

AAIS Sustainability Engagement guidelines

March 2022

Scope: external portfolio managers onboarded on our delegation platforms. Effective over reporting year 2022.

Background

ABN AMRO Investment Solutions (AAIS) has an Open Architecture structure in place. As a specialist in subadvisory and as a Management Company, we onboard external portfolio managers on our delegation platforms (acting as our delegated portfolio managers in charge of investing) and subsequently offer these investments products to our clients. We ask from our portfolio managers to adhere to our Environmental, Social and Governance (ESG) standards, the degree of adherence depending on the sustainability classification of the fund. Onboarding on our delegation platforms is possible only after a thorough manager selection process, in which ESG aspects play an important role (depending on the fund). We specifically assess the engagement capabilities of the portfolio managers, as engagement is part of the portfolio management for which they continue to bear responsibility. Although the portfolio manager is end responsible for engagement with companies in its portfolio, we do ask for their ESG engagement approach to be in line with our Sustainable Investment Policy.

Please note that these engagement guidelines together with AAIS' voting policy define our approach towards active ownership.

Engagement guidelines AAIS

The AAIS engagement guidelines follow the outline of the approach defined by our parent company, ABN AMRO Bank N.V. (ABN AMRO). Our engagement guidelines differ depending on the sustainability classification of the fund. We require engagement to be an integral part of the portfolio management of our ESG and Impact investment product range¹. The ESG and Impact product range includes both products that promote environmental and/or social characteristics (SFDR article 8 products, or ESG products)² and products that have sustainable investments as their objective (SFDR article 9 products, or Impact products).

The focus of these guidelines is on investment in corporate securities, we do not expect portfolio managers to engage with governments if invested in government bonds.

Portfolio managers of ESG products are expected to start a dialogue or an engagement trajectory if:

- a company is not acting in line with the sustainable investment goals or sustainability characteristics of the fund; or
- the company breaches ESG (risk) parameters AAIS has set internally; and
- the company is not already excluded from investment.

¹ whereas this is not a main criterium for all other products (SFDR article 6)

² AAIS identifies two types of SFDR article 8 products: "ESG Leaders" or "article 8+", and "ESG Improvers", or "art. 8".

Funds not qualifying as ESG or impact investment products are expected to engage at least with those investee companies that are exposed to a high sustainability risk³ as these companies may have a negative impact on the financial value of the investment portfolio.

An engagement trajectory can be initiated on the portfolio manager's own initiative *or* upon request of AAIS. Evidently, a portfolio manager is always free to start engagement trajectories for other reasons, if these are not interfering with AAIS' policies.

Goals of engagement

According to AAIS, engagement on sustainability topics has several goals:

- The most obvious goal is to improve the sustainability performance of an underperforming company, in order to minimise negative (financial) impacts and/or adverse impacts, and/or to meet the sustainability criteria of the investment fund and/or AAIS⁴;
- Next to that or sometimes resulting from that, engagement with a company can lead to enhanced value of the company. This may particularly be true for investments in a value fund, for example. Another example is engagement to increase (the quality of) non-financial disclosures of a company⁵;
- A goal can also be to help a company that is already a frontrunner to improve even more, or to enter in a dialogue with a sector to enhance sector standards.

Timelines

We believe an engagement trajectory aiming to address underperformance should be result-oriented and therefore have a predetermined timeline in place. This timeline differs per engagement trajectory, since each trajectory is unique. There can be reasons that the predefined maximum engagement term is breached. For instance, a trajectory can take longer if it is impossible to reach the result within the set timeline due to a change in regulations, or when substantial improvements have been made and full compliance is within reach. In its reporting, AAIS expects the portfolio manager to indicate the time that has been scheduled for the engagement trajectory and the underlying motivation for the chosen period. If an engagement period is extended, AAIS asks for an explanation of the reason for extension. Generally, we expect an engagement trajectory to take no longer than 5 years.

Unsuccessful engagement

If an engagement trajectory is set up because a company is underperforming but the company is unable or unwilling to meet the sustainable performance requested from them, divestment should be considered as an option (even though divestment cannot be the goal of engagement). If an underperforming company is unwilling to engage or unable to meet the predefined sustainability targets and the delegated portfolio manager decides not to divest, AAIS expects an explanation from the delegated portfolio manager.

Types and methods of engagement

Depending on the goal and potential of engagement, the portfolio manager can decide to engage using different approaches and methods. The portfolio manager should be able to explain how the type of trajectory and method of engagement chosen fits the goal of the engagement trajectory.

We identify several *types of engagement*:

- Individual engagement trajectories with companies or industries;

³ Sustainability risk (art 3 SFDR) is 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 line with Sustainability, we identify high sustainability risk as a score higher than 30.

⁴ For funds classifying as SFDR article 8 and 9, we expect portfolio managers to engage with companies involved in activities classified as "controversial" in the Investment Management Agreement (fossil fuels, palm oil, etc). Specifically, engagement should take place in line with our ambitions to phase out coal financing (see AAIS' Climate Statement).

⁵ Which can lead to better sustainability risk ratings, higher Taxonomy alignment, etc

- Collaborative engagement trajectories with companies or industries (for instance using the PRI platform, cooperating with other portfolio managers, via NGOs, etc);
- Thematic engagement trajectories, generally with an industry, can be collaborative or individual;
- Engagement via Annual General Meetings (this responsibility lies with AAIS, see AAIS' voting policy).

The *methods of engagement* can differ as well:

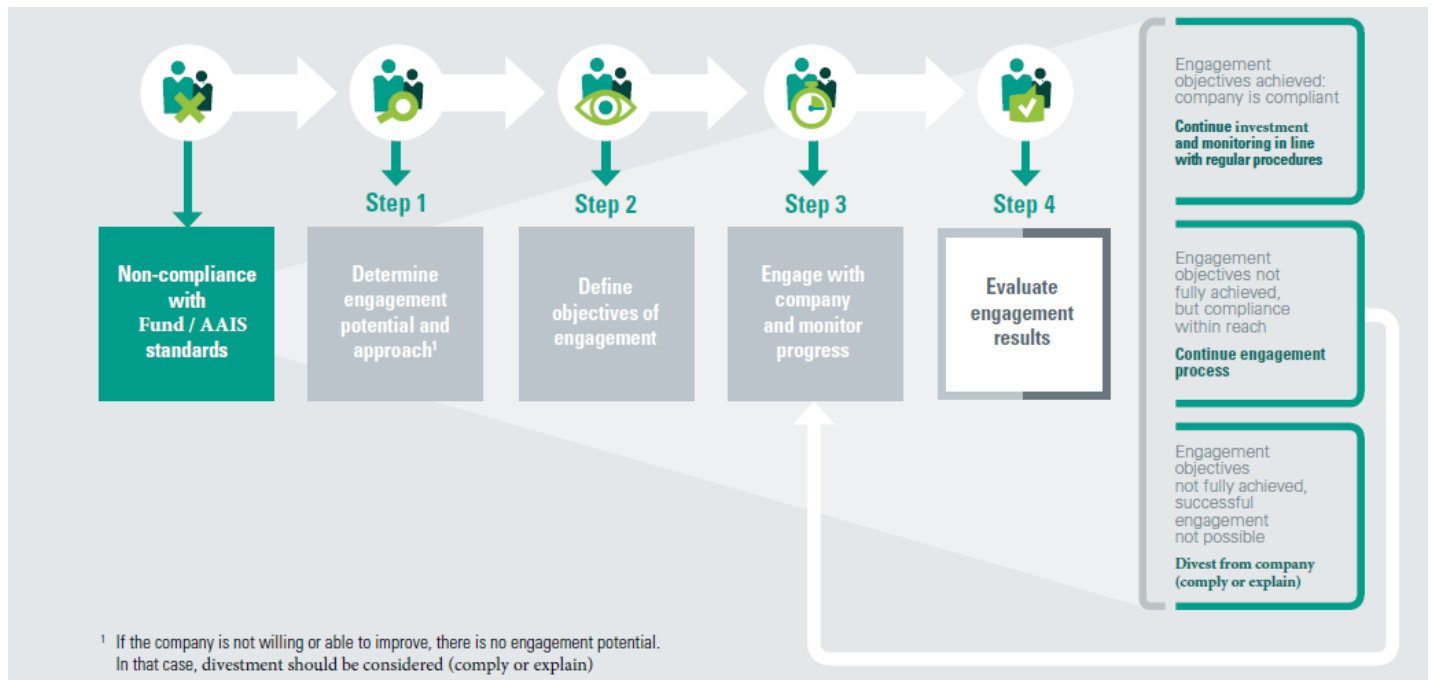
- In person engagement (face-to-face, by virtual meetings, phone calls etc);
- Written engagement (by letters, emails, etc);
- By filing resolutions on AGMs. Although AAIS executes voting for the funds on our delegation platforms, a portfolio manager is free to file resolutions on an AGM for its own funds. These could be resulting from the types of engagement mentioned before.
- By voting (see voting policy).

Reporting

If the fund is an ESG or Impact fund (see above), the portfolio manager is required to report to AAIS on a periodic basis (at least annual) on all engagement trajectories relevant for the investment portfolio that were ongoing, started and closed during the reporting period. AAIS provides a template for reporting that includes (but is not limited to) the name of the company, the sector it is active in, the goal of the engagement, the desired result, the engagement period set, the intermediate milestones, and the type and method of engagement. If a trajectory has been closed, the portfolio manager is asked to report on whether it was a successful (goal has been reached) or unsuccessful trajectory. If the trajectory was unsuccessful and the position is still held, the portfolio manager is asked to explain why the fund has not divested from the company.

ABN AMRO Investment Solutions is free to publish high level engagement reports on the AAIS website based on the input received from the portfolio managers.

Summary of suggested engagement approach



End note

These guidelines should be a tool to help the portfolio manager understand the expectations of ABN AMRO Investment Solutions towards engagement, which is the end responsibility of the portfolio manager. This in contrast to proxy voting, which is the responsibility of ABN AMRO Investment Solutions.