

Based on both inputs we annually evaluate the impact of our voting behavior and inform the changes to the voting policy, if needed.

At the moment we are also conducting research on the impact of our engagements and voting behavior on independent variables like CO₂ emissions or financial performance. Research like this does not only provide us with the impact of our engagement but can also in the future better help us to select the companies for (proactive) engagement.
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