ABN·AMRO Investment Solutions

Annual Impact Report

ABN AMRO Aegon Global Impact Equity

December 2021

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Summary

I. Introduction: delivering impact in listed equities

A. Foreword

As the sustainable investment industry grows, a healthy debate is developing on its potential real-world impact. The growth we see, however, is far from homogenous. Investors seeking sustainable investment solutions are looking at these innovative strategies to fulfil diverse requirements, beliefs and interests. It is therefore of paramount importance to be clear about what you are setting out to achieve, and to be transparent regarding your progress towards those objectives.

In this first annual report of the ABN AMRO Aegon Global Impact Equities strategy, we seek to do just that. Since we developed and launched the strategy, our impact lens has been a useful tool to create a unique portfolio of companies focused on addressing today's greatest global challenges. By investing in these companies and engaging with them, we seek to actively support these innovative businesses while minimizing the potentially negative impact our capital can have on society and the planet.

Since 2018, we have been working on impact investing, in particular to stimulate companies to create more meaningful impact with their operations, for example by aligning their activities with the UN Sustainable Development Goals (SDG). With some clients already being invested in impact private markets products and solutions, we also identified that both ABN AMRO and Aegon Asset Management's clients have interests to align their listed equity investments in similar ways. This has led to the creation of the ABN AMRO Aegon Global Impact Equities strategy in 2020.

By combining ABN AMRO Investment Solutions' Environment Social & Governance (ESG) equity portfolio management, the management company, with ABN AMRO's ESG and equity advisors team and Aegon Asset Management's engagement and impact research capabilities, we are able to deliver a top-of-class listed impact strategy, with an active ESG and SDG engagement strategy at its core.

This report provides insights into our investment and engagement processes, highlighting the companies that we engage with and the progress that these companies make on their journey towards sustainability. However, transparency is a journey. Thus, we are actively encouraging further disclosure from our portfolio investee companies to measure and demonstrate their positive impacts. Over time, we hope this will allow us to deepen our impact analysis and enhance our measurement and reporting of the strategy's impact. In the meantime, we hope you will enjoy reading about some of the interesting companies we have selected for this innovative portfolio, and about our progress as their active owners.

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CEO, ABN AMRO Investments Solutions

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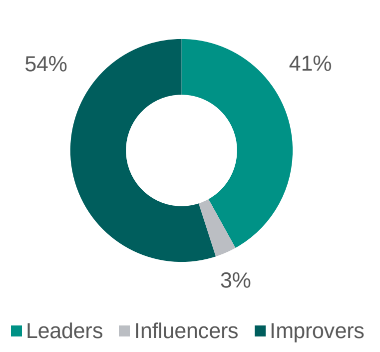
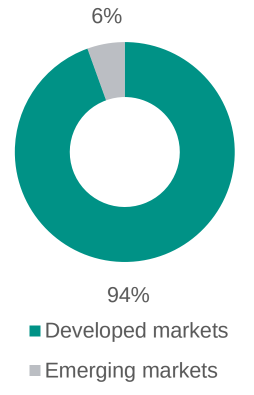
B. Highlights

1. Portfolio snapshot

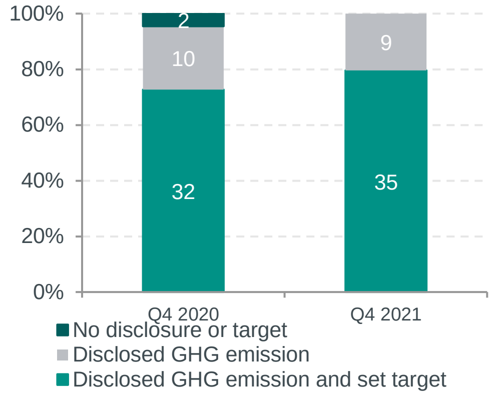
Percentage of holdings by impact category



Percentage of holdings by region

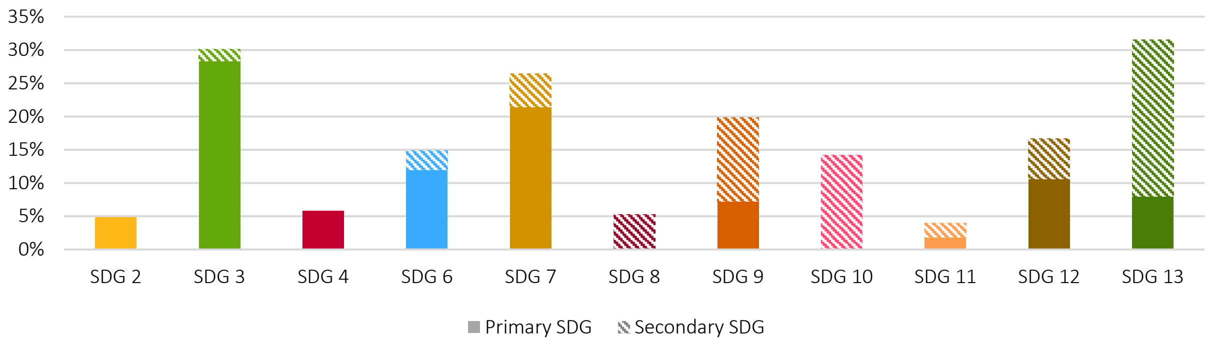


Climate Progress of portfolio companies



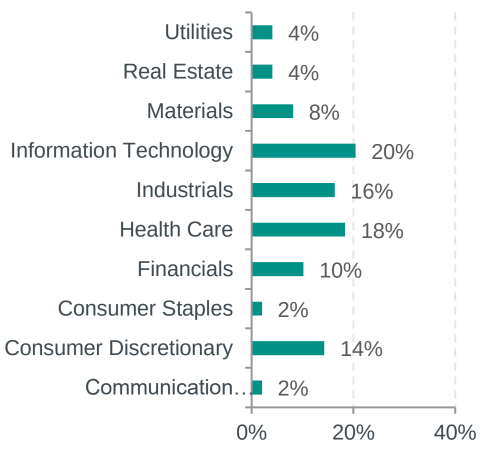
2. The nine SDGs targeted through the fund

Percentage of holdings contributing to each SDG

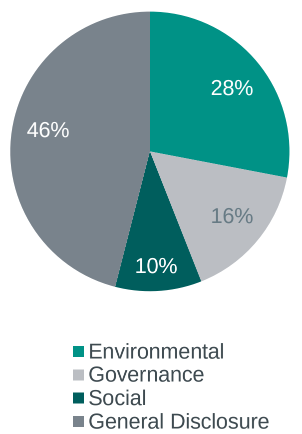


3. Active ownership

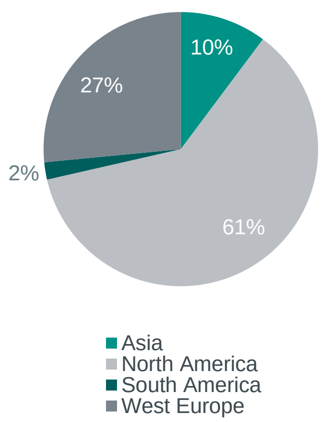
Engagements by sector



Engagements by theme



Engagements by region



Delivering impact

The ABN AMRO Aegon Global Impact Equity Fund pursues positive impact by investing in listed companies that deliver solutions to social and environmental issues. It aims to foster the growth of a sustainable global economy without compromising returns. For its investments, the fund considers companies providing solutions within the whole spectrum of Sustainable Development Goals (SDGs), operating in developed and emerging markets across sectors. The fund has 3 main goals. They are:

- **Impact:** Impact investing across sectors and regions with a strict approach to finding the companies that make a real difference;
- **Return:** Similar characteristics to a conventional equity portfolio by delivering returns;
- **Insightful:** Clear reports about the impact on the UN Sustainable Development Goals of companies invested in.

Classification of positive impact is based on the contribution to the 17 Sustainable Development Goals (SDGs) and the 169 Targets of the SDGs. These Goals were adopted by world leaders in 2015 and set a clear agenda to mobilize efforts to end all forms of poverty, fight inequality and tackle climate change.

Figure 1. United Nations Sustainable Development Goals

4. How impact is generated

The fund generates impact in two ways, through **investment** in companies that bring positive impact and through **active ownership.**

Investment is only aimed at companies that generate a net positive impact. These are companies with products or services that bring positive impact to the environment, climate, and society. Companies can have either direct or enabling impacts. Direct impact occurs when a company manufactures products or provides services that immediately address the SDGs. An example of a company with direct impact is a producer of HIV medicine. This company directly contributes to SDG Target 3.3: "*By 2030, end the epidemics of AIDS…*". Enabling impact refers to a company that manufactures essential components or provides important services for other sectors to create positive impacts. An example of a company with enabling impact is a manufacturer of wind turbine components. This company enables the utility sector to generate renewable energy, which contribute to SDG Target 7.2: "*By 2030, increase substantially the share of renewable energy in the global energy mix*".

The impact of investments from this fund are supported through **active ownership.** Investors can positively influence portfolio companies in this way. Responsible investors keenly establish relationships with investee companies and encourage them to act more responsibly and sustainably across their business. Investors also use their shareholding influence through voting and dialogue to steer company behaviour away from harmful outcomes or re-focus strategy on (more) positively impactful activities.

5. Reporting on impact

The Fund plans to provide an insight into its portfolio and the impact it aims to create every half year. The report makes use of both inhouse-qualitative assessment and external data providers. The qualitative assessment, in most cases, relies on data availability and the quality of company reporting. While there is a trend towards better and more extensive disclosure by companies in some sectors and regions, the overall coverage and quality of the data is commonly found lacking. Additionally, the reporting style of companies varies greatly and the impact of the products on society and the environment is not necessarily considered as a main focus for these companies. Within these limitations, this report attempts to provide an overview of the positive impact created through the Fund.

II. Our approach to impact: How we ensure positive outcomes

A. How we look at impact

The process of selecting companies for investment through the Fund started with applying quantitative screens. The quantitative screens covered more than 5200 sector-best-of-class companies with the screening process aimed at excluding companies that have controversial business practices or are involved in severe controversy, such as breaches of the 10 Principles of the UN Global Compact on the assumption that the negative impact of such companies will always outweigh any potential positive impact. The quantitative screens resulted in 4550 free from severe controversy companies. The quantitative screens utilized Sustainalytics and ISS ESG data bases.

Consequently, companies were selected among the 4550 suitable for investment and we performed an individual qualitative assessment for each company to ascertain the positive impact they bring. In the qualitative assessment, each company went through a rigorous analysis to understand whether the impact could be justified, whether the business activities with positive impact represented a significant share of the company's overall business activities, and whether the company was or is involved in any activities that conflict with the SDGs or Responsible Investing objectives.

Considering that each sector has a specific and possibly different potential for contributing to the SDGs, as well as facing distinct Environment, Social and Governance (ESG) risks, different sector guidelines were developed for the analysis of the companies. Each sector guideline incorporates 3 key issues, which are identification of impact opportunities that the sector presents, challenges for the sector to optimize positive impact, and material ESG risks faced by the sector. Currently, sector guidelines have been developed for the following sectors: utilities; information and technology; real estate; banking; healthcare; insurance; material; industrial; consumer staples. These sector guidelines offer consistency in the qualitative assessment and provide a clear definition of what is considered positive impact.

Each company selected for qualitative assessment was researched by an analyst to understand the impact story of that particular company. Based on the sector guideline relevant to the company, the analyst identified the following facts about the company:

- Description of products or services that bring positive impact;
- Relevancy of the products or services for the SDGs and its Targets;
- The percentage of the company revenue which brings positive impact;
- The number of people that can benefit from the impactful products or services;
- Controversial cases that the company was or is involved in;
- The company strategy to address ESG risks in its business operation;
- The company approach to corporate responsibility.

Additionally, the analyst also looked at the company strategy for alignment with the Paris Agreement on climate change. For some sectors, such as information technology and utilities, addressing climate change by adopting relevant strategies and setting aligned targets for greenhouse gas reduction is important to validate positive impact of the company.

Based on the findings of the analysts' qualitative research, all companies were classified into five categories based on their impact contribution. These categories are **leader, improver, influencer, neutral** and **ineligible**.

- A **leader** has net revenue percentage from activities contributing to the SDGs of more than 50%. The company must not be involved in substantially detrimental activities and significant controversies. It also shows good management of ESG risks in its business operation.

- An **improver** has net revenue percentage from activities contributing to the SDGs of more than 20% and less than 50%. The company commonly has other business activities apart from those having positive impact, but they are not considered as detrimental to the environment and society. It may also have poor management of ESG risks or be involved in controversies, but there is the possibility to address these issues through engagement from the Fund.
- An **influencer** is a company that revitalizes the sector with innovative products or services aligned with the SDGs. The company has a net revenue percentage from activities contributing to the SDGs of more than 20%. The company may have other business activities apart from those having positive impact, but they are not considered as detrimental to the environment and society. It may also have poor management of ESG risks or be involved in controversies, but there is the possibility to address these issues through engagement from the Fund.
- A **neutral** company has a net revenue percentage from activities contributing to the SDGs of less than 20% with clear commitment to growing the business activities that create positive impact. A neutral company can only be included in the Fund in exceptional cases, such as for sectors where there is no viable alternative to the company being considered for investment. We strive to limit total investment by the Fund in neutral companies to maximum 5% of overall investments.
- An **ineligible** company has either impact that is difficult to ascertain, detrimental business activities or involvement in a severe controversy.

The qualitative assessment enhances the initial quantitative screening using a proprietary impact assessment methodology. External data providers offer clues to the company's impact. However, their data often fails to provide detailed, comprehensive information on the impact of the company, or disregards other business activities that may be considered detrimental to the environment and society. At times, the approach of positive impact also does not align with the Fund's definition of positive impact. That is why we have put in place our own impact analysis. Examples of different approaches to positive impact are provided in **Box A**.

Box A. Positive impact of the Fund compared to external data providers

Energy Star Products: Some external ESG data providers consider Energy Star qualified devices as products with positive impact. Consequently, these data providers score a manufacturer of Energy Star qualified devices as a company with positive impact. The qualitative assessment, however, does not consider Energy Star qualified devices as having positive impact in and of itself. Especially for office equipment, the qualitative assessment considers these products as part of common business practices and Energy Star qualification as a necessity for the manufacturer to be able to compete in the market.

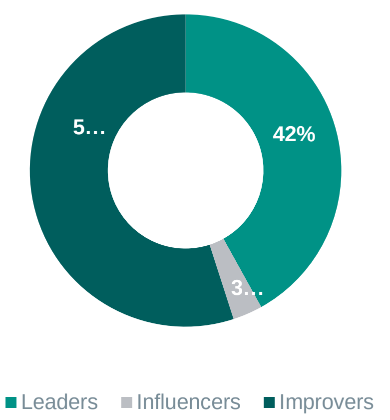
As part of the qualitative assessment, the analyst presents the results of research on individual companies including a recommendation for the company's classification and engagement objectives to the Impact Committee of the Fund. The Impact Committee is composed of internal and external sustainability experts: two representatives from ABN AMRO, two representatives from Aegon AM, and an external independent expert. Most of the Impact Committee members are sustainability experts, and at least one is an investment expert. The Impact Committee reviews and discusses the analysts' recommendations for each individual company and makes a final assertion on whether the company is investible as part of the Fund. Then, the investment advice is motivated (analysis sheet) and communicated to ABN AMRO Investment Solutions (management company) which takes the final investment decision and executes the orders.

B. Portfolio snapshot

The Fund invests mainly in leader, improver, and influencer companies that have been identified as such by the Committee. As of December 31, 2021, the investments in leader and improver companies represent 42% and 55% respectively, and only 3% of the investment is allocated to the influencer companies.

Only a limited number of influencer companies qualify for investment. These are companies that manufacture products or provides services that can be considered as revitalizing a sector or providing a more sustainable and innovative alternative to conventional products or services. Often such companies can be start-ups and/or non-listed entities, which are not considered for investment through the Fund. Leader and improver companies may also develop technology or solutions that can be considered as revitalizing and innovative to a sector. However, since the amount of revenue generated from these products is relatively small compared to other business activities, these companies do not fall under the category of influencer.

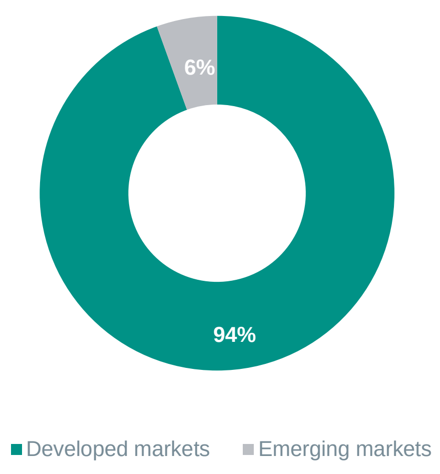
Figure 2. Percentage of holdings by impact category



The Fund investments almost evenly targeted leader and improver companies to seek an optimum positive impact. Investment in leader companies is aimed at supporting them in maintaining and developing their sustainable business practices and encouraging them to excel in managing ESG risks of their business, thus retaining their leadership role. Investment in improver companies is aimed at encouraging them to (further) improve their sustainable business practices and improving their performance in managing ESG risks in the business, hoping to propel them to becoming leaders in their sector in their own right.

As of December 31, 2021, 94% of the investment is allocated at companies from developed markets, and 6% at companies from emerging markets. Investment in developed markets is preferred as most developed markets have greater oversight and stricter regulations that govern the operations of companies. The developed markets offer more protection on the integrity, interests, and ethical boundaries of market participants.

Figure 3. Percentage of holdings by region



III. Impact of the fund: Positive change created through the fund

A. SDG impacts – internal assessment

Investments are targeted at companies contributing to at least one of the 17 SDGs. It is not unusual a company's products or services address more than one SDG Target. This is either because any given solution contributes to various SDGs, or because of the interconnectedness of some of the SDGs. The qualitative assessment determines the key contribution of the company's products and services to the SDGs. Product or service contributions that are more central to a company's activities are considered as 'primary SDGs' and those that are less relevant as 'secondary SDGs'. An example of how we define primary and secondary SDGs is provided in **Box B**.

Box B. Contribution of Vestas to the SDGs

Vestas is a wind turbine manufacturer. Its products support the development of renewable energy generation. These products contribute to SDG target 7.2, which is "By 2030, increase substantially the share of renewable energy in the global energy mix." Additionally, Vestas's businesses aid in addressing climate change mitigation, or SDG 13. However, they do not by themselves directly address the Targets under SDG 13. Based on these considerations, we define Vestas as a primary contributor to SDG 7 and a secondary contributor to SDG 13.

The Fund invests in companies that contribute to a range of SDGs. Some of the SDGs, however, are an easier prospect for investment as they often relate to the activities of private for-profit companies. For instance, SDG 3 (Good Health and Well-Being) can be easily supported by pharmaceutical companies, and SDG 7 (Clean and Affordable Energy) is supported by utility companies that focus on renewable energy generation. On the other hand, SDG 1 (No Poverty) and SDG 16 (Peace, Justice, and Strong Institutions), are more difficult addressed by private companies. These SDGs are more suitable to be address by governments, international organizations, or NGO's. **Figure 4** presents the percentage of holdings in the Fund contributing to the nine SDGs that are currently addressed through the portfolio. **Table 1** meanwhile, describes each of these nine SDG and illustrates the impact of one of the companies to that particular SDG.

Figure 4: Percentage of holdings contributing to each SDG

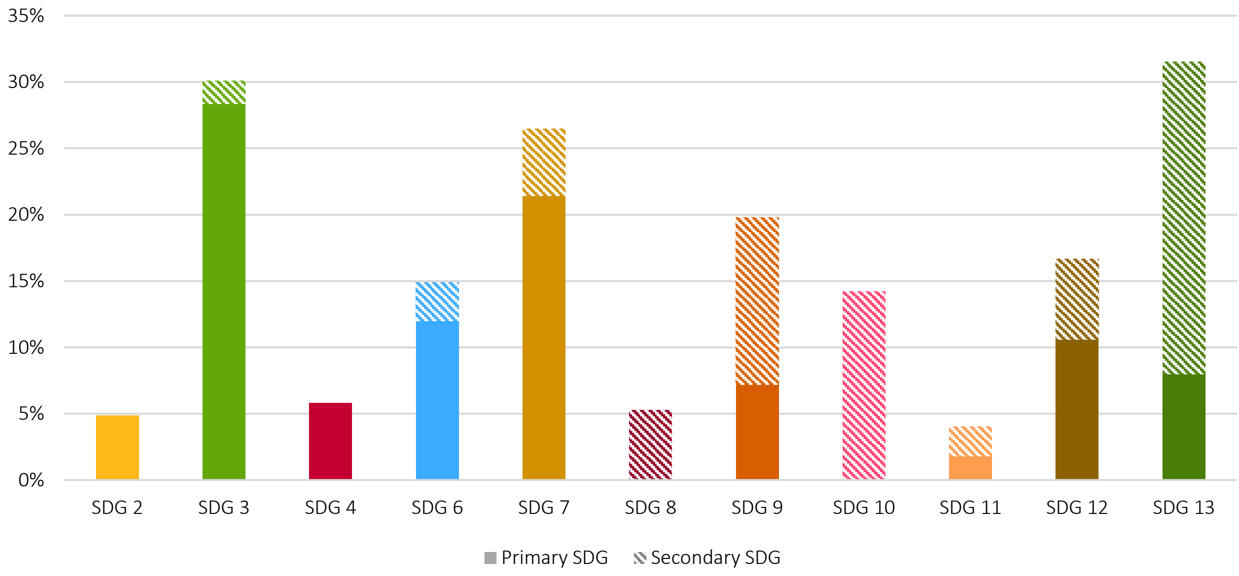


Table 1. Selected contributions to the SDGs

UN SDGs	The issue	Impact of portfolio companies
2 ZERO HUNGER	SDG 2 is tackling the issue of food production. 690 million people worldwide suffered from undernutrition in 2019,[1] and to provide food to rapidly growing populations, the agricultural sector will need to produce more. The Goal recognizes however that this cannot happen without improvements in production methods, to avoid increasing the environmental toll of intensive agriculture.	**Royal DSM** develops various solutions that aim to address various global environmental and social problems. It contributes primarily to the SDG 2 through innovative solutions in food and agriculture, such as: – Production of micronutrients and food fortification to address malnutrition in various countries. These products were also used in the UN World Food Program to improve the nutrition of the population in Bangladesh, Guatemala, Kenya, and Zambia – Production of various nutritional ingredients (e.g., stevia fragmentation for sugar reduction, Omega3 from Algae, vitamins, carotenoids, etc.) and dietetic foods for the elderly and patients with specific medical needs. It contributes secondarily to the SDG 13 through an innovative solution that helps in mitigating climate change, such as developing cow feed that reduces methane production by up to 30%. **Overview of potential impact for Royal DSM:** – UN estimation of 2020, more than 15 million cases of acute malnutrition in West and Central Africa. In Bangladesh, one-third of all deaths among children are associated with severe malnutrition. – A single dairy cow generates three tons of CO2 equivalent every year, which is one of the biggest GHG emissions in the agricultural sector. DSM's feed additive for cows and other livestock, in a trial environment, reduces 27% up to 40% methane emission per cow.
3 GOOD HEALTH AND WELL-BEING	SDG 3 is focused on improving the health, mental and physical, of people globally, and on reducing premature deaths due to disease or accidents. This includes improving (access to) treatments, stepping up prevention, and focusing on the affordability and quality of healthcare.	**Roche** is a leading manufacturer of medicines in the field of oncology, immunology, ophthalmology infectious diseases, and diseases of the central nervous system. It contributes primarily to SDG 3 through producing treatments for cancer, haemophilia, diabetes, HIV, and hepatitis patients. It has 32 medicines listed on the WHO Model List for essential medicines. Roche adopted patent policies for the Least Developed Countries to give better access to Roche medicines, which cover treatments for HIV, hepatitis, tuberculosis, and cervical cancer in regions where medical access is scarce. **Overview of potential impact for Roche:** – The rate of new cases of cancer is 442.4 per 100,000 population, while cancer caused death rate is 158.3 per 100,000 population (based on 2013–2017 figures).

[1] Food and Agriculture Organization, 2019.

		– In 2020, around 690,000 people died from AIDS-related illnesses – Tuberculosis remains the world’s leading infectious disease killer. The diseases taking the lives of 1.4 million people in 2019 alone. Two billion people or one-fourth of the world’s population is infected with the Tuberculosis bacteria
4 QUALITY EDUCATION	SDG 4 focuses on providing education that helps people become active members of society, in childhood and adult life. While most early education is the domain of governments, private sector contributions can help in advancing higher education, and in improving the opportunities of receiving training.	**YDUQS** operates higher education institutions in Brazil. It focuses on students from the middle and lower-middle-class who seek professional development opportunities. It contributes primarily to SDG 4 by providing 126 courses in law, economics, education, engineering, management, health, medicine, and information technology. It also offers financing solutions for students with limited financial means, by offering monthly payments that can fit in students' pockets, instalment programs, solidary dilution, etc. YDUQS also actively increases the employability and career of the graduates through organizing special training and employment Fair, career month, career development platform, partnership with employers. **Overview of potential impact for YDUQS:** YDUQS operates a university, 13 university centres, 53 accredited colleges, and 1,100 distance learning education (EAD) hubs. It has 700+ thousand students enrolled in its education programs in the same year, while the number of graduates is 70 thousand annually.
6 CLEAN WATER AND SANITATION	SDG 6 deals with the management of water, both in terms of access and quality. This involves improving access to drinking water: as of 2019, 785 million people lack access to basic water services globally. In parallel, water quality is lacking, with 2bn people drinking contaminated water globally and water pollution rates increasing.[2]	**American Water** is one of the largest investor-owned U.S. water and wastewater utilities. It contributes to SDG 6 by improving water quality and efficiency through the provision of wastewater facilities and clean water to residential, commercial, and industrial customers in the United States and Canada. **Overview of potential impact for American Water:** The company designs, builds, maintains, and operates wastewater facilities in 45 states in the US, serving ~15 million population. It operates surface water treatment plants, groundwater treatment plants and groundwater wells, wastewater treatment facilities, treated water storage facilities, water stations, and water pipes.
7 AFFORDABLE AND CLEAN ENERGY	SDG 7 aims to expand and modernize global energy systems. This Goal is three-fold, tackling access to energy, renewable energy production and energy efficiency improvements. Together, these aims help improving the access to energy and meeting growing demand	**First Solar** designs and manufactures photovoltaic solar modules for solar energy generation. First Solar’s core businesses of PV solar modules and solar power projects make it well-positioned as a primary contributor of SDG 7. Its business includes managing the operations and maintenance services of system owners. First Solar contributes secondarily to the SDG 12 actively sourcing recycled material for production. In

[2] World Health Organization, 2019.

	without worsening the energy sector's environmental footprint.	2020, the company reported using more than 90% of recycled semiconductor materials and approximately 90% of recycled glass for manufacturing new modules and other products. **Overview of potential impact for First Solar:** In 2020, First Solar reported having an annual 25 GW generating capacity. This production provides enough electricity to displace over 17 million metric tons of CO^2 emissions per year, power more than 12 million average homes per year during their 25+ product life, based on worldwide averages.
8 DECENT WORK AND ECONOMIC GROWTH	SDG 8 is a broad goal that aims to generate broad economic opportunities globally, both by ensuring the fair treatment of workers and by focusing on access to financing for small- and medium-enterprises, recognising that access to finance is a key issue in development economics.	**Bank Rakyat Indonesia** is a commercial bank. It operates primarily within Indonesia, with some exposure to North Asia. It contributes primarily to SDG 8 by providing and tailoring banking services to micro, small, and medium enterprises. Its services encourage the formalization and growth of micro-, small- and medium-sized enterprises, in the developing regions. Bank Rakyat Indonesia also contributes secondarily to SDG 9. The services also enable the access of small-scale industrial to financial services, including affordable credit, and their integration into value chains and markets. **Overview of potential impact for Bank Rakyat Indonesia:** – The bank dedicates 40% of its loan book to Micro and Ultra Micro financing, distributed to 12.1 million borrowers. – Its Micro KUR loans support the development of Micro, Small, and Medium Enterprises (MSMEs) and become a liaison for un-bank-able businesses, has created jobs for more than 180,000 workers in the various underserved region in Indonesia.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	SDG 9 aims to support economic growth in a sustainable and inclusive way by focusing on three dimensions. First, ageing infrastructure needs to be replaced by sustainable and durable projects globally. Second, the growth of industry needs to be supported by policy and steered towards sustainable models, with a particular focus on small and medium enterprises in developing countries. Finally, innovation should be supported via increased research and development across sectors and geographies.	**Vodacom** is a telecommunications provider in the Southern Region of Africa. It contributes primarily to SDG 9 by providing affordable connectivity plans, thereby lowering barriers to access in countries, such as South Africa, Tanzania, DRC, Mozambique, Lesotho, and Kenya. The Southern Region of Africa accounts for 40% of the global population not covered by mobile broadband networks. Vodacom also contributes secondarily to SDG 8 by providing mobile payment platforms that have significant impacts on economic growth in the region and promote inclusive financing. **Overview of potential impact for Vodacom:** – Approx. 12.9% of Vodacom business FY2020 was in the least developed countries (DRC, Mozambique, and Lesotho). In those countries, Vodacom *increases access to information and communications technology*. – In 2020, Vodacom facilitated US$14.7 billion in M-Pesa transactions processed monthly and enabled financial inclusion by providing financial services to 53.2 million customers in this region.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION	SDG 12 deals with waste and inefficient resource use from both consumption and production perspectives, aiming at a more circular economy. To this end it tackles waste and pollution across the life cycle, from natural resources management to hazardous chemicals and consumer awareness and recycling.	**Darling Ingredients** develops and manufactures ingredients for industrial customers such as pharmaceutical, food, pet food, and fuel industries. It contributes primarily to SDG 12 through using or repurposing by-products of other industries as feedstock for production. **Overview of potential impact for Darling Ingredients:** Darling Ingredients have a diverse range of feedstock and products; thus, the overall impact is difficult to quantify. Examples of their product processing are: – In 2020, the company produces 289 million gallons of biodiesel from by-products, or equal to avoid ~2.5-million-ton CO2 emissions. – In 2019, Darling ingredient reported to have repurposed 10% of the animal by product worldwide and provides ~12,000 homes with green electricity in Belgium and the Netherlands.
13 CLIMATE ACTION	SDG 13 aims to tackle climate change, from both mitigation and adaptation angles. It aims to achieve the goals of the Paris Agreement, and to prepare vulnerable countries to withstand the disruption due to global climate change.	**Alstom** designs and manufactures trains, components, and systems for the rail transport network. Its portfolio also includes various electric vehicles such as buses, trams, metros, high-speed trains, and locomotives. It contributes primarily to SDG 13 by enabling rail companies to provide clean solutions for mass transports. **Overview of potential impact for Alstom:** – Trains emit the lowest amount of CO2 per passenger kilometre while the transport sector represents 24% of global CO2 emissions. – Alstom's additionality is also relatively high. The company's focus is on innovating and producing solutions that enable the decarbonization of mobility.

Box C. Case study: American Tower Corporation

American Tower owns and operates towers throughout world. It leases space on its towers to wireless service providers (like telecom providers), which install equipment on the towers to support their wireless networks. The company operates over 43,000 sites in the United States that are mainly located in suburban and rural locations. The rest of the towers is located globally. Outside the United States, its largest presence is in India and Brazil with approximately 76,000 and 19,000 towers.

Contribution to the UN Sustainable Development Goals

Primary. One of the sub-targets of SDG 9 is to significantly increase access to information and communications technology and strive to provide universal and affordable access to the internet in least developed countries. American Tower is active in Niger, Uganda and Burkina Faso that are classified as least developed countries by the UN.

Secondary. The objective of SDG 10 is to reduce inequality within and among countries. Expanding access to internet and communication technology can achieve positive progress in education, information and knowledge. This helps to transform lives, including the lives of disadvantaged groups, like those living with disabilities or in remote areas or women and girls.

Secondary. Under SDG 13 urgent action should be taken to combat climate change and its impacts. The business model where the same infrastructure is used by multiple wireless service providers, reduces consumption of energy, materials and resources. But American Tower is also committed to operate sustainably. Especially in India and Africa the company can reduce the emissions of its own operations by replacing the diesel generators (back-up power) by renewable alternatives.

B. Zooming in on SDG 7 – Clean and affordable energy

1. In the words of the UN

The world continues to advance towards sustainable energy targets, although efforts are not of the scale required to achieve SDG 7 by 2030. The proportion of the global population with access to electricity increased from 83 per cent in 2010 to 90 per cent in 2018, meaning that over 1 billion people acquired this essential service. Still, 789 million people – 85 per cent in rural areas – lacked electricity in 2018. Some progress has been made in energy efficiency and in expanding access to electricity. Finally, progress on clean cooking fuels and technologies has stagnated, affecting the health of billions of women and children in particular.[3]

The COVID-19 pandemic is highlighting the urgent need for affordable and reliable energy – for hospital and health facilities to treat patients, for communities to pump clean water and access vital information, and for out-of-school children to learn remotely. At the same time, the crisis is certain to stymie efforts towards SDG 7. Disruptions in supply chains could wreak havoc on energy services, and reduced incomes could limit people's ability to pay for them. In addition, plummeting oil prices are likely to discourage growth in renewable energy.

2. Global targets

By 2030:

- Ensure universal access to affordable, reliable and modern energy services.
- Increase substantially the share of renewable energy in the global energy mix.
- Double the global rate of improvement in energy efficiency.

[3] https://unstats.un.org/sdgs/report/2020/goal-07/

- Enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.
- Expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries.

3. Targeting renewable energy

Investing in companies in the renewable energy sector is a key theme in the fund. Not only do companies in this sector contribute to environmental goals, they can also be attractive based on product innovation and growth potential. Esther van Munster, one of the Portfolio Advisors of the fund, shares her views.

Renewable energy to meet climate goals

Investing in renewable energy companies is important, says Van Munster. “Renewable energy is needed to meet the goals of the Paris Agreement to assure that global temperatures do not rise by more than 2 degrees above pre-industrial levels, while trying to limit the increase to 1.5 degrees. It is also key to fulfilling a number of the SDGs. Affordable and clean energy is not only superior to fossil fuels in terms of the environment, it is also key to the health and prosperity of large segments of the global population.”

Choosing for renewable energy

The wind, solar and hydro power segments are the most interesting segments for investors within renewable energy,” says Van Munster. “These segments are considered the most efficient energy sources. In general, they are also the most affordable and available.” According to the US Energy Information Administration, about 21% of U.S. energy consumption in 2020 came from non-fossil fuel sources – the highest share since the early 1900s. First Solar is a leading solar power company that operates several solar power plants in the south-Western states Nevada, Arizona and California.

Location key for wind, solar and hydro

“Location is everything,” notes Van Munster. “The competitive pricing of renewable energy is often influenced by where production is located.” In some areas, energy from renewable sources has become price competitive – or even cheaper – than fossil fuels, which is an important consideration if renewables are to claim a larger share of the total energy mix. Van Munster points out that Texas, the second largest US state that was traditionally known for its oil wells, is now among the top US state in terms of wind energy capacity. “Wind has simply become a cheaper source of power there.” But some locations may not be windy enough to be price competitive. “Overall, the declining price of many renewable energy sources is spurring the transition away from fossil fuels,” notes Van Munster.

Advantages of renewable energy investments

One company which boasts of supplying more wind power than any other is the Danish wind turbine manufacturer, Vestas. One of its projects was a wind park in Rom Klao, Thailand. It not only provided electricity to the local village, but was also cited as being responsible for improving the economic prospects of the entire community. “It is a good example of the broad positive effects affordable and clean energy can have on a community,” notes Van Munster. “Affordable and clean energy reduces pollution and can also spur economic development.” But it’s more than just positive benefits for communities. Investors also benefit from the product development and innovation in the renewable energy segment. “There is a lot of room for technology improvements that can lead to lower costs and better margins,” notes Van Munster.

“But we also have to admit that challenges exist”, adds van Munster. Solar power may require large areas of land, wind and hydro power can impact local wildlife and local opposition against wind power is increasing (not-in-my-backyard).

Investing in the transition to renewable energy

Some utility companies, which are also involved with energy generation, are targeting renewable energy. "Utility companies can be challenging investments in terms of sustainability," says Van Munster. "But we will consider investing in utilities if they don't get too much energy from coal," she says. While hardliners might frown on any coal-related investment, Van Munster has two answers to this. First, energy from fossil-fuels is still needed to bridge the gap between demand and renewable resources. Second, we are willing to support utility companies that are actively transitioning away from fossil fuels. The Danish energy company Ørsted is one example. It constructs and operates wind farms, solar farms and energy storage facilities and plans to phase out the use of coal by 2023. "But even those at the forefront will still require fossil fuels to remain a reliable energy supplier during the transition to renewable energy. We want to stimulate the transition to renewable energy by selectively investing in frontrunners that are setting a high bar and that are an example for the rest of the industry." Renewable energy is clearly the energy of the future. As an investment, it offers exposure to growth while also promoting the accomplishment of important global climate goals. The future is bright, and it will be better if it is lit by renewable energy.

Box D. Selected fund examples

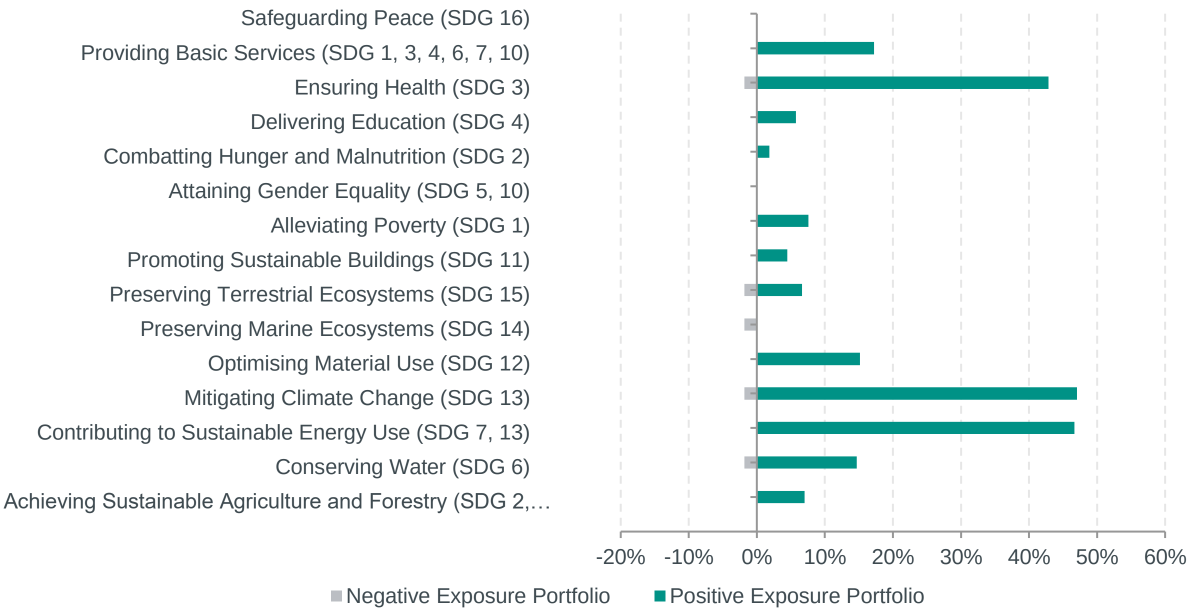
Vestas is a wind turbine manufacturer. With more than 132 GW of wind turbines in 83 countries, Vestas has installed more wind power than anyone else.

Ørsted has transformed from a fossil-fuel based energy company to a green energy company in a little more than a decade by investing significantly in renewables. The company invested over EUR 25bn in 2010-2019 in green energy and continues to do so. The company's carbon emissions reduced by 87% since 2006, and the share of green energy has risen to 90% by the end of 2019.

C. SDG impact – External assessment

While our impact assessment provides crucial insights into how selected companies contribute to the SDGs, it is also useful to know how these contributions compare to the fund's benchmark. This helps to ensure that the allocation of capital through the funds is more efficient, through an impact lens, than that of the wider economy. To this end, we report here the performance of the fund using ISS ESG's assessment of impact contributions by companies. This external view, however, is only one input into our own assessment process. Data from ISS-ESG shows a similar assessment as ours in terms of SDG contribution, with a portfolio tilted towards health and renewable energy.

Figure 5. Number of companies with impact per goal



While there are no companies significantly obstructing these goals in the portfolio, the benchmark has a relatively high proportion of companies obstructing gender equality, resource efficiency, climate action and sustainable agriculture. In addition, a high share of the portfolio companies has a significant contribution to environmental goals, as well as some social goals, while the benchmark only has a relatively significant contribution to sustainable agriculture, which is offset by obstructing companies. In the portfolio, 8% of companies are identified as neutral by ISS, though via our qualitative assessment, we identified significant contributions.

Figure 6. Fund holdings by ISS impact category

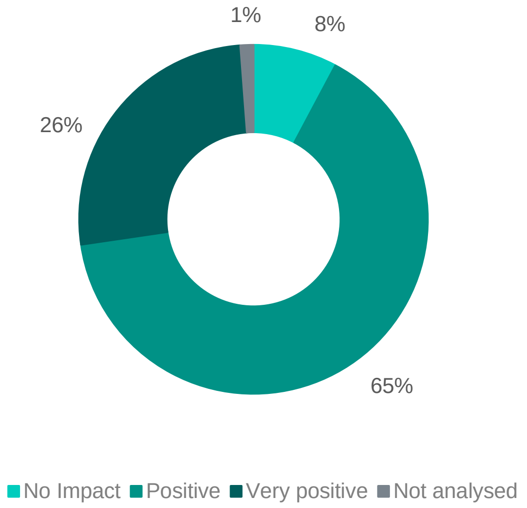
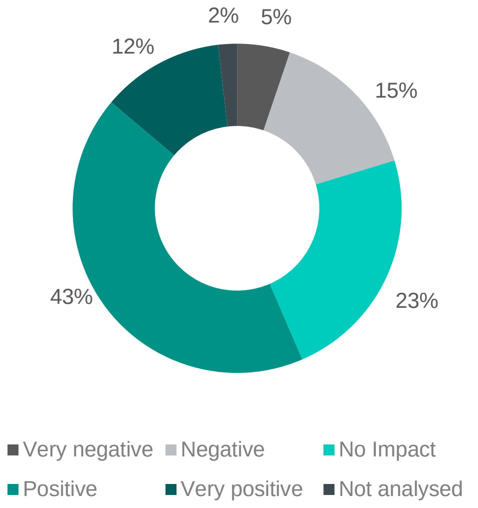


Figure 7. Benchmark holdings by ISS impact category



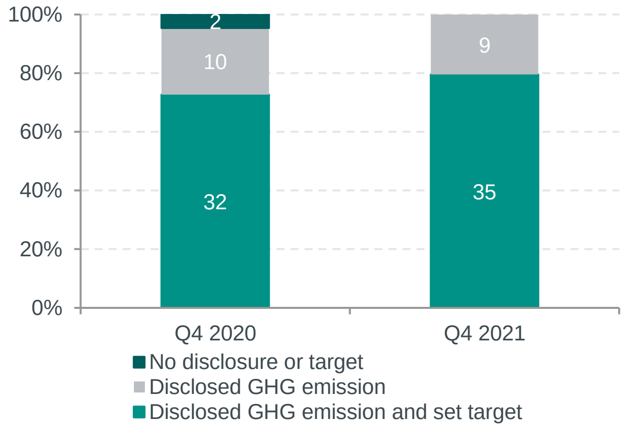
D. Impact on climate action

Climate mitigation is a responsibility of all stakeholders. Through implementing relevant sustainability strategies and reducing the carbon footprint of their business operations, companies can make a significant contribution to mitigating climate change. As a responsible investor, we want to encourage companies towards greater awareness on their role in climate change and the positive impact strategies they can adopt to improve the climate on our planet. In conjunction with other stakeholders we aim to help move companies towards adopting responsible business practices.

When the Fund was launched in November 2020 (Q4 2020), 4% of companies in the portfolio did not provide any disclosure of greenhouse gas ("GHG") emissions from their business operations nor did they publish relevant strategies for climate mitigation. At that time, 96% of the portfolio companies disclosed their GHG emissions from their business operations, however, only 73% of these companies had set a clear target for reduction of future GHG emissions. End of Q4 2021, all companies of the portfolio (no major change in holdings) disclosed their GHG emissions and almost 80% of these companies had set a clear reduction target for future GHG emission.

Data of ISS ESG is used to monitor carbon emissions of the portfolio.

Figure. 8 Climate Progress of portfolio companies



The total emissions of the portfolio is the sum of Scope 1 and Scope 2 greenhouse gas emissions. Scope 1 covers the direct emission of a company, caused by own sources. Scope 2 covers the indirect emissions from a company caused by, for example, purchased energy. Because the impact of various greenhouse gases is different, all emissions are converted to tonnes of CO_2 equivalents per year.

End of December 2021, the emissions of the portfolio are 58 tCO_2e for every €1,000,000 invested and are 9 Tco2e lower than the Benchmark of the fund.

*Calculation is based on CO2 emission from a Boeing 777-300.

Source: www.co2emissiefactoren.nl

When available ISS will use self-reported data.
When data is not available, ISS has developed a sophisticated methodology to estimate the carbon emissions of non-reporting companies, which can be different from their actual carbon emissions.

IV. Impact through active ownership: engaging for positive change

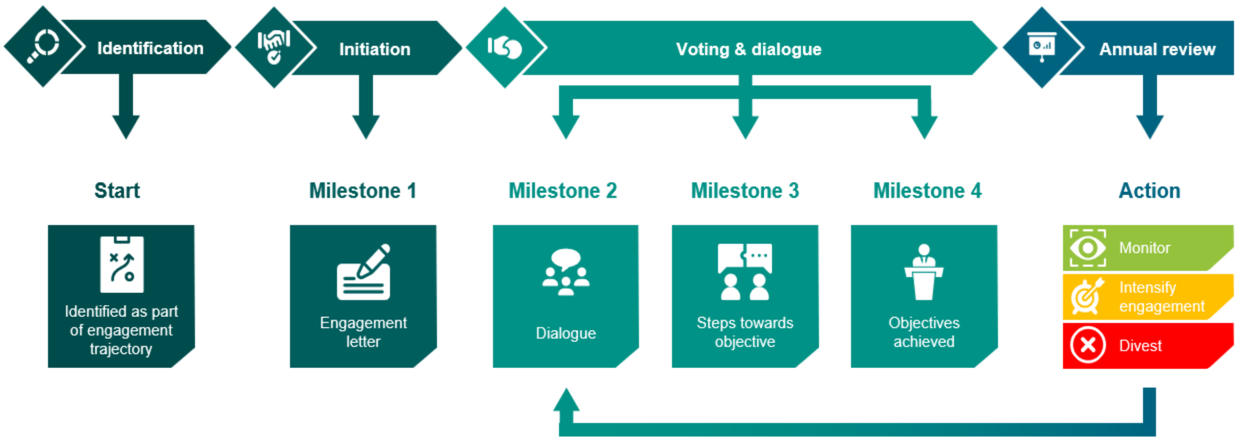
A. Impact through active ownership

1. Active management, active ownership

All the companies in which we invest are assessed as generating positive impact for society and/or the environment. Nevertheless, it is possible that we identify ways in which this impact could be strengthened, or ESG risks could be alleviated. There are also cases where we need additional information or clarifications to help us understand how and why the company creates positive outcomes. This means that we engage with companies both before and after the decision to invest.

Engagement typically takes the form of a cooperative discussion between us and the company. After flagging a certain topic in our research, we will reach out to the company to start a dialogue. We monitor the progress on each impact analysis item using a milestone system. **Milestone 1** means that we have made a request. **Milestone 2** is when the company responds (letter, email, phone call) and the dialogue starts. Once concrete steps are taken to resolve our request, the engagement moves to **milestone 3**. Only when the engagement goal has been achieved does the engagement move to **milestone 4**. In some cases, the assessment changes and (after talks with the company) we may decide to no longer pursue the engagement. This is when we categorize the engagement as "no further action required".

Figure 9. Engagement process



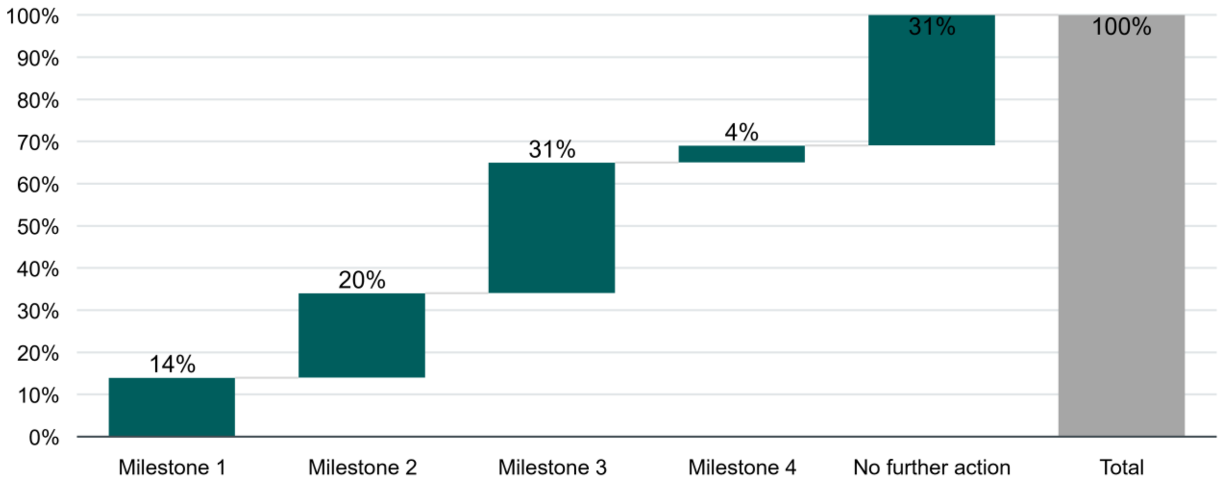
2. Our engagement focus

Typically, our impact analysis flags one of two reasons for engagement:

- **Gathering information**: In some cases, we may suspect that a company's activities generate positive impact but do not have all the information to understand the extent of this impact. Conversely, we might want clarity around certain risks surrounding the company's impact. In those cases, we engage with the company to better understand their activities, strategy, and risk controls in order to make an informed decision.
- **Achieving change**: As the fund invests in 'improvers', i.e. companies that have some positive impacts but where we see room for improvement, we use engagement to help improver companies understand how we look at their impact and what they could do to enhance or widen the positive outcomes they generate or mitigate ESG risks in their business operations

Over the reporting period (2021), Aegon AM has conducted 121 engagements with 49 companies. The response rate is high: of the 49 companies that were contacted, 42 have moved beyond Milestone 1. Given the short period of time since the launch of the fund, however, Aegon AM has only reached Milestone 4 with two companies. **Figure 10** displays the percentage of companies according to the status of engagement.

Figure 10. Engagements by milestone



Engagements are typically geography-agnostic – Aegon AM engages with companies anywhere around the world. In the reporting period, our engagement activities were largely focused on North America and Europe as indicated, below, in Figure 13.

Aegon AM also engages across all sectors; Figure 11 shows that the engagement actions in the“Information technology” sector were the most important at portfolio level (in terms of weight). Nonetheless, avariety of topics has been raised with a special focus in the reporting period on improving disclosures.

Figure 11. Engagements by sector

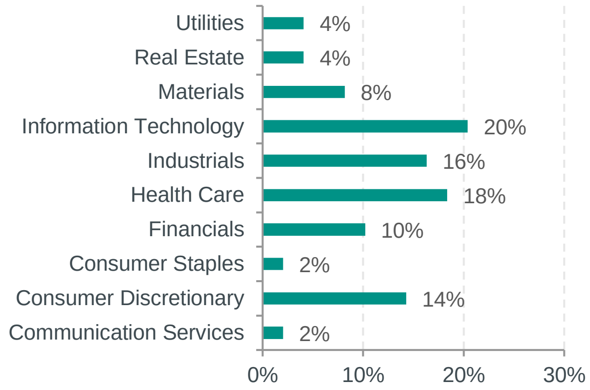


Figure 12. Engagements by theme

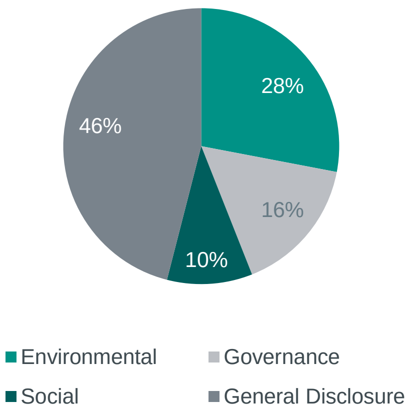
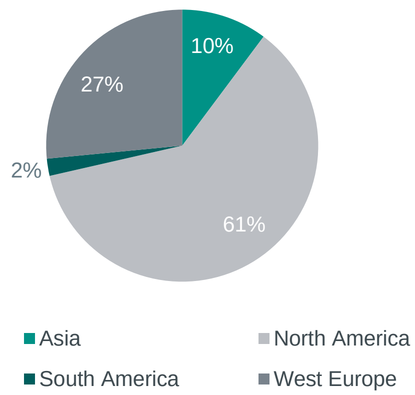


Figure 13. Engagements by region



Engagement case study: Sprouts Farmers Markets

Company description	Sprouts Farmers Markets is an American specialty grocer, offering a health-oriented assortment that focuses on fresh and naturally derived products.
Impact thesis	The company has a positive impact, as it is estimated that between 45% and 55% of their revenues are linked to fresh, natural and organic food that are produced sustainably and responsibly. They also have a food recovery program that helps prevent more than 1 million pounds of food loss and food waste. They do, however, sell alcoholic beverages, energy drinks, etc. which is estimated to be around 20% of revenue. The net impactful revenues of the company is therefore estimated around 25% to 35%. This, coupled with the vision of the company to further expand its healthy food section and reduce food waste, makes them an interesting candidate as an improver.
Investment thesis	Sprouts Famers Market is well positioned in the food retail sector and benefits from healthy eating trends and demand for organic and less processed products. Whilst food retail is highly competitive and margins are under pressure, we believe Sprouts new management is making good progress against their targets. In addition there is still room to grow through store expansion across the USA.
Engagement needs	Their ESG disclosure could be improved and they currently do not have satisfactory ESG target setting.
Engagement action	We had a call with their Investor Relations department and the head of sustainability and another call with the CEO and CFO.
Engagement outcome	We have gained confidence in their plans to increase their focus on healthy food. Senior leadership mentioned that this was a win-win situation, as it improves their profitability. Specific plans include: – Doubling down on plant-based in the next few years – Better quality vegan/vegetarian – More produce As to their ESG integration efforts, the CEO wants to do more on carbon initiatives, plastics and food waste. Initiatives are: – Shifting from paper-based marketing to digital, which saves 21 million flyers annually – End 2021 they will look into setting science-based targets – Improving logistics (closer to home) They are also improving their ESG disclosure. Their sustainability report now includes a SASB table.
Engagement status	Given the positive dialogue and concrete actions the company has already taken, we have moved the engagement status to Milestone 3. Once they set their first science-based targets, we will look into moving it to Milestone 4.

Engagement case study: Grand Canyon Education, Inc.

Company description	Grand Canyon Education, Inc. engages in the provision of education services. It offers graduate and undergraduate degree programs and certificates across colleges.
Impact thesis	The company generated an estimated 100% of revenue from services to colleges and universities. It offers services that are relevant for affordable education by providing counselling and supports for Title IV program funds to students (federal financial aid funds in the US). Affordable education is one of the cores of their business. Grand Canyon University offers lower tuition and room and board cost than other private universities.
Investment thesis	Grand Canyon Education positions itself as a digital player offering technological solutions to the education sector. Previously it owned Grand Canyon University, whilst now it serves the university and others with its online and onsite graduate and undergraduate degree programmes. We believe it is attractive because in the next 5 years it expects to further increase its reach and expand its footprint to other locations.
Engagement needs	We needed to better understand tuition fees and how Grand Canyon positions itself, especially in light of the student debt crisis in the US.
Engagement action	We had a call with their CFO.
Engagement outcome	Previously, the average student (minus scholarships) paid USD 12-13k, which compares to USD 30-40k for normal private universities. They have meanwhile reduced it to USD 8.7k by increasing scholarships mostly. Room and board costs USD 7.5k compared to USD 10k-15k at other universities. Their online programme costs about USD10k, which compares to USD15k-30k for other online programmes. Costs in general are linked to the quality of the brand. They also have a special programme to address shortages in healthcare staff. This works by partnering with hospitals, where the nurses in training complete internships and are typically offered a job (90%+ placement rate) right after their 50k, 18-month study. In their first year they are expected to make USD50-70k.
Engagement status	The engagement has been closed, as the dialogue indicated that they are a clear fit for our impact fund.

B. Voting

Voting and engagement efforts are combined to maximize the impact on companies. The voting falls under the responsibility of ABN AMRO Investment Solutions.

For proxy voting we work together with ISS Governance, which gives voting recommendations in line with our voting policy[4]. Our voting policy is a customised version of the ISS' Socially Responsible Investor voting policy[5]. The voting policy takes into account sustainability criteria related to environmental protection and respect for human rights, in addition to good governance practices. On matters of corporate governance, executive compensation, and corporate structure, the guidelines are based on a commitment to create and preserve economic value and to advance principles of good corporate governance consistent with responsibilities to society as a whole. In the area of Environmental and Social ("E&S") issues, our policy will support the vast majority of E&S resolutions coming from the shareholders implying that we may not follow the management recommendation.

For the fund, we voted on 37 Annual General Meetings (AGM) out of an eligible total of 40, hence a participation rate of 92.5%. Due to the voting policy regarding minimum shareholding thresholds, the fund may not participate in certain AGMs.

[4] https://www.abnamroinvestmentsolutions.com/en/media/Voting%20policy%20EN_tcm34-101232.pdf
[5] https://www.issgovernance.com/file/policy/active/specialty/SRI-International-Voting-Guidelines.pdf

Figure 14. AGMs voted per region

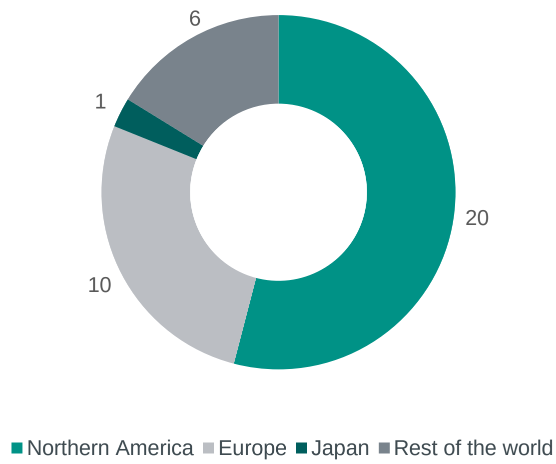
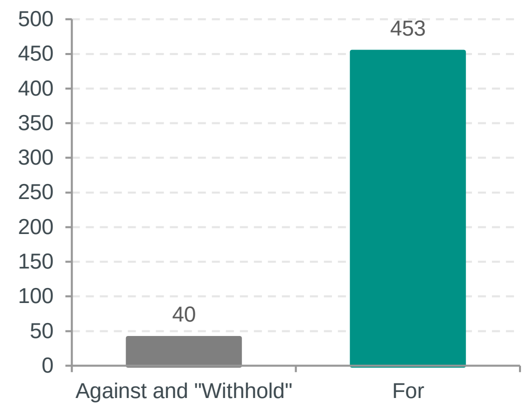


Figure 15. Voted resolutions



Europe: European Union + Norway, Russia, Switzerland, …

We voted on a total of 493 resolutions**.** In 453 we voted "For" the resolution, which can be proposed either by management or shareholders.

The next tables give a detailed overview of how we voted for American Tower Corporation and First Solar. It includes an explanation where we deviated from the management recommendation. The reason to deviate was each time related to environmental, social or governance factors, like board diversity and human rights.

American Tower Corporation

Proponent	Proposal Text	Management Recommendation	Vote Instruction	Comment
Management	Elect Director Thomas A. Bartlett	For	For	
Management	Elect Director Raymond P. Dolan	For	For	
Management	Elect Director Kenneth R. Frank	For	For	
Management	Elect Director Robert D. Hormats	For	For	
Management	Elect Director Gustavo Lara Cantu	For	For	
Management	Elect Director Grace D. Lieblein	For	For	
Management	Elect Director Craig Macnab	For	For	
Management	Elect Director JoAnn A. Reed	For	For	
Management	Elect Director Pamela D.A. Reeve	For	For	
Management	Elect Director David E. Sharbutt	For	For	
Management	Elect Director Bruce L. Tanner	For	For	
Management	Elect Director Samme L. Thompson	For	For	

Management	Ratify Deloitte & Touche LLP as Auditor	For	For	
Management	Advisory Vote to Ratify Named Executive Officers' Compensation	For	For	
Shareholder	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Against	For	A vote FOR this proposal is warranted as it would enhance the existing shareholder right to call special meetings.
Shareholder	Establish a Board Committee on Human Rights	Against	For	A vote FOR this proposal is warranted because: – The creation of a human rights committee, as requested, should serve to further strengthen the company's commitment to universal human rights as well as augment its existing human rights related oversight mechanisms; and – The establishment of a human rights focused board committee should not be unduly burdensome and should enhance and complement the company's capacity to manage human rights risks in the long-term, for the ultimate benefit of shareholders.

First Solar

Proponent	Proposal Text	Management Recommendation	Vote Instruction	Comment
Management	Elect Director Michael J. Ahearn	For	For	
Management	Elect Director Michael Sweeney	For	Against	A vote AGAINST incumbent nominating committee members Molly Joseph, William Post, Paul Stebbins, and Michael Sweeney is warranted for lack of diversity on the board. A vote FOR the remaining nominees is warranted.
Management	Elect Director Mark R. Widmar	For	For	
Management	Elect Director Sharon L. Allen	For	For	
Management	Elect Director Richard D. Chapman	For	For	
Management	Elect Director George A. Hambro	For	For	
Management	Elect Director Kathryn A. Hollister	For	For	

Management	Elect Director Molly E. Joseph	For	Against	A vote AGAINST incumbent nominating committee members Molly Joseph, William Post, Paul Stebbins, and Michael Sweeney is warranted for lack of diversity on the board. A vote FOR the remaining nominees is warranted.
Management	Elect Director Craig Kennedy	For	For	
Management	Elect Director William J. Post	For	Against	A vote AGAINST incumbent nominating committee members Molly Joseph, William Post, Paul Stebbins, and Michael Sweeney is warranted for lack of diversity on the board. A vote FOR the remaining nominees is warranted.
Management	Elect Director Paul H. Stebbins	For	Against	A vote AGAINST incumbent nominating committee members Molly Joseph, William Post, Paul Stebbins, and Michael Sweeney is warranted for lack of diversity on the board. A vote FOR the remaining nominees is warranted.
Management	Ratify PricewaterhouseCoopers LLP as Auditors	For	For	
Shareholder	Report on Board Diversity	Against	For	A vote FOR this resolution is warranted because the company's board nomination criteria do not specifically ensure that director candidate pools include diverse candidates. This is of heightened concern given that the board currently has no racially or ethnically diverse directors.

Source : ABN AMRO Investment Solutions and ISS Governance

End notes

We strive to use all our in-house respective competencies to raise sustainability issues when it comes to analyse the net impact of an activity or a company on the society. Via our fund, ABN AMRO AEGON GLOBAL IMPACT[6], we engage discussions with investee companies but also with our sustainability data providers to get the 360° overlook. Despite of all our efforts, our impact assessment may not take into account all societal aspects. The sustainable Finance regulations are being tightened around the world to organise the publication of sustainability data and thus to facilitate the access for all.

[6] Information on the fund can be found here : Welcome to ABN AMRO Investment Solutions - ABN AMRO

Disclaimer

ABN AMRO Investment Solutions – AAIS

Public Limited company with Executive and Supervisory Board capital of 4,324,048 Euros
registered with the RCS Paris under number 410 204 390,
Head office: 3,avenue Hoche, 75008 Paris, France
Approved by the AMF, dated 20/09/1999,
as a portfolio management company under registration number GP99027

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The sustainable objective of the fund is to invest in companies with economic activities that contribute to the whole spectrum of the United Nations Sustainable Development Goals (" UN SDGs"), provided that such investments do not significantly harm the other SDGs and the investee companies follow good corporate governance practices. The SDGs are a set of environmental and social objectives. Therefore, the investments made, can be socially and/or environmentally sustainable investments. There is no requirement that a minimum portion of the portfolio should be invested in environmentally sustainable investment as defined by the EU criteria. It is, however, possible that companies in the actual portfolio comply with the EU criteria.
Note: The EU has developed and/or is developing criteria to determine if an economic activity is environmentally sustainable. A company can have several economic activities, so a company can be fully, partially or not at all aligned with the criteria.

ABN·AMRO Investment Solutions

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