ABN·AMRO MeesPierson

Sustainable Investment Mandate

Sustainability information

Summary

The Sustainable Investment Mandate is an investment portfolio with identifiable investments that pursue socially responsible business practices. The environmental and social characteristics promoted by this financial product are:

- Positive selection based on environmental, social and governance ("ESG") performance
- Exclusion of controversial activities
- Exclusion of controversial countries
- Good corporate governance practices.

The portfolio managers select companies based on those criteria, but will also perform a thorough qualitative bottom up analysis. This analysis includes, among others:

- Exposure to long term trends like climate change
- Corporate governance aspects, like integrity and track record of the management, board structure, corporate governance factors and the management's transparency toward shareholders
- Contribution to the United Nations Sustainable Development Goals ("SDGs"). Does a company positively contributes or does it harm the SDGs?

The mandate invests in direct holdings and funds. But part of the portfolio can also be hold in cash and cash equivalents or money market instruments. At least 70% of the portfolio (excluding cash) has to promote environmental or social characteristics. It is possible that part of the actual portfolio can be considered a sustainable investment, but the mandate is not committed to make one or more sustainable investments. The only derivates used are interest rate and foreign exchange derivatives.

The mandate promotes environmental and social characteristics and securities are carefully selected based on pre-described criteria complemented with quantitative and qualitative research. However, this mandate does not have as its objective sustainable investment. To measure the attainment of those characteristics the following sustainability indicators are used:

- The average Sustainalytics ESG Risk Rating of the portfolio
- Carbon emissions of the portfolio
- Alignment with the objective of the Paris Agreement to keep global warming well below 2 degrees Celsius
- Alignment with the SDGs

To measure attainment of the environmental and social characteristics and the sustainability indicators data of 2 leading data providers is used, Sustainalytics and ISS. Companies in the portfolio can be included in the thematic or collaborative engagement to improve the performance of a company, including ESG performance.

Sustainable investment objective or not?

The mandate environmental or social characteristics, but does not have as its objective a sustainable investment as defined by the Sustainable Finance Disclosure Regulation. It is possible that part of the actual portfolio can be considered a sustainable investment, but the Mandate is not committed to make one or more sustainable investments. In plain language, this mandate can therefore be considered light green.

The EU is developing criteria to determine if and to what extend an economic activity can be classified as environmentally sustainable as defined in the EU Taxonomy Regulation. The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities. Because those criteria are still under development and not applicable those criteria cannot be taken into account and the "do no significant harm" principle cannot be applied to any of the investments in the mandate.

Environmental or social characteristics promoted by the financial product

The Sustainable Investment Mandate is an investment portfolio with identifiable investments in public authorities, institutions and companies. The portfolio managers of the Mandate make deliberate choices in order to construct a socially responsible investment portfolio.

The environmental and social characteristics promoted by this financial product are 1) positive selection based on ESG performance, 2) exclusion of controversial activities, 3) exclusion of controversial countries and 4) good corporate governance practices. See the Investment Strategy below for more details.

Investment strategy

Equities, corporate bonds and government bonds have to comply with: 1) positive selection based on environmental, social and governance ("ESG") performance, 2) exclusion of controversial activities, 3) exclusion of controversial countries and 4) good corporate governance practices.

Positive selection based on ESG performance

The ESG performance of a company or country is assessed, using the ESG Risk Rating (companies) and the Country Risk Rating of data provider Sustainalytics. A best-in-class approach is applied, which means that the Risk Rating is compared to the Risk Rating of similar companies or other countries. In principle, a company or country is only if eligible if the Risk Rating is in the best 50%. In exceptional cases the Risk Rating can be outside the best 50% if it is expected that the ESG performance will improve. This can for example be the case if a company is a pioneer or influencer that has the potential to disrupt a sector.

Exclusion of controversial activities

- Exclusion of the following controversial activities:
  - Companies with involvement in weapons production, including companies that have 10% or more ownership in companies with involvement in controversial weapons
  - Companies with involvement in tobacco production (growers and manufacturers)
  - Companies that are breach the principles of the UN Global Compact
- Companies with involvement (exceeding 5% of total turnover) in:
  - Cannabis for recreational purposes
  - Addictive gambling
  - Animal fur and specialty leather
  - Arctic drilling, shale gas and oil sand extraction methods
  - Coal mining
  - Adult entertainment
  - Genetically Modified Organisms (GMOs)
  - Animal testing, unless i) legally required and ii) commitment to perform in the least harmful way
- Companies with involvement (exceeding 15% of total turnover) in thermal coal power generation
- Companies with involvement (exceeding 50% of total turnover) in trading and/or wholesale of tobacco

Exclusion of controversial countries

Securities issued by governments of the following countries are excluded:

- Countries on ABN AMRO's Security Sanctions List
- Countries that have not ratified the Non-Proliferation of Nuclear Weapons Treaty*
- Countries that have not ratified the Paris Agreement*
- Countries that have not ratified the ILO Convention 182 on Child Labour*

* Unless it concerns a green bond. A green bond is a fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects.

Good corporate governance practices

The corporate governance practices is assessed based on data from Sustainalytics. The ESG Risk Rating is used to assess corporate governance practices. Also involvement in events that constitute controversies with high impact or breaches of the UN Global Compact can be indicators that the company does not follow good governance practices. Sustainalytics' ESG Risk Rating is available here https://www.sustainalytics.com/esg-ratings/.

Besides direct investments in equities and bonds, part of the portfolio can be invested in funds. Only funds that promote environmental or social characteristics or funds that have sustainable investment as its objective are eligible, provided that the companies in which the investments are made follow good corporate governance practices. Funds that comply with the criteria above qualify for the mandate, It is, however, also possible that the fund manager applies different criteria or data, but that the fund still promotes environmental or social characteristics or has sustainable investment as its objective.

Proportion of investments

The mandate invests in direct holdings and funds. At least 70% of the portfolio (excluding cash) has to promote environmental or social characteristics. The remainder can consist of cash, cash equivalents and money market instruments or other investments that do not promote environmental or social characteristics. For example when data is lacking or if the investment is needed for a balanced portfolio The mandate is not committed to make one or more sustainable investments, but it is possible that part of the actual portfolio can be considered a sustainable investment. The only derivates used are interest rate and foreign exchange derivatives. Those derivatives allow the portfolio managers to offset the risks posed by interest rate and exchange rate volatility in the bond portfolio. This type of derivatives has no relation with the environmental or social characteristics of the mandate.

Monitoring of environmental or social characteristics

The environmental and social characteristics promoted by this financial product are 1) positive selection based on ESG performance, 2) exclusion of controversial activities, 3) exclusion of controversial countries and 4) good corporate governance practices. Compliance with those characteristics is monitored on a regular basis. For this different data from Sustainalytics is used, being their ESG Risk Rating, Country Risk Rating, UN Global Compact screening, controversy screening and product involvement screening. The portfolio managers have access to this data and assess the environmental and social characteristics on a continuous basis.

To measure the attainment of those characteristics the following sustainability indicators are used:

- The average Sustainalytics ESG Risk Rating of the portfolio
- Carbon emissions of the portfolio
- Alignment with the objective of the Paris Agreement to keep global warming well below 2 degrees Celsius
- Alignment with the SDGs

See the next section for more information on the methodologies used. Clients are informed on a quarterly basis how the portfolio performs on those sustainability indicators.

Methodologies

External data providers are used to assess the sustainability indicators.

ESG Risk Rating

The ESG Risk Rating of Sustainalytics is used to analyse sustainability risk for corporates. The ESG Risk Rating measures the degree to which a company's economic value is at risk driven by unmanaged sustainability risk. A lower score represents less unmanaged sustainability risk and is thus better than a high score. To determine the ESG Risk Rating of a company the company's exposure to sustainability risk is assessed and how well a company is managing the sustainability risks it is exposed to. The difference between those two is the unmanaged sustainability risk or the ESG Risk Rating. A company's exposure to sustainability risk depends on material ESG conditions for the sub-industry, company specific exposure to ESG conditions and ESG events the company is involved in like controversies and UN Global Compact breaches. Although Sustainalytics assigns the ESG Risk Rating based on extensive research it remains an opinion and others (e.g. other data providers) can have a different view on the sustainability risk of a corporate.

Carbon emission of the portfolio

Data of the Institutional Shareholder Services group of companies (ISS) is used to monitor carbon emissions of the portfolio. When available ISS will use self-reported data. ISS has developed a sophisticated methodology to estimate the carbon emissions of non-reporting companies, which can be different from their actual carbon emissions.

Alignment with the objective of the Paris Agreement to keep global warming well below 2 degrees Celsius

The Paris Agreement is an international treaty that was adopted in 2015 by 195 member states of the United Nations to combat global warming. Here also data from ISS is used. To see whether a company will achieve the 2 degrees Celsius scenario, ISS has drawn up a calculation method. The expected future emissions are calculated for each company, given the sustainability strategy of the companies and the sectors in which they operate.

Alignment with the SDGs

In total, there are seventeen goals that are closely related to each other. Each goal has underlying targets that help measure progress towards a better world by 2030. The SDGs are the blueprint for achieving a better and more sustainable future for everyone. They address the global challenges the world faces. The aim is therefore to achieve the goals by 2030.

ISS has derived 15 measurable sustainability categories based on the SDGs. These 15 goals are divided into 7 social and 8 environmental goals. The revenues of a company are assessed and it is determined which percentage has a positive, neutral and negative impact on the goal.

Data sources and processing

To measure attainment of the environmental and social characteristics and the sustainability indicators data of Sustainalytics and ISS is used.

Sustainalytics

Sustainalytics, a Morningstar company, is a global leader in ESG and Corporate Governance research and ratings. Over the last 25 years, Sustainalytics has brought together leading ESG research and client servicing professionals to retain that personal touch that has helped us to grow. Today, Sustainalytics supports hundreds of the world's foremost investors who incorporate ESG and corporate governance insights into their investment processes. Sustainalytics is a ESG research provider and does not endorse any product. Sustainalytics information contained herein do not constitute investment advice and cannot be interpreted as an offer or indication to buy or sell securities. For more information, visit http://www.sustainalytics.com/legal-disclaimers

ISS

Founded in 1985, ISS empowers investors and companies to build for long-term and sustainable growth by providing high-quality data, analytics, and insight. With nearly 2,000 employees spread across 30 U.S. and international locations, ISS is today the world's leading provider of corporate governance and responsible investment solutions. For more information, visit https://www.issgovernance.com/

The data providers have been selected after a thorough due diligence process. Also after selection the dialogue with the data providers is continued on the quality of the data, the companies for which data is available and the need for additional data to support the investment decisions.
The portfolio managers and analysts have access to the source data via webportals of the data providers, in FactSet (an integrated data and software solution) and/or data shared via data feeds.

Limitations to the methodologies and data

The methodologies and data used have in general the following limitations:

- Although the number of companies covered by data providers has increased significantly over time, and still is increasing, a specific company cannot be assessed by a data provider. It will than discuss with the data provider if the company can be added to their universe.
- Companies do not always report the data needed for a proper assessment by the data provider. In that case the data provider may engage with the company to obtain or disclose the data. In some cases missing data points can be estimated by the data providers, e.g. for carbon emissions. We do not estimate missing data ourselves.
- Different data providers can have different methodologies to assess ESG performance, which can result in a different opinion on the ESG performance. Tthe outcome of their assessment is to some extend subjective. The portfolio managers will therefor also form their own opinion. The data providers have been selected after a thorough due diligence process to ensure their methodology is in line with best practices.

Due diligence

The portfolio managers incorporate the views of the ABN AMRO Global Investment Committee regarding sector and regional allocations. Deviations may, however, arise because of lacking investment opportunities within a sector resulting from the environmental and social characteristics. The portfolio managers aim at identifying companies exhibiting:

- Strong growth prospects driven by long term sustainable impact themes
- Robust fundamentals
- Attractive valuations

The portfolio managers select companies based on the Investment Strategy, but will also perform a thorough qualitative bottom up analysis. This analysis includes, among others:

- Exposure to long term trends like climate change
- Corporate governance aspects, like integrity and track record of the management, board structure, corporate governance factors and the management's transparency toward shareholders
- Contribution to the SDGs. Does a company positively contributes or does it harm the SDGs?

The portfolio managers can leverage on the expertise of ABN AMRO's sector analysts to get additional insights on the underlying companies.

Engagement policies

Different kind of engagements are distinguished of which some also apply to the Mandate, being:

1. Thematic engagement. This is pro-active engagement where a chosen (ESG) theme is engaged in depth with a group of companies for who the theme is relevant. The actual engagement themes are:
   a. Environment: climate change, natural resources and pollution, waste and circular economy;
   b. Social: human and labour rights, human capital management and conduct, culture and ethics;
   c. Governance: board effectiveness, executive remuneration and shareholder protection and rights;
   d. Other: corporate reporting, risk management and business purpose and strategy.
2. Participation in collaborative engagement. By speaking to companies with an unified voice, investors can more effectively communicate their concerns to corporate management. The result is typically a more informed and constructive dialogue. ABN AMRO is a member of the Platform Living Wage Financials (https://www.livingwage.nl/), which is an alliance of 15 financial institutions that encourages and monitors investee companies to address the non-payment of living wage in global supply chains.
3. Ad-hoc engagements by the portfolio managers.

Companies in the portfolio can be included in the thematic or collaborative engagement if the theme is material for the company. The themes and the portfolio changes over time and therefore so does the number of engagements.

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