

# Sustainable Investment Policy

Public summary of AAIS' internal Sustainable Investment Policy  
Component of AAIS' Sustainability Risk Policy Framework in the sense of article 3 of the Sustainable Finance Disclosure Regulation

February 2021

## I. Introduction

*"It's ABN AMRO's ambition to be a better bank for generations to come. Our products and services have, in line with our parent's company philosophy, a positive impact on society and we accept the responsibilities this brings".<sup>1</sup>*

ABN AMRO Investment Solutions and its parent company ABN AMRO Bank N.V. (hereafter ABN AMRO) are bound to act in the best long-term interests of their stakeholders. In line with this fiduciary duty, we incorporate ESG issues into investment analyses and decision-making processes and strive to promote high standards of ESG performance in the funds we onboard on our platforms (and as a result, the investee companies of these funds).<sup>2</sup> AAIS believes that Environmental, Social and Governance (ESG) issues have a material impact on companies' operations. By including ESG analyses in our investment process, we take better informed decisions, reduce risks and grasp new opportunities deriving from sustainable solutions.

To achieve this goal, AAIS consults various ESG data providers, such as [Sustainalytics](#) and [ISS](#), both global leaders in sustainability research and analysis, serving investors and financial institutions around the world.

They conduct quantitative and qualitative analyses of companies/countries from an ESG perspective. Many criteria have been defined in order to assess the behaviour of companies/countries facing three major issues identified by the Environmental, Social and Governance themes.

The involvement of AAIS in sustainable investments is part of a multidimensional process to incorporate ESG criteria and promote sustainable development at clients' and suppliers' levels.

## II. Our commitments to Sustainable Finance

### *Initiatives*

ABN AMRO Bank N.V. is signatory to the [United Nations Principles for Responsible Investment](#) and to the [United Nations Global Compact](#). As a subsidiary of ABN AMRO we are committed to these initiatives.

<sup>1</sup> From the Sustainable banking policy of ABN AMRO Bank N.V

<sup>2</sup> See also the fiduciary duty of investors according to the PRI

### Think tanks

ABN AMRO Investment Solutions participates to professional “Think tanks”, such as the “Plénière de l’Investissement Responsable” of the [Association Française de Gestion](#) and is an investor member of the [Green Bonds Principles](#) supported by the “International Capital Market Association”. ABN AMRO Investment Solutions sponsors the French sustainability research chair [Finance Durable and Investissement Responsable](#).

### Regulation

ABN AMRO Investment Solutions is applying the following sustainable Regulations led by:

The French government: [law on Energy Transition & Green Growth \(2015\)](#); Our asset management company and our investments funds<sup>3</sup> must consider directives issued from the Law. The implementation decree, so-called “Article 173”, introduces disclosure requirements for asset owners on their management of climate-related risks and, more broadly, on the integration of social and environmental parameters in their investment policies.

The new law “Energy & Climate” published the 8<sup>th</sup> November 2019 is binding France to the Zero net Carbon economy by 2050 and is setting new targets. The Article 29<sup>4</sup> of the regulation amends Article 173 and imposes the consideration of climate change and biodiversity-related risks in sustainability risk management policies.

The European Union : [The Sustainable Finance Regulations](#); as part of the Sustainable Finance Action Plan and its goal of channelling private investment to transition to a climate-neutral economy, the European Union has adopted the Sustainable Finance Disclosure Regulation (SFDR) in September 2019. This Regulation is composed of 20 articles introducing various disclosure-related requirements for financial market participants and financial advisors at entity, service and product level. The SFDR aims to provide more transparency on sustainability within the financial markets in a standardised way, thus preventing greenwashing and ensuring comparability.

### III. Our sustainability assessment of funds

As a sustainable investor, we developed capacities to assess:

- the investment process of a fund;
- the capacities & involvement of the external asset management company<sup>5</sup> ;
- the underlying assets.

In order to check the coherence of the underlying holdings of a fund with its sustainable investment process, we developed our own sustainable investment process criteria.

We conduct an analysis of each individual position and of the portfolio as a whole, involving:

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<sup>3</sup> According to the Law, the report is mandatory for each fund whose AuM is over €500 million

<sup>4</sup> As of today, January 25<sup>th</sup> 2021, the implementation decree has not been published

controversial sector & exclusion research, a controversies analysis, ESG scorings and rankings, an ESG risk analysis and sustainable intentionality. We keep in mind that some sustainable strategies do not have a “good” or “sufficient” ESG risk scoring because they address only specific sustainable goals and/or companies are not yet scored. In addition, some strategies can mix different ESG approaches.

We focus on non–investment related elements that characterise an SRI strategy. This is part of our overall Sustainability Policy towards external asset managers that consists of several components, which can be applied in different combinations and with different intensities, dependent on how and where a fund or mandate is offered to clients.

We distinguish five components:

1. **Sustainability Due Diligence:** a thorough, in-depth analysis of the way ESG-criteria are applied throughout an organisation and in the investment process of an investment strategy.
2. **Sustainability Rating:** a quantification of the full ESG-analysis, grading an investment strategy on a range of criteria, leading to an overall sustainability score. It is a five-level score from 1 to 5. The lower the better (1: Very High, 2: High, 3: Above average, 4: Average and 5: below average).
3. **Sustainability Holdings Rating:** a quantitative analysis of an investment portfolio, using either the Sustainability Indicator (SI) developed or adopted by AAIS.
4. **United Nations Principles for Responsible Investment:** the fact that asset managers are signatories of the UNPRI, or that they have developed similar sustainable policies.
5. **United Nations Global Compact & engagement:** the fact that asset managers are signatories of the UNGC, or that they have developed similar sustainable policies. The adherence to the 10 principles involved usually the exclusion and/or close engagement with the highly controversial companies.

Any shortcoming in the above-mentioned components may lead to an active engagement trajectory with the portfolio manager<sup>6</sup>, with the aim of making concrete improvements. Depending on the intensity of the improvement to be made, we may give the portfolio manager a deadline ranging from immediate implementation up to a few years to reach the target. Any progress towards this objective will be monitored and tracked in the dedicated section of the Analysis Report (Manager Due Diligence).

Once a fund has been approved, our philosophy is to continuously monitor whether it still qualifies to remain on the approved list. The frequency of these updates depend on the fund’s status. During these updates the analyst is further developing his/her knowledge and adjusts his/her opinion and scoring of the fund, if needed.

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<sup>6</sup> The process described above applies to all solutions (external, internal, delegated).

#### IV. Our sustainability standards for investment products and solutions

ABN AMRO Investment Solutions has defined a set of standards (derived from our commitments) applying to our investment products & solutions and to our delegated portfolio managers.<sup>7</sup>

##### Exclusions

Our exclusions are derived from ABN AMRO's Sustainability Risk Policy Framework and ABN AMRO Investment Solutions' Defence statement and Climate Statement. These documents are available on the websites of ABN AMRO and ABN AMRO Investment Solutions.

We exclude companies active in certain industries or involved in certain activities. We do this because we believe these investments cause "financial value at risk" and reputational risks (entire fund range), and/or are not in line with our purpose and ethical values (ESG and Sustainable funds<sup>8</sup>).

We defined two sets of normative-based and activities-based exclusions. Set 1 applies to all funds, and Set 2 applies specifically to Art. 8 and Art. 9 funds under the SFDR regulation<sup>9</sup>.

The tables below summarise the exclusions we have in place.

For more explanations behind the rationale of the exclusions mentioned below, please refer to the exclusion list available on our website.

Activity/sector excluded*	Threshold of Revenue*	Art.6 Set 1	Art.8/9 Set 2
Controversial weapons	0%	X	X
UN Global Compact, non-compliant companies	0%	X	X
Weapons production - Military contracting (armament) Small military and civilian weapons	0% for all, except for military contracting for weapon-related products and/or services (threshold: 5%)	-	X
Tobacco production (growers and manufacturers)	0%	X	X
Gambling	5%	-	X
Adult entertainment (ex. Pornography)	5%	-	X
Animal fur & leather specialties	5%	-	X
GMOs	5%	-	X
Animal testing	Qualitative assessment (ensure that practices meet industry average standards)	-	X
Cannabis for recreational purposes	5%	-	X
Arctic drilling, gas & oil sand extraction methods	5%	-	X
Coal Mining	5%	-	X
Companies with involvement (exceeding 15% of total turnover) in thermal coal power generation	15%	-	X
Companies with involvement (exceeding 50% of total turnover) in trading and/or wholesale of tobacco	50%	-	X

\* Set of exclusions which will apply in 2021 ; the list of exclusions and thresholds may evolve.

<sup>7</sup> We may invest in external funds which have lower standards in place.

<sup>8</sup> Funds applying our criteria to classify under the SFRD as articles 8 and 9.

<sup>9</sup> Some funds (Art.9) may intentionally deviate from the exclusions rules.

Norm-based Exclusions	Art.9	Art.8	Art.6
Countries in violation with International Norms and under international sanctions	X	X	X
Countries that did not ratified the following treaties, in compliance with the UN Global Compact principles : <ul style="list-style-type: none"> <li>the Non-Proliferation of Nuclear Weapons Treaty</li> <li>the Paris Agreement on Climate (2015)</li> <li>the ILO Convention 182 on Child labour</li> </ul>	X Except for Green/Social Bonds (explain)	X Except for Green/Social Bonds (explain)	-

### Sustainability factors

#### Sustainability risks approach

Sustainability risk is defined as an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.

In order to measure the sustainability risk of our portfolios, we use Sustainalytics' ESG risk rating to perform a line-by-line analysis and, when more indepth analyses are needed we combine this with other sources of information.

**At company level (investment in "corporates securities"):** This ESG Risk approach distinguishes ESG manageable risks (managed risk and management gaps) from ESG unmanageable risks. The ESG risk rating is composed of ESG unmanaged risks that have been identified as gaps (management gaps compared to peer group standards) and/or as unmanageable risks (as for example, due to the specificity of the business or to the regulations pressure).

This risk decomposition makes the final rating more realistic and meaningful from an ESG materiality perspective (including a forward-looking dimension).

**At country level (investments in "government securities"):** The Country Risk Rating measures the risk to a country's long-term prosperity and economic development by assessing national wealth of a country and the ability to use and manage this wealth in an effective and sustainable manner.

The rating measures national wealth comprised of natural and produced capital, human capital, and institutional capital, and a country's ability to use and manage these capitals in an effective and sustainable manner determined by its ESG performance, ESG trends and ESG events. The aggregated score includes a wealth score and an ESG risk factors score corresponding to these two components.

**Scale:** The rating goes from 0 to 100 and it distinguishes five levels of risk: negligible (<10), low (from 10 to 20), medium (from 20 to 30), high (from 30 to 40) and severe (>40). Note that the lower the ESG risk rating is, the lower the level of ESG risk is and the better the issuer would deal with sustainability issues in the future (and thus, the expected impact of sustainability risks on the company value is lower).

#### Controversies

A Controversy is event-driven and results in negative ESG impacts on the company. Controversies play a significant role in the ESG risk rating, making it more responsive to new information between disclosure-

driven rating updates. Controversies are also assessed by relevant themes on an hurricane scale from 0 (none) to 5 (severe).

We aim to avoid severe controversy in our portfolios as we want to preserve our reputation and any negative financial impact due to ESG risks. The sets of exclusions put in place should protect our portfolios from these risks.

**Company Event:** When an ESG-related issue becomes more and more material, the level of controversy increases. It is perceived as serious when it reaches level 4 and is severe when it reaches level 5 (on a scale from 1 to 5).

**Country Events:** The country events research aims to inform investors about current actions that are happening in countries that may affect the prosperity and economic development of a country and its ability to manage its wealth in an effective and sustainable manner. Events can include acts such as war, civil unrest or extreme weather events. Events can also include discrete patterns of events such as a wide-spread violent crime.

#### Active ownership

We see active ownership as voting at General Meetings and engage. Although voting can be seen as a form of engagement, we split this process as engagement is done at the level of the individual portfolio manager and the exercise of proxy voting rights lies with ABN AMRO Investment Solutions. Over the past years we have observed an increase in Environmental and Social resolutions, thus enabling voting to be a more relevant tool to combat ESG-related issues.

**Engagement:** is the responsibility of the portfolio manager, as specific engagement goals depend on the investment strategy of the fund and the role ESG criteria have. A fund that wants to contribute to Greenhouse Gas reduction may engage in a different way with the holdings in its portfolio than a fund that focuses on Human Rights. Furthermore, a fund that has a value approach may engage in a different way than a fund that has a growth approach. Portfolio managers report on a yearly basis to ABN AMRO Investment Solutions on their engagement efforts.

**Proxy Voting:** Proxy voting is the responsibility of ABN AMRO Investment Solutions. We work with ISS Governance, which gives us voting recommendations in line with the policy we chose (a customised version of the ISS Governance International SRI Policy). From ISS' range of specialised policies, we have selected the one that enables us to be most advanced in the area of Environmental and Social, implying that we will support the vast majority of E&S resolutions.

## Classification of the investment product according to our SFDR internal criteria

Our Due Diligences has conducted us to categorise our investment products as following:

Criteria \ Our classification	Impact investing Art.9 Strong commitment	ESG Leaders ESG integration Art.8 Medium commitment	Other products Art.6 Low/No commitment
ESG performances objectives	Comply	Comply	-
Sustainability factors (ESG)*	Comply	Comply	Explain
Do not Significantly Harm	Comply	-	-
Good governance practices	Comply	Comply	-
Remuneration policy	Comply	Comply	Explain
Sustainability risks**	Comply	Comply	Comply
Exclusions	Comply/Explain set 2	Comply set 2	Comply set 1
Engagement	Comply	Comply	-
Proxy Voting	Comply	Comply	Explain

\*: Collective term for environmental, social, Human Rights, anti-corruption & bribery topics and issues

\*\* : The Level required of completeness differs according to the classification

### End note

Our Sustainable Investment policy may evolve as some regulatory guidance documents are still under development and have not yet been released.

For years, ABN AMRO Investment Solutions is being working in close cooperation with providers and peers to channel ESG best practices and to offer to client a full range of ESG proof investment products. ABN AMRO Investment Solutions aims to limit sustainability risks and preserve its reputation. We are aware that, despite of our efforts, we may introduce some baisses in our analyses (as we rely on external providers) and may invest indirectly (via external funds) in activities that we do not want to invest in. We strive to minimise this.

### Related documents that are part of ABN AMRO Investment Solutions Sustainability Risk Policy Framework <sup>10</sup>

- Defence Statement
- Climate Statement
- Exclusion list

<sup>10</sup> Available through [www.abnamroinvestmentsolutions.com](http://www.abnamroinvestmentsolutions.com)