ABN·AMRO MeesPierson

Sustainable Fund Mandate

Sustainability information

Summary

The Sustainable Funds Mandate is a broadly based portfolio of sustainable investment funds. The portfolio managers select funds together with ABN AMRO Investment Solutions ("AAIS"), a specialist in fund selection. This mandate benefits from the expertise of different fund managers with their own perspectives on sustainability. External data and a thorough manager due diligence and sustainability due diligence are used to selected funds. The mandate promotes environmental and social characteristics. This means that funds with above average environmental and social performance are selected.

This mandate invests in equity and bond funds. 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 portfolio manager of the mandate will not use derivatives. The selected funds may use derivatives for optimizing their portfolio management.

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

- The average Sustainalytics environmental, social and governance ("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 United Nations Sustainable Development Goals ("SDGs")

To measure attainment of the environmental and social characteristics and the sustainability indicators of 3 leading data providers is used, Sustainalytics, Institutional Shareholder Services group of companies ("ISS") and Morningstar. 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. When a fund is managed by AAIS, AAIS or the delegated portfolio manager can engage with companies in the fund to improve their performance, including ESG performance.

Sustainable investment objective or not?

The mandate promotes environmental and social characteristics, but does not have sustainable investment as its objective 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 cannot be taken those criteria into account and cannot apply the "do no significant harm" principle to any of the investments in the mandate.

Environmental or social characteristics promoted by the financial product

The Sustainable Funds Mandate is a broadly based portfolio of sustainable investment funds. The portfolio managers select funds together with AAIS, a specialist in fund selection. Funds can be managed by AAIS together with an investment delegate or managed by an external manager. The mandate benefits from the expertise of different fund managers with their own perspectives on sustainability.

The mandate promotes environmental and social characteristics. This means that funds with above average environmental and social performance are selected. However, the exact environmental and social characteristics promoted can differ for each selected fund and it's manager. This starts with an exclusion of controversial activities and/or countries in combination with good ESG performance and good corporate governance. A positive contribution to the SDGs can be part of their thematic investment approach. The fund manager should also have a solid engagement policy and be signatory of the Principles of Responsible Investment ("PRI").

Investment strategy

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 can be managed by AAIS together with an investment delegate or managed by an external manager. If a fund is managed by AAIS the fund portfolio has to comply with: 1) positive selection based on 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 model of a data provider or a well-documented proprietary model of the sub-advisor. Two different strategies can be considered:

- Best-in-class. In this case the ESG performance is compared to that of other companies in the universe, sector or other peer group. Only companies and countries with ESG performance in the best 50% are eligible. In exceptional cases the ESG performance 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.
- ESG trend. Companies with improving ESG performance are then overweight, while companies with deteriorating ESG performance are underweight.

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 and involvement in events that constitute controversies with high impact or breaches of the UN Global Compact are used to assess corporate governance practices. Sustainalytics' ESG Risk Rating is available here https://www.sustainalytics.com/esg-ratings/.

If a fund is managed by an external manager (not AAIS) the ESG performance of the fund should be above average. The Morningstar Sustainability Rating (also called Globes) is used to assess the ESG performance of the fund. Only funds with 4 or 5 Globes (out of 5) are eligible for the mandate. The Morningstar Sustainability Rating is available on the fund page at the website of Morningstar and at ABN AMRO. Besides this external view on sustainability an extensive manager due diligence and sustainability due diligence is performed before a fund is selected, see the section Due Diligence.

Proportion of investments

The mandate invests in equity funds and bond funds. At least 70% of the portfolio (excluding cash) has to promote environmental or social characteristics. The remainder can consist of cash, cash equivalents or money market instruments. 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. Except for cash and cash equivalents the mandate is invested in funds. The portfolio manager of the Mandate will not use derivatives. The selected Funds may use derivatives for optimizing their portfolio management.

Monitoring of environmental and social characteristics

AAIS performs a regular check if the funds they manage are compliant with the criteria related to 1) positive selection based on ESG performance, 2) exclusion of controversial activities, 3) exclusion of controversial countries and 4) good corporate governance practices. The portfolio managers of the Mandate follow the funds on a continuous basis, including the Morningstar Sustainability Rating (the Globes).

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

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 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 we face. 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, ISS and Morningstar 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/

Morningstar

Morningstar's strategy is to deliver insights and experiences essential to investing. Their proprietary data, independent research, effective investment strategies, and meaningful analytics power the digital solutions that investors across client segments have come to rely upon in their investment processes. In 2016, Morningstar released the Morningstar Sustainability Rating to help investors use ESG information to evaluate portfolios. The rating provides an objective way to evaluate how portfolios are meeting ESG challenges, based on underlying company ESG Risk Ratings from Sustainalytics (which is majority owned by Morningstar). For more information, visit, https://www.morningstar.nl/nl/

The data providers have been selected after a thorough due diligence process. Also after selection we remain in continuous dialogue with the data providers 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 discussed 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. The 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.
- Morningstar only assigns a Sustainability Rating if at least 67% of the portfolio's assets have a company ESG Risk Rating from Sustainalytics. Therefore, funds with at least 33% in government bonds or companies not covered by Sustainalytics research are not assigned a Sustainability Rating.

Due diligence

Sustainable investment strategies are selected both on a thorough Management Due Diligence (MDD) and a Sustainability Due Diligence (SDD). The SDD forms an integral part of the selection process of a sustainable investment strategy. Furthermore the selection process is tailored to the specific nature of the sustainable strategy in question. In some strategies the investment team fully integrates financial and sustainable criteria in the security selection and portfolio construction, while in other strategies the financial and sustainable research process is more separated and conducted by different teams or by even different organisations.

In the SDD a comprehensive analysis is made about the following aspects (amongst others):

- To what extent does the organisation has a clear and well-defined sustainability philosophy, so how is sustainability defined and to what extent is it integrated into the entire organisation?
- How broad is the definition of sustainability? To what extent does it address Environmental, Social, and Governance (ESG) criteria? The process should cover issues like business ethics, the environment, employees, the society, clients, competitors, suppliers, and corporate governance. Moreover, the process should assess controversial areas (animal welfare, GMO etc) and the most important product criteria (nuclear power, weapons, tobacco, pornography, fur, and addictive forms of gambling).
- To what extent are sustainability themes translated into specific criteria, and to what extent are companies assessed on generally accepted criteria, like child labour, corruption, involvement in society, repressive regimes, tax policies, accounting, board remuneration, board composition, voting rights, product quality and safety, marketing and anti-trust measures, health and safety, discrimination and diversity, freedom of union, working hours and remuneration, environmental care, energy and water efficiency, emissions, waste and re-cycling, and transport efficiency?
- To what extent do the criteria resemble the sustainable philosophy and to what extent are the sustainable criteria measurable?
- To what extent is the sustainable process documented and to what extent does the implementation of the criteria meet generally accepted, international standards?
- To what extent are the sustainable criteria translated and integrated into the investment process?
- Is the sustainable research of the strategy or the organisation of sufficiently high quality? This assesses the size and quality of the sustainable research team, the quality of sustainable data (either internally generated or outsourced), and the organisation and quality of the sustainable research process.
- Are there internal controls in place to safeguard that the selected companies do indeed meet the sustainable criteria?

As mentioned, each sustainable investment process has its own specifics and therefore the SDD is to a certain extent tailor-made to the investment strategy at hand.

The SDD also contains a rating scheme, the Sustainability Rating, which needs to be used next to the Manager Rating to form an overall opinion of a sustainable investment strategy. For sustainable investment strategies both ratings are of equal importance. The Sustainability Rating contains the following elements:

- ESG Corporate Policy: UN PRI Implementation, Corporate policies
- ESG Team: Size and seniority, Quality and competence, Stability and continuity, Motivation and remuneration
- ESG Philosophy and Criteria: Sound and well-documented, Negative and/or positive screening, engagement and voting
- ESG Process: Eligible universe, Exclusion policies, Research, Infrastructure, Available tools.
- Portfolio: Composition, Holdings, Controversies

Engagement policies

When a fund is managed by AAIS, AAIS or the delegated portfolio manager can engage with companies in the fund. Engagement for funds that are managed by an external asset manager Different kind of engagements can be 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.

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. AAIS will also vote for resolutions of companies in the ABN AMRO funds. AAIS bases its votes on a customised version of the ISS Governance International SRI Policy, see AAIS's voting policy.

Funds that are managed by external asset managers can apply different engagement and/or voting strategies.

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