
**FUNDAMENTAL
INVESTMENT PRINCIPLES:
SOVEREIGNS**

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1. Responsible Sovereign Debt

ACTIAM specialises in responsible asset management and believes that financial and social returns are compatible across all assets classes. Due in part to the specific risk and regulatory requirements many of our clients must adhere to, sovereign debt is an important asset class at ACTIAM, and thus an essential part of our overall responsible investment strategy. ACTIAM's Fundamental Investment Principles outline our investment standards related to environmental, social and governance (ESG) issues such as human rights, corruption, the environment and weapons. While these issues are relevant for both corporate and sovereign issuers, integrating such considerations into our investment approach for each asset class requires a distinct approach. This policy explains our responsible investment approach for sovereigns. For our responsible investment approach to companies, please look at our website for the Fundamental Investment Principles: Companies.

2. Scope

This policy applies to all of ACTIAM's internally-managed sovereign and sub-sovereign bond investments (hereafter "sovereigns"). While we evaluate, select and engage our external managers based on ESG criteria, we are nonetheless unable to impose our own ESG criteria on third-party funds where assets are pooled with other investors whose criteria are different from ours. Thus, this policy cannot be strictly applied to externally-managed funds. That being said, approximately 99 percent of ACTIAM's sovereign investments are managed internally and therefore covered by our policy.

Investing in safe sovereigns is at the very core of our responsible investment strategy. Accordingly, ACTIAM invests almost entirely in investment-grade Euro-denominated sovereign debt instruments. In practice, this means that our fixed income portfolios consist primarily of large, European issuers. Our policy, however, remains global in scope and can be applied to any sovereign.

3. Implementation

3.1 FUNDAMENTAL PHILOSOPHY

ACTIAM's approach to sovereign debt investing seeks to help our clients meet their unique investment goals by achieving a combination of financial and extra-financial returns. ACTIAM and its clients are long-term investors, and it is our view that a long-term investment horizon offers more opportunities to realise these superior returns. We do this by recognising and capitalising on inefficiencies in the market in a diversified way, for example, by spreading risk across a variety of factors and taking a balanced approach between technical and strategic positioning. Lastly, our highly diverse, experienced and stable team ensures that our investment vision and execution remain robust.

Exclusion

In general, ACTIAM views exclusion as a tool of last resort, to be used only once it becomes clear we will not be able to persuade an entity to change its behaviour. At the same time, as a result of the democratic process that guides government decision-making, the potential for investors to influence sovereigns is very limited. Similarly, while exclusion or the threat of exclusion can be effective in persuading companies to change their behaviour, sovereign issuers are rarely affected financially by such divestments, making exclusion a less effective tool for this asset class. Nevertheless, ACTIAM does not wish to invest in sovereigns that are repeatedly or systematically involved in clear violations of fundamental rights and global governance norms, and excludes such sovereigns based on the following criteria.

Fundamental Rights and Governance

Sovereigns are above all responsible for ensuring fundamental rights for their populations. Thus, as a starting point, ACTIAM will not invest in any sovereign that repeatedly or systematically fails to uphold and protect the most basic of human, civic and political rights, such as those enshrined in 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](#).

To help us determine which sovereigns are failing to meet these obligations, we consider a variety of well-reputed indicators: [Freedom House's Freedom in the World report](#)¹ and the [World Bank Worldwide Governance Indicators](#).² Sovereigns that score below ACTIAM's thresholds for each indicator are considered unethical and irresponsible investment options and will thus be excluded from our investments. This includes those deemed "Not Free" by Freedom House and the bottom 20% of the Worldwide Governance Indicators (worst governed).³ In addition, in case Freedom House indicates that a country is 'Partially Free' or if there is a conflict area in the country which is labelled as 'Not Free' or 'Partially Free' we conduct an individual country assessment. In the latter case, we apply the following rules: if a disputed territory - within the borders of one country - is invaded, threatened, occupied and / or militarized by another country, then the first country is not necessarily excluded. The affected country does not have effective control over these areas. Countries that are considered "Free" or "Partially Free", where it is obvious that such countries have effective control over the conflicted areas, are excluded from our investments.

Controversial Arms Trade

In alignment with ACTIAM's position on controversial arms trade, as outlined in our Fundamental Investment Principles: Companies, ACTIAM will not invest in sovereigns that are currently under [United Nations Security Council or Council of the European Union arms embargoes](#).

Sovereigns currently excluded from our investment universe based on these criteria can be found on our website.

3.2 ESG SCORES

1 The Freedom House Freedom in the World report is an annual comparative assessment of political rights and civil liberties worldwide.

2 The World Bank Worldwide Governance Indicators annually assess the governance of the world's major economies based on six indicators: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.

3 We have combined the underlying scores for each of the six underlying World Governance Indicators into one comprehensive governance score for each country. We exclude the bottom third of countries based on the ranking derived from these comprehensive scores.

For the investable universe that remains, ACTIAM has developed a scoring methodology, supported by third-party data, that allows us to evaluate any country's ESG performance. Each country is scored based on a customised weighting of approximately 30 indicators that are backed by reliable data sources, are specifically relevant for sovereigns, and reflect ACTIAM's Fundamental Investment Principles and strategic focus areas. For example, because of governments'.

Primary responsibility to ensure the integrity of fundamental rights and institutions, a strong emphasis (50 percent of the weighting) is placed on governance factors. Overall, the indicators address a country's:

- Political Rights
- Institutional Strength
- Business Climate
- Security & Peace
- Multilateral Commitments
- Standard of Living
- Equality
- Education
- Climate Change Management
- Natural Resources Management
- Natural Disaster Risk Exposure

Each country receives a score between 0 and 100, with 100 being the best. Further, to be able to relate the ESG scores of European sovereign and corporate issuers within the same bond portfolio, we rescale the European country scores to have the same average score and dispersion as the European corporate universe. The final scores are integrated by ACTIAM's portfolio managers to construct bond portfolios that achieve both financial and ESG outperformance compared to each clients' benchmark.

3.3 SUB-SOVEREIGN, SUPRANATIONAL AND STATE-OWNED ISSUERS

Regions, agencies, public banks and any other sub-sovereign issuers will be assigned the same ESG score as the country they belong to. Sub-sovereign issuers and state-owned companies within excluded countries will not be automatically excluded. Rather, any specific controversies pertaining directly to a sub-sovereign or state-owned issuer, whether its country is included or excluded, will be evaluated on a case-by-case basis. For state-owned companies, this analysis will be based on our Fundamental Investment Principles: Companies. For supranational issuers, we calculate their scores by taking the weighted average⁴ of the member countries' scores.

3.4 GREEN BONDS

Green bonds are issued by companies, governments or supranational financial institutions to generate proceeds earmarked for investments in projects with a positive environmental impact, such as wind parks or light rail. ACTIAM actively invests in green bonds and has developed a separate policy and methodology for evaluating this asset class. In short, to evaluate green bonds, we begin with the ESG score of the issuer. Then, depending on the extent to which the specific issue meets our eligibility criteria, it may receive a "green" premium added to the issuer score.

3.5 ENGAGEMENT

Engagement is an important tool through which investors can raise their concerns, yet it is primarily reserved for companies due to investors' limited influence when it comes to governments. Nevertheless, ACTIAM participates in engagements aimed at various regulatory and law-making bodies in Europe, North America and Asia Pacific to weigh in on ESG matters of importance to investors, such as financial transparency in the extractives sector, ESG-related listing requirements at global stock exchanges, and stricter standards for the green bonds market. In this way, we aim to stimulate the development of regulatory frameworks that incentivise companies and governments to plan and act more sustainably.

⁴ Weighted based on the countries' capital contributions. For example, the score of Development Bank X = (Country 1 score x 30%) + (Country 2 score x 20%) + (Country 3 score x 50%).

4. Limitations

Though much progress has been made in recent years in integrating ESG into sovereign debt investing, the fact remains that we are still in the early stages. The major credit rating agencies for instance do not yet sufficiently nor systematically integrate ESG factors into their credit rankings for countries, though this is something ACTIAM and other Principles for Responsible Investment (PRI)⁵ signatories are advocating for. Likewise, research providers do not yet offer meaningful ESG data at the sub-sovereign level, which is why our current approach is based on country-level data.

Internally, the data behind our sovereign scores is updated twice annually. Externally, most of the publications supporting our exclusion criteria are updated on an annual basis. Thus, it is possible that there could be a lag between when a material event occurs and when it is captured by the data. Additionally, some incidents may not be captured by our current methodology at all, which means we will need to adapt our approach if such incidents prove to be material.

For these reasons, ACTIAM's approach to responsible investing in sovereigns will continue to evolve based on industry developments, as well as our own drive for continuous improvement.

⁵ ACTIAM is a signatory to the UN-backed Principles for Responsible Investment.

5. Disclaimer

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