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# ESG Integration

ESG scoring policy for companies

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# 1 ESG integration

On top of the exclusion policy as laid out in the Fundamental Investment Principles, ACTIAM structurally integrates sustainability information in the investment process. Investment decisions for active portfolios managed by ACTIAM include environmental, social and governance elements which are reflected in a relative company score (ESG score).<sup>1</sup> This score reflects ESG risks that are financially material to the company as well as the company’s performance on ACTIAM’s focus themes; climate, water and land. The market value weighted ESG score of the portfolio should (at all times) be higher than the market value weighted ESG score of the benchmark. Portfolio managers have targets to achieve a positive difference in ESG scores, which creates incentives for investment in companies with high ESG scores.

## 1.1 CONSTRUCTION OF THE ESG SCORES

ACTIAM prefers companies that stand out in their management of financially material ESG risks and that represent ACTIAM’s believes by having a good performance on ACTIAM’s focus themes climate, water and land. The ESG scores consist of three elements: key issues scores, sector scores and analyst scores.

ACTIAM ESG score				
1. Key issues scores		2. Sector score		3. Analyst score
<b>Environment</b> <ul style="list-style-type: none"> <li>Climate change</li> <li>Natural resources</li> <li>Pollution &amp; waste</li> <li>Environmental opportunities</li> </ul>	<b>Social</b> <ul style="list-style-type: none"> <li>Human capital</li> <li>Product liability</li> <li>Stakeholder opposition</li> <li>Social opportunities</li> </ul>	<b>Governance</b> <ul style="list-style-type: none"> <li>Corporate governance</li> <li>Corporate behaviour</li> </ul>	<b>Sector impact on:</b> <ul style="list-style-type: none"> <li>Carbon footprint</li> <li>Water footprint</li> <li>Land footprint</li> </ul>	<ul style="list-style-type: none"> <li>Responsive engagement (subtraction from score)</li> <li>Positive selection (addition to score)</li> </ul>

### 1. KEY ISSUE SCORES

Companies are scored on key issue indicators relevant for sector and/or company. This research is conducted by an external data provider (MSCI ESG Research). The scores are determined by the company’s exposure to versus management of the relevant key issues.<sup>2</sup> The weighted averages of the key issue scores are aggregated and companies’ scores are normalized by their industries, meaning that companies can be compared within a sector. Examples of key issue topics included in the score can be found in the Annex.

### 2. SECTOR SCORE

ACTIAM uses the direct sector impact on the focus themes climate (carbon footprint), water (water footprint) and land (by proxy) in order to compare companies across sectors. Negative impact on the focus themes results in a decrease of the key issue score. Positive impact results in an increase of the key issue score. Examples of sectors with a negative sector score are: oil, gas & consumable fuels; metals & mining; electrical utilities. Examples of sectors with a positive sector score are: renewable energy; software & services.

### 3. ANALYST SCORE

ACTIAM includes the vision of its ESG team on the sustainability performance of companies. Companies with which ACTIAM conducts responsive engagement receive a reduced ESG score to prevent an overweight position in portfolios. Companies that are seen as leading in their sectors or contributing to ACTIAM’s focus themes can be given a positive analyst score (“positive selection”), to make investment in these companies more attractive.

Examples of companies with a negative analyst score are Glencore PLC and Marathon Oil Corporation. Examples of companies with a positive analyst score are: Koninklijke Philips NV, Svenska Cellulosa AB SCA, and Vestas Wind Systems A/S.

<sup>1</sup> Zwitserleven Europees Aandelenfonds, SNS Euro Aandelenfonds, RZL Euro Aandelenfonds, Zwitserleven Obligatiefonds, SNS Euro Obligatiefonds, RZL Euro Obligatiefonds en Zwitserleven Credits Fonds.

<sup>2</sup> For more information about the Key Issue Scores, go to: [https://www.msci.com/eqb/methodology/meth\\_docs/Executive\\_Summary\\_MSCI\\_ESG\\_Ratings\\_Methodology.pdf](https://www.msci.com/eqb/methodology/meth_docs/Executive_Summary_MSCI_ESG_Ratings_Methodology.pdf)



The sum of all elements above constructs the ACTIAM ESG score.<sup>3</sup> This score allows us to pick the companies (across sectors) which stand-out when handling financial material ESG issues and perform well on ACTIAM focus themes. Together with the financial analyses of a company, the ESG score helps the portfolio managers to make optimal decisions, both financially as on a sustainability level.

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<sup>3</sup> Scores are integer values, linearized between 0-100, with 100 as highest score.

Examples (not exhaustive) of key issue topics included in the key issue scores are:

PILLAR	KEY ISSUE	METRIC
Environment	Toxic emissions and waste	<p>Toxic emissions targets.</p> <p>Agressiveness of reduction targets in context of current performance.</p> <p>Demonstrated track record of achieving toxic emissions targets.</p> <p>Detailed implementation strategy to reduce: air emissions, water effluents, non-hazardous waste, hazardous waste.</p>
	Biodiversity & land use	<p>Clear targets with regards to land use.</p> <p>Clear policy on: sustainably managing natural resources and raw material use; minimizing disturbance from operations; reclaiming habitat; disturbed land; protecting human rights; respecting indigenous peoples and minimizing community impacts; scope of the policy/policies.</p> <p>Restoration or rehabilitation activities in disturbed areas of operation.</p> <p>Oil spills.</p> <p>Biodiversity and community impact assessment: community impact assessment prior to settling in new areas; biodiversity impact assessment prior to settling in new areas.</p>
	Raw material sourcing	<p>Policy to address controversial raw materials.</p> <p>Collaboration with suppliers to address impacts of raw materials.</p> <p>Future targets regarding raw materials sourcing.</p> <p>Percentage of products externally certified by agencies.</p>
	Financing environment impact	<p>Policy or system in place to manage ESG risks in financing activities.</p> <p>Scope of ESG due diligence policy (operations covered).</p> <p>Equator Principles Signatory.</p> <p>Controversial investment controversies.</p>
Social	Labour management	<p>Incidents of large-scale workforce restructuring.</p> <p>Scope of training &amp; professional development support or programs.</p> <p>Company monitors employee satisfaction on a regular basis.</p> <p>Restructuring policies &amp; programs.</p>
	Supply chain labour standards	<p>Code of conduct covers the following: forced labour, child labour, working hours, paid overtime, minimum wage, anti-discrimination, freedom of association, health &amp; safety.</p> <p>Labour management a factor in selecting new suppliers or awarding contracts.</p> <p>Company audits suppliers' compliance with the Code of Conduct: Tier 1.</p>
	Access to health care	<p>Management system to implement and monitor Access to Healthcare strategy .</p> <p>Disclosure of its Access to Healthcare-related lobbying activities.</p> <p>Equitable pricing policies for products and services in developing countries: equitable pricing policies, number of products.</p> <p>Engagement in Non-exclusive voluntary licensing: licenses and quality checks, number of products.</p>
	Product quality & safety	<p>Manufacturing and handling: quality control / product safety training program for employees; product testing; existence of contingency plans / mitigation control systems; certifies own operations (e.g. HACCP, ISO 9001, or equivalent); certifies own operations to an internally developed standard; measures and reports quantitative indicators related to service .</p> <p>Product safety &amp; quality controversies.</p>



PILLAR	KEY ISSUE	METRIC
Governance	Responsible investment	Discloses policies and procedures to integrate ESG considerations. Company is participant or signatory to: UN PRI, INCR, IIGCC, IGCC, SIF/ EuroSIF. Percentage of assets / assets under management covered by ESG approach. Dedicated staff responsible for analyzing ESG issues or trains financial analysts on ESG issues.
	Corporate governance: pay	Dilution Concerns. Run Rate Concerns. Significant Vote Against Pay Practices. CEO Pay Total Annual. CEO Pay Total Realized. CEO Pay Total Summary. CEO Shares to Pay Multiple. CEO Pay NQDC. Executive Pay Disclosure. Internal Pay Equity.
	Corruption & instability	Internal auditors ensure compliance with ethical standards. External independent auditors ensure compliance with ethical standards. Employee training on ethical standards. Whistleblower protection. Bribery and corruption policy. Controversies: Bribery & Corruption. Controversies: Kidnapping & Attacks (External). Controversies: Freedom of Expression & Censorship. Discloses taxes / royalties paid to governments.

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