a.s.r.
asset
management

Quarterly ESG Update – Q4 2021

a.s.r. asset management

What's net-zero worth?

2021 has been the year where many countries and companies pledged to 'net zero'. This means the net result of carbon emissions is zero, but this doesn't automatically mean no more CO2 will be released into the atmosphere, because there are multiple ways to compensate for carbon emissions (for example reforestation projects). One of the problems of these compensation techniques relates to the lack of developed and acknowledged calculation methods for carbon storage/capturing. In addition there is no central institution for administering and monitoring such carbon compensations. Scientists have therefore highlighted the urgency of emissions reductions in the magazine Nature and requested institutions to clearly define the definition of 'net zero', both for countries as well as companies[1]. We believe 2022 is going to be the year where all these pledges and promises will be given more importance and these topics are going to be clarified.

a.s.r. has also committed to 'net zero' and we signed different pledges and initiatives. We are collaborating with many other stakeholders – such as peers, NGOs and the government – to create more clarity of all these new definitions. In this quarterly report we will give more insight in the activities that we undertake and we will discuss the new fossil strategy that has recently been announced. This way we are aiming to give more guidance to our road to net zero and a low-carbon sustainable society.

Want to learn more about a.s.r.'s sustainable investing? Visit our website

1 https://www.nature.com/articles/s41558-021-01245-w

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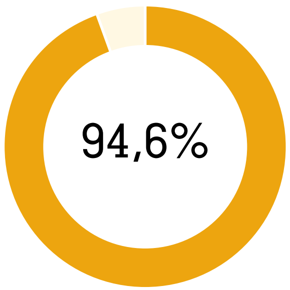
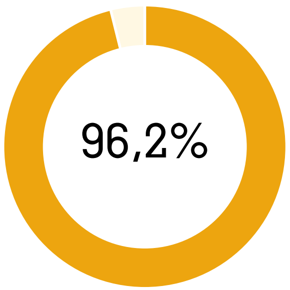
Looking back

2021 in facts and figures

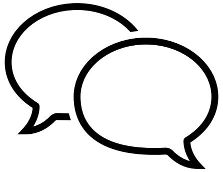
Percentage voted on AGM's:



Percentage Carbon measured portfolio :

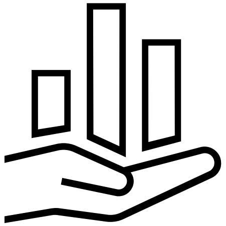


Active engagement dialogues



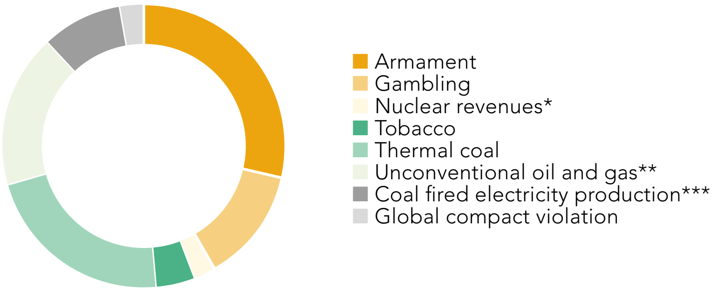
34 dialogues

Impact Investing:



€ 2,35 billion

Company Exclusions 2021



* Excluded when >50% of revenues is generated from nuclear energy
** Excluded when >5% of revenues is generated from unconventional oil and gas
*** Excluded when >20% of revenues is generated from coal fired electricity production

Country Exclusions 2021

* Some countries may be excluded on both corruption and freedom

Engagement overview per theme

Impact

Impact Investments 2021

Since 2018 a.s.r. has been focused on the definition of impact investments. We believe it's important to increase our amount of impact investments and to actually achieve (and measure) our, that's why we have announced challenging goals regarding the amount of impact investments per 2024; €4,5 billion. Per Q4 2021 we already reached an amount of €2,35 billion (2020: €1,6 billion).

An investment to be classified as an impact investment needs to comply with stringent criteria, the following guiding principles, alongside a **financial return**, as defined by the GIIN, are key in that respect:

1. **Intentionality:** the intention to generate a positive social or ecological impact with investments.
2. **Measurability:** the commitment to measure and report on the social and ecological performance and progress of underlying investments, guaranteeing transparency and accountability.

Currently the gross part of our impact investments relate to impact bonds (climate, social and green bonds), but the amount of listed equity and private debt increased more than 50% compared to 2020. Also a significant amount of the impact investments relates to structured credits. Structured credits is a new asset class in our impact portfolio and mainly focusses on renewable energy. Last year we also approved structured credits related to social housing in Ecuador. We keep looking for impact investments and we are confident the 2024 goal will be realized.

For this year we are also going to develop an Impact Framework by which we will be able to report more clearly about the (net) positive impact we achieve with our investments. This way we aim to periodically give an overview per SDG, theme and asset class.

Impact Investment 'Novameat'

The growing global demand for meat can be a very high risk for all climate challenges, but the sustainable plant-based products can be a solution for meat lovers. This alternative can in the longer term lead to a decrease to the need of land, water, energy and it will reduce the emissions coming from animal agriculture. a.s.r. invested in Novameat via Rubio Impact Ventures.

The impact of cattle and other livestock on the environment are acknowledged; the industrial meat system requires a huge amount of land to sustain itself and related to this are huge deforested areas and large emissions of methane. But despite this knowledge it remains difficult to significantly reduce our meat consumption. This might change with the potential of plant-based meat.

Giuseppe Scionti, founder of Novameat, believed the steak was the most important meat to mimic, because it would be the most difficult. But finally the 'most realistic' plant-based steak has been revealed. In 2018 the company already unveiled a 3D-printed steak, but the their new stake has both the firm, fibrous texture and meaty appearance of a real steak according to Scionti[2]. His opinion is shared among many others.

Although experiments with the taste are still going on, the key to the latest new steak is a micro-extrusion technology that produces fibres between 100 and 500 microns in diameter, which allows the complex structure of real meat to be replicated and fat to be entwined. At this moment 50 gram? of steak costs around $1,50 to produce, which is similar to supermarket steak in the UK.

2 https://www.theguardian.com/food/2020/jan/10/most-realistic-plant-based-steak-revealed

Climate

Exit-Fossil Strategy

At the investor update on the 7th of December 2021 a.s.r. announced the new Exit-Fossil strategy. Phasing out fossil fuels – and decoupling growth from emissions – is a necessary condition for transitioning to a climate neutral economy. The science on climate change, as interpreted and communicated by the IPCC, is quite clear on the prioritization of phasing out coal, oil and gas products; and the speed required.

We have committed ourselves to three phases, to be implemented over the course of three years (2022-2024).

- First, we have sold and excluded all securities of companies generating any revenue from the mining of thermal coal, or the exploration and extraction of unconventional oil and gas (the latter above a 5 percent threshold). Unconventional oil & gas includes shale oil and gas, oil shale, tar sands and arctic oil. We feel that the extraction techniques required for producing unconventional oil and gas (e.g. fracking or oil sands) pose too great an environmental burden (e.g. the amount of water required, the toxicity in tailing ponds, or impacts on sensitive ecosystems) for unlocking resources which should be left unburnt when looking at the climate science.
- Second, we will review the transition plans and strategies of companies generating any revenue from the mining of metallurgical coal (which is used in the production of steel) or the exploration and extraction of conventional oil and gas. When a dialogue does not result in sufficient comfort, we will also exclude these companies from our investable universe and re-invest in companies aligned to the goals of the Paris Agreement.

The above two goals mean that by the beginning of 2025 we will have a completely "Paris aligned" investment portfolio in the Energy and Mining sectors. But, although the mining and exploration of hydrocarbons is the single largest contributor to greenhouse gas emissions causing the climate emergency, it is not the sole source of emissions.

- Therefore, we will also review the transition plans and strategies of companies generating revenue from other greenhouse gas intensive sectors; namely Utilities (through the generation of electricity, when that is done through non-renewable means), Basic Materials and Chemicals (e.g. steel, cement, paper, timber), Agriculture (e.g. meat and dairy production), Waste, Transport and Commercial and Residential Property. Companies in these sectors can provide climate solutions through innovation and decarbonization, and we will use science-based frameworks to assess their merit.

Gas and Nuclear in EU Taxonomy

The EU taxonomy is a strategy – created by the European Union – to give investors more insight in what actually constitutes sustainable activities. The attempt of this taxonomy is to define 'green activities', using minimum criteria that economic activities should comply with in order to be considered environmentally sustainable[3]. The original idea was that the taxonomy states only activities which substantially contribute to one (or more) of the six environmental objectives; climate change mitigation, climate change adaptation, sustainable and protection of water and marine resources, transition to a circular economy, pollution prevention and protection and restoration of biodiversity and ecosystems.

Recently there have been many discussions regarding which activities to include in the taxonomy and December 31st, 2021 the EU Commission sent a draft regulation to the governments of all member states. The Commission included nuclear power and natural gas, which have long been controversial technologies, and therefore this came for many as a surprise. Nuclear power and natural gas have been the two technologies with the highest electricity generation at EU level for the past five years, in 2021 nearly 27% of the EU's electricity came from nuclear power plants and 17% from natural gas[4].

3 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en
4 https://energypost.eu/eu-taxonomy-why-nations-are-backing-nuclear-and-gas/

At a.s.r. we believe those two techniques should not be classified as 'green investments'. Gas doesn't contribute to a substantial decrease of CO2 – although it will be necessary as a transition source. For nuclear energy we believe it doesn't relate with the 'do no significant harm' principle, which means activities may not have a negative impact on the environment. With the lack of a guaranteed solution for nuclear waste, nuclear energy violates that principle. That's why we – with other Dutch banks and asset managers – published a statement where we addressed our concerns regarding the current taxonomy classification.

Carbon footprint of our investments

At the end of the last quarter of 2021 we achieved our year-end target of measuring at least 95% (December 2021 we realized a percentage of 96,2%) of the carbon emissions of the a.s.r. investment portfolio (for our own account). The a.s.r. ESG fund range includes euro sovereign bonds, euro credits, European and American equities. While already having a strict ESG policy for the overall investment process within a.s.r. asset management, these ESG funds have additional guidelines on ESG indicators.

At the end of the fourth quarter of 2021 the carbon emissions of the credit fund are still well below the benchmark. The carbon emissions per million euro showed a slight decrease due to lower investments in the Utility and Energy sector.

The equity funds are optimized based on the scores that companies achieve on carbon intensity, energy transition and total ESG policy. The carbon emissions remain well below the benchmark. Both the equity funds showed a decrease in carbon emissions per million euro.

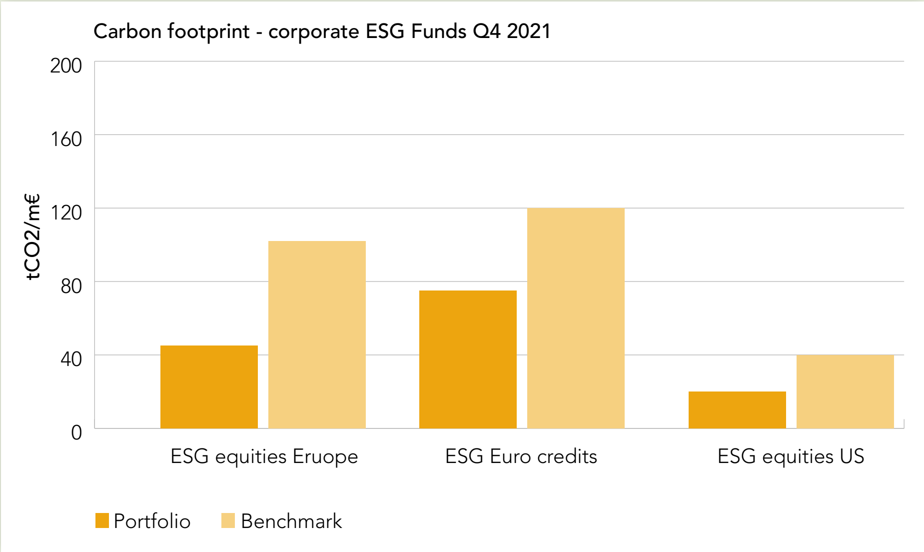


Figure: Carbon emissions for ESG equity (Europe and US), ESG credit and US equity funds at the end of December 2021. The carbon footprint is calculated on a "best effort" basis with the available and most recent data from reliable sources, including Vigeo Eiris. The results may show a changing course because the portfolio data, carbon data and market data are subject to change. The methodology for calculating the carbon footprint is in line with the PCAF methodology.

Active Ownership

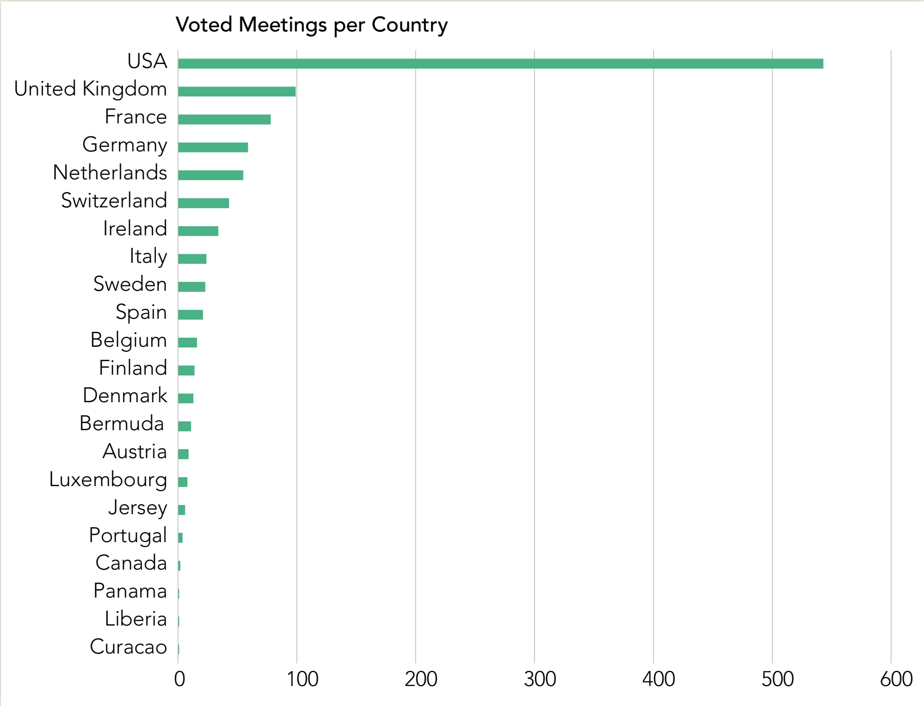
Voting Results

As a responsible institutional investor we believe it's important to exercise our voting rights. We are making use of a proxy advisory service, which advises a.s.r. on the basis of the voting conduct guidelines described in our voting policy. Hereby we will give some more insight in our voting behavior over the year 2021.

We voted at 1065 out of 1126 meetings, which represents 94,58%.

ISS provides proxy voting services for a.s.r. and they published a report regarding their findings of global trends. We will discuss some of their key findings and trends which we also identified in our own voting assessments. The majority of environmental and social-related shareholder proposals around the world in 2020 were related to climate change and/or climate lobbying. Climate-related proposals were seen related to the banking sector, the oil and gas sector, and the mining sector.

Over the past five years, proposals requesting companies undertake climate risk analyses have been trending down over time as requests for climate transition plans have been trending up, reflecting the desire by many shareholders and other stakeholders to move beyond disclosure to see changes in a company's strategy in response to the climate change threat. The research also shows how requests for climate-related political spending disclosures have been growing a portion of shareholder proposals as some proponents begin to focus on disconnects between the messages on action



on climate change put out by some individual companies and those messages put out by affiliated industry organizations.

Lifecycle Management of Mining

A report of the World Bank Group announced in 2050 that the production of minerals such as graphite, lithium and cobalt could increase by nearly 500% by 2050 to meet the growing demand for clean energy technologies[5]. This means the clean energy transition will be significantly mineral intensive. Harvesting these important minerals can only be achieved by mining activities, and these activities are generally very polluting and cause irreparable damage to the environment.

This causes a dilemma because we want to finance the energy transition, but also make sure no natural damage occurs. Therefore we decided to engage with mining companies like Rio Tinto. The biggest ESG risks associated with mining are water risk, tailing dams and safety management. We want mining companies to have in place a group-wide water stewardship policy and risk management system, these policies also have to be reviewed by the companies and if necessary performance needs to be improved.

Tailings dams are earth-filled embankment dams used to store byproducts of mining operations after separating the ore from the gangue. Tailings can be liquid, solid or a slurry of fine particles, and these are usually highly toxic and potentially radioactive. Companies should commit to the full implementation of the Global Standards developed by the Global Tailings Review. This includes a global and transparent consequence-based tailings facility classification system and requirements for emergency planning. We also aim for companies to set targets for phasing out, or decommissioning high risk tailings dams.

Regarding safety management, we expect companies to identify, access and manage environmental risks, impacts and opportunities in a structed and ongoing manner throughout the lifecycle of mines. Closure activities should be related to the short, medium and end-of-life planning processes. By engaging on these topics, we believe the energy transition can go together with mining activities with a minimal environmental impact.

Single use plastics

It's hard to imagine a world without plastic. Since the 1970's their use has increased twenty-fold and it's expected to double again in the next two decades. Although plastic nowadays has a negative reputation, there are actually quite some environmental benefits; it may reduce the weight of products, reduces packaging, it has a lower impact than paper and it has the ability to keep food fresh for a longer time, which reduces food waste.

5 https://pubdocs.worldbank.org/en/961711588875536384/Minerals-for-Climate-Action-The--Mineral-Intensity-of-the-Clean-Energy-Transition.pdf

The biggest problem with plastic though, is that single use plastics became very popular – after a short first-use cycle, most packaging is not collected and recycled, but ends up in landfill or in the environment with widespread consequences for the economy, biodiversity and human health. Plastic pollution is most visible in developing Asian and African countries, where garbage collection systems are often inefficient or even nonexistent[6]. Plastics break eventually down into microplastics, which end up in our ecosystems. Microplastics are found in every corner of the world, from Mount Everest, the highest peak, to the Mariana Trench, the deepest trough.

At a.s.r. we believe collaborative action is needed along the extended global plastic packaging production and achieve a systematic change towards a more circular plastic packaging industry and reduce plastic wastage. We have been engaging with PepsiCo because we believe companies play a vital role in the plastic solution.

PepsiCo is currently working with Extended Producer Responsibility (EPR) in the EU, Canada and Latin America. In the 2021 'As You Show' report, they have been recognized as corporate leaders for their EPR support. Along with peers in the industry, they also contributed to the NaturALL Bottle Coalition, which is a consortium seeking to develop a 100% biobased bottle.

We are satisfied with such results, but we will remain critical to our investments. Areas where we expect more progress are for example 'Innovation management', 'Responsible lobbying and regulatory change' and 'Industry collaboration'.

As a.s.r. we signed the UN treaty on plastic pollution, where currently negotiations are taking place.

6 https://www.nationalgeographic.com/environment/article/plastic-pollution

More news

SFDR

Christmas and New Year's was an eventful period in terms of the EU's Action Plan on Sustainable Finance. Not only did the European Commission publish its proposed resolution to the question on whether gas and nuclear should be included in its Taxonomy rulebook on New Years' Eve[7] – but the implementation deadline for various legislative acts was scheduled for New Years' Day. For all our supervised funds we have updated our sustainability--related disclosures in their Prospectus or Information Memorandum, and we have been working through the first months of 2022 to inform our clients on the sustainability-related performance of their mandate, and of their chosen ASR investment product. For more also see our website.

Expanded engagement

a.s.r. asset management has expanded its engagement capacity by entering a new partnership with Hermes EOS. This will help us to scale up our engagement efforts and intensify dialogues with investee companies.

7 And we have communicated our position on this. See also https://asrvermogensbeheer.nl/kennisbank/blogs/aardgas-en-kernenergie-geen-duurzame-belegging

More information?

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