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## 1. Introduction

This document is a practical guide for de Volksbank's Sustainability Expertise Centre (SEC), which is part of ASN Bank. The SEC uses the Guide to conduct sustainability research for both ASN Bank and ASN Impact Investors (AII).<sup>1</sup> 'Sustainability research' refers to the study of whether current or potential investments and loans<sup>2</sup> meet ASN Bank's sustainability criteria. For this research we have developed special policies that provide the details of our vision and mission. They have been laid down in our climate, biodiversity and human rights policy papers and other documents. Some aspects have been worked out in more detail in memoranda. All policy papers are available in the House of Policies (HOP). This document shows how we apply the sustainability criteria in practice, where we draw the line and how this process is structured. Please refer to the HOP if you would like more background information when reading this guide.

The Guide helps SEC analysts to arrive at an unequivocal opinion and explains to interested parties how they do this. Accordingly, this document serves as:

- a clear description of the research methodology;
- a master document for the SEC department;
- an overview of current policy, because the document is updated and supplemented where necessary;
- an informative document for everyone who would like to know how ASN Bank conducts its research.

### *Changing criteria*

Although this is a detailed document, it is not possible to draw up a complete list of sustainability criteria that all of ASN Bank's activities must meet in our complex world that is in constant flux. In practice, we are regularly faced with questions for which the criteria do not provide a clear-cut solution. Also, the policy does not always indicate a distinct direction when new types of investment present themselves. In such cases, we fall back on our basis – our mission, our vision and the three pillars of our sustainability policy: human rights, climate and biodiversity. On the basis of these principles, we analyse how to prevent adverse impacts or limit them as far as possible.

### 1.1 Sustainability mission and vision

As ASN Bank's sustainability vision and mission guide the selection process, we will address them in more detail below.

#### 1.1.1 Vision

Ever since its establishment in 1960, ASN Bank has been working towards a sustainable and just society in which people are free to make their own choices without harming others, a society without poverty in which everyone has access to education, good housing and medical

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<sup>1</sup> ASN Beleggingsinstellingen Beheer B.V. (ABB) manages the ASN Investment Funds. ASN Bank established ABB in 1993 to implement its vision, mission and strategy by making investments. Like ASN Bank, ABB is part of Volksbank.

<sup>2</sup> ASN Bank invests customers' savings, while the ASN Investment Funds invest customers' investment money. Key categories in which we invest money are bonds and private loans to government authorities (at the national, provincial and municipal levels), as well as residential mortgages, water boards, energy companies, healthcare institutions, housing associations, education, culture and leisure, and renewable energy. The ASN Bank Management Board is responsible for ASN Bank's decision-making. ABB has set up Investment Committees that decide whether companies, government authorities, projects and institutions will be admitted to or removed from the investment universe.

care. Through our vision of society, we show how we wish to shape it in the long run. This means that a vision is a *visual* picture; it shows us an imaginable future. But a vision is not a blueprint – rather, it inspires us and invites us to be creative. A vision is never finished and does not answer every question. Sometimes it is very realistic and sometimes it is very utopian. A vision is not set in stone, but generates ideas that help us put our mission into practice. If our criteria do not provide an answer to a question, we will look for the answer by taking our vision as a starting point.

Our vision is based on three components:

**1) Globally recognised reports, treaties and conventions**

We define ‘sustainability’ according to the 1987 Brundtland report *Our Common Future*: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

We used this definition to define the three pillars of our sustainability policy: human rights, climate and biodiversity. Good governance and animal welfare are other major themes for us. All topics that matter to our customers and to us have been classified under one of these five key concepts.

We also endorse international treaties and conventions in the areas of human rights, climate, biodiversity, good governance and animal welfare.

<b>Key concept</b>	<b>Inspiration</b>	<b>Components</b>
Sustainability	Brundtland report	E.g., fair distribution of wealth, relationship between short term and long term, relationship between the environment and wealth.
ASN Bank’s origins	ASN Bank’s history as a trade union	E.g., freedom, equality, justice, independence, safety and security, freedom of association.
Human rights	E.g., the United Nation’s Universal Declaration of Human Rights and the Guiding Principles on Business and Human Rights	E.g., healthcare, a living wage, no child labour but education, good working conditions, privacy, housing, social needs.
Climate	Findings of the Intergovernmental Panel on Climate Change (IPCC), the World Meteorological Organization (WMO), the United Nations Environment Programme (UNEP) and the Paris Agreement	E.g., energy, housing, the climate, greenhouse gases.
Biodiversity	Convention on Biological Diversity (CBD), drafted at the 1992 Rio Earth Summit	E.g., nutrition, land use, nature, water, circular economy, air.

Governance	OECD and UN conventions and rules	E.g., corruption, a functioning rule of law.
Animal welfare	Five freedoms of the Farm Animal Welfare Committee	E.g., animal welfare.

## 2) Norms and values

We endorse norms and values such as *justice*, the *precautionary principle*, *transparency* and *science* and use them as guidelines. These have shaped our history and will define our future.

## 3) Basic human needs

Human needs guide all our actions. The companies, projects and institutions that we finance and in which we invest play a major role in meeting these needs. For instance, food and water are part of the basic necessities of life. Housing, education and energy are part of the need for safety and security. Transport, waste processing and clothing are other important preconditions for a good life.

### 1.1.2 Mission

ASN Bank's mission is in line with its vision. Our mission is: our economic conduct is aimed at promoting sustainability in society. We help to bring about changes that are intended to put an end to processes whose harmful effects are passed on to future generations or transferred to the environment, nature and vulnerable communities. In doing so, we do not lose sight of the necessity to yield returns in the long run that safeguard the continued healthy existence of our bank. We manage the funds that our customers entrust to us in a manner that does justice to their expectations.

We have translated our mission and vision into policy. As stated, our three sustainability pillars – human rights, climate and biodiversity – are at the heart of this policy. The relationship between the mission, vision and policy is reflected in the table below.

<b>Objective</b>	<b>Sustainability policy hierarchy</b>
Reason for existence	<p style="text-align: center;"><b>Vision</b></p> <p style="text-align: center;"><i>Ever since its establishment in 1960, ASN Bank has been working towards a sustainable and just society in which people are free to make their own choices without harming others, a society without poverty in which everyone has access to education, good housing and medical care.</i></p>
Putting the vision into practice	<p style="text-align: center;"><b>Mission</b></p> <p style="text-align: center;"><i>Our economic conduct is aimed at promoting sustainability in society. That is why we contribute to changes that are intended to put an end to processes whose harmful effects:</i></p> <p style="text-align: center;"><i>are passed on to future generations, or</i></p> <p style="text-align: center;"><i>are transferred to the environment, nature and vulnerable communities.</i></p> <p style="text-align: center;"><i>In doing so, we do not lose sight of the necessity to yield proper returns for our customers. And, as a bank, we want to achieve a financial result that safeguards the continued sound existence of our bank in the long run.</i></p>

Guideline and assessment criteria for the activities and investments of ASN Bank and the ASN Investment Funds	<b>Sustainability policy</b> <i>(three pillars underpinning all sustainability issues)</i>													
	<b>Climate</b> (vision of climate change and CO <sub>2</sub> objectives)				<b>Human rights</b> (social and ethical criteria)				<b>Biodiversity</b> (criteria regarding maintaining and strengthening biodiversity and ecosystems)					
	Other policies and memoranda <i>(tailoring pillars to specific sectors and issues)</i> :													
	Sectors			Issues			Other							
	Financial services	Transport	Circular economy	Plastic	Renewable energy	Living and working	Consumer protection	Governance	Animal welfare	Supply chain policy	Microfinance	Voting policy	At-risk countries	Government bonds
	Sustainability Criteria Guide <i>(guidelines and procedures for research based on the above policies)</i>													

## 1.2 Sustainable Development Goals

ASN Bank’s sustainability vision and mission dovetail well with the United Nations’ Sustainable Development Goals (SDGs). Signed by 193 Member States in 2015, these 17 global Goals and 169 underlying targets aim to reduce poverty and inequalities, tackle climate change and protect natural resources by 2030.<sup>3</sup>

We support the SDGs and apply our sustainability policy to ensure that our investments do not conflict with these Goals. We also actively contribute to various SDGs through our three long-term goals and a number of products.

The 169 SDG targets have been defined for government authorities and can hardly be translated to companies. We have made our own assessment to identify the targets that relate to our practice. By naming the targets, we try to indicate how we, as a financial institution, implement the 17 SDGs. That is why this document contains references to SDG targets. These are shown in red in the sections describing the selection criteria for our investments and clarify the links between our sustainability policy and the SDGs.

## 2. At-risk countries

Companies<sup>4</sup> run the risk of violating human rights in every country, but this risk is not the same in every country. The risk that companies run in countries where human rights are guaranteed by law and are properly enforced is lower than in countries where this is different. That is why, for every country, we assess the level of the risk that companies run of violating human rights. ASN Bank uses this risk classification primarily to assess the activities of

<sup>3</sup> <https://sustainabledevelopment.un.org/sdgs>

<sup>4</sup> Here, we use the term ‘company’ as a collective term; we use it to refer to all possible organisations, projects and businesses that ASN Bank and the ASN Investment Funds may invest in or may fund, except for government bonds.

companies, institutions and projects. The country risk analysis is not used to select government bonds.

**2.1 Analysis of at-risk countries**

**SDG targets: 5.1, 5.5, 5.a, 5.c, 8.7, 8.8, 10.3, 16.2, 16.3, 16.5, 16.10, 16.b**

In analysing at-risk countries, every two years we assess the countries that were internationally recognised by the United Nations.<sup>5</sup> We look at each country’s performance on seven topics, resulting in seven scores (high, medium or low) for the country. On that basis, we classify the country as a low-risk country, a medium-risk country or a high-risk country. The table below states which categories of at-risk countries ASN Bank distinguishes and how we arrive at this classification.

<b>High-risk country</b>	<b>Medium-risk country</b>	<b>Low-risk country</b>
<p>A country where companies run a high risk of being involved in the most serious types of human rights violations, such as war crimes, genocide and crimes against humanity, or of being involved in other human rights violations, such as child labour, lack of freedom of association, and corruption.</p> <p>A country is a high-risk country if it scores ‘high’ three times or more. See the explanation below.</p>	<p>A country where companies run an average risk of being involved in human rights violations, such as child labour, lack of freedom of association, and corruption.</p> <p>All countries that are not high- or low-risk countries are placed in the ‘medium-risk country’ category. See the explanation below.</p>	<p>A country where companies run a relatively low risk of being involved in human rights violations.</p> <p>A country is a low-risk country if it scores ‘low’ five times or more and has no ‘high’ score. See the explanation below.</p>

**Topics**

The table below shows which topics we assess, why it is precisely these topics that we have selected and which indicator we use to determine whether a country runs a low, medium or high risk on the topic in question.

Topic		
Peace	Explanation	If there is no peace, there is an increased risk for companies of being involved in human rights violations.
	Indicator	The degree of stability and/or the existence of conflict in a country.
	Sources	Institute for Economics and Peace: Global Peace Index
	Assessment	Low-risk countries: countries scoring ‘high’ and ‘very high’. Medium-risk countries: countries scoring ‘medium’. High-risk countries: countries scoring ‘low’ and ‘very low’.
Democracy and freedom	Explanation	If there is no democracy or freedom, there is an increased risk for companies of being involved in human rights violations.
	Indicator	The level of democracy and freedom in a country.
	Sources	Freedom House: Freedom in the World.
	Assessment	Low-risk countries: countries scoring ‘free’.

<sup>5</sup> We do not publish this list on the website; it is available on request.



		Medium-risk countries: countries scoring 'partly free'. High-risk countries: countries scoring 'not free'.
Child labour	Explanation	The prohibition of child labour is one of the fundamental labour rights of the International Labour Organization (ILO); companies run a high risk of getting involved.
	Indicator	The risk of child labour occurring in a country.
	Sources	Ratification of conventions: - ILO Convention No. 138 concerning a minimum age of fifteen (1973) - ILO Convention No. 182 concerning the worst forms of child labour (1999) - Unicef and Global Child Forum: Children's Rights and Business Atlas
	Assessment	Low-risk countries: - a country has ratified both conventions, and - a country falls into tier 1 of the Children's Rights and Business Atlas. Medium-risk countries: - a country has ratified one convention or neither of the conventions, and/or - a country falls into tier 2 of the Children's Rights and Business Atlas. High-risk countries: - a country falls into tier 3 or tier 4 of the Children's Rights and Business Atlas.
Freedom of association	Explanation	The right to freedom of association is one of the ILO's fundamental labour rights and part of economic, social and cultural (ESC) rights; companies run a high risk of getting involved.
	Indicator	The risk that the degree of freedom of association in a country is low.
	Sources	Ratification of conventions: - ILO Convention No. 87 concerning the freedom of association and protection of the right to organise (1948) - ILO Convention No. 98 concerning the right to organise and collective bargaining (1949) - Freedom House: Freedom in the World, subscore E (Associational and Organisational Rights) - ITUC: Global Rights Index
	Assessment	Low-risk countries: - a country has ratified both conventions, and - a country scores 12 on the Freedom House list, and - a country does not score 5 on the ITUC list. Medium-risk countries: - a country has ratified one convention or neither of the conventions, and/or - a country scores 4 to 11 on the Freedom House list, and - a country does not score 5 on the ITUC list. High-risk countries: - a country scores 3 or lower on the Freedom House list, and/or - a country scores 5 on the ITUC list.
Forced labour	Explanation	The prohibition of forced labour is one of the ILO's fundamental labour rights; companies run a high risk of getting involved.
	Indicator	The risk of forced labour occurring in a country.
	Sources	Ratification of conventions:

		<ul style="list-style-type: none"> <li>- ILO Convention No. 105 concerning the abolition of forced labour (1957)</li> <li>- ILO Convention No. 29 concerning forced labour (1930)</li> <li>- Walk Free Foundation: Global Slavery Index</li> </ul>
	Assessment	<p>Low-risk countries:</p> <ul style="list-style-type: none"> <li>- a country has ratified both conventions, and</li> <li>- a country has a score on the Global Slavery Index that corresponds to the scores of (roughly) the top 25 countries with the highest scores.<sup>6</sup></li> </ul> <p>Medium-risk countries:</p> <ul style="list-style-type: none"> <li>- a country has ratified one of the conventions, and/or</li> <li>- a country has a score on the Global Slavery Index that does not correspond to the scores of (roughly) the 25 best- or worst-performing countries.</li> </ul> <p>High-risk countries:</p> <ul style="list-style-type: none"> <li>- a country has ratified neither of the conventions, and/or</li> <li>- a country has a score on the Global Slavery Index that corresponds to the scores of (roughly) the 25 countries with the lowest scores.</li> </ul>
Discrimination	Explanation	Non-discrimination and equal treatment are fundamental labour rights of the ILO and part of the ESC rights; companies run a high risk of getting involved.
	Indicator	The risk of discrimination occurring in a country.
	Sources	<p>Ratification of relevant conventions:</p> <ul style="list-style-type: none"> <li>- UN International Convention on the Elimination of All Forms of Racial Discrimination (1965)</li> <li>- UN Convention on the Elimination of all Forms of Discrimination Against Women (1979) and the optional ILO protocol (1999)</li> <li>- ILO Convention No. 100 concerning equal remuneration (1951)</li> <li>- ILO Convention No. 111 concerning discrimination (employment and occupation) (1958)</li> </ul>
	Assessment	<p>Low-risk countries:</p> <ul style="list-style-type: none"> <li>- a country has ratified all conventions.</li> </ul> <p>Medium-risk countries:</p> <ul style="list-style-type: none"> <li>- a country has ratified one or more, but not all, conventions.</li> </ul> <p>High-risk countries:</p> <ul style="list-style-type: none"> <li>- a country has not ratified any of these conventions.</li> </ul>
Corruption	Explanation	Corruption is a core issue in, for example, the OECD guidelines; companies run a high risk of getting involved.
	Indicator	The risk of corruption occurring in a country.
	Sources	Transparency International's Corruption Perceptions Index
	Assessment	<p>The countries score as follows on the Corruption Perceptions Index:</p> <ul style="list-style-type: none"> <li>- low-risk countries: a country scores 70-100;</li> <li>- medium-risk countries: a country scores 30-69;</li> <li>- high-risk countries: a country scores 0-29.</li> </ul>

### **Use of sources**

<sup>6</sup> The Global Slavery Index assigns a score to every country. As country scores may change when they are updated, we do not mention specific scores here but rather refer to the scores of roughly the 25 best- or worst-performing countries.

We use various sources to assess the seven topics. We check, for example, whether countries have ratified relevant conventions and how they score in public indices.

Some countries do not receive a score for every topic because the relevant information is not available. We classify these countries on the basis of scores that are available and/or any other information, such as country reports published by Amnesty International, Human Rights Watch and/or the US Department of State.

## **2.2 Selection of at-risk countries**

The ASN Bank Management Board and the AII Board of Directors have laid down the policy and methodology used to analyse at-risk countries.

In the event of policy changes or major methodology changes, the sustainability analyst writes a proposal and presents it to the Sustainability Committee (SC).<sup>7</sup> Where necessary, the analyst adjusts the proposal and/or the proposal is discussed again. Finally, the ASN Bank Management Board and the AII Board of Directors take a decision.

If there are no changes, the at-risk countries do not change either. Where minor policy or methodology changes are involved, such as new or different sources, the Sustainability Committee discusses these changes and their effects on the composition of the at-risk country list. The at-risk countries are subsequently identified.

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<sup>7</sup> The Sustainability Committee (SC) is the body within de Volksbank that discusses all relevant sustainability developments. In many cases, these discussions cover the drafting of new policy or the application of existing policy. Various departments of de Volksbank are represented on the SC and together they advise the ASN Bank Management Board on the sustainability policy for de Volksbank as a whole.

### 3. Selection for ASN Bank

One important way to implement our sustainability mission is by investing our customers' savings. In that respect, we apply two key principles:

- We invest our customers' money according to the ASN Sustainability Criteria.
- We comply with the requirements set by supervisory authorities, such as the Dutch Central Bank. The requirements they impose regarding our capital largely determine how we can invest our money.

We invest our customers' savings in categories including bonds and private loans to government authorities (of countries, provinces and municipalities), home loans, water boards, healthcare institutions, housing associations, education, culture and leisure, and renewable energy. This diversification creates a good balance between the various sectors and spreads risks.

#### 3.1 Government bonds and loans to local and regional authorities

National, local and regional authorities play an important role in a society's functioning. National governments provide basic facilities such as housing, education and healthcare and rules to protect nature, for example – matters that are important now and in the sustainable world of tomorrow. Governments also provide infrastructure, but they need money to fund all these activities. Issuing government bonds allows them to obtain capital quickly. Local and regional authorities, too, issue bonds. They redeem these government bonds using taxpayers' money and other funds. ASN Bank invests part of the savings in government bonds and loans to local and regional authorities.

ASN Duurzaam Obligatiefonds runs sustainability risks by investing in countries and green bonds. Sustainability risk is the risk that an ecological, social or governance event gives rise to financial loss or may have an adverse impact on the value of investments under management.

The following risks have been identified for ASN Duurzaam Obligatiefonds. The mitigating measures are also described.

- Ecological, social and governance: these risks are mitigated by establishing a sustainable investment universe in accordance with the Sustainability Criteria Guide of ASN Impact Investors. These criteria comprise detailed exclusions, avoidances and limits that avoid or reduce exposure to sustainability risks.
- Countries to be assessed based on their climate, biodiversity and human rights policies. The countries with the highest scores – i.e. which carry the lowest sustainability risks – are selected for the universe.
- The funds invested in green and social bonds are specifically earmarked for mitigation of climate and social risks. It is assessed for each individual bond whether the funds are used in accordance with the sustainability criteria.

The Principal Adverse Impacts (PAIs) of investments in companies are negative effects on the environment and society according to the SFDR. The points of departure for ASN Duurzaam Obligatiefonds are the existing sustainability policy and the investment process. These result in the selection described in sections 3.1 and 3.2. The sustainability policy contains multiple criteria and requirements, which minimise the risk of PAIs occurring in the portfolio.

### 3.1.1 Assessment criteria for countries

Every two years, we select the countries that meet our criteria. If we approve a country based on these criteria, the local and regional authorities are also automatically approved, as they comply with the same laws and regulations. The purpose of this selection is to prevent serious adverse social impacts, for example because a country is not a signatory to the Paris Agreement or because fundamental human rights are being violated.

In our selection, we distinguish between exclusion criteria and sustainability criteria. Any country that does not meet the exclusion criteria is excluded. Using the sustainability criteria, we select the outperforming countries that will help us achieve sustainable investment objectives (i.e. financing government authorities and semi-public institutions that pursue an ambitious climate policy, and protecting and promoting biodiversity and human rights).

#### **Country assessment based on exclusion criteria**

We only approve countries if they meet the exclusion criteria below in the areas of human rights, climate and biodiversity.<sup>8</sup>

#### **Human rights**

SDG targets: 8.7, 16.1, 16.2, 16.4, 16.7

We exclude countries where the following serious violations of international law<sup>9</sup> occur or where there is a major risk of:

- Crimes against humanity
  - Torture: countries can only be approved if they have ratified the Convention against Torture (CAT).
  - Slavery: countries are disapproved if they run a very high risk of slavery.
- Genocide: countries are disapproved if they run a very high risk of genocide.
- Capital punishment: countries can only be approved if they have not carried out the death sentence for crimes in the past ten years.
- War crimes
  - Child soldiers: countries can only be approved if they, or groups in these countries, do not avail themselves of child soldiers.
  - Controversial weapons: countries can only be approved if they have ratified all of the following treaties or conventions:
    - Treaty on the Non-Proliferation of Nuclear Weapons;
    - Comprehensive Nuclear-Test-Ban Treaty;
    - Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction (Chemical Weapons Convention);
    - Biological Weapons Convention;
    - Convention on Certain Conventional Weapons;
    - Anti-Personnel Landmines Convention;
    - Convention on Cluster Munitions;
    - Arms Trade Treaty.<sup>10</sup>

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<sup>8</sup> We use as many public, reputable sources as possible for the selection based on the exclusion criteria. These are sources that can indicate whether or not a country meets the exclusion criterion concerned.

<sup>9</sup> Although this also includes countries that are subject to UN sanctions, we consider the UN sanctions too broad to be used as the only criterion.

<sup>10</sup> Although the Arms Trade Treaty (ATT) addresses conventional weapons, we have nevertheless included it as one of the criteria for controversial weapons. This is because the ATT regulates arms trade in such a way that the arms trade is not in violation of the United Nations' arms embargoes and does not contribute to crimes against humanity or war crimes.

## **Climate**

**SDG targets: 13.2, 14.3**

We exclude countries from investment if they do not actively reduce climate change. Countries can only be approved if they have ratified the Paris Agreement.<sup>11</sup>

## **Biodiversity**

**SDG targets: 2.5, 5.2, 6.3, 6.6, 11.4, 14.1, 14.c, 15.1 to 15.9, inclusive**

We exclude countries from investment if they do not actively contribute to conserving biodiversity by endorsing the international conventions listed below. These conventions focus primarily on the conservation of species and ecosystems. The conventions we take into consideration in assessing countries are:

- Convention on Biological Diversity (CBD);
- Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES);
- Convention on the Conservation of Migratory Species of Wild Animals;
- The International Treaty on Plant Genetic Resources for Food and Agriculture;
- Convention on Wetlands (also known as the 'Ramsar Convention');
- Unesco World Heritage Convention (WHC);
- UN Convention on the Law of the Sea.

## ***Country assessment based on sustainability criteria***

Having applied the exclusion criteria, the unexcluded countries remain. From these countries, we select the outperforming ones based on the sustainability criteria. We have predetermined a minimum score that countries must achieve to be approved. The approval applies for a few years in order to guarantee continuity. The aim is both to select the countries that are performing best and to create sufficient diversification of investments.

We use various indicators for the selection based on the sustainability criteria.<sup>12</sup> We select an indicator in two steps. First, we establish the topic that the indicator needs to measure.<sup>13</sup> Then, we look for the indicator that best measures that topic.<sup>14</sup> In exceptional cases, we cannot identify an indicator for a selected topic that meets these requirements. In those cases, we do not include the topic in the weighting.

## **Human rights**

**SDG targets: 4.1, 4.5, 5.1, 5.2, 5.5, 5.c, 8.7, 10.3, 10.4, 10.b, 16.5, 16.10, 16.b, 17.2**

The country respects, protects and promotes the Universal Declaration of Human Rights and other reputable standards, such as those of the International Labour Organization (ILO). We assess the country on the following topics with their corresponding indicators:

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<sup>11</sup> The 2015 Paris Climate Change Conference resulted in new arrangements for combating climate change, which were laid down in the Paris Agreement. The Agreement was to enter into force when ratified by 55 countries that were jointly responsible for at least 55 percent of global emissions. This threshold was reached on 5 October 2016 and the Agreement entered into force on 4 November 2016. By now, 195 countries have signed the Paris Agreement.

<sup>12</sup> We have decided to use indicators rather than indices. This distinction may not be immediately obvious and therefore requires some explanation. Each index is composed of various indicators and its aim is to give a total assessment of a broad field. Because of this broad composition, indices often also measure factors that we do not wish to take into account or to which we would assign a very different weight. In addition, indices often use the same indicators. Certain indicators might then be counted several times – in various indices – and be assigned too much weight as a result. As indicators give an assessment of a limited area or even of a single topic, it is clearer what they measure exactly.

<sup>13</sup> Topics must meet the following requirements: there may be no more than twenty topics and they must ensue from our human rights, climate and biodiversity policy papers. This means that they do not assess a country's policy, but rather what happens in practice. They overlap as little as possible.

<sup>14</sup> Indicators meet the following requirements. They have sufficient coverage in the various countries. They are objective, independent, sufficiently distinctive, reputable (good quality) and transparent (i.e. no black box). Quantitative indicators are expressed in quantities per capita or a similar unit. In this respect, we use public, reputable sources as far as possible.

Topic	Indicator	Indicator-based assessment
Defence expenditure	Share of defence expenditure in a country's budget	The lower the better
Corruption	Risk of corruption	The lower the better
Income inequality	Difference between the highest and lowest income groups	The lower the better
Development aid	Share of development aid in government spending	The higher the better
Freedom of speech	Risk of limitation of freedom of speech	The lower the better
Child labour	Risk of the occurrence of child labour	The lower the better
Forced labour	Risk of the occurrence of forced labour	The lower the better
Discrimination	Risk of discrimination	The lower the better
Freedom of association	Risk of little freedom of association	The lower the better

## Climate

SDG targets: 7.2, 13.2

The country contributes to climate protection. We assess the country on the following topics with their corresponding indicators:

Topic	Indicator	Indicator-based assessment
Greenhouse gases	Per capita emission of greenhouse gases (measured in CO <sub>2</sub> equivalents)	The lower the better
Renewable electricity	Share of renewable electricity generated in total electricity generated	The higher the better

## Biodiversity

SDG targets: 3.9, 6.3, 11.6, 12.4, 12.5, 13.a, 15.6, 15.9

The country contributes to biodiversity protection. We assess the country on the following topics with their corresponding indicators:

Topic	Indicator	Assessment
Nuclear energy	Quantity of nuclear energy produced per capita	The lower the better
Nature conservation area	Surface area of nature conservation area in total nature	The higher the better
Air pollution	Per capita emission of sulphur oxides (SO <sub>x</sub> )	The lower the better
Waste disposal	Waste disposed on land per capita	The lower the better

### Score calculation, weighting and valuation

For each country, we calculate the scores in five steps:

- Step 1: we collect data on the basis of the indicators for the countries that meet the exclusion criteria.
- Step 2: we assess for which countries sufficient data is available to arrive at a sustainability score. The countries for which insufficient data is available are not included in the universe.
- Step 3: we use the data collected to calculate each country's score on the relevant indicator. To enable a comparison of countries' scores on the indicators, the data is

rescaled.<sup>15</sup> In that process, we determine the highest and lowest values of the data for each indicator. Depending on the indicator, the lowest or the highest value is the best, as stated after the indicators above. Next, we assess for each country what the difference is compared with the best value. The closer the country is to the best value, the better its rescaled score on the relevant indicator.

- Step 4: we calculate the score for each pillar (human rights, climate and biodiversity). We do this because the pillars do not have the same number of indicators, but we do wish to assign equal weight to every pillar in the ultimate sustainability score. On the basis of the rescaled scores, we determine the rank-weighted average<sup>16</sup> per pillar for every country.
- Step 5: we calculate the sustainability score, which is the final score for every country. The sustainability score is the rank-weighted average of the score for every pillar. The more closely the outcomes of the various indicators align with each other, the higher the rating we assign to the country. A country with an uneven spread across the indicators is given a lower rating, as we prefer a country with a reasonably good score on all indicators to a country with a very good score on some indicators but a very poor score on others.

When the scores are known, it is clear which countries have reached the minimum score and can therefore be approved. The scores also show how the countries perform in relation to each other. Finally, the list of countries that have reached the minimum score is presented to the Investment Committee and the SC for approval. In line with the European SFDR legislation, which governs AII, AII monitors the progress made with the sustainable investment objectives. The same goes for the steps taken to minimise the principal adverse impacts that our investments in government bonds may have. AII will report on this on a regular basis.

## **3.2 Green bonds, social bonds, sustainable bonds and loan portfolios of financial service providers**

ASN Bank invests in bonds of issuers that use these to finance sustainable projects. These bonds are also known as 'green bonds', 'social bonds' or 'sustainable bonds'. We invest in renewable energy, energy saving and biodiversity through green bonds. These bonds contribute to achieving our objective of being fully climate neutral by 2030. Social bonds are used to finance projects that have a social impact, such as microcredit and social housing. Sustainable bonds are used to finance a mix of green and social projects. Alternatively, we may invest in loan portfolios of financial service providers.

### **3.2.1 Assessment criteria for green bonds, social bonds, sustainable bonds and loan portfolios of financial service providers**

**SDG targets: 7.2, 13.2, 17.3**

Although green and social bonds and loan portfolios finance different types of project, the methodology for assessing them is the same. We assess them on the following topics in succession:

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<sup>15</sup> Rescaling involves the conversion of data obtained from various indicators, allowing us to combine the data on a single scale and, as a result, to compare the data.

<sup>16</sup> 'Rank-weighted average' means that the scores are placed in the order of poor to good, with the worst scores carrying the most weight and the best scores carrying the least weight. The aim is to prevent poor scores from being compensated by good scores.



## 1. Issuer

Financial institutions and companies may issue green, social or sustainable bonds. We always analyse the issuer of the bond, assessing the issuer in terms of:

- activities to be excluded: does the issuer carry out activities to be excluded?<sup>17</sup> If such activities constitute the institution's primary operations, we are very cautious about investing in any green, social or sustainable bond of this issuer, even if that bond does not finance those activities. In section [4.1.5.1](#) we explain how we define 'activities to be excluded' and 'activities to be avoided';
- misconduct or reputation risk: is the issuer involved in any (serious) misconduct? We are very cautious about investing in green, social or sustainable bonds of an issuer that is involved in (serious) misconduct or if we see any other potential reputation risk.

## 2. Financed projects

Before approving a green, social or sustainable bond or loan portfolio, we analyse which projects are financed with the bond or loan portfolio. In doing so, we avail ourselves of various sources, which are:

- the investment document, which states the designated use of the money raised with the bond;
- the issuer's selection criteria framework. Institutions draft a selection criteria framework to determine which projects they wish to finance through their green, social or sustainable bond. Some institutions may do this themselves, while others engage an external party;
- a second opinion: on the issuer's instructions, an independent third party assesses the selection criteria or the green, social or sustainable bond itself, and issues a second opinion on this. We always include this opinion in our assessment, as it provides additional information. If the second opinion contains a recommendation, we may enquire whether the issuer has followed up on it or we may set the recommendation as a condition.

We do not invest in a green, social or sustainable bond or in a loan portfolio in the following cases:

- The bond or loan portfolio finances activities to be excluded or avoided. For green bonds, for example, the financing of projects in biomass or dams may be a reason for exclusion; see section [4.1.5.1](#) for more information.
- There is insufficient transparency. We do not invest in green, social or sustainable bonds or loan portfolios if it is unclear which projects are being financed, as the bond or portfolio may be used to finance projects that we exclude.
- The bond does not satisfy our definition of a green, social or sustainable bond. So-called 'green, social or sustainable bonds' are issued more and more often to finance all sorts of projects. If a bond does not satisfy one of our definitions, we do not invest in it. We apply the following definitions:
  - green bond: a bond whose proceeds are used to finance green projects. We take 'green projects' to mean projects that meet the criteria defined for renewable energy projects. It is recommended that the green bond comply with the Green Bond Principles. It is desirable for the green bond to comply with the Climate Bonds Initiative;<sup>18</sup>
  - social bond: a bond whose proceeds are used to finance social projects;

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<sup>17</sup> Activities that we exclude are, for example, fossil fuels, arms and mining.

<sup>18</sup> The Green Bond Principles and the Climate Bonds Initiative are initiatives for defining a green bond. The Green Bond Principles are voluntary guidelines for the issue of green bonds to finance environmentally friendly activities. The Climate Bonds Initiative is in line with the Green Bond Principles but applies a stricter definition of green bonds, in which climate bonds may exclusively finance climate change mitigation or adaptation projects.

- sustainable bond: a bond whose proceeds are used to finance a mix of social and green projects.

### **3. At-risk countries**

If it turns out that the issuer finances projects in countries that we regard as at-risk countries ([see Chapter 2](#)), we expect it to have additional human rights policies in place. If the issuer has insufficient policy in place to guarantee that it respects human rights, we do not invest in the green, social or sustainable bond or loan portfolio.

### **4. Carbon footprint**

ASN Bank's objective is to be climate positive by 2030 in all its loans and investments. That is why it needs to know the carbon footprint of green, social or sustainable bonds or loan portfolios. Both green and sustainable bonds and loan portfolios may produce a carbon profit, thereby helping us to achieve our climate objective. If we know the carbon footprint, we can check the calculations to verify whether the method of calculation corresponds to our methods. Having said that, the carbon footprint of green, social and sustainable bonds and loan portfolios is unknown in many instances. Sometimes this information can be requested from the issuer; at other times we are able to determine the carbon footprint based on the projects completed. We do not subject green and sustainable bonds to the condition that they must yield a carbon profit, as they may also have other positive sustainability impacts, such as on biodiversity or social goals.

### **5. Equator Principles**

If any projects are financed through the green, social or sustainable bonds or loan portfolios to which the Equator Principles<sup>19</sup> apply, we must assess whether these projects meet the Equator Principles criteria.

### **6. Additionality**

An issuer may package already completed projects in a green, social or sustainable bond or a loan portfolio in order to free up cash to finance entirely different projects and activities. ASN Bank prefers to buy green, social and sustainable bonds and loan portfolios that finance new projects, with the aim of encouraging other institutions to carry out new sustainable projects.

### **Recommendation**

We arrive at a recommendation on the basis of the above considerations. If all topics meet our criteria, we are able to make a positive recommendation. If a specific loan or loan portfolio clearly contributes to our sustainability objectives, we accept in exceptional cases that the issuer itself does not meet our criteria. We may then impose additional conditions on the issuer before making a positive recommendation. This exception is subject to a specific restriction: we do not invest in loan portfolios of issuers that cannot act as counterparties to transactions for de Volksbank's cash management portfolio (see Financial Markets). Two SEC staff members review the assessment and jointly provide a recommendation in this regard. The ASN Bank Management Board takes a final decision on the bond or loan portfolio.

## **3.3 Sustainable project loans**

ASN Bank and ASN Groenprojectenfonds finance projects, including in the field of energy generation from renewable sources (renewable energy projects). These are two different legal

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<sup>19</sup> The Equator Principles (EP) for large project loans require that the loans meet the social and environmental criteria set by the International Finance Corporation (IFC). In High-Income OECD countries, local and national rules, laws and permits are generally similar to or more stringent than the EP requirements. As a result, it is sufficient for project loans in these countries to comply with local laws; they need not be assessed against the EP. <http://www.equator-principles.com/>

entities, which apply different decision-making processes but the same criteria. They also differ slightly in the types of project they fund.

*ASN Bank*

ASN Bank finances projects involved in renewable energy, such as wind farms, solar energy projects and thermal storage systems. It also finances projects that substantially reduce energy consumption, such as sustainable construction and refurbishment.

*ASN Groenprojectenfonds*

ASN Groenprojectenfonds has been designated as a Green Institution. The fund focuses on sustainable construction and refurbishment, renewable energy and decentralised energy supplies.

**3.3.1 Assessment criteria for sustainable projects**

SDG targets: 7.2, 7.3, 7.a, 13.2, 15.9

The methodology below for selecting sustainable projects applies to both entities.

The two aforementioned entities finance all sorts of projects with varying degrees of sustainability. Below, we have included a non-exhaustive list of renewable energy projects that may be eligible for funding, as well as the criteria used to assess them. The table below explains which criteria apply to virtually all projects and what aspects are assessed. The assessment against the other criteria is explained in the table itself.

<b>Renewable energy project</b>	<b>Criteria</b>
Wind energy <ul style="list-style-type: none"> <li>- onshore</li> <li>- offshore</li> </ul>	<p><i>Sustainability criteria:</i> <i>Absolute criteria</i></p> <p><b>Globally</b>, a project is in any event expected to:</p> <ul style="list-style-type: none"> <li>- comply with all local laws and regulations;</li> <li>- not be involved in (serious) misconduct;</li> <li>- comply with the Equator Principles if these apply;</li> <li>- meet the IFC standards;</li> <li>- consider the Wind Guide (<i>Windwijzer</i>) when choosing a location (see page 12);</li> <li>- meet our human rights and biodiversity criteria, such as criteria focusing on the local population and an area’s ecological values, or the criteria for projects in, around and near environmentally sensitive areas.</li> </ul> <p>A project in <b>a European country (including the Netherlands) or another high-income OECD country</b> is also expected to:</p> <ul style="list-style-type: none"> <li>- disclose the emissions avoided;</li> <li>- set up the wind farm in such a way that no irreversible changes are made. This means that the original land and/or water use is possible again when the operation of the wind farm is discontinued.</li> </ul> <p>In addition to the aforementioned criteria, a project in <b>the Netherlands</b> is also subject to the following criteria:</p> <ul style="list-style-type: none"> <li>- the developer of an <b>onshore</b> wind farm complies with the NWEA Code of Conduct (which applies to projects developed</li> </ul>

	<p>after the NWEA’s launch). This means that local residents are involved in choices about the plan, the design and the possibility of financial participation;</p> <ul style="list-style-type: none"> <li>- the developer of an <b>offshore</b> wind farm in the Dutch North Sea complies with section 3.3 of the Policy Document on the North Sea 2016-2021.<sup>20</sup></li> </ul> <p><i>Relative criteria</i></p> <p>In addition, a project preferably:</p> <p><b>Globally:</b></p> <ul style="list-style-type: none"> <li>- uses suppliers that meet our sustainability criteria for companies (see section <a href="#">4.1.5.2</a>);</li> <li>- dismantles and recycles wind turbines after their useful lives in a responsible way;</li> <li>- aims to achieve combined use of space;</li> <li>- considers bird migration routes;</li> <li>- carries out an environmental impact assessment;</li> <li>- takes appropriate compensatory measures for biodiversity and integration into the landscape in the construction and management of the project.</li> </ul>
<p>Solar energy generation</p> <ul style="list-style-type: none"> <li>- on rooftops</li> <li>- in the field</li> <li>- on water</li> </ul>	<p><i>Sustainability criteria:</i></p> <p>For a project, we in any event expect the following:</p> <p><i>Absolute criteria</i></p> <p><b>Globally</b>, a project is in any event expected to:</p> <ul style="list-style-type: none"> <li>- comply with all laws and regulations;</li> <li>- guarantee that the project developers are not involved in (serious) misconduct;</li> <li>- comply with the Equator Principles if these apply;</li> <li>- meet our human rights and biodiversity criteria if it is an onshore or offshore project, such as criteria focusing on the local population and an area’s ecological values.</li> </ul> <p>A project in a <b>European</b> country (including the Netherlands) or another high-income OECD country is also expected to:</p> <ul style="list-style-type: none"> <li>- report the energy generated to us each year;</li> <li>- have an appropriate plan in place to remove the systems after their useful lives;</li> <li>- take appropriate compensatory measures for biodiversity and integration into the landscape in the construction and management of the project;</li> <li>- not exceed 20 hectares if it is an onshore or offshore solar farm. This does not apply to roofs on buildings. This may be different, depending on how the project fits into its surroundings;</li> <li>- not destroy valuable nature such as woodland for the construction of the project;</li> <li>- for sun on water, be constructed in places with built-up features, such as catchment basins, water storage at business parks or dredging depots. Projects in nature</li> </ul>

<sup>20</sup> <https://www.government.nl/binaries/government/documenten/policy-notes/2015/12/15/policy-document-on-the-north-sea-2016-2021/nz-eng-beeldscherm.pdf>

conservation areas, at sea, and in lakes, rivers, canals and polder waterways are excluded.

In addition to the aforementioned criteria, a project in **the Netherlands** is also subject to the following criteria:

- a developer of a solar farm in the Netherlands endorses the *Zon op Land* code of conduct. This specifically means that local residents are involved in choices about the plan, the design and the possibility of financial participation, and that the Sun Guide (*Zonnewijzer*)<sup>21</sup> is considered when choosing a location. In addition, the solar farm is set up in such a way that no irreversible changes are made. This means that the original land use is possible again when the useful life of the solar farm ends.
- outside the Netherlands, the principles of this code are adhered to as much as possible.

*Relative criteria*

In addition, preferably:

**Globally:**

- an appropriate plan is in place to remove the systems after their useful lives;
- appropriate compensatory measures for biodiversity and integration into the landscape are taken in the construction and management of the project;
- the project covers no more than 20 hectares if it is an onshore or offshore solar farm. This may be different, depending on how the project fits into its surroundings. The 20-hectare limit does not apply to rooftop systems.

In **European countries (including the Netherlands) or other high-income OECD countries:**

- the effects of solar panels on, for example, water quality, fish stocks or bird populations are studied. This is especially positive if the study is monitored by nature and/or environmental organisations;
- suppliers are used that meet our sustainability criteria for companies;
- the developer of a solar farm adheres to the principles of the Dutch *Zon op Land* code as far as possible. In concrete terms, this means that:
  - local residents are involved in choices about the plan, the design and the possibility of financial participation;
  - the Sun Guide (*Zonnewijzer*) is considered when choosing a location; and
  - the solar farm is set up in such a way that no irreversible changes are made, to ensure that the original land use is possible again when the useful life of the solar farm ends.

**In the Netherlands:**

<sup>21</sup> The *Zonnewijzer* means that we prefer to finance projects in places with built-up features, such as basins, sand quarries, business parks or dredging depots. We do not invest in solar projects at sea or in lakes, rivers, canals and polder waterways. National Parks and Natura 2000 areas are also excluded.

	<ul style="list-style-type: none"> <li>- no additional conditions.</li> </ul>
Geothermal energy	<p><i>Sustainability criteria:</i></p> <p><i>Absolute criteria</i></p> <p><b>Globally</b>, a project is in any event expected to:</p> <ul style="list-style-type: none"> <li>- be an air-cooled binary or flash system, installed without fracking (preferably A or B);</li> <li>- comply with all laws and regulations (for the Netherlands, the Environment and Planning Act (<i>Omgevingswet</i>) and Mining Act (<i>Mijnbouwwet</i>) in particular);</li> <li>- guarantee that the project developers are not involved in (serious) misconduct;</li> <li>- comply with the Equator Principles if these apply;</li> <li>- meet our human rights and biodiversity criteria, such as criteria focusing on the local population and an area's ecological values in, around and near environmentally sensitive areas;</li> <li>- take precautions and monitoring measures to tackle groundwater contamination;</li> <li>- have an appropriate plan in place to sustainably secure the systems after their useful lives;</li> <li>- not be responsible for the disappearance of valuable nature, such as forests.</li> </ul> <p>A project in <b>a European country (including the Netherlands) or another high-income OECD country</b> is also expected to:</p> <ul style="list-style-type: none"> <li>- have a health, safety and environmental (HSE) management system in place;</li> <li>- annually report the calculation of avoided emissions to us;</li> <li>- take appropriate compensatory measures for biodiversity and integration into the landscape in the construction and management of the project.</li> </ul> <p>In addition to the aforementioned criteria, a project in <b>the Netherlands</b> is also expected to:</p> <ul style="list-style-type: none"> <li>- comply with the DAGO Code of Conduct for Involving the Surroundings in Geothermal Projects.</li> </ul> <p><i>Relative criteria</i></p> <p>In addition, a project preferably:</p> <p><b>Globally:</b></p> <ul style="list-style-type: none"> <li>- uses suppliers that meet our sustainability criteria for companies;</li> <li>- aims to achieve combined use of space.</li> </ul> <p>In <b>European countries (including the Netherlands) or other high-income OECD countries:</b></p> <ul style="list-style-type: none"> <li>- a risk analysis has been carried out;</li> <li>- when the project is carried out, reducing emissions will be a point of focus, for example by using electric vehicle systems as far as possible;</li> <li>- when the project is carried out, sustainable construction materials are used as far as possible. These may be reusable, recycled, biobased or durable materials, such as recycled concrete or composite materials that withstand corrosive conditions better than conventional steel.</li> </ul> <p>In the Netherlands:</p> <ul style="list-style-type: none"> <li>- no additional preferences.</li> </ul>
Thermal storage systems	<p><i>Sustainability criteria:</i></p> <p>A project is in any event expected to:</p> <ul style="list-style-type: none"> <li>- comply with all laws and regulations;</li> </ul>

	- disclose the emissions avoided.
<p>Biomass</p> <ul style="list-style-type: none"> <li>- woody biomass, waste wood, dry green waste</li> <li>- manure</li> <li>- sewage sludge</li> <li>- biodegradable waste</li> </ul> <p>Energy generation through:</p> <ul style="list-style-type: none"> <li>- combustion</li> <li>- mono-fermentation</li> <li>- co-fermentation</li> </ul>	<p><i>Activities to be excluded:</i></p> <p>We do not finance projects that use first-generation biofuels. Second- and third-generation biofuels are allowed on specific conditions. Section <a href="#">4.1.5.1</a> explains in which category a biofuel is classified. In addition, the following absolute criteria apply:</p> <p><i>For dry biomass:</i></p> <ul style="list-style-type: none"> <li>- the biomass in a project is demonstrably of local origin, i.e. from an area within a radius of approximately 200 kilometres from the power plant. The biomass is also certified according to NTA 8080-1-2015 (Better Biomass);</li> <li>- the applicant and the entire supply chain are NTA 8080 certified;</li> <li>- all flows processed in the project are NTA 8080 certified. We receive the annual NTA 8080 audit report expressly stating this;</li> <li>- the dry biomass flows consist of waste wood and/or pruned wood;</li> <li>- if the amount of local pruned wood has been or is exceeded by existing and/or planned biomass plants, we do not finance new biomass plants using local wood;</li> <li>- the project developer or owner must not be involved in the trade in illegal wood and/or not be involved in controversies;</li> <li>- a power plant that incinerates dry biomass avails itself of flue gas cleaning using the latest techniques;</li> <li>- a power plant that incinerates dry biomass at least complies with the laws and regulations applicable to emissions and ensures proper disposal, treatment or upgrading of residual products (ashes).</li> </ul> <p><i>For wet biomass:</i></p> <ul style="list-style-type: none"> <li>- this is the mono-fermentation of sludge, manure, green waste from horticulturists and arable farmers, biodegradable waste (fruit, vegetable and garden refuse) and similar flows;</li> <li>- we assess applications for co-fermentation on a case-by-case basis. What is important is that the applicant is an experienced project developer and that the plant is managed professionally. The parties involved must have a good reputation in the market. The origin of the biomass flows used (feed-in) must be incontrovertible;</li> <li>- only second-generation co-substrates (food crops) are used;</li> <li>- the parties involved are not associated with manure fraud; this is verified;</li> <li>- for livestock farms, animal welfare must be in order. For example, they must use free-range barns. It must be a land-based farm that can process the manure completely or largely on its own farm;</li> <li>- biomass flows originate locally, within 200 kilometres of the biomass plant. The auditor explains this specifically in the annual audit report;</li> <li>- the biomass flows and the applicant are both NTA 8080 certified and audited. We receive the annual NTA 8080 audit report in which the auditor specifically provides an opinion on this;</li> <li>- the digestate (digested manure) is properly disposed of, treated or upgraded.</li> </ul>

	<p><i>Sustainability criteria:</i></p> <p>A project is in any event expected to:</p> <ul style="list-style-type: none"> <li>- comply with all laws and regulations;</li> <li>- disclose the emissions avoided.</li> </ul>
<p>Hydropower projects</p> <ul style="list-style-type: none"> <li>- dams</li> <li>- hydroelectricity</li> <li>- water stairs</li> </ul>	<p><i>Activities to be excluded:</i></p> <p>We only finance hydropower projects in which dams are constructed if:</p> <ul style="list-style-type: none"> <li>- the dam satisfies the seven World Commission principles. See section <a href="#">4.1.5.1</a>;</li> <li>- there is no misconduct in respect of the local population.</li> </ul> <p><i>Sustainability criteria:</i></p> <p>We have set the following minimum requirements for a project:</p> <ul style="list-style-type: none"> <li>- it is not involved in any misconduct;</li> <li>- it complies with all laws and regulations;</li> <li>- it complies with the Equator Principles if these apply;</li> <li>- it discloses the emissions avoided.</li> </ul>
<p>Energy carriers</p> <ul style="list-style-type: none"> <li>- hydrogen</li> </ul>	<p>As hydrogen seems to be an indispensable link in a successful energy transition, we are willing to invest in green hydrogen. We apply the following absolute criteria in this regard:</p> <ul style="list-style-type: none"> <li>- hydrogen is produced as sustainably as possible, i.e. using electrolysis and renewable energy sources;</li> <li>- we also require that all safety measures are observed when producing, transmitting and using the gas.</li> </ul>

We just discussed renewable energy projects, but ASN Bank and ASN Groenprojectenfonds also finance other sectors. Examples of these are discussed below.

<p>Plastics</p> <ul style="list-style-type: none"> <li>- biobased raw materials</li> <li>- reuse and recycling</li> </ul>	<p><i>Sustainability criteria:</i></p> <p><u>Biobased projects</u></p> <p>A project is in any event expected to:</p> <ul style="list-style-type: none"> <li>▪ comply with all laws and regulations and not be involved in (serious) misconduct;</li> <li>▪ only use biobased raw materials for the production of biobased plastics. Fossil resources may not be used at all, with the exception of recycle;</li> <li>▪ not use biobased raw materials from food crops. In exceptional cases, exceptions may be made on a case-by-case basis. However, food crop <i>waste</i> is permitted for the production of biobased plastics;</li> <li>▪ not use biobased materials that involved land use change (indirect land use change). The company must demonstrate this through, for example, the Better Biomass (NTA 8080) certification;</li> <li>▪ not contribute to the release of microplastics as the product is used or wears out.</li> </ul> <p>In addition, a project preferably uses:</p> <ul style="list-style-type: none"> <li>▪ suppliers that meet our sustainability criteria for companies;</li> <li>▪ innovations that ensure that the biobased plastics can be reused or recycled, such as disposal instructions for consumers.</li> </ul> <p>Plastic reuse and recycling</p>
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	<ul style="list-style-type: none"> <li>▪ Project finance that focuses on the processing of previously used fossil plastics achieves significant carbon gains and a lower environmental footprint compared with primary plastics from fossil resources. This reduction in CO<sub>2</sub> emissions and environmental footprint must be demonstrated by a generally accepted Life Cycle Assessment (LCA) methodology.</li> </ul>
<p>Sustainable buildings</p> <ul style="list-style-type: none"> <li>- new buildings</li> <li>- refurbishment</li> </ul>	<p><i>Activities to be excluded:</i></p> <p>We avoid construction projects in which the building is to be used for activities that we exclude or avoid. This exclusion clause is included in the loan agreement. Examples of such activities are arms, tobacco, violation of human rights and labour rights, and activities that are very harmful to the environment.</p> <p>If a building is not used for activities we exclude, we may nevertheless decide not to finance it on account of a reputation risk. Such a risk may arise if the owner or tenant of the building is involved in activities we exclude or avoid.<sup>22</sup></p> <p><i>Sustainability criteria:</i></p> <p>For any project, we expect in any event:</p> <ul style="list-style-type: none"> <li>- that no serious misconduct has occurred<sup>23</sup> at the preliminary stage of construction and during construction itself;</li> <li>- that the positive effects far outweigh any negative effects in the event of new development on greenfields;<sup>24</sup></li> <li>- that buildings have an energy label. In this respect: <ul style="list-style-type: none"> <li>▪ social-use buildings must have an energy label;</li> <li>▪ commercial-use buildings must have at least energy label A if newly built and at least energy label B if refurbished;</li> </ul> </li> <li>- that commercial-use buildings comply with any of the following quality labels or comparable standards:<sup>25</sup> <ol style="list-style-type: none"> <li>1) GreenCalc+ environmental index for buildings: label class A or B;<sup>26</sup></li> <li>2) LEED for new construction: Gold or Platinum;</li> <li>3) BREEAM NL for existing/new buildings: Very Good or Excellent;</li> <li>4) GPR Gebouw: 9 or 10 stars.</li> </ol> </li> </ul> <p>In addition, preferably:</p> <ul style="list-style-type: none"> <li>- the buildings are easy to reach by public transport and bicycle;</li> <li>- the buildings have an indoor climate that is not harmful to the health of the users and occupants of the building;</li> <li>- the project requires funding to refurbish existing buildings;</li> <li>- the project involves mixed-use buildings;</li> <li>- larger buildings have an environmental policy and an environmental management system;<sup>27</sup></li> </ul>

<sup>22</sup> Activities that we exclude are the arms industry, tobacco industry, child labour, human rights violations, environmental offences, and nuclear energy.

<sup>23</sup> A few examples of misconduct: the building has prompted serious, widely supported protests during construction because, for example, it is taking up valuable open green space; previous purchases or sales of the building involved fraud; the building does not comply with current laws and regulations.

<sup>24</sup> Greenfields are areas of land that have not previously been built on.

<sup>25</sup> An exception can be made on some points for the financing of social property.

<sup>26</sup> GreenCalc+ is an instrument used to identify the sustainability of a building or district. GreenCalc+ assesses sustainability on three issues: use of materials, water consumption and energy consumption. These issues are translated into a clear score: the environmental index. Available via <http://www.greencalc.com>.

<sup>27</sup> Larger buildings are buildings whose total surface area exceeds 10,000 square metres.

	<ul style="list-style-type: none"> <li>- the borrower is able to demonstrate that sustainable timber is used in the construction project, on the basis of: <ul style="list-style-type: none"> <li>▪ the specifications;</li> <li>▪ formal interim progress meetings;</li> <li>▪ completion (schedule of condition with snag list);</li> <li>▪ a contractor’s warranty statement;</li> </ul> </li> <li>- social-use buildings are subject to the following: <ul style="list-style-type: none"> <li>▪ the owner or manager of the building strives to improve the energy label;</li> <li>▪ the building complies with any of the following quality labels or comparable standards: <ol style="list-style-type: none"> <li>1) LEED for new construction: Gold or Platinum;</li> <li>2) BREEAM NL for existing/new buildings: Very Good or Excellent;</li> <li>3) GPR Gebouw: 9 or 10 stars.</li> </ol> </li> </ul> </li> </ul>
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*Activities to be excluded and avoided*

All projects must meet our criteria concerning activities to be excluded and avoided as described in section [4.1.5.1](#). Given the nature of the projects, these criteria only apply to biomass and hydropower projects. For sustainable buildings, too, we assess whether the tenant is engaged in activities to be excluded or avoided.

*Laws and regulations*

Projects must comply with all laws and regulations and have obtained the permits required, such as an integrated environmental permit or an Environmental Impact Assessment (EIA). If the permits needed have not been issued at the time of assessment, we include this in the sustainability assessment as a condition.

*Misconduct*

We expect the projects not to be involved in (serious) misconduct, such as misconduct in respect of the local population during the construction of dams, or fraud. Section [4.1.1.4](#) states how we assess misconduct.

*Equator Principles*

If the Equator Principles apply, the projects must comply with them. The Principles may apply, for example, to large wind projects and solar farms.

*Emissions avoided*

The emissions avoided must be known. We use this information to calculate ASN Bank’s climate objective. If this information is not known at the time of assessment, we include this in the assessment as a condition.

**3.3.2 Selection process for sustainable projects**

The SEC sustainability analyst assesses whether the project complies with the sustainability policy and the sustainability criteria discussed in section [3.3.1](#) and recommends that the project be ‘approved’ or ‘disapproved’. The head of the SEC may or may not adopt the analyst’s recommendation and then submits the analysis with the recommendation to the Management Board, which takes a final decision.

The selection process for ASN Groenprojectenfonds is discussed in section 4.5.

### 3.5 Mortgages and securitised mortgages

ASN Bank finances mortgage portfolios through private loans provided to Woonhuishypotheek B.V., for example. Since the end of 2018, ASN Bank has also had its own mortgage that promotes sustainability improvements in homes. We are also working with the other brands of de Volksbank (RegioBank, SNS and BLG Wonen) to make their mortgage portfolios more sustainable. Please refer to the Living & Working policy paper for the sustainability criteria that de Volksbank's mortgages must meet. When we purchase mortgage portfolios, we select them on the basis of our ASN Sustainability Criteria. This selection is reviewed by ASN Bank's Managing Director.

#### 3.5.1 Selection methodology and criteria for mortgages and securitised mortgages

**SDG targets: 1.4, 5.a, 7.2, 7.3, 11.1, 13.2**

This section discusses the sustainability risks involved in the financing of mortgages and securitised mortgages. We indicate where we draw the line. Issuers' policies must meet at least the criteria set out below.

Mortgages of providers other than de Volksbank N.V.:

Sufficient:

- The mortgage lender has a policy for good governance and ethics.
- The mortgage lender has a policy that guarantees equal treatment and non-discrimination of customers.
- The maximum amount of the mortgage loan is €350,000; any home worth more than €350,000 must have an energy label of at least A+.
- The mortgage-providing institution considers its customers' financial strength when offering its products, by taking into account not only the mortgage loan but also housing costs.
- The provider of securitised mortgages is transparent about the energy performance of the securities.

Good: The issuer satisfies the conditions mentioned at 'Sufficient' and has included one to four of the points at 'Other' in its policy.

Excellent: The issuer satisfies the conditions mentioned at 'Sufficient' and has included five or six of the points at 'Other' in its policy.

*Other:*

*Human rights*

- People with payment problems: we believe it is important that people are able to live decently and are not forced to live on the streets when they experience changes in their lives, such as job loss or incapacity for work.
  - The institution has a policy to identify and prevent payment problems at an early stage.
  - The institution has a policy to help people with payment problems and prevent eviction.
  - Preferably, the institution helps people who will inevitably be evicted to find alternative housing.
- Special target groups: we believe it is important that the institution pays attention to vulnerable groups of people.
  - The mortgage lender has products and/or services that make good housing accessible to special target groups, such as the elderly and first-time buyers.

*Climate*

- The mortgage lender helps occupants to introduce energy-saving measures in their homes.

- The mortgage lender is transparent about how its residential portfolio is spread across the energy labels.
- New homes are as energy efficient as possible, in accordance with the EU directives.

#### *Biodiversity*

- The mortgage lender informs its customers about the options of sustainable construction and refurbishment.

De Volksbank's Board of Directors decides on the purchase of securitised mortgages. The SEC calculates what impact the securitised mortgages that may be purchased will have on the climate-neutrality objective. The SEC uses the calculation to advise de Volksbank's Board of Directors on whether the securitised mortgages support our sustainability objectives. The following absolute and relative criteria are considered in the recommendation.

#### **Absolute criteria:**

A provider of securitised mortgages is in any event expected to:

- have a policy for good governance and ethics;
- have a policy that guarantees equal treatment and non-discrimination of customers;
- consider its customers' financial strength when offering its mortgages, by not only taking into account the mortgage loan, but also housing costs.

#### **Relative criteria:**

##### *Human rights*

- People with payment problems: we believe it is important that people are able to live decently and are not forced to live on the streets when they experience changes in their lives, such as job loss or incapacity for work.
- The provider of securitised mortgages has a policy to identify and prevent payment problems at an early stage.
- The provider of securitised mortgages has a policy to help people with payment problems and prevent eviction.
- Preferably, the provider of securitised mortgages helps people who will inevitably be evicted to find alternative housing.
- Special target groups: we believe it is important that the institution pays attention to vulnerable groups of people.
- The provider of securitised mortgages has products and/or services that make good housing accessible to special target groups, such as the elderly and first-time buyers.

##### *Climate*

Energy-saving measures and renewable energy:

- The provider of securitised mortgages helps occupants to introduce energy-saving measures in their homes.
- The provider of securitised mortgages is transparent about how its residential portfolio is spread across the energy labels and also provides other sustainability information.
- New homes for which a mortgage is provided are as energy efficient as possible, in accordance with the EU directives.

##### *Biodiversity*

The provider of securitised mortgages informs its customers about the options they have for sustainable construction and refurbishment.

### 3.6 Property companies

#### **Absolute criteria:**

Property companies (owners, managers, builders and developers) are subject to the absolute criteria we also use for all other companies. See section 4.1.5.2.

- One of the criteria is that property companies that purchase timber for new projects or renovations in low-income, lower-middle-income or upper-middle-income countries – according to the WB classification – must purchase timber that is at least two thirds FSC certified. If the company purchases timber from high-income countries for new projects or renovations, it is sufficient if at least two thirds of the purchased timber is PEFC certified.
- For new projects, the property company minimises its adverse impact on biodiversity – it builds exclusively in towns and cities, for example – or it limits this impact as far as possible. It may do so, for example, by carrying out an environmental impact analysis or an environmental impact assessment before it starts construction, or it compensates for any adverse impact if it builds on greenfields.
- There is no misconduct in terms of property construction in valuable nature.

#### **Relative criteria:**

- We expect new projects initiated by property companies to comply with the sustainable construction standard BREEAM or LEED. Both of them exceed the statutory minimum requirements.
- We expect new homes and buildings that property companies construct within the EU to be as energy efficient as possible, in accordance with the EU Energy Performance of Buildings Directive (EPBD). For construction outside the EU, we expect new homes and buildings to meet comparable standards.
- We expect companies to publish sustainability reports in accordance with the GRI Standards (Core or Comprehensive) and the sector-specific guidelines.
- We prefer property companies that adhere to the Cement Action Plan of the Cement Sustainable Initiative.
- We expect property owners to include energy- and CO<sub>2</sub>-saving objectives in the multi-annual maintenance plans for their properties.
- We expect construction companies to work in accordance with the guidelines of the Sustainable Reconstruction in Disaster-Affected Countries policy of the UN Environment Programme's Sustainable Buildings and Climate Initiative (UNEP SBCI) when rebuilding after disasters.
- We prefer property companies that actively seek to ensure that new buildings can be used in multiple ways at a later stage.
- We expect property companies to have unused buildings occupied as soon as possible (possibly after refurbishment).
- We expect occupants to be involved in any refurbishment or renovation plans.

## 4. Selection for the ASN Investment Funds

For its investment funds, ASN Impact Investors (AII) invests in companies, countries and projects that are part of the investment universe. AII establishes this universe based on the sustainability criteria described in this Guide. AII's Investment Committees decide whether companies, government authorities, projects and institutions will be admitted to or removed from the investment universe.

AII has the following listed funds:

- ASN Duurzaam Aandelenfonds;
- ASN Milieu & Waterfonds;
- ASN Duurzaam Obligatiefonds;
- ASN Duurzaam Small & Midcapfonds;
- ASN Microkredietfonds;
- ASN Groenprojectenfonds;
- ASN Biodiversiteitsfonds;
- ASN Duurzaam Mixfonds Zeer Defensief;
- ASN Duurzaam Mixfonds Defensief;
- ASN Duurzaam Mixfonds Neutraal;
- ASN Duurzaam Mixfonds Offensief;
- ASN Duurzaam Mixfonds Zeer Offensief.

### 4.1 ASN Duurzaam Aandelenfonds, ASN Duurzaam Small & Midcapfonds and ASN Milieu & Waterfonds

ASN Duurzaam Aandelenfonds, ASN Duurzaam Small & Midcapfonds and ASN Milieu & Waterfonds invest in company shares. The funds' sustainable investment objectives guide the selection of these companies. The three aforementioned funds apply the following sustainable investment objectives:

- 1) minimising annual CO<sub>2</sub> emissions in line with the Paris Agreement, expressed as the fund's contribution to the 1.5-degree economy;
- 2) minimising the adverse impact on biodiversity per euro invested, relative to base year 2019.

ASN Duurzaam Aandelenfonds also has a third sustainable investment objective:

- 3) implementing all processes needed to make a living wage accessible to factory workers in the garment industry chain by 2030.

The next section will explain the steps that lead us to decide to approve these companies. In addition to contributing to the sustainable investment objectives, companies should also have a minimum adverse impact on society. This means that, in this step of the investment process, the focus is on the 'inside-out' risks – i.e. the risks of a company causing adverse social impacts, such as pollution or human rights violations. In this chapter, we will also discuss the various recommendations and decisions issued in that regard, and we will describe the steps an analyst takes to arrive at a recommendation and the considerations made in that respect.

We realise that developments in the environment (such as climate change or ecosystem degradation) and society (such as social inequality) may adversely impact the return on our investments. Overall, we believe that physical risks will have little impact on the returns, although transition risks might negatively affect the returns of our equity funds in the long

run. For example, the signing of the Paris Agreement increases the risk of countries introducing a tax on CO<sub>2</sub> emissions. If this risk actually materialises in multiple economic blocs, this may have adverse consequences for the return on equity investments (the 'outside-in' risk). Companies that are not adequately managed may adversely impact the financial return on equity investments.

ASN Duurzaam Aandelenfonds, ASN Milieu en Waterfonds and ASN Duurzaam Small en Midcapfonds are exposed to sustainability risks as they invest in companies. Sustainability risk is the risk that an ecological, social or governance event gives rise to financial loss or may have an adverse impact on the value of investments under management. The following risks have been identified for ASN Duurzaam Aandelenfonds, ASN Milieu en Waterfonds and ASN Duurzaam Small en Midcapfonds:

- Ecological risk: the risk that, for instance, natural disasters, changing weather patterns or a sea level rise adversely impact an investment. Although this risk can hardly be mitigated, AII attempts to positively impact ecological risk reduction by excluding activities that contribute to this risk as far as possible.
- Social risk: we assess whether companies are involved in human rights controversies in general and labour rights controversies in particular. Any such involvement is brought up by means of engagement and results in removal from the portfolio if no adequate response is observed.
- Governance risk: we assesses companies' governance policy and expressly focus on their corruption policies.

ASN Duurzaam Aandelenfonds, ASN Milieu en Waterfonds and ASN Duurzaam Small en Midcapfonds mitigate these risks by:

- applying a concentration limit for every individual company: up to 5% of the fund assets may be invested in a single company;
- extensively screening for integrity and money laundering risks at the start of the investment and during the investment;
- carrying out an extensive due diligence investigation in accordance with the Sustainability Criteria Guide of ASN Impact Investors before a company is approved for the sustainable investment universe. These criteria comprise detailed exclusions, avoidances and limits that avoid or reduce exposure to sustainability risks.
- After a company has been approved for the sustainable investment universe, it is continuously monitored and any negative reports are reviewed. An extensive due diligence investigation is carried out at least once every four years.

The Principal Adverse Impacts (PAIs) of investments in companies are negative effects on the environment and society according to the SFDR. The points of departure for ASN Duurzaam Aandelenfonds, ASN Milieu en Waterfonds and ASN Duurzaam Small en Midcapfonds are the existing sustainability policy and the investment process. These result in the selection described in sections 4.1, 4.2, 4.3 and 4.4. The sustainability policy contains multiple criteria and requirements, which minimise the risk of PAIs occurring in the portfolio.

#### **4.1.1 The selection process for companies**

ASN Bank's Sustainability Expertise Centre (SEC) conducts the sustainability research on AII's instructions and advises the Investment Committee. The Investment Committee meets at least six times a year and decides on the composition of the investment universe. The companies in this universe are reviewed and assessed at least once every four years.

If a split-up, demerger, merger or acquisition by a company in our universe takes place within this four-year period, the review is brought forward. No later than six months after a split-up, demerger, merger or acquisition, both companies are examined for their activities if they were subject to a split-up or demerger. A full analysis of the new company or companies takes place no later than 15 months after the split-up, demerger, merger or acquisition.

The decision-making process for the selection of companies is as follows:

An analyst assesses companies and, based on the sustainability policy and sustainability criteria listed in section 4.1.5.2, recommends *approve* or *disapprove*. A second analyst assesses the analysis and recommendation. Following the analyst's explanation, the Investment Committee decides whether or not to admit the company to, or maintain it in, AII's investment universe.

#### **4.1.1.1 Risk analysis and research category**

All research starts with a risk analysis, which is required to establish the research category. We perform the risk analysis as follows:

First of all, we identify the risks associated with the sector where the company operates and with the activities of the company itself. The basis for this is found in our three sustainability pillars, i.e. human rights, climate and biodiversity. We also assess a company's governance and, if applicable, its impact on animal welfare. In that context, we answer these questions: in which sector does the company operate and in which activities is it involved? We lay down these risks in a sector profile, with the outcome being that the sector risk is low, average or high.

##### **Assessment of sectors and activities in practice**

It is important to make a sound analysis of the exact risks a company faces. When assessing companies that operate in medium-risk countries or high-risk countries, we therefore analyse their exact activities. If, for example, a company has only sales offices there, there is a low risk of child labour or forced labour. In that case, the company does not need to have any policy on these issues. The matter is different if a company has production facilities in a medium-risk country or a high-risk country.

A company may also operate in a low-risk sector, in low-risk countries, but specific issues may still pose a risk. For example, in the software sector data privacy is always a risk.

Then we establish whether the company operates in low-risk countries, medium-risk countries or high-risk countries (see Chapter 3 *At-risk countries*). The sector risk combined with the country risk ultimately determines the research category. The more the company is involved in at-risk countries, at-risk sectors and at-risk activities, the higher the risks and, as a result, the stricter the standards the company must comply with. In all instances the same assessment criteria apply. The thoroughness of the analysis and the admission criterion depend on the company's size (see section [4.1.1.2 Large and small companies](#)).



## Examples of sectors and their risks<sup>28</sup>

Sector	Risk	Sub-issues include:
Garment and retail	High	Supply chain, child labour, forced labour, freedom of association, healthy & safe working conditions, pollution, living wage.
Food	High	Supply chain, land use, living wage, genetically modified organisms, animal testing, animal welfare, raw materials.
Pharmaceutical industry and healthcare	High	Ethical conduct, animal testing, access to medicines, genetically modified organisms.
Chemicals	High	Base chemicals, mining, cement, conflict minerals, healthy & safe working conditions.
Electronics	Average	Arms, conflict minerals, healthy & safe working conditions, forced labour, supply chain.
Telecommunications	Average	Arms, conflict minerals, privacy, energy consumption.
Paper and pulp	Average	Land use, deforestation.
Property	Average	Greenfields, deforestation, ethical conduct, cement.
Software	Low	Arms, privacy, CO <sub>2</sub> emissions through data centres.
Media	Low	Freedom of speech, energy consumption, deforestation.

Below, we will explain for each topic how these research categories affect the assessment against our three sustainability pillars and governance.

### 1. Human rights

Where national and international laws differ, we set great store by a company adhering to the provisions that provide the best protection for the individuals or group of people concerned.

#### *Avoid*

We avoid investments in companies that are active in high-risk countries and high-risk sectors, except if the company:

- supplies essential humanitarian services or products as its main activity, thereby contributing to human rights in that country (supplying, for example, medical services or homes);

<sup>28</sup> The only sectors included here are the ones that are not engaged in activities we exclude or avoid.

- can guarantee that it is not directly or indirectly involved in serious human rights violations by the country; and
- can guarantee that its activities are consistent with our other sustainability criteria.

#### *Further analysis*

This analysis must answer the following question: does the company sufficiently guarantee that its activities meet all of our criteria in countries with insufficient human rights rules and the enforcement of these rules? This is possible if the company has drafted an effective policy and monitors the implementation of this policy. If a company is active in high-risk countries, we also assess whether it is involved in serious human rights violations by the country, for example by supplying products or services that contribute to such violations or from which a totalitarian or corrupt regime benefits. In that respect, we assess whether there is any misconduct in the area of human rights that is in conflict with local or international laws and rules.

#### *Standard analysis*

This analysis focuses on companies that operate in countries with a low risk of human rights violations. Accordingly, the analysis answers the question whether the company's activities comply with the local laws and rules. We assess whether there is any misconduct in the area of human rights that is in conflict with local laws and rules. Misconduct is a situation from actual practice that conflicts with our sustainability criteria. In some cases, we expect a company to have a specific policy in this category, for example if it is known that a certain low-risk country carries a very high risk of a specific human rights violation.

## **2. Climate**

When assessing companies in respect of the climate, we do not make a distinction based on at-risk countries. We expect the same thing from all companies where the climate is concerned: companies must have a policy to reduce their impact on the environment and to control risks. However, we do consider whether a company operates in a sector with a larger impact on the environment. We expect it to at least have a policy for those business units that, given their activities, constitute a risk.<sup>29</sup> In that respect, we assess whether there is any misconduct.

## **3. Biodiversity**

When assessing companies in respect of biodiversity, we assess first of all whether a company operates in a sector posing a threat to biodiversity. Examples include companies operating in the paper and pulp industry or in the food and beverage industry. Subsequently, we make a distinction based on countries where biodiversity is at a higher risk, such as Malaysia, Indonesia, Vietnam and Brazil. We expect companies to have a policy in place if they operate in sectors posing a threat to biodiversity. We also assess whether there is any misconduct.

## **4. Governance**

When assessing companies' governance, we expect each company to have a policy regulating the ethical conduct of its employees, regardless of where it operates. We do make a distinction based on the risk of the countries where a company is active. We expect the policy's substance and quality<sup>30</sup> to be better if the company is active in medium-risk countries or high-risk countries and/or activities. Finally, we assess whether there is any misconduct.

<sup>29</sup> For example, a major risk for companies active in the software and services sectors is energy consumption. We therefore expect companies operating in these sectors to at least say something about their energy consumption and the corresponding CO<sub>2</sub> emissions.

<sup>30</sup> The details of the policy qualifications are provided in section [4.1.5.2](#).

#### 4.1.1.2 Large and small companies

One step precedes the sustainability analysis of companies: we determine first of all whether it is a small or large company. This distinction is relevant because the requirements for admission are less strict for small companies than for large companies.

This is how we define a small company and a large company:

##### **Small company**

A small company has a market capitalisation of less than €4 billion at the time of assessment.

Our sustainability criteria for the smaller companies are less strict when we assess whether they have any policy in place. This is because small companies have fewer resources they can use to meet our policy requirements. However, that does not mean that they are less sustainable. We assess these companies in terms of:

- activities to be avoided or excluded: an 'approval' recommendation requires that the company is not involved in activities we avoid or exclude;
- misconduct: an 'approval' recommendation requires that the company is not involved in any misconduct;
- their mission: for an 'approval' recommendation, we assess to what extent the company contributes to our mission.

Additional requirements for small companies:

- The company is eligible for a positive recommendation if its policy is sufficient in respect of the high sustainability risks connected with its activities. This includes the supply chains that are known to carry a high risk: garment, food and consumer electronics.
- The company does not need to have a policy in respect of minor risks involved.

##### **Large company**

A large company has a market capitalisation of €4 billion or more.

Please refer to the sections below for the sustainability criteria used to assess large companies.

Additional requirements for large companies:

- The company is eligible for a positive recommendation if it:
  - 1) has been assigned a yes for all applicable policy components, and
  - 2) has been assigned the qualification *poor* for no more than four policy components.<sup>31</sup>

#### 4.1.1.3 Game changers

ASN Bank invests in companies that fit in with its sustainability mission and vision. This includes companies that contribute to the transition to a sustainable society, known as 'game changers'. These companies can still be approved if they have a market capitalisation of €4 billion or more, even if they do not have a policy for all our sustainability criteria. We assess the company and its activity as follows:

- it is a truly new, sustainable activity, such as off-grid energy storage, electric cars, renewable energy, the circular economy, or technology for improving care;

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<sup>31</sup> The analyst will sometimes arrive at a positive recommendation on the basis of the entire profile and the estimated risks despite the company being qualified as 'poor' for one or more policy components.

- the market share of this activity is no more than 25% worldwide;
- the company is almost entirely focused on this activity;
- there may be no (serious) misconduct;
- the company is eligible for a positive recommendation if its policy is sufficient in respect of the high sustainability risks connected with its activities.

Our choice to deliberately select companies that indisputably have a pioneering role in a specific sustainability development may mean that these game changers adversely impact other aspects of sustainability. We believe that the benefits to be expected clearly outweigh any drawbacks.

#### **4.1.1.4 Research questions and profile**

After the risk analysis and after having determined the level of research, we fill in the company profile, in which we answer specific questions. In this section we will explain how this is done and what questions the profile contains. Section [4.1.5](#) describes which activities we exclude, how we evaluate policies and how any misconduct is dealt with.

In the company profile, we clearly distinguish between the activities of a company, its policy, and actual practice. We assess the policy based on the various components of the sustainability policy in the profile,<sup>32</sup> and we evaluate a company's actual impact.

The company profile does not need to be filled in completely if a company has not yet been included in the investment universe and is not a large, well-known company. This is the case:

- if it is clear that a company will be disapproved based on its activities. This means that the company is engaged in activities 'to be avoided' or 'to be excluded'. In that case, we only explain why it did not pass selection;
- if a company is already disapproved based on other policy components. In that case, we report: *no further analysis*.

In the company profile we answer the following questions:

- Is the company engaged in activities we avoid or exclude?
- Is the company active in medium-risk countries and/or high-risk countries?
- Does the company have a sustainability policy (for human rights, the climate, biodiversity, governance, the supply chain and, if applicable, animal welfare)?<sup>33</sup>
- What is the quality of the policy?
- How does the company perform in practice? Is there any misconduct?
- What is the analyst's final opinion based on the risks, the quality of the policy, and actual practice?

*Is the company engaged in activities we avoid or exclude?*

- When filling in the company profile, we assign a *yes* to an activity or sector if a company is excluded on that basis, or we assign a *no* if the company is not active in a particular activity or sector.
- The analyst provides a brief explanation of the assessment.

*Does the company have a sustainability policy? And what is the quality of the policy?*

- We assign a *no* to the policy components if there is no policy, or a *yes* if there is.

<sup>32</sup> Examples of policy components for the analyst to assess are: rules for ethical conduct, child labour, forced labour, and environmental policy.

<sup>33</sup> The issues climate, biodiversity, human rights and governance are subdivided into sub-issues, or policy topics, such as rules for ethical conduct, child labour, forced labour, and environmental policy.

- We then assess the quality of the policy with the qualification *insufficient, poor, sufficient, good or excellent*.
- The analyst provides an explanation to clarify the basis for the opinion.
- Companies operating in low-risk countries do not need policies on all the policy components, as the laws and regulations of that country already provide sufficient safeguards. In such cases, the analyst's qualification will be *yes, sufficient*.
- In some instances, a policy component does not apply to the sector or the company. In that case, we fill in *n/a* (not applicable).

*How does the company perform in practice?*

- How the company performs in practice is also indicated by the qualification *insufficient, poor, sufficient, good or excellent*.
- In the explanation, the analyst clarifies the basis for the opinion. This covers positive sustainability activities, any misconduct, and environmental data provided by our data supplier or included in the sustainability reports of the company itself.

*When do we address misconduct and what are the consequences we attach to it?*

We continuously monitor misconduct on the basis of data we purchase from an external data supplier. There are different moments at which misconduct is discussed:

1. Prior to every Investment Committee meeting:
  - for companies in the universe: the SEC discusses the misconduct emerging from its databases. Every analyst examines a list of instances of misconduct and assesses the seriousness of the misconduct, which is discussed during the research consultation;
  - for companies placed on the agenda to be analysed.
2. Ad hoc:
  - If acute, serious misconduct occurs, a SEC analyst will assess it.

If any misconduct is found to be serious, it is submitted to the Investment Committee. The seriousness of the misconduct may lead to:

1. a company being disapproved if it has not been included in the investment universe at that time;
2. engagement with the company in the investment universe;
3. a company being removed from the investment universe.

*When is misconduct serious?*

The following questions help the analyst to determine whether there is 'serious misconduct':

- Are human rights being violated? Is there any major misconduct in the field of ethics, biodiversity or the climate?
- What is the extent of the violations?
- Are they occurring consistently or on a large scale?
- Are they consciously perpetrated or tolerated?
- What is the nature of the violation? (Sometimes an incident may be so serious that the scale is irrelevant.)
- How does the company respond?

Procedure:

- The analyst analyses whether and how the misconduct is linked to the company. If there is such a link, the analyst finds out whether the company has publicly responded to the misconduct.

- If there is misconduct that can be linked directly to the company and the company has not issued a clear public response, we ask the company for a response.

*What is the analyst's final opinion based on the risks, the quality of the policy, and actual practice?*

- The analyst arrives at a final opinion and makes a recommendation based on the risks, the quality of the policy, and actual practice. The recommendations an analyst may make are listed in section 4.1.3. In this respect, we distinguish between large and small companies (see section 4.1.1.2 for an explanation). Whether the final opinion is ultimately sufficient (v) or insufficient (x) is shown in the table below.

Final opinion for large companies (market capitalisation in excess of or equal to €4 billion)

Quality of policy Policy component/ sector risk	Insufficient	Poor	Sufficient	Good	Excellent
Low	n/a	V	V	V	V
Average	X	V/X <sup>34</sup>	V	V	V
High	X	X	V	V	V

Final opinion for small companies (market capitalisation of no more than €4 billion)

Quality of policy Policy component/ sector risk	Insufficient	Poor	Sufficient	Good	Excellent
Low	n/a	V	V	V	V
Average	V	V	V	V	V
High	X	V/X <sup>35</sup>	V	V	V

#### **When is a company approved or disapproved?**

The company must score sufficient on all policy components for an ultimate *approval* recommendation. If the overall qualification is *insufficient*, the analyst will advise the Investment committee to *disapprove* the company.

#### **4.1.2 Recommendations and decisions**

The analyst makes a recommendation on the basis of the final opinion as explained in section 4.1.1.4. The Investment Committee is then able to take a decision. The analyst can give two different recommendations regarding a company: *approve* or *disapprove*.

Based on this recommendation and its substantiation, the Investment Committee takes its decision. That decision can be: *approve*, *disapprove*, *engagement* or *postpone*. The decisions to *approve* or *disapprove* take two forms: for companies not yet present in the investment universe, and for companies already in the investment universe. Every recommendation or decision applies specifically to the investment universe of the relevant fund, as discussed in the previous chapter.

##### *Approve, admit*

The company is not yet present in the investment universe. Its activities and policy meet our sustainability criteria. We therefore admit it to the investment universe.

<sup>34</sup> Depending on the policy component.

<sup>35</sup> Depending on the policy component.

#### *Approve, maintain*

The company is already present in the investment universe. Its activities and policy still meet our sustainability criteria. We therefore maintain it in the investment universe.

#### *Approve, no comprehensive policy*

This category applies to companies that have a market capitalisation of less than €4 billion and that do not have a policy for all sustainability criteria. The conclusion of the analysis concerning the risks, policy and actual practice is sufficient. These companies may carry an increased risk of adverse social impacts.

#### *Disapprove, refuse admission*

The company is not yet present in the investment universe. Its activities and/or policy do not meet our sustainability criteria. We do not admit it to the universe.

#### *Disapprove, remove*

The company is already present in the investment universe, but no longer meets our sustainability criteria. Its activities no longer meet the requirements, its policy is inadequate and/or there is very serious and/or persistent misconduct (situations from actual practice that conflict with the sustainability criteria). For these reasons, we remove the company from the investment universe.

#### *Postpone*

A further analysis is needed, as no decision can be taken based on the information available. We place the company on the agenda again. Only the Investment Committee can decide this, not the analyst.

### **4.1.3 Engagement with companies**

Engagement means engaging in dialogue with companies and institutions for the purpose of making them more aware of their sustainability performance and urging them to improve it. The engagement decision is taken in the following cases:

- The company is included in the investment universe, but a review reveals that its policy no longer meets our sustainability criteria. The company's activities are still in line with our criteria, which means that it is not active in activities we exclude or avoid. We maintain the company in the investment universe, but initiate engagement.
- Misconduct has been identified, revealing that the company does not meet our sustainability criteria.
- Where it can be used as a means to help achieve the equity funds' sustainable investment objectives by calling companies to account on specific responsibilities.

If the Investment Committee decides to start engagement, it also decides who will follow up on this decision. Engagement may be conducted by the SEC, by ASN Impact Investors, by the external fund managers on the instructions of ASN Impact Investors or by these parties in concert. We distinguish three types of engagement:

1. light engagement;
2. active engagement;
3. collective engagement.

#### *Light engagement*

We conduct light engagement after the Investment Committee has established that a company with a market capitalisation of more than €4 billion no longer meets the

sustainability criteria in terms of policy. No misconduct has been identified that gives cause to decide differently.

Action and duration:

The analyst sends the company one engagement letter containing the points that the company must improve. The company is reviewed within four years. By that time, it must have developed sufficient policy on those points. This type of engagement has a term of no more than four years.

*Active engagement*

We conduct active engagement if serious misconduct is identified at a company (see section [4.1.1.4](#) for the determination of misconduct and the process for assessing misconduct). In some instances, we may also initiate active engagement if a policy is lacking and the four-year period is inappropriate.

Action and duration:

This type of engagement has a term of no more than one year. As soon as the engagement has been completed, the analyst records the outcome of the engagement process in the company profile. The outcome is discussed at the meeting of the Investment Committee, which takes a final decision on the company.

*Collective engagement*

We may conduct collective engagement if similar misconduct is seen in multiple instances in a sector or in specific areas. We may conduct this engagement together with other investors.

Action and duration:

Depending on the complexity of the issue, collective engagement often lasts several years.

#### **4.1.4 Data suppliers and sources**

We use several sources for the analysis. We cooperate with various data suppliers and use information from companies themselves and from non-governmental organisations (NGOs), including trade unions, and information that is available in a variety of media.

The data suppliers provide information in a number of areas:

- ESG data, i.e. data on environmental performance and social and corporate governance data from a wide range of listed companies ('ESG' stands for environmental, social & governance);
- quantitative data on the environmental performance of companies, including emissions of pollutants caused by business activities. This enables us to better compare the environmental impact that companies have;
- analyses of media across the globe, in which data suppliers verify whether any misconduct has been found at companies.

#### **4.1.5 Research in practice**

##### **4.1.5.1 Activities to be excluded and avoided**

This section discusses the activities we avoid and exclude. These are activities that do not contribute to or fit in a sustainable society. Moreover, these activities involve risks for people, animals and the environment that we consider to be too substantial or unacceptable.



Exclusion applies to those activities that are not allowed under any circumstances whatsoever,<sup>36</sup> regardless of how sustainably a company operates. Avoidance applies to those activities that we could invest in if they were to meet all our criteria but that, in practice, we generally do not invest in due to major sustainability risks.

The activities to be avoided and excluded are discussed in this chapter about ASN Duurzaam Aandelenfonds, ASN Duurzaam Small & Midcapfonds and ASN Milieu & Waterfonds. However, this information does not apply to these funds only, but to *all* activities that we finance or in which the ASN Investment Funds invest. For clarity's sake, the detailed description of the criteria only speaks of 'investment', but the criteria also apply to loans.

### **Limits**

Every criterion for an activity to be avoided or excluded has a limit at some point. For example, the topic of 'arms' requires a definition of what arms are, and 'fur' and 'gambling' require an explanation of what exactly is covered, and what is not covered, by these topics and – as a result – where precisely we draw the line. This is why we have included a *do* and a *don't* beneath all activities, indicating where the limits are for us. *Do* answers the question: *what is all right for us to invest in?* *Don't* answers the question: *what is not all right for us to invest in?*

### **Supplier activities to be excluded or avoided**

Companies themselves may be engaged in activities to be excluded, but they may also be involved in these activities indirectly. That is the case if they provide products and/or services for these activities.

Below, we explain when we can and when we cannot invest in a company if it provides services and/or products for activities to be excluded and avoided. To that end, the analyst examines two questions:

- To what extent is the company intertwined with an activity?
- Is it a core activity?

In that respect, the analyst assesses:

- What turnover do the products and/or services generate? If it is less than five percent, we do not consider it to be a core activity. There is no reason for disapproval, unless the company is excessively intertwined with the activity.
- Does the company regard the products and/or services provided as a growth market?
- Does the company have a strategic reason for focusing on a specific activity to be excluded or avoided?
- Is the company actively lobbying for activities that we exclude or avoid?

Exception! The above does not apply to suppliers that provide products and/or services to the arms industry. They are subject to the criteria set out below.

### **Arms**

**SDG target: 16.4**

We do not invest in companies engaged in or benefiting from wars or armed conflicts, or engaged in the manufacture of or trade in arms. This means that we refrain from in any way investing in companies that are engaged in the development, manufacture, maintenance, testing, storage and distribution of or trade in weapons.

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<sup>36</sup> Although we make every effort to exclude such activities, it is possible that relevant information is not revealed by the analyst's thorough research. This is because, in this regard, we depend on the company's openness and public sources.

*Where do we draw the line?*

*Do:* We can invest in companies that make products with dual-use applications, to the extent that these have *not* been developed mainly for the arms industry and are *not* applied in the arms industry on a large scale.

*Don't:*

- We exclude companies that manufacture or provide products or services included in the EU Common Military List, the joint EU list of military goods and technologies.
- We avoid companies that manufacture or provide dual-use products or services included in the dual-use list. The analyst assesses to what extent these products and services were mainly developed for the arms industry and/or are applied in the arms industry on a large scale. Based on this assessment, the analyst determines whether this is a ground for exclusion.

## **Nuclear energy**

**SDG targets: 3.9, 7.2**

We do not invest in companies that generate nuclear energy, operate nuclear power plants, or distribute or trade in nuclear products, nor do we invest in companies that, as suppliers, are excessively intertwined with the nuclear energy sector and/or whose turnover is generated by these activities for more than five percent.

*Where do we draw the line?*

*Do:* We can invest in companies that purchase nuclear energy.

*Don't:* We do not invest in companies that produce nuclear energy or that, as suppliers, are excessively intertwined with the nuclear energy sector and/or whose turnover is generated by these activities for more than five percent.

## **Tobacco**

**SDG targets: 3.4, 3.5, 3.a**

We do not invest in companies that manufacture tobacco products or electronic tobacco products, nor do we invest in companies that generate more than 5% of their turnover by selling, distributing or trading in tobacco products or electronic tobacco products.

*Where do we draw the line?*

*Do:* We can invest in companies that obtain less than five percent of their turnover from the trade in, or sale or distribution of, tobacco products or electronic tobacco products.

*Don't:* We do not invest in companies that, as suppliers, are excessively intertwined with the tobacco industry and/or whose turnover is generated by these activities for more than five percent.

## **Alcoholic beverages**

**SDG target: 3.5**

Alcohol consumption is harmful to health, and excessive alcohol consumption also has adverse social consequences. Therefore, we do not invest in companies that manufacture alcoholic beverages, nor do we invest in companies that generate more than ten percent of their total turnover by selling, distributing or trading in alcoholic beverages.

*Where do we draw the line?*

*Do:* We can invest in companies that obtain less than ten percent of their turnover from the trade in, or sale or distribution of, alcoholic beverages.

*Don't:* We do not invest in companies that manufacture alcoholic beverages.

## **Cannabis and products containing cannabis**

**SDG target: 3.5**

Recreational use of cannabis and/or products containing cannabis poses health risks. Therefore, we do not invest in companies that manufacture cannabis and/or products containing cannabis for recreational use, nor do we invest in companies that are active in the trade in, and/or sale or distribution of, cannabis for recreational use. We can approve companies involved in medicines containing cannabis. A condition is that they manufacture and/or market these medicines in a safe, responsible manner in order to guarantee consumer protection. Like other medicines, medicines containing cannabis must be approved by authorities in order to be marketed. It is essential that these companies abide by the law and are not involved in any misconduct.

*Where do we draw the line?*

*Do:* We can invest in companies that manufacture, sell or distribute medicines containing cannabis, provided that they guarantee consumer protection.

*Don't:* We do not invest in companies that sell, distribute and/or manufacture cannabis or products containing cannabis for recreational use.

## **Gambling**

We do not invest in companies that market or operate short odds games of chance or that produce parts for those games. In short odds games of chance, bets and gains or losses follow each other in quick succession. This makes these games highly addictive. Examples include fruit machines, casino games, bingo, scratch cards and horse betting.

*Where do we draw the line?*

*Do:* We can invest in companies engaged in long odds games of chance such as lotteries and competitions, with long periods between bets and gains or losses.

*Don't:*

- We do not invest in companies that supply or operate short odds games of chance.
- We also do not invest in companies that supply parts for short odds games of chance, as a result of which they are excessively intertwined with companies supplying or operating short odds games of chance, and/or companies whose turnover is generated by the supply of parts for more than five percent.

## **Pornography**

**SDG targets: 5.2, 8.7, 8.8, 16.2**

We do not invest in companies engaged in the production of pornography as the sex industry presents an increased risk of sexual exploitation, nor do we invest in companies that generate more than five percent of their turnover by broadcasting pornography.

*Where do we draw the line?*

*Do:* We can invest in companies such as television companies that generate less than five percent of their turnover by broadcasting pornography.

*Don't:* We do not invest in companies whose revenue model centres on exploiting pornography, such as escort agencies, erotic webcam services and prostitution.

## **Genetic modification**

**SDG target: 2.5**

We exclude companies that genetically modify plants and animals for non-medical purposes, or that instruct others to do so. We do this because genetic modification involves risks. There is, for example, a great deal of uncertainty about the adverse consequences of genetic engineering for people, biodiversity and animal welfare.

*Where do we draw the line?*

*Do:*

- We can invest in companies that genetically modify plants and animals for medical purposes, if this is the only solution to a medical problem and takes place under controlled conditions.
- We can invest in companies that genetically modify micro-organisms (these being neither plants nor animals), if they do so under controlled conditions.
- We can invest in companies that purchase genetically modified products, provided that they are transparent about how they use these products.

*Don't:* We do not invest in companies that genetically modify plants and animals for food and non-food products, or that instruct others to do so.

### **Animal welfare**

Animal welfare encompasses various topics. We aim to invest only in companies that treat animals with respect and meet the criteria for animal welfare. Whether or not we invest, and how we apply our vision of animal welfare, is explained below for various topics.

### ***Fur, leather and feathers***

**SDG targets: 15.7, 15.c**

We disapprove of the use of animals for fur. That is why we do not invest in the production of and trade in fur. We also disapprove of the use of leather, down and feathers from protected and/or non-domesticated<sup>37</sup> animal species or animals kept in appalling conditions. As a result, we also do not invest in companies that make use of fur, leather, down and feathers from protected and/or domesticated animal species or from animals kept in appalling conditions. Of course, this also includes animal products obtained and traded illegally (poaching), such as elephants' ivory or rhino horns.

*Where do we draw the line?*

*Do:* We can invest in companies that use leather, down and feathers from animals that were treated well.

*Don't:* We do not invest in companies that make use of or trade in fur, hides or pelts from non-domesticated and protected animal species, nor do we invest in companies that make use of products obtained from animals kept in appalling conditions.

### ***Livestock farming***<sup>38</sup>

**SDG targets: 2.4, 13.2, 15.2, 15.3**

We avoid investments in livestock farming because it currently involves problems in the areas of food security, climate, biodiversity, health and human rights. We also avoid customers of livestock farms, such as abattoirs and transport companies.

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<sup>37</sup> Over time, domesticated animals have become dependent on humans through breeding.

<sup>38</sup> Due to the high sustainability risks, in practice we only invest in companies that have such activities in their supply chains. If livestock farms achieve full sustainability in their activities in the future, we will assess them according to our animal welfare policy criteria and our other sustainability criteria.

*Where do we draw the line?*

*Do:* We can invest in customers of livestock farms such as supermarkets, provided that they take sufficient account of animal welfare in their procurement policies (see the conditions under 'Animal welfare policy').

*Don't:* We avoid investments in livestock farms and their direct customers, such as abattoirs and livestock transporters, because they often cannot guarantee animal welfare.

### **Fisheries**<sup>39</sup>

**SDG targets: 12.2, 14.1, 14.2, 14.4, 14.c**

We avoid investments in fisheries, as overfishing contributes to a loss of biodiversity and little attention is paid to animal welfare when fish are caught and processed. The fishing industry does not sufficiently comply with the requirements of international agreements and quality labels, such as those of the Marine Stewardship Council (MSC), the FAO Code of Conduct for Responsible Fisheries, and MARPOL and EU laws and regulations. The industry also insufficiently respects Marine Protected Areas.<sup>40</sup> If the production of farmed fish (aquaculture) becomes sufficiently sustainable and animal friendly in the future, we will be able to invest in it.

*Where do we draw the line?*

*Do:* We can invest in companies that are customers of fisheries and that make use of the MSC quality label for wild-caught fish or the ASC quality label for farmed fish, such as supermarkets and restaurants. In addition, these companies aim to increase the share of products with a quality label.

*Don't:* We avoid investments in fisheries and in companies that produce farmed fish (aquaculture) in an insufficiently sustainable and non-animal-friendly manner.

### **Treatment of wild animals**

**SDG targets: 15.7, 15.c**

We do not invest in companies and projects that use wild animals for entertainment or commercial activities. We can invest in companies and projects that endeavour to protect endangered animal species.

*Where do we draw the line?*

*Do:*

- We can invest in companies that make efforts to protect endangered animal species, that respect the five freedoms of animal welfare and that meet our biodiversity criteria.
- We can invest in shelters that contribute to animal welfare by preventing animal suffering and that take account of animal welfare in their operations.
- We can invest in companies that hunt animals, on condition that this is an aspect of site management, that they hunt in the context of damage control, that there are no alternatives and/or that they do so in the event of serious, incurable suffering of an animal.
- We can invest in companies that make use of pest control.

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<sup>39</sup> The observations regarding livestock farming in footnote 38 apply to fisheries as well.

<sup>40</sup> The FAO Code of Conduct for Responsible Fisheries is a code of practice for responsible fisheries. MARPOL is an international convention to combat pollution from ships. Marine Protected Areas, or marine reserves, are protected areas in the oceans that have no national or international legal status. In these protected areas, disruptive activities threatening natural values are restricted or prohibited as far as possible. Examples of disruptive activities are fishing and leisure.

*Don't:*

- We do not invest in tourist activities that disturb or damage animals or their habitats.
- We do not invest in companies that are involved in the trade in endangered animal species on the Red List.
- We do not invest in companies that hunt animals.
- We avoid companies that specialise in pest control using pesticides, insecticides and neonicotinoids.

### **Treatment of animals in captivity**

We do not invest in companies and organisations that use wild animals for entertainment only. We can invest in companies and organisations that keep domesticated animals and guarantee the five freedoms.

*Where do we draw the line?*

*Do:* We can invest in zoos and children's farms if they guarantee the five freedoms.

*Don't:*

- We do not invest in companies that only keep animals for entertainment, such as circuses.
- We do not invest in zoos and dolphinariums where animals are trained to perform in shows.
- We do not invest in companies that sell animals, such as pet shops and garden centres.

### **Animal testing**

We do not invest in companies that use animal testing for cosmetic purposes, unless the company is legally obliged to do so. In that case, the company must have a clear vision aimed at reducing cosmetic animal testing and must invest in alternative test methods.

*Where do we draw the line?*

*Do:* We can invest in companies that use animal testing for medical purposes and non-medical purposes if they are transparent about this and have a sufficient policy in place to this end (see the animal testing policy for the conditions).

*Don't:* We do not invest in companies that use animal testing for cosmetic purposes if this is not legally required or if the company does not invest in alternative test methods.

### **Cement industry**

**SDG targets: 13.2, 15.5**

We avoid companies that manufacture cement, as this entails high greenhouse gas emissions and degrades ecosystems.

*Where do we draw the line?*

*Do:* We can invest in companies that trade in and use cement.

*Don't:* We avoid companies that manufacture cement.

### **Base chemicals and base metals**

**SDG targets: 12.2, 12.4, 13.2, 15.3**

We do not invest in companies that operate in petrochemistry based on primary fossil resources. These are companies that convert petroleum into bulk material for the chemical

industry, such as ethylene and polymers. We avoid investments in companies that turn primary ores into new metals.

*Where do we draw the line?*

*Do:* We can invest in:

- companies that focus on the reuse of scrap and metals because this fits in with our vision of a circular economy, or in companies switching to renewable – biobased – raw materials;
- companies that focus on the reuse of plastics.<sup>41</sup>

We avoid companies involved in the processing of non-renewable primary raw materials. In some cases we can invest in leading companies that process primary raw materials (e.g., raw materials that are essential for increasing sustainability) if they meet all our human rights, climate and biodiversity criteria.

*Don't:*

We avoid companies that manufacture energy-intensive bulk products for the chemical industry.

- We do not invest in companies that turn primary ores into new metals.
- We do not invest in companies that operate in petrochemistry based on primary fossil resources. These are companies that convert petroleum into bulk material for the chemical industry, such as ethylene and polymers.

## **Fossil resources**

**SDG targets: 3.9, 6.3, 7.2, 9.4, 12.2, 13.2, 14.1, 14.3, 15.3**

We do not invest in the exploitation, production and refining of fossil resources. Fossil resources are all raw materials with a fossil origin, i.e. lignite, coal, natural gas, shale gas, tar sand and oil. In addition, we exclude the industrial production of electricity using fossil resources.

*Where do we draw the line?*

*Do:* We can invest in:

- purchasers of these products; however, we invest less in companies that consume a lot of fossil resources and as a result have high CO<sub>2</sub> emissions (in other words, they have a considerable carbon footprint);
- companies that mainly produce electricity or heat for their own consumption using fossil resources.<sup>42</sup>

*Don't:* We avoid companies that, as suppliers, are strongly intertwined with operation, production and refining in the fossil resources industry and whose turnover is generated by these activities for more than five percent.

## **Dams**

**SDG targets: 6.6, 6.b, 15.1, 16.7**

We invest in dams or in companies that build dams, are involved in the building of dams or manage dams if they respect the seven principles of the World Commission On Dams. In practice, these seven principles do not always provide a sufficient basis for taking decisions. That is why we apply at least the following limits:

*Do:*

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<sup>41</sup> An exception to this is the conversion of plastic waste into diesel fuel. We do not invest in this. Apart from the fact that diesel is a fossil fuel, it also causes pollution during combustion.

<sup>42</sup> We may also provide mortgages for homes with a micro-hydro system fuelled by natural gas.

- We can invest in companies that build and/or manage dams if they:
  - adhere to IFC Performance Standards 5 & 6 (see section 6.3 of the Renewable Energy SSP); and
  - adhere to the WCD guidelines (see section 6.3 of the Renewable Energy SSP).
- We prefer to invest in the renovation of existing dams that has a net positive impact and is in compliance with the WCD guidelines and IFC standards. Renovation involves the generation of a lot of additional energy, for example, but its adverse impact on the landscape and the local population is much lower.

*Don't:*

- We do not invest in dams or companies building or managing dams if:
  - the relevant dam is classified in categories I-IV of the IUCN,<sup>43</sup> the UNESCO World Heritage Convention<sup>44</sup> or the Ramsar Convention on Wetlands;<sup>45</sup> and/or
  - serious misconduct is taking place in respect of the local population.
- We do not invest in dams or companies building or managing dams if they do not comply with the most recent IFC Performance Standards.
- We do not invest in dams or companies constructing or managing dams if they do not have a strategy for protecting biodiversity at every stage of the life cycle of the dam(s).

### First-generation biofuels

SDG targets: 2.1, 7.2, 12.2, 15.2

We do not invest in first-generation biofuels. Second- and third-generation biofuels are allowed on specific conditions. In the Netherlands, for example, biomass must meet NTA 8080.<sup>46</sup> Other countries apply the same, or a similar, standard. This applies to both the applicant and the supply chain. The origin of the biomass is demonstrably local, i.e. from an area within a radius of approximately 200 kilometres from the power plant. When solid biomass is incinerated, the flue gas is cleaned using the latest techniques.

*Where do we draw the line?*

<i>Type of biofuel</i>	<b>1st generation: already in use</b>	<b>2nd generation: partly in use, partly being developed</b>	<b>3rd generation: being developed</b>
Input (primary raw material)	Food crops such as corn, maize, rapeseed, sugar cane and palm oil.	Woody plants and woody waste flows. All flammable bio-organic waste such as manure, sludge and deep-frying oil.	Currently mostly algae.
Output	Ethanol, biodiesel, biogas.	Ethanol, biodiesel, biogas, firewood, solid bio-organic fuels (such as pallets), raw material for chemicals.	Biogas
Application	Mobile: biofuels for cars.	Mobile: biofuels for cars.	Mobile: biofuels for cars and aircraft.

<sup>43</sup> <https://www.iucn.org/theme/protected-areas/about/protected-area-categories>

<sup>44</sup> <https://whc.unesco.org/archive/convention-en.pdf>

<sup>45</sup> [https://www.ramsar.org/sites/default/files/documents/library/scan\\_certified\\_e.pdf](https://www.ramsar.org/sites/default/files/documents/library/scan_certified_e.pdf)

<sup>46</sup> NTA 8080 provides sustainability criteria for biomass used for energy purposes. These criteria relate to: the reduction of greenhouse gases, competition with food and/or other local applications, biodiversity, the environment, prosperity and well-being. <https://betterbiomass.com/en/>



		Stationary: generation of electricity in power plants.	
Pros and cons	Competition for food and land; low CO <sub>2</sub> reduction.	Competition for land; high CO <sub>2</sub> reduction.	Low competition for land; high CO <sub>2</sub> reduction.
Decision	Do not invest or fund.	Do invest or fund, subject to conditions (see the table below). <sup>47</sup>	Do invest or fund, subject to conditions. <sup>48</sup>

*Conditions regarding whether or not to invest in biofuels*

<b>Wet biomass</b>	<b>Assessment</b>	<b>Conditions</b>
Sewage sludge	Positive	Biogas is best used directly in sewage treatment plants for energy-neutral sewage treatment and phosphate removal.
Landfill gas	Positive	Focus on prevention of methane emissions. Production decreases because dumping no longer takes place.
Green waste	Positive	Digestate from the fermentation plant must be used as compost. It is better to subject waste processing companies to an obligation to collect waste that has been separated and to ferment green waste.
Natural grass and roadside grass	Positive, provided that	In principle, higher-quality application is possible in protein and fibre production, but this technology is still in its infancy.
Wet horticultural crop residues, auction waste	Positive, provided that	Only if there are no sales prospects in the animal feed sector and the soil quality is not affected. Digestate must be used as compost.
Manure	Positive, provided that	Only if the focus lies firstly on the prevention of methane emissions, by imposing this obligation on livestock farmers. Pure manure fermentation is strongly preferable to co-fermentation.
Wet agricultural crops	No, unless	Only if there are no sales prospects in the animal feed sector. Digestate must be returned to the land, but this is not always possible at present due to legal restrictions.
Residual flows from the food industry	No, unless	Only if there are no sales prospects in the animal feed sector. Do not ferment potato peelings, pressed pulp, etc., but use them as animal feed instead.
Agricultural crops (maize, wheat, sugar beet, etc.)	Negative	No climate benefit due to emissions during cultivation and methane leaking from the system. Competition with food production.

## **Waste processing**

**SDG targets: 9.4, 11.6, 12.4, 12.5, 13.2**

We do not invest in waste processing companies whose main activity is dumping waste. We may consider the incineration capacity in that respect. A high incineration capacity is negative due to greenhouse gas emissions. We follow the preferred order for waste management (also

<sup>47</sup> On no condition do we invest in the application of biomass for the production of biodiesel.

<sup>48</sup> On no condition do we invest in the application of biomass for the production of biodiesel.

known as the waste hierarchy) laid down in Section 10.4 of the Dutch Environmental Management Act (*Wet milieubeheer*).

This order is as follows:

1. prevention: preventing the creation of waste;
2. preparation for reuse;
3. recycling, which breaks down into:
  - a. recycling of the original functional material in a similar or equivalent application;
  - b. recycling of the original functional material in an application that is not similar or equivalent;
  - c. chemical recycling;
4. other useful applications (including energy recovery);
5. safe disposal, which breaks down into:
  - a. incineration as a form of disposal;
  - b. dumping or discharging.

Here, the highest-quality processing is preferred.

*Where do we draw the line?*

*Do:* We can invest in waste processing companies whose total waste processing consists of dumping waste for less than 30%. We can consider their incineration capacity in this respect. It is desirable for a major portion of the methane gas released from dumping sites to be collected and put to good use.

*Don't:* We do not invest in waste processing companies whose total waste processing consists of dumping waste for more than 30%.

## **Financial services**

**SDG targets: 10.5, 10.6, 17.1**

We avoid investments in or financing financial service providers because they generally provide no or only limited insight into their business activities. As a result, we cannot assess whether these activities meet the sustainability criteria. From our perspective, this is a major risk especially for financial service providers with large investment or loan portfolios.

Under no circumstances will we invest in or provide loans to a financial institution owned for 25% or more by the government of a high-risk country or by a company that we exclude due to the nature of that company's activities.

In other cases, it is possible to invest in this sector after all, subject to certain conditions of our Financial Services Sustainability Policy. These are:

- financial service providers offering only products that are not related to investments or business loans (see the table below);
- financial service providers that do invest or provide loans, but that operate according to a sustainability policy similar to ours and that are also transparent about these activities (see the table below). This means that:
  1. a financial service provider may not be involved in any activities that we exclude and that are mentioned in section [4.1.5.1](#); we do not invest in this party and/or do not provide loans to this party;

2. we assess the other financial service providers in terms of their sustainability policies and their implementation (see section [4.1.5.2](#)). If there is (serious) misconduct (controversies and reputational damage), we are very cautious when it comes to investing and/or financing;
3. we believe it is important that financial service providers support the following agreements and/or initiatives (to the extent relevant to their business activities): the UN Global Compact, the OECD Guidelines for Multinational Enterprises, UNEP FI, the Principles for Responsible Investment (PRI), FATF, the Wolfsberg Principles and/or the Equator Principles.<sup>49</sup>

The overview below is the basis for a further analysis of risks in relation to our sustainability criteria.

Activity	Assessment	Justification and conditions
Payment transactions and savings products	Positive	Not applicable, as there is no sustainability risk. We do not impose requirements on savings, but we do impose requirements on the use of the money (investments, loans).
Consumer credit Credit card Microcredit	Positive, provided that	The risk of money being used for activities in which we do not wish to invest our customers' money is negligible. Responsible lending is a condition. <sup>50</sup> Microcredit is subject to a separate policy; see section 4.4.
Mortgages	Positive, provided that	Condition: the institution has a mortgage policy. See our Living and Working policy paper.
Insurance, such as life insurance and non-life insurance (motor, fire, etc.)	Negative, unless	Financial institutions invest the premiums received partly or largely in shares and bonds. We disapprove a company unless and until it is transparent.
Asset management	Negative, unless	Asset managers invest customers' money under their management in such instruments as shares, bonds and, as is also common, derivatives. We disapprove a company unless and until it is transparent.
Arranging initial public offerings, acquisitions and/or mergers	Negative, unless	The company may assist entities that we would exclude. We disapprove a company unless and until it is transparent.
Dealing on own account	Negative, unless	We disapprove a company unless and until it is transparent. Speculation is also often involved.
Business loans (including leasing and project loans)	Negative, unless	We disapprove a company unless and until it is transparent.
Offshore banking	Negative, unless	If this activity contributes to the avoidance of payment of taxes, we disapprove the company.

<sup>49</sup>

- [Global Compact](#)
- [OECD Guidelines for Multinational Enterprises](#)
- [UNEP FI](#)
- [Principles for Responsible Investment \(PRI\)](#)
- The [Financial Action Task Force \(FATF\)](#) is an independent intergovernmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of weapons of mass destruction. The FATF has developed 'recommendations', which are recognised as an international standard for combating money laundering, terrorist financing and proliferation.
- [Wolfsberg Principles](#) Founded in 2000, the Wolfsberg Group is a partnership of eleven international banks focusing on the development of standards and guidelines for the financial services sector in the area of combating money laundering and terrorist financing ([www.wolfsberg-principles.com](http://www.wolfsberg-principles.com)).
- The [Equator Principles](#) are a joint, binding commitment from more than 90 banks worldwide. These banks take into account the possible risks their investments entail for the environment and the local population (<http://www.equator-principles.com>).

<sup>50</sup> Responsible lending covers the interest rate, the assessment of a customer's ability to repay a loan, and transparency. We examine whether any misconduct comes to light in this respect.

Activity	Assessment	Justification and conditions
Derivatives trading	Negative, unless	Derivatives trading can be used for hedging risk, but also for speculation. We do not consider speculation to be sustainable, as it may have major adverse consequences. That is why we disapprove companies that use derivatives trading to a significant extent or exclusively for speculative purposes.

## Transport

SDG targets: 9.1, 9.a, 13.2

This sector includes all companies involved in the transport of goods and passengers by land, water and air. Companies that build and maintain the infrastructure are also considered part of the transport sector, as well as, finally, the suppliers of transport companies and the manufacturers of means of transport. We only invest in those parts of the transport sector that apply a sustainable approach or are in the process of becoming sustainable.<sup>51</sup>

*Where do we draw the line?*

*Do:*

- manufacturers of all-electric or hydrogen vehicles and all investments promoting this;
- investments in public transport and the corresponding infrastructure;
- companies that construct new roads, waterways, airports and harbours in Least Developed Countries (LDCs, according to the UN classification<sup>52</sup>);
- transport companies that aim to reduce emissions by 40% in 2030 and by 90% in 2050 compared with 1990 AND that have already replaced half of their fleet with low-emission or zero-emission alternatives.

*Don't:*

- manufacturers of vehicles powered by combustion engines and manufacturers of combustion engines;
- manufacturers of hybrid, plug-in hybrid and range-extender vehicles (a combination of a combustion engine and an electric engine);
- manufacturers of ships based on combustion engines;
- construction of new roads, waterways, airports and harbours, except if this is in Least Developed Countries (LDCs, according to the UN classification);
- manufacturers of aeroplanes or helicopters and airlines.

## Mining

SDG targets: 6.3, 8.7, 8.8, 12.2, 13.2, 15.3

We avoid companies that operate in the mining industry, which are owners of mining companies and companies that manage mining activities.

*Where do we draw the line?*

*Do:* The starting point is that we avoid companies involved in the extraction of non-renewable primary raw materials. But in exceptional cases – such as raw materials that are essential for sustainability – we can invest in leading mining companies that meet all our human rights, climate and biodiversity criteria.<sup>53</sup>

*Don't:*

<sup>51</sup> See the Transport and Mobility Policy (2020) for a complete list.

<sup>52</sup> <https://unctad.org/topic/least-developed-countries/list>

<sup>53</sup> In practice, we have yet to encounter such mining companies. An example of such a mine could be a salt mine.

- We avoid companies that are active in the extraction of non-renewable primary raw materials that are not essential for sustainability or fossil resources.
- We avoid companies that are engaged in mining activities as subcontractors of mining companies.
- We do not invest in companies that, as suppliers, are excessively intertwined with mining and/or whose turnover is generated by these activities for more than five percent.
- We do not invest in asbestos mines because of the major health risks associated with the use of asbestos.

### **Online retail**

Although the platform economy offers opportunities for economic development, creates new jobs and is convenient for consumers, it also has a dark side. Other jobs are disappearing and the new jobs – such as delivery jobs – are not necessarily better jobs. The platform economy is rooted in the digitalisation of the economy, which often goes hand in hand with changes in value chains. Frequently occurring bottlenecks are concentration and market power, as well as issues related to data ownership and privacy. E-commerce platforms also impact the climate, partly because of their CO<sub>2</sub> emissions and packaging waste. We may or may not invest in this sector, subject to certain conditions.

*Where do we draw the line?*

*Do:* We can invest in e-commerce platforms if they have drafted a policy on transport, the supply chain, returned products, packaging materials and employees' and customers' privacy.

*Don't:* We do not invest in e-commerce platforms if:

- no employee and customer privacy policy is in place;
- the magnitude, substance and number of controversies suggest a strategy for creating a monopoly position or anti-competitive actions;
- no policy is in place for reducing CO<sub>2</sub> emissions in the transport chain as a whole (scopes 1, 2 and 3);
- no policy is in place to limit the number of return shipments. Returned products are destroyed by default and are not offered again;
- no policy is in place and no objectives have been phrased for reducing and reusing plastic and cardboard packaging;
- no supply chain policy is in place and it is unclear what products suppliers or consumers cannot sell on the platform (product range policy), or the policy is not in line with our sustainability policy guidelines.

### **Water scarcity**

**SDG targets: 6.4, 6.5, 6.b**

Climate change and excessive use of fresh water resources are causing water scarcity in more and more places. This may lead to competition between companies, the local population and ecosystems. We expect companies operating in water-scarce areas to use water responsibly, i.e. they do not contribute to even greater water scarcity in an area. We expect companies operating in water-intensive sectors to take measures to limit the use of fresh water and to reuse it. Sectors that consume a lot of water are the mining and metal industries, forestry, the oil & gas industry, the chemical and packaging industries, the food industry, agriculture, and utility companies. Other sectors or companies may also face water scarcity due to the location of certain supply chains, such as the agricultural sector.

*Where do we draw the line?*

*Do:* We can invest in companies that limit and control their water consumption by ensuring that the impact of the water consumption is minimal. They may do so, for example, by implementing measures resulting from an impact assessment in water-scarce areas. In addition, the company takes into account the water needs of the local population and ecosystems.

*Don't:* We do not invest in water-intensive companies operating in water-scarce areas if they do not make a water-scarcity impact assessment and do not take restrictive measures or do not take into account the water needs of the local population and/or ecosystems.

**Deforestation**

**SDG targets: 12.2, 13.2, 15.2, 15.b**

We do not invest in companies that are involved in deforestation. Various sectors affect deforestation: agriculture, property and construction, cotton growing and processing, livestock farming, papermaking, palm oil and soy production, and mining.

*Where do we draw the line?*

*Do:* We can invest in companies that take sufficient measures to prevent deforestation. Companies, such as property companies, that purchase timber for new projects or renovations in low-income, lower-middle-income or upper-middle-income countries – according to the WB classification<sup>54</sup> – must purchase timber that is at least two thirds FSC certified. If the company purchases timber from high-income countries for new projects or renovations, it is sufficient if at least two thirds of the purchased timber is certified by the Programme for the Endorsement of Forest Certification Schemes (PEFC).<sup>55</sup>

*Don't:* We do not invest in companies that are involved in deforestation. Logging forests with a high conservation value (HCV), such as old-growth forests, tropical rainforests, mangrove forests and forests with a high carbon content (HCS), and peat extraction are unacceptable.

**Palm oil**

**SDG targets: 12.2, 12.7, 15.2**

We expect companies to refrain from large-scale land use and activities that further increase the loss of natural habitat and biodiversity. That is why we take a critical look at manufacturers of foodstuffs, consumer goods and personal care products.

*Where do we draw the line?*

*Do:* We can invest in companies that buy palm oil or that include palm oil in their products, provided that the palm oil is demonstrably purchased in a sustainable way. This means that the company has an NDPE policy in place and/or is a member of the Roundtable on Sustainable Palm Oil (RSPO) and reports on this issue.

*Don't:* We do not invest in the use of palm oil as a biofuel/biodiesel, as it is a first-generation biofuel.

**Agriculture**

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Group	July 1, 2021 (new)
Low income	
Lower-middle income	1,046 – 4,095
Upper-middle income	4,096 – 12,695
High income	> 12,695

<sup>54</sup>

Measured in gross national income (GNI) per capita in USD.  
<sup>55</sup> The Forest Management Standard of the Sustainable Forest Initiative (SFI), the North American PEFC member, also meets our criteria. The SFI applies specifically to North America. It is sufficient for a company to be two thirds certified according to the SFI.

**SDG targets: 2.4, 3.9, 6.3, 13.2, 15.2, 15.3, 15.5**

While agriculture is essential to the food supply, it also entails high sustainability risks. Agricultural companies have, for example, a very high biodiversity risk because of the adverse impact they may have through land use change, overexploitation due to land degradation and pollution due to the use of pesticides. Land use change and deforestation by such companies may also have an adverse effect on the climate. What is more, working conditions in this sector are poor in many countries. We avoid agriculture due to the large number of sustainability risks. We may be able to invest in agricultural companies in the future if they meet our human rights, climate and biodiversity criteria.

*Where do we draw the line?*

*Do:* We can invest in companies that purchase products from agricultural companies. We can also invest in agricultural companies that demonstrably apply a circular and sustainable approach. This means no land use change, no overexploitation, no pollution and a closed nutrient cycle.

*Don't:* We do not invest in agricultural companies that are insufficiently circular and sustainable.

#### **4.1.5.2 Assessment of policy components and actual practice**

Having established that a company is not involved in activities we exclude or avoid, we assess the quality of its sustainability policy and its sustainability in actual practice. The assessment is based on our overarching sustainability pillars (climate, human rights and biodiversity) and governance. These have been elaborated in sub-issues, which we call 'policy components'. We distinguish four policy components:

1. governance;
2. human rights;
3. climate and biodiversity;
4. supply chain.

In this chapter we will discuss the policy components we use to assess companies and the conditions we attach to a certain qualification.

The analyst first determines whether a policy component applies to a company. Next, the analyst determines whether the company has a policy on that policy component, after which the quality of that policy is assessed. The analyst assigns this quality one of the following qualifications: *insufficient, poor, sufficient, good* or *excellent*. Some areas of sustainability are more highly developed than others. In some instances a company will be qualified as sufficient if there is no misconduct (for example, if it pays a living wage). In other instances a company will be qualified as sufficient if it has a policy on certain topics, such as child labour.

##### **4.1.5.2.A Governance**

###### **Board composition and remuneration**

**SDG targets: 5.5, 5.c, 10.4**

*We expect companies to be open and transparent and to act with integrity. The composition and remuneration of the management board are important indicators in this respect. We expect a company to be transparent about the composition of the management board and about the duties and roles directors have on the management board.*

- Insufficient:* The company is not transparent about the composition of the management board.
- Sufficient:* The company is transparent about the composition of the management board.
- Good:* Several independent members have a seat on the company's management board, or the company takes account of management board diversity in its selection of directors, including the distribution of men and women, or it is transparent about board remuneration. There is no known serious and/or persistent misconduct.
- Excellent:* The company has included all of the aspects described above in its policy. In addition, the company makes board remuneration partly dependent on sustainability performance and bases the variable remuneration partly on long-term goals.

### **Rules of conduct and ethical conduct**

*We expect companies to have rules in place that govern behaviour and ethical conduct. This pertains to inappropriate behaviour by employees and/or the company and any subsidiaries. Examples are fraud and swindling (types of deception), money laundering and conflict of interest.*

- Insufficient:* The company has no policy governing ethical conduct.
- Poor:* The company says something about behaviour and ethical conduct but has no formal policy document, such as a code of conduct.
- Sufficient:* The policy or rules of conduct say something about behaviour and ethical conduct. Unethical conduct is not tolerated. There is no known misconduct.
- Good:* What the organisation means by ethical conduct and the measures it will take if misconduct is discovered are described in detail. There is no known serious misconduct.
- Excellent:* All of the above are in order and have been integrated into the business processes. The company safeguards this by having employees sign contracts, for example, and by a whistleblower scheme and a compliance officer or compliance committee. The company attaches consequences to any violation of the rules. There is no known serious misconduct.

### **Corruption**

#### **SDG target: 16.5**

*We expect companies to combat corruption. This involves political, social and economic situations in which a person in a position of power provides inappropriate favours in exchange for services or as gifts. Examples include extortion, facilitating payments and bribery (bribes, gifts or entertainment). A distinction can be made here between active corruption (giving bribes) and passive corruption (accepting bribes).*

- Insufficient:* The company has no policy on corruption, or there is serious and/or persistent misconduct.
- Poor:* The company says something about corruption but has not laid this down in a policy document.
- Sufficient:* The company's policy discusses corruption; the company does not tolerate it. There is no known serious and/or persistent misconduct.
- Good:* What the company considers corruption and what measures it will take if misconduct is discovered are described in detail. There is no known misconduct.
- Excellent:* All of the above are in order. The organisation also has a whistleblower scheme and a compliance officer or compliance committee. There is no known misconduct.



## Respect for the local legal system

### SDG target: 16.3

*We expect companies to be respectful towards the society in which they, their subsidiaries and their suppliers operate.*

*Insufficient:* There is serious misconduct in the area of violation of laws and regulations.

*Poor:* There is misconduct but it is not very serious and/or the company has taken measures to avoid similar situations in the future.

*Sufficient:* The company respects the local legal system. There are no reports of the company consistently violating local laws or being involved in fraud. Furthermore, the company does not encourage others to violate local laws or its own and/or sector-specific codes of conduct. If national laws or customs conflict with international standards, the company adheres to the highest standard.

*Good:* The company respects its own or sector-specific codes of conduct.

## Tax evasion and tax avoidance

### SDG target: 17.1

*We expect companies to deal fairly with the payment of taxes and not to evade tax or seriously avoid tax.*

*Insufficient:* The company has evaded tax, or there is serious and/or consistent misconduct relating to tax avoidance. In the case of tax avoidance, we use 'red flags' to determine whether the company is guilty of serious types of tax avoidance. This is the case if all four questions can be answered in the affirmative:

1. Is the company involved in serious misconduct relating to tax avoidance and/or has it repeatedly been ruled against in legal actions regarding tax avoidance and/or is the company actively lobbying for a lower tax rate and/or against legislation for greater tax transparency?
2. Is the company insufficiently transparent because there is no tax policy, or no visible tax policy, and no transparency for each country where it carries out activities?
3. Does the company have subsidiaries in tax havens without actually carrying out activities there? Sources are the top ten tax havens in the Corporate Tax Haven Index of Tax Justice Network<sup>56</sup> and the non-cooperative tax jurisdictions of the European Union.<sup>57</sup>
4. Does the company have a large 'tax gap'?<sup>58</sup>

*Poor:* There is misconduct but it is not very serious and/or the company has taken measures to avoid similar situations in the future.

*Sufficient:* There is no known misconduct in relation to tax evasion or tax avoidance.

*Good:* The company is transparent about its tax payment and specifies the countries in which it pays tax, and/or the company is transparent about its tax payment policy. Ideally, this policy states that the company wishes to pay tax to make a fair contribution to the societies in which it is active. The company publishes its entire group structure.

*Excellent:* The company has a policy as described above. Moreover, this policy states that the company wishes to pay tax to make a fair contribution to the societies in which it is active. The company also commits itself to leading standards, such as the GRI performance indicator on Tax or the OECD Guidelines, Chapter XI Taxation, principle 1 + para. 104 of the commentary.

<sup>56</sup> <https://www.corporatetaxhavenindex.org/>

<sup>57</sup> [https://ec.europa.eu/taxation\\_customs/tax-common-eu-list\\_en](https://ec.europa.eu/taxation_customs/tax-common-eu-list_en)

<sup>58</sup> This is the difference between the expected tax rate based on where turnover is generated and the actual tax rate that the company reports for the period. [https://www.unpri.org/Uploads/w/c/g/pri\\_taxguidance2015\\_550023.pdf](https://www.unpri.org/Uploads/w/c/g/pri_taxguidance2015_550023.pdf)

## Transparency

SDG targets: 12.6, 16.6

*We expect companies to be transparent about their governance, climate, biodiversity and human rights performance.*

- Insufficient:* The company does not publish any reports or policy, or provides incorrect information.
- Poor:* The company publishes information selectively; it only reports positive results and/or limits the choice of subjects.
- Sufficient:* The company reports or is open – possibly reactively – about its sustainability policy, including its governance,<sup>59</sup> human rights, the environment and biodiversity. The company reports according to leading initiatives, such as the Global Reporting Initiative (GRI) and the International Organization for Standardization (ISO).
- Good:* The company reports on and publishes its sustainability performance, whether positive or negative. It sets targets and shows the development of its policy and performance over time.
- Excellent:* The company does all of the above and also consults with its stakeholders.

## Lobbying activities and political contributions

SDG targets: 16.6

*We expect companies not to lobby for or make political contributions to activities that are contrary to our sustainability criteria, as far as is known.*

- Insufficient:* There is misconduct. The company makes political contributions to or lobbies for measures that are contrary to our sustainability criteria.
- Poor:* There is misconduct, but it is not contrary to our sustainability criteria, or the company promises to avoid it in future.
- Sufficient:* There is no misconduct. The company may also indicate that it does not make any political contributions.
- Good:* The company is transparent about the goal or the goals for which it is lobbying or to which it is making political contributions and discloses the sums it spends in doing so.

### 4.1.5.2.B Human rights

#### General human rights criteria

SDG targets: 8.5, 8.7, 8.8, 10.3, 12.6, 16.3, 16.6, 16.10

*We expect companies to respect fundamental human rights. A company can disrespect these rights in two ways: by violating human rights itself, or because its business partners or other organisations connected with its operations violate human rights.*

- Insufficient:* The company does not refer to human rights or is involved in human rights violations by a country.
- Poor:* The company qualifies as poor if it:
- only refers to a specific aspect of human rights;
  - refers to human rights but without an explanation; and/or
  - only respects human rights in part of the company; and/or
  - has joined the UN Global Compact but has not yet translated this into its own policy.
- Sufficient:* The company qualifies as sufficient if it:

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<sup>59</sup> 'Governance' refers to topics such as corruption, supply chain policy and lobbying.

- has drafted a human rights policy and refers to reputable human rights treaties; or
- has a policy in keeping with reputable human rights treaties; and
- has joined leading initiatives, such as the Global Reporting Initiative (GRI), the UN Global Compact and the OECD Guidelines; or
- has a policy that satisfies those treaties and initiatives even though no reference is made to them; and
- declares that the policy applies to all of its activities in at-risk countries; and
- is not involved in serious human rights violations.

*Good:* The company qualifies as *good* if it qualifies as *sufficient* and meets one or two of the following criteria:

- *Risk analysis:* the company conducts a risk analysis of current and potential risks and their effects on human rights; it repeats this analysis regularly.
- *Operating processes:* the company implements its policy and the results of the risk analysis in its internal operating processes, for example in codes of conduct and contracts.
- *Monitoring:* the company has issued instructions for internal and external monitoring and/or verification of the extent to which it follows its own policy or – in the case of a standard assessment – national legislation. It has also issued instructions for the monitoring or verification of the effect of any measures it has taken based on the risk analysis.
- *Transparency and reporting:* the company is transparent about its human rights practices and performance, in accordance with its policy or – in the case of a standard assessment – in accordance with national legislation. It reports on its performance and on any measures it has taken based on the risk analysis.
- *Engagement:* the company consults with the local community, trade unions and NGOs and engages in dialogue with them.
- *Complaints procedure:* the company has a complaints procedure for employees and other victims of human rights violations.
- *Compensation and redress:* if the company has violated human rights, it has a procedure for remedying the consequences for victims if possible and/or to compensate them if such remedy is not possible or is only partly possible. This compensation or redress is in accordance with national laws and international standards. The company confers with victims regarding suitable measures.

*Excellent:* The company qualifies as *excellent* if it qualifies as *sufficient* and meets three or more of the above criteria.

### **Equal treatment and non-discrimination**

**SDG targets: 5.1, 5.5, 5.c, 8.5, 10.2, 10.3, 16.3, 16.b**

*We expect companies to treat their employees with respect, including those employed on a temporary or flexible basis, as well as suppliers, customers, local residents and other stakeholders. We expect them to refrain from discrimination on any grounds whatsoever and to treat people equally in equal cases.*

*Insufficient:* The company has no policy to combat discrimination.

- Poor:* The company reports discrimination and excludes certain types of discrimination. The company is selective in naming types of discrimination.
- Sufficient:* The company excludes all types of discrimination. It has drafted a non-discrimination and equal treatment policy. If a company names specific types of discrimination, we expect it to be as complete as possible. In any event, it must name the following types: discrimination on the basis of sex, race, nationality, religion, political views, social origin, age, disability, sexual orientation, gender identity (LGBTI+) and health (for example, discrimination against employees with HIV/AIDS).
- Good:* The company has a policy that is sufficient. It also takes the local context into account and adjusts its policy accordingly.
- Excellent:* The company's policy is good and is supplemented as follows:
- It creates a workplace in which there is no discrimination and takes measures if employees discriminate against one another.
  - It takes measures to protect vulnerable groups and has provisions for specific groups, such as work-disabled people and pregnant women.

### **Gender equality**

*SDG targets: 1.2, 1.4, 2.2, 4.3, 4.6, 5.1, 5.2, 5.5, 5.6, 5.a, 5.c, 6.2, 8.5, 8.8, 10.2, 10.3, 10.4, 11.2, 11.7, 13.b*

*We expect companies to promote gender equality and not to allow any form of gender discrimination, violence or harassment.*

- Insufficient:* The company has no policy whatsoever to combat gender discrimination, including violence and harassment, or to promote gender equality, or there is serious and/or persistent misconduct.
- Poor:* The company says something about combating gender discrimination or promoting gender equality but has not laid this down in a policy document.
- Sufficient:* The company has a policy to combat gender discrimination, including violence and harassment. There is no serious and/or persistent misconduct.
- Good:* The company has a policy that is sufficient. In addition, it has a policy to reduce or tackle the wage gap by means of equal pay management systems. The company may report on this in a wage gap report. It also offers female employees education, training or other professional development opportunities to promote equal access to senior positions.
- Excellent:* The company has a policy that is good. In addition, it has a policy to prevent and, where necessary, limit gender discrimination against its customers. The company also takes measures and sets targets that should lead to at least 40% women in senior positions.

### **Corporate security**

*We expect corporate security not to violate human rights. It is irrelevant in that regard whether the security is provided by the company's own personnel, companies hired from outside or local authorities. This includes all actions by the company's security staff, even if these actions are not covered by the term 'security', such as taking action against protesting local residents.*

- Insufficient:* There is misconduct.
- Poor:* There is misconduct but it is not very serious and/or the company has taken measures to avoid repetition.
- Sufficient:* There is no misconduct.
- Good:* There is no misconduct and the company has a corporate security policy.

*Excellent:* There is no misconduct. The company's policy is extensive and includes an actual-practice plan and a risk analysis. The actual-practice plan includes, for example, security staff training.

### **Child labour**

**SDG targets:** 4.1, 8.7, 16.2

*We expect companies to protect children from exploitation and to neither use nor profit from child labour in any way. We may exclude companies if they or their suppliers use child labour.*

*Insufficient:* The company has no policy to combat child labour.

*Poor:* The company claims that it does not allow child labour, but its policy is not in line with or does not refer to International Labour Organization (ILO) guidelines.

*Sufficient:* The company's policy states that it will not use child labour according to the ILO definition under any circumstances.

*Good:* The company endorses the ILO guidelines and also supports programmes or initiatives to combat child labour.

*Excellent:* The company endorses the Children's Rights and Business Principles<sup>60</sup> and has translated these into policy for its own operations. The company endorses the international Convention on the Rights of the Child.

### **Forced labour**

**SDG targets:** 5.2, 8.7, 8.8, 16.2

*We expect companies not to use forced labour. Forced labour is work that is performed involuntarily, under threat of punishment. At companies, this primarily involves compulsory overtime, human trafficking, debt bondage and bonded labour. Companies may also be involved in this if they recruit employees through employment agencies that do not work in a fair manner.*

*Insufficient:* The company has no policy to combat forced labour.

*Sufficient:* The company does not allow forced labour on any grounds whatsoever.

*Good:* The company endorses the International Labour Organization (ILO) guidelines. When employees are recruited through intermediaries, the company ensures that this is done in a fair manner and may lay this down in policy. This is not the case if an intermediary takes employees' passports or if employees are required to reimburse recruitment costs.

*Excellent:* The company endorses the ILO guidelines. Furthermore, it has or supports programmes or initiatives to combat forced labour.

### **Healthy, safe working environment**

**SDG targets:** 5.2, 8.5, 8.8

*We expect companies to offer healthy and safe working conditions.*

*Insufficient:* There is serious misconduct.

*Poor:* There is misconduct but it is not very serious and/or the company has taken measures to avoid repetition.

*Sufficient:* The company and its suppliers do not seriously violate health and safety conditions. Moreover, under no circumstances does the company tolerate harassment, violence or threats of a sexual or psychological nature in the workplace.

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<sup>60</sup> UNICEF, the UN Global Compact and Save the Children, 'Children's Rights and Business Principles', 2012, pp. 1-21. Available via [http://www.unglobalcompact.org/docs/issues\\_doc/human\\_rights/CRBP/Childrens\\_Rights\\_and\\_Business\\_Principles.pdf](http://www.unglobalcompact.org/docs/issues_doc/human_rights/CRBP/Childrens_Rights_and_Business_Principles.pdf)

**Good:** Not only does the company apply the aforementioned policy, but it also has a complaints procedure and keeps track of both the number of accidents and the measures taken to avoid repetition. For example, the company reports according to ISO 45001 or the OHSAS 18001 standard.

**Excellent:** The company has taken all of the aforementioned measures and also supports initiatives in this area. For example, it has set up health programmes, or an HIV/AIDS programme for employees and their families in areas where these diseases are commonplace. It is important in this regard that the company commits itself for a prolonged period of time and spends time and effort on finding out what its employees need. Preferably, the company aims to collaborate with experts or specialist organisations and local authorities.

### **Living wage**

**SDG targets:** 1.1, 1.2, 1.3, 1.4, 5.1, 8.5, 10.1, 10.4

*We expect companies not to be involved in serious misconduct when it comes to paying a living wage. A living wage is the level of wages that is sufficient to meet the basic needs of an average-sized family in a particular economy.*

**Insufficient:** There is serious misconduct.

**Poor:** There is misconduct but it is not very serious and/or the company has taken measures to avoid repetition.

**Sufficient:** There is no misconduct.

**Good:** The company does not comply with national minimum wage laws without question but pays its employees a living wage instead. The company assesses to what extent employees can live off their wage.

**Excellent:** The company has taken all of the aforementioned measures and has joined initiatives in this area, such as the Global Living Wage Coalition or the Asian Floor Wage Alliance, international trade unions and NGOs.

### **Freedom of association**

**SDG targets:** 8.8, 10.2, 10.4, 16.7, 16.10

*We expect companies to acknowledge their employees' right to organise in trade unions and to respect their right to collectively negotiate employment conditions.*

**Insufficient:** The company has no policy to respect freedom of association.

**Poor:** The company says that it respects freedom of association but refers to national legislation in this respect.

**Sufficient:** The company says that it respects freedom of association.

**Good:** The company says that it respects freedom of association and refers to the ILO guidelines in that respect.

**Excellent:** The company endorses the ILO guidelines and is involved in one or two of the following activities:

- it supports trade union initiatives, and/or
- it promotes trade union freedom, and/or
- it keeps track of the number of trade union members and reports on this.

#### **Freedom of association in the United States**

We aim to invest only in companies that treat their employees well and that acknowledge freedom of association. We aim to identify companies' intentions as far as possible, but practice has shown that this is difficult in the United States. Negative intentions are easier to identify than positive ones. Some US companies are favourably disposed to freedom of association but do not communicate openly on the subject. The US context is also very different to the European one, with considerable differences between states, companies and trade unions. These differences also run parallel to political and geographical demarcations.

As a result, we can assess a company in the United States as 'sufficient' as regards freedom of association if:

- the company's policy is 'poor' at a minimum;
- there is no known misconduct;
- there are no known anti-union practices or anti-union statements.

## **Privacy and freedom of speech**

**SDG target: 16.10**

*We expect companies to treat employees' and customers' privacy with respect and to treat the information and personal data at their disposal with due care. We also expect them to respect the freedom of speech of employees, customers and others. In addition, we expect companies to refrain from actively cooperating in censorship (restricting access to information) by the government, except where the purpose is to limit incitement to discrimination or violence.*

*Insufficient:* There is no policy.

*Poor:* The company says that it respects privacy and freedom of speech but has not worked this out in policy.

*Sufficient:* The company has laid down in its policy that it respects privacy and freedom of speech.

*Good:* The company has laid down in its policy that it respects the privacy and freedom of speech of its employees, customers and other stakeholders. In addition, the company has programmes that promote and/or encourage the local population's access to information, for example via the internet.

*Excellent:* Not only does the company apply the aforementioned policy, but it also indicates how it deals with privacy-related requests from government authorities. It states that it will not cooperate in restricting freedom of speech by means of censorship.

## **Local society and population**

**SDG target: 16.7**

*We expect companies to treat the local society and population with respect and not to exploit them.*

*Insufficient:* There is no policy.

*Poor:* The company says that it respects the local society and population but has not worked this out in policy.

*Sufficient:* The company's policy states that it respects the rights of the local society and indigenous population.

*Good:* The company has a policy on this subject and supports initiatives and programmes that assist the local population.

## **Consumer protection**

**SDG target: 16.10**

*We expect companies to assume responsibility towards the end users of their products and services (consumers or customers). This applies, for example, to the sale of consumer goods such as food and electronics, and certainly to medicines.*

*Insufficient:* The company provides no information about the product or service.

*Poor:* The company provides only selective or unclear information about the product or service.

*Sufficient:* There is no known serious misconduct regarding consumers' health and safety. The company provides honest, clear information about its products and any related risks.

**Good:** The company not only provides clear information but also goes a step further by, for example, having a compliance department, a complaints procedure and/or a customer service department. For example, the company may work according to the standards of quality standard ISO 9001.

**Excellent:** The company has taken all of the aforementioned measures. It stands out positively with its consumer protection initiatives. For example: a food manufacturer having a programme to combat obesity.

#### **4.1.5.2.C Climate and biodiversity**

##### **Environmental policy**

**SDG targets: 3.9, 6.3, 6.4, 7.2, 7.3, 8.4, 12.2, 12.4, 12.5, 12.6, 13.2**

*We expect companies to demonstrate that they pursue an active, comprehensive environmental policy. In this respect, we assess the nature of the raw materials used, the nature of the end products, energy consumption, conservation and efficiency, clean water consumption, the nature and level of discharge of emissions and solid waste resulting from production, the possibilities for and extent of reuse of the end product (making the life cycle more sustainable), and any environmental management system.*

**Insufficient:** The company has no policy.

**Poor:** Although the company has a policy, it has not specified any targets or deadlines and is not transparent about processes, products and results. The policy is not verified externally. The environmental policy has not been integrated throughout the company.

**Sufficient:** The company has a management system and policy for topics relevant to its operations, such as CO<sub>2</sub> emissions and energy, water, waste and recycling. For example, it may work according to the standards of environmental standard ISO 14001.

**Good:** The company has a management system and an extensive policy. All important components – CO<sub>2</sub> emissions and energy, water, waste and recycling – are described. The system has been externally verified. In addition, the company may work, for example, with an energy management system (which is preferably ISO 50001 certified).

**Excellent:** The company satisfies the points above and has also published specific targets and deadlines. It has its achievement of these targets and deadlines verified externally. It is transparent about its results, reports according to the GRI guidelines and has programmes and initiatives for improving the environment.

##### **Deforestation**

**SDG targets: 12.2, 15.2, 15.5, 15.b**

*We expect companies to combat deforestation. Various sectors can greatly affect deforestation: agriculture, the property sector, the construction industry, cotton growing and processing, livestock farming, papermaking, soy production, and mining. We expect companies in these sectors to take measures to prevent deforestation.*

**Insufficient:** The company has no policy.

**Poor:** The company has joined leading sector initiatives or the most prominent quality labels (such as FSC, PEFC, UTZ Certified, RSPO) or similar quality labels.<sup>61</sup>

**Sufficient:** Companies, such as property companies, that purchase timber for new projects or renovations in low-income, lower-middle-income or upper-middle-income

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<sup>61</sup> It is impossible to include an exhaustive list here. Quality labels are a useful criterion for selecting investments, which is why we apply them as a guideline in some cases. We are aware that quality labels are also commercial instruments. It is for this reason that we do not wish to commit to specific quality labels, as these may be subject to change. Moreover, better quality labels may be created that we do not wish to disregard in advance.



countries – according to the WB classification – must purchase timber that is at least two thirds FSC certified. If the company purchases timber from high-income countries for new projects or renovations, it is sufficient if at least two thirds of the purchased timber is PEFC certified.

**Good:** All of the above; furthermore, the company establishes partnerships with NGOs (nature and environmental organisations) to combat deforestation.

**Excellent:** The company compensates for the loss of biodiversity according to the 'no net loss of biodiversity' principle.<sup>62</sup>

## Land use change

**SDG targets: 15.1, 15.2, 15.3, 15.4, 15.5**

*We expect companies not to be involved in large-scale land use or activities that contribute to the loss of natural habitat and biodiversity. Examples of relevant sectors are the agriculture, property and forestry sectors.*

**Insufficient:** The company has no policy. There is misconduct, for example in terms of property development in valuable nature.

**Poor:** The company has no policy but does intend to join one of the following standards:

- RTRS (Round Table on Sustainable Soy) for soy;
- FSC (Forest Stewardship Council) for timber and paper;
- NTA 8080, requirements for sustainable biomass for energy applications;
- comparable standards or quality labels.<sup>63</sup>

**Sufficient:** The company has a policy and the intention to meet the requirements of one of the aforementioned standards. A criterion specifically applicable to property companies is that they must limit their adverse impact on biodiversity when constructing new projects, for example by building exclusively in towns and cities, carrying out an environmental impact analysis or compensating for their adverse impact when building on greenfields.

**Good:** The company has a policy and a management system that, depending on its business activities, is based on:

- the guidelines of the International Union for the Conservation of Nature (IUCN) for the management of various categories of protected areas (Protected Area Management Categories); and/or
- FSC certification if the company uses timber from old-growth forests; and/or
- BREEAM and LEED for new property projects;
- High Conservation Value Areas (HCVAs), which the company respects by:
  - only growing palm oil and soy according to the criteria of, for example, the Brazilian Soy Platform and the RSPO; and/or
- the company reports in accordance with the GRI biodiversity guidelines.

**Excellent:** The company compensates for the loss of biodiversity according to the 'no net loss of biodiversity' principle.<sup>64</sup>

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<sup>62</sup> - Compensation according to the 'no net loss of biodiversity' principle entails that the company meets the following conditions: Equivalent quality: loss of a nature conservation area in one place can only be compensated by creating a new, similar (in terms of surface area and variety of species) nature conservation area elsewhere.  
- Simultaneity: the time between the loss of one area and the completion of the new area must not be too long, i.e. a few years at most.  
- Guaranteed implementation: arrangements regarding the implementation of compensatory measures must be sufficiently laid down in a legal document.

<sup>63</sup> See footnote 61.

<sup>64</sup> See footnote 62 for an explanation.

## **Palm oil**

**SDG targets: 12.2, 12.7, 15.2**

We expect companies to refrain from large-scale land use and activities that further increase the loss of natural habitat and biodiversity. That is why we take a critical look at manufacturers of foodstuffs, consumer goods and personal care products.

*Insufficient:* The company is not an RSPO member and/or does not have an NDPE policy<sup>65</sup> and/or is involved in serious misconduct<sup>66</sup> in palm oil production.

*Poor:* The company has an NDPE policy and/or is an RSPO member, but does not publish proof of implementation, such as an online list of suppliers, an up-to-date list of complaints and misconduct, a reintegration protocol or a progress report.

*Sufficient:* The company has an NDPE policy and/or is an RSPO member, but selectively publishes information (such as an out-of-date online list of suppliers). The company adequately responds to any complaints or misconduct.

*Good:* The company has an NDPE policy and/or is an RSPO member, has a complaints handling procedure and regularly publishes up-to-date proof of implementation. For example, the company is transparent about any complaints submitted and any action taken, or the list of suppliers is up to date.

*Excellent:* The company qualifies as excellent if it qualifies as good and also compensates for the loss of biodiversity according to the 'no net loss of biodiversity' principle.<sup>67</sup>

## **Introduction of alien species**

**SDG targets: 2.4, 15.5, 15.8**

*We expect companies to handle ecosystems with due care. When man introduces new species, these invasive alien species may start to dominate the new area, thereby threatening local species and ecosystems. We expect companies to prevent this from happening. This pertains to sectors such as agriculture, fisheries, tourism, transport, zoos, pet shops and garden centres. These sectors are assessed as follows:*

*Insufficient:* The company has no policy.

*Sufficient:* The company has a policy for preventing the introduction of invasive species.

*Good:* The company has a policy for preventing the introduction of invasive species, including a management system. The company reports in accordance with the GRI biodiversity guidelines.

## **Overexploitation**

**SDG targets: 2.4, 6.4, 7.3, 8.4, 12.2, 14.4, 15.2, 15.3, 15.5, 15.7, 15.c**

*We expect companies to handle natural resources in a sustainable manner. If resources are used in a manner that is not sustainable, this is overexploitation. There are various types of overexploitation: deforestation in forestry, poor soil management with agricultural land, unsustainable agriculture, the trade in or hunting of endangered animal species, overfishing, overexploitation due to tourism, and trade in Red List species like whales. The sectors primarily involved are agriculture, forestry and fisheries. We expect companies from these sectors to prevent overexploitation. They are assessed as follows:*

*Insufficient:* The company has no policy and is not associated with sector initiatives or prominent quality labels.

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<sup>65</sup> RSPO stands for the 'Roundtable on Sustainable Palm Oil'; NDPE stands for 'No Deforestation, No Peat, and No Exploitation'.

<sup>66</sup> For example, a company purchases palm oil from a plantation where child labour is permitted. The company is aware of this but systematically ignores this fact, postpones an investigation and/or does not take any steps.

<sup>67</sup> See footnote 61 for an explanation.

- Poor:** The company is endeavouring to acquire certification under prominent quality labels or similar quality labels.
- Sufficient:** The company adheres to the guidelines of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and/or is associated with recognised quality labels for the supply chain, such as FSC, MSC (Marine Stewardship Council), UTZ Certified, RTRS, RSPO and NTA 8080 or similar quality labels.<sup>68</sup>
- Good:** The company has not only a policy but also a management system. It reports in that respect according to the GRI biodiversity guidelines. If the company makes use of farmed fish, this management system is based on ASC (Aquaculture Stewardship Council) certification.

## **Pollution**

**SDG targets: 3.9, 6.3, 8.4, 12.4, 12.5, 13.2, 14.1**

*We expect companies to refrain from genetic pollution (genetic engineering), from introducing into the environment substances that have not been shown to be safe, and from developing activities during which substances are discharged into ecosystems in quantities that are so large that these are processed insufficiently, if at all. This relates to the chemicals and agriculture sectors and the pharmaceutical industry. These are assessed as follows:*

**Insufficient:** The company has no policy.

**Sufficient:** There is no misconduct (such as the discharge of chemical substances or other substances in the air, water and/or soil) and the company has policies in the area of:

- Genetically Modified Organisms (GMOs): the company complies with the Cartagena Protocol on Biosafety.<sup>69</sup> The company does not apply genetic engineering to plants or animals for non-medical purposes. If the company applies genetic engineering to micro-organisms, it does so under controlled conditions. If the company purchases genetically modified products, it is transparent about how it uses these products;
- crop protection agents: the company adheres to the Rotterdam Convention;
- chemical waste: the company adheres to the Basel Convention;
- persistent organic pollutants (POPs: various, often toxic chemical compounds that are hardly biodegradable, if at all): the company adheres to the Stockholm Convention;
- ozone-depleting substances (such as CFCs): the company adheres to the Montreal Protocol;
- registration of the effects of chemical substances: the company adheres to and participates in REACH (EU) and GHS (international).

**Good:** The company has a policy for preventing and reducing pollutants, which policy is linked to a management system. The company also has targets and deadlines for preventing and reducing pollution. It reports on that policy according to the GRI biodiversity guidelines. The company publishes a GMO policy and informs consumers which products contain genetically modified organisms or raw materials.

**Excellent:** Along with the aforementioned measures, the company develops additional initiatives.

<sup>68</sup> See footnote 59.

<sup>69</sup> The Cartagena Protocol on Biosafety is a supplement to the Convention on Biological Diversity. The aim of the Protocol is to protect biological diversity against possible risks associated with genetically modified organisms that originate from modern biotechnology.

## Animal welfare

We only invest in companies that contribute to respectful treatment of animals and to the improvement of animal welfare. The company must not be involved in activities we exclude, as described in section [4.1.5.1](#). The criteria applicable to the supply chain are also set out below. We draw a distinction in this regard between companies that use animal products for food and those that use animal products for textiles (products from leather, wool, down and feathers or other animal materials). As regards companies that purchase animal products for the production of food, we also distinguish between companies that buy large quantities of animal products and those that hardly buy any animal products (materiality)<sup>70</sup> and consider whether the company is large or small.<sup>71</sup> The company's level of ambition to improve animal welfare may also be included in the policy assessment; it is up to the analyst to assess whether this level of ambition is sufficient or insufficient. These companies are assessed as follows:

**Insufficient:** Textiles: There is serious misconduct.

Food: The company has no policy or is not transparent about its policy. There is serious misconduct. It may be a small company where animal welfare is a material risk or a large company that has no policy or is not transparent about its policy. The result is that the company does not respect the five freedoms, which entail that an animal is free:

- from hunger, thirst and an incorrect diet;
- from fear and chronic stress;
- from physical and physiological suffering;
- from pain, injury and disease;
- to express natural (species-specific) behaviour.

**Poor:** Textiles: The company has no policy, but there is no serious misconduct either.

Food: It is a large company where animal welfare does not pose a material risk. In addition, the company has drawn up some kind of animal welfare policy *and* seeks to improve animal welfare.

**Sufficient:** Textiles: The company has an animal welfare policy to prevent serious misconduct, such as policy to combat mulesing and the live plucking of angora rabbits or birds for down.

Food: The company is transparent, possibly reactively, about its animal welfare policy. Its animal welfare policy is based on the five freedoms. For example, a company may work according to the ISO/TS 34700 standards for animal welfare. For customers of livestock farms and fisheries, the following applies:

- The company takes the welfare of livestock into account by drawing up policy based on the five freedoms or by ensuring that an above-average percentage of the animal products it sells have a reliable quality label for animal welfare, while arranging for this percentage to increase.
- The company makes use of the MSC quality label for wild-caught fish and aims to increase the share of products with the quality label.

**Good:** Textiles: The company has a policy that is based on the five freedoms.

Food: The customer makes use of the ASC quality label for farmed fish. The customer is committed to improving animal welfare during the capture of wild-caught fish.

<sup>70</sup> Animal welfare is considered a material risk if a company earns more than 5% of its total turnover by selling animal products. If a company is unable or unwilling to disclose this percentage, we disapprove the company as a precaution.

<sup>71</sup> As stated in section 4.1.1.2, we distinguish between large and small companies. Small companies have a market capitalisation of less than €4 billion. Our sustainability criteria for smaller companies are less strict if we are able to establish that they have a policy in this area. We assume that small companies have fewer resources they can use to meet our policy requirements. However, this does not mean that they are less sustainable.

## **Animal testing**

*We only invest in companies that use animal testing for medical or non-medical products (both end products and ingredients) if they are transparent about this and have a sufficient policy in place to this end. This applies both to companies that perform animal testing themselves and to companies that instruct parties in their supply chains to do so. These companies are assessed as follows:*

**Insufficient:** The company has a policy but is not transparent about it. The policy does not satisfy the three Rs: Replacement, Reduction and Refinement.

**Sufficient:** The company meets all of the following three requirements:

- It has an animal testing policy based on the three Rs: Replacement, Reduction and Refinement. Put differently, it strives to replace animal testing with other tests, and to reduce and refine animal testing.
- The company is transparent, possibly reactively, about its use and application of animal testing.
- No cosmetic products are involved. If cosmetic products are involved, the following additional conditions apply: the company is legally obliged to test cosmetics on animals, the company has a clear vision aimed at reducing cosmetic animal testing, *and* the company invests in alternative test methods.

**Good:** The company has a policy that is sufficient. Not only does the company aim to reduce the use of animal testing, it has also set targets and deadlines to this end.

**Excellent:** The company has a policy as described above. It states that it does not wish to use any animal testing and has set targets and deadlines to this end, and/or the company actively researches alternative test methods or indicates how it encourages research into alternative test methods that are free from animal testing.

## **Plastic**

**SDG targets: 3, 6.3, 11.6, 12.4, 12.5, 14**

*More and more plastic ends up in nature, resulting in major environmental problems. As a large part of this plastic consists of packaging, we have drawn up criteria for companies that make plastic packaging and companies that use a lot of plastic packaging. We have also included criteria for microplastics. Sectors that make extensive use of plastics include the garment, food, personal care, pharmaceutical and packaging industries. Companies are assessed as follows:*

**Insufficient:** The company qualifies as insufficient if it:

- does not comply with laws and regulations on plastic, such as disposable plastic;
- has no plastic policy and/or serious misconduct is known;
- uses biobased plastics from food crops and/or from biobased materials that have not been sustainably extracted (for example, due to land use change or deforestation).

**Poor:** The company has *no* policy but acknowledges the problems associated with plastics (such as litter, plastic soup or any other relevant issue).

**Sufficient:** The company has a policy or strategy intended to overcome sector-specific risks. For example: a packaging company wants to use more recycled plastic.

**Good:** The company has not only a policy but also objectives for the reduction and reuse of plastic. The company supports initiatives to tackle the plastic problem. It is important that the company commits itself to this for a prolonged period of time.

*Excellent:* The company has taken all of the aforementioned measures and also reports on its plastic use, objectives and progress made in this regard.

### **Water scarcity**

#### **SDG target: 6.4**

*We expect companies operating in water-scarce or water-stressed areas to use water responsibly. We also expect companies operating in water-intensive sectors to take measures to limit the use of fresh water. Sectors that consume a lot of water are the mining and metal industries, the oil & gas industry, the garment industry, the chemical and packaging industries, and utility companies. Other sectors or companies may also face water scarcity due to the location of certain supply chains, such as the agricultural sector.*

*Insufficient:* The company has no policy or vision to combat water scarcity and/or misconduct is known.

*Poor:* The company is aware of the water supply in the areas where it will develop new activities. There is no known misconduct.

*Sufficient:* The company has a policy to use water responsibly or to reduce its water consumption, and it prevents water pollution. It may work in compliance with the ISO 14046 guidelines, for example, or it may publish a water scarcity impact assessment in compliance with the ISO 46001 guidelines or other guidelines.

*Good:* The company publishes a water scarcity impact assessment and also considers the water needs of local communities and ecosystems. In addition, the company avoids having an adverse impact on areas where it operates and where water is scarce. The company has joined internationally recognised initiatives such as the UN CEO Water Mandate.

*Excellent:* The company satisfies the points above and does not develop new activities in water-scarce areas. Its activities do not compete with the needs of local communities. The company only operates in countries of the 'medium to high' water stress category of the World Resource Institute or better.

#### **4.1.5.2.D Supply chain policy**

##### **SDG targets: 6.3, 8.4, 8.7, 8.8, 10.2, 12.2, 12.5, 12.6, 12.7, 13.2**

*We expect companies to take responsibility for the conduct of other parties affiliated with them, such as business partners, links in their value chains and other parties that are directly connected with their operations, products or services. A supply chain policy is necessary for the sustainability risks a company runs in its core business.*

*Insufficient:* The company has no supply chain policy.

*Poor:* The company qualifies as poor if it:

- has no formal policy but does have examples of rules of conduct;
- does have a formal policy but only devotes attention to *either* human rights (fundamental employment conditions or gender equality or healthy and safe working conditions), *or* the environment, *or* ethical conduct, *or* tax avoidance and evasion;
- has named all relevant topics in its policy but makes them dependent on a country's national legislation.

*Sufficient:* The company has a supply chain policy to prevent human rights violations and violations of the four fundamental labour standards of the International Labour Organization (ILO). The four standards mentioned are: freedom of association, no forced labour, no child labour and no discrimination (including gender discrimination). The company also has policies on healthy and safe working conditions, the environment, ethical conduct and tax avoidance and evasion in

its supply chain. We also consider the RBA's code of conduct for supply chains<sup>72</sup> to be sufficient.

If applicable, the company has a policy to overcome sector-specific risks (a few examples are set out in the box below).

*Good:* The company has a human rights policy, environmental policy and policy in the areas of ethical conduct and tax avoidance and evasion in its supply chain. It has procedures for implementing this policy. For example, it uses questionnaires to gather information from the companies in its supply chain and concludes sustainability contracts with its suppliers.

*Excellent:* The company has a policy as described above. Policy implementation is monitored by means of external and/or internal audits and monitoring. Where a company has, for example, a policy in place for the purchase of office supplies, this is positive even though it is not a core activity. It is also positive if the company publishes the results of audits or monitoring.

#### **Examples of sectors subject to additional conditions for the supply chain policy**

##### *Conflict minerals*

The electronics sector – companies that manufacture, for example, telephones, computers and semiconductors – is dependent on precious and other metals for its products, such as tin, tantalum (including coltan), gold and cobalt. There is a risk that the mining of these metals may entail social misconduct and may cause environmental damage. In addition, in some countries there is a risk of armed conflict being financed with proceeds from the mining of and trade in the metals in question – these are referred to as 'conflict minerals'. We expect companies that may use conflict minerals in their production to have a policy to combat the use of conflict minerals (in their supply chains).

##### *Timber and paper*

Diverse companies, such as construction companies, paper factories and printers, use timber, wood pulp and/or paper in production. These raw materials are obtained by logging, which may have a major adverse impact on biodiversity as it may lead to deforestation and destruction of habitat. Sustainable forestry and forest conservation are necessary to limit the biodiversity risks. For that reason, we expect companies that use wood products to have a policy for the purchase of FSC-certified products. If the wood products are obtained in high-income OECD countries, PEFC certification suffices. We assess whether the company is a front-runner in this area.

##### *Foodstuffs*

The manufacture of certain foodstuffs may entail sustainability risks, such as deforestation, land use change and the loss of natural habitat and biodiversity caused by the logging of forests to create agricultural land. The foodstuffs involved include soy, palm oil, coffee and cocoa. International quality labels have been established for these. We expect companies that use foodstuffs (such as food producers) or that sell foodstuffs (such as supermarkets and department stores) to make as much use as possible of suppliers that meet these standards. Animal welfare is another foodstuff-related risk. We expect companies that use animal products to act in accordance with our animal welfare policy.

<sup>72</sup> Companies in the electronics sector have drawn up a sector-specific code of conduct for their supply chains: the Responsible Business Alliance Code of Conduct. If a company has implemented this Code of Conduct, we consider this to be sufficient. <http://www.responsiblebusiness.org/>

### *Animal testing*

Our animal testing policy states that we only invest in companies that use animal testing for medical or non-medical products (both end products and ingredients) if they are transparent about this and have a sufficient policy in place to this end. This applies both to companies that perform animal testing themselves and to companies that instruct parties in their supply chains to do so. This entails the following: if there is a risk of animal testing in the supply chain of a company, such as a pharmaceutical company, the company's supply chain policy requires that its suppliers satisfy the 3 Rs (Replacement, Reduction and Refinement).

## **4.2 ASN Duurzaam Obligatiefonds**

ASN Duurzaam Obligatiefonds invests in euro bonds issued by national governments and in green and social bonds. Green and social bonds are bonds issued by other institutions that have been and/or are used to finance projects. We invest in renewable energy, energy saving and biodiversity through green bonds. Social bonds are used to finance projects that have a social impact, such as microcredit and social housing. The methodology for selecting government bonds is described in section [3.1](#). The methodology for selecting green bonds and social bonds is described in section 3.2.

## **4.3 ASN Duurzaam Mixfonds funds**

The ASN Duurzaam Mixfonds funds consist of a mix of ASN investment funds. Their allocation depends on the risk of the fund. For information on the allocation, see <https://beleggingsfondsen.asnbank.nl/fondsen.html>.

Depending on market conditions, the fund manager slightly increases the position in shares or bonds, within limited ranges. For the selection process, we refer to section [4.1](#) for the various funds, section [3.1](#) for government bonds, section [3.2](#) for green, social and sustainable bonds and, finally, section [4.4](#) for microfinance.

The sustainable mixed funds apply sustainable investment objectives derived from their underlying funds. Most funds apply a combination of minimising annual CO<sub>2</sub> emissions in line with the Paris Agreement, expressed as the fund's contribution to the 1.5-degree economy, and improving access to financial services for people with low incomes, micro-enterprises and small enterprises ('financial inclusion') to allow them to acquire more income and strengthen their financial resilience, or minimising the adverse impact on biodiversity per euro invested, relative to base year 2019.

## **4.4 ASN Microkredietfonds**

**SDG targets: 1.1, 1.2, 1.4, 1.5, 1.a, 2.3, 5.1, 5.4, 5.a, 5.b, 8.5, 8.10, 9.3, 10.1, 10.2, 14.7, 14.b, 17.3**

In many developing countries, microfinance institutions (MFIs) play a vital role in organising and raising awareness among large groups of disadvantaged people. An MFI is a financial institution specialising in banking services, such as the provision of small loans to people with low incomes. By extending loans to small business owners in developing countries, MFIs help these people to make a living. Moreover, MFIs provide banking services to these people that they are often not eligible to receive from traditional banks.<sup>73</sup>

<sup>73</sup> ASN-Novib Microkredietfonds was established on 14 June 1996 and originated from a joint initiative of ASN Bank and Oxfam Novib. All acts as the manager of the fund, and Triple Jump acts as the fund's project advisor.



ASN Microkredietfonds invests in MFIs and in banks with an MFI portfolio. The ASN Duurzaam Mixfonds funds also invest part of their portfolios in these. ASN Impact Investors manages these funds, and Triple Jump acts as the project advisor for the investments in MFIs. The Investment Committee discusses the investment proposals.

ASN Microkredietfonds runs sustainability risks by investing in microfinance institutions. Sustainability risk is the risk that an ecological, social or governance event gives rise to financial loss or may have an adverse impact on the value of investments under management. The following risks have been identified for ASN Microkredietfonds:

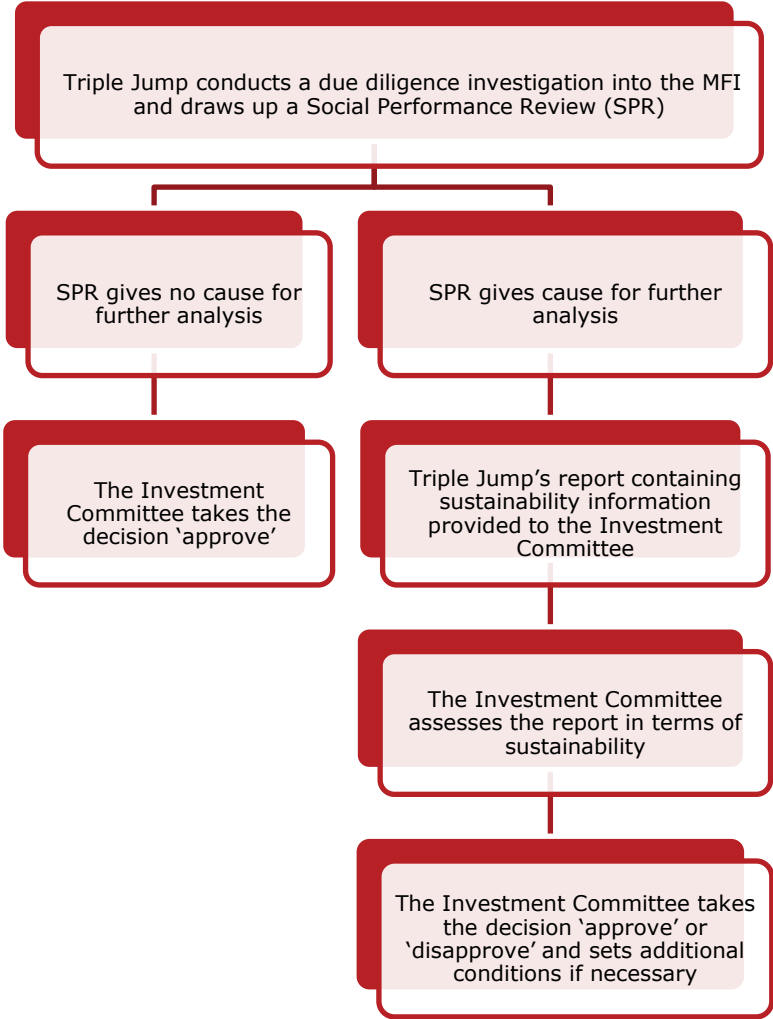
- Ecological risk: climate change increases the risk of natural disasters. These disasters may impact the quality of the MFI's loan portfolio.
- Social risk: access to microcredit may result in excessive lending.
- Governance risk: the fund invests in developing countries headed by unstable governments.
- Governance risk for the MFI: investees in developing countries carry a higher risk of fraud and corruption.

ASN Microkredietfonds mitigates these risks by:

- applying a concentration limit for every individual institution: up to 5% may be invested in an investee at the start of the investment and up to 20% during the investment;
- assessing the concentration risk for each country: up to 15% may be invested in investees of any country;
- extensively screening for integrity and money laundering risks at the start of the investment and during the investment;
- carrying out an extensive due diligence investigation before inception of a loan, focusing on the following issues:
- responsible lending, which covers the microcredit approval process within the MFI, including a calculation of the client's repayment capacity and the MFI's transparency to the client regarding the conditions of the loan. An 'interest rate traffic light' is used to verify whether clients pay fair interest rates;
- a client protection score, which means that the MFI must perform well on a number of points to be admitted to the Investment Universe. These points are adaptation of services; prevention of overindebtedness; transparency on products, responsible pricing; fair practices with clients; confidentiality of client data; and complaints mechanism;
- a balanced return for the MFI; the MFI's profit must be in proportion to the services it provides to clients.

The Principal Adverse Impacts (PAIs) of investments in MFIs are negative effects on the environment and society according to the SFDR. The points of departure for ASN Microkredietfonds are the existing sustainability policy and the investment process. These result in the selection described in sections 4.4.1 and 4.4.2. The sustainability policy contains multiple criteria and requirements, which minimise the risk of PAIs occurring in the portfolio.

**4.4.1 Selection process for microfinance institutions**



The figure reflects how we select MFIs. Two processes may be followed to arrive at this selection.

The process begins at Triple Jump,<sup>74</sup> which plays an important role in the selection of MFIs. As a project advisor, Triple Jump makes investment proposals for the fund and conducts the due diligence investigation into MFIs based on financial and sustainability criteria. Triple Jump only proposes MFIs to AII if it believes that they have a good chance of being included in the fund. If Triple Jump has doubts about whether an MFI is eligible for the fund, it may request pre-due diligence advice from the Investment Committee prior to the due diligence investigation.

All MFIs proposed to AII have been assessed against social sustainability criteria during the due diligence investigation conducted by Triple Jump.

Triple Jump’s Sustainability & Impact Team reviews this investigation and records its findings in a Social Performance Review (SPR). The Investment Committee may directly approve the MFI if the SPR scores positively on all criteria. If the SPR gives cause for a further analysis, this is prepared by the AII sustainability manager. The Investment Committee decides on inclusion in the universe.

Triple Jump draws up the Social Performance Review (SPR), which summarises the MFI’s Social Performance Management (SPM). SPM is a style of management designed to allow an organisation to fulfil its social mission. This also includes managing processes and systems and measuring the extent to which the organisation accomplishes its social mission. The assessment is based on the Universal Standards for Social Performance Management and focuses on client protection, employee protection, client satisfaction, reach, and information on socially responsible performance.

<sup>74</sup> Triple Jump manages and advises funds that aim to make responsible investments in developing countries. Triple Jump was established in 2006 as a spin-off from Oxfam Novib and has four shareholders: Oxfam Novib, ASN Bank, NOTS Impact Entrepreneurs and Management Company.

The SPR also includes the outcome of the 'interest rate traffic light' (explained below). Triple Jump developed the interest rate traffic light to assess MFIs as objectively as possible on the interest they charge to their clients.

The MFI is always fully analysed if:

- it is a new MFI; and/or
- it is proposed that ASN Microkredietfonds acquire a stake in the MFI; and/or
- the MFI operates in countries identified as high risk by MIMOSA<sup>60</sup> or by Triple Jump; and/or
- the SPM score is lower than seventy percent; and/or
- the director's remuneration is more than USD 150,000 per year; and/or
- the first part of the interest rate traffic light is not green. This occurs when:
  - the annual percentage rate (APR) is higher than 50 percent; and/or
  - the APR is 20% higher than the rates applied by comparable financial institutions in the same country; and/or
  - the MFI's profitability is above the norm in the current year or was so in one of the two preceding years. Triple Jump defines 'above-average profit' as follows: the annual return on the total assets (return on assets; RoA) exceeds 6%, or the return on equity (RoE) exceeds 25%.

If the first part of the interest rate traffic light is not green, part two must also be completed. The APR, RoE and RoA must then be explained in more detail. The MFI is excluded:

- if the interest rate traffic light is red; and/or
- if the client protection score is lower than seventy percent; and/or
- if the MFI has not endorsed the SMART Campaign.<sup>61</sup>

#### **4.4.2 Selection methodology for microfinance institutions**

How AII assesses the MFIs is set out below. It uses four documents to this end:

- Social Performance Review (SPR): this summarises the MFI's Social Performance Management.
- Interest rate traffic light: see the previous paragraph.
- Social Performance Management sheet<sup>75</sup>: this gives information on how the organisation fulfils its social mission.
- Appraisal: this contains information on governance, financial performance and the SPM. The appraisal specifies, among other things, the borrowers the MFI focuses on, the MFI's personnel policy and, if applicable, the part of the currency risk that is passed on to the borrower.

If ASN Impact Investors has any questions about the MFI, it can put these to Triple Jump. If necessary, Triple Jump submits the questions to the MFI concerned.

We assess the sustainability performance of MFIs by considering the following issues:

- Responsible lending. This involves assessing the client protection score and the underlying information in this respect. If the MFI does not conduct its lending in a responsible manner, it receives a negative recommendation.

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<sup>75</sup> Triple Jump uses the internationally developed ALINUS tool for this purpose. The ALINUS tool shows how an MFI scores compared with the international Social Performance Indicators as established within the financial inclusion sector. These indicators break down into the following issues: 1) monitoring social goals, 2) commitment to social goals, 3) product development that considers clients' wishes, 4) responsible treatment of clients, 5) responsible treatment of employees, 6) a balance between social and financial performance.

- The ratio between the average size of the loans and the gross domestic product per capita. This ratio should preferably not be too large.
- Target group(s). We consider the percentage of loans provided to female borrowers and whether the MFI focuses on borrowers in rural areas and/or on market segments that are difficult to serve. It is desirable for the MFI to focus on one or more of these target groups.
- Directors' remuneration. If the directors' remuneration is too high, the MFI is excluded. This applies if the remuneration of an MFI's director is more than USD 150,000 and there is insufficient substantiation to justify this salary.<sup>76</sup>
- Embedding of social policy in the organisation; we understand this to mean that the institution has policies regarding:
  - the protection of its borrowers;
  - transparency;
  - how it determines the price of financial products;
  - its own staff.

If we decide that the MFI has insufficient social policy embedded in its organisation, our decision will be negative.

#### 4.4.3 Liquidities

ASN Microkredietfonds holds part of its assets in liquid form. This may pertain to fund assets that are not invested, or not yet invested, in private loans and shareholdings, or assets intended to facilitate the inflow and outflow of fund investors. To this end, the fund may hold assets in a savings or other account with an approved financial institution (assessed as issuer; see ASN Bank's Financial Services policy paper to this end) and/or invest in approved government bonds (see Chapter 3). For efficient operational liquidity management, the fund may make limited use of bank accounts of financial institutions that have not been approved by ASN Impact Investors. The liquidity policy is explained in more detail in ASN Microkredietfonds' prospectus.

#### 4.5 ASN Groenprojectenfonds

ASN Groenprojectenfonds invests at least 70% of its assets in projects that comply with the Dutch government's Green Projects Scheme 2016 (*Regeling groenprojecten 2016*). The green projects financed by ASN Groenprojectenfonds relate to various focus areas. ASN Groenprojectenfonds focuses particularly on the subsegments sustainable construction and refurbishment, renewable energy and decentralised energy supplies. The fund may invest up to 20% of the fund assets in projects located outside the Netherlands. For this purpose, we select projects qualifying as designated green projects.

ASN Groenprojectenfonds has been designated as a Green Institution.

The methodology for assessing renewable energy projects for ASN Groenprojectenfonds is identical to that of renewable energy projects for ASN Bank. We therefore refer to section [3.3](#) for an explanation of the methodology and the selection process.

ASN Groenprojectenfonds runs sustainability risks by investing in renewable energy projects. Sustainability risk is the risk that an ecological, social or governance (ESG) event gives rise to

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<sup>76</sup> To assess whether a salary higher than USD 150,000 is justified, a salary questionnaire is completed. A higher salary may be justified if, for instance, there are components that make managing the MFI a complex matter.

financial loss or may have an adverse impact on the value of investments under management. The following risks have been identified for ASN Groenprojectenfonds:

- Ecological risk: climate change increases the risk of natural disasters. The main risks for the fund are flooding and extreme temperature rises. These disasters may adversely impact the quality of the fund's loan portfolio.
- Social risk: projects in emerging markets carry the risk of insufficient recognition of human rights (including fair wages and accommodation for temporary project staff).
- Governance risk for projects in emerging markets: projects in emerging markets carry a higher risk of fraud and corruption.
- Governance risk in emerging markets: ASN Groenprojectenfonds invests in emerging markets headed by unstable governments.

ASN Groenprojectenfonds mitigates these ESG risks by:

- applying a concentration limit for every individual debtor: no more than 15% of total assets under management may be provided to a single debtor;
- assessing the concentration risk for emerging markets: a restriction is applied for private loans in Dutch Good Growth Fund countries<sup>65</sup> of no more than 20% of assets under management;
- extensively screening for integrity and money laundering risks at the start of the investment and during the investment;
- carrying out an extensive due diligence investigation before inception of a loan, including on human rights, non-discrimination, gender, child labour and forced labour;
- including conditions in the contract (Environmental and Social Action Plan) for the residual risks. Actions for improvement are regularly monitored.

The Principal Adverse Impacts (PAIs) of investments in renewable energy projects are negative effects on the environment and society according to the SFDR. The points of departure for ASN Groenprojectenfonds are the existing sustainability policy and the investment process. These result in the selection described in section 3.3. The sustainability policy contains multiple criteria and requirements, which minimise the risk of PAIs occurring in the portfolio.

#### **4.5.1 Liquidities**

ASN Groenprojectenfonds holds part of its assets in liquid form to facilitate the inflow and outflow of fund investors. To this end, the fund may hold assets in a savings or other account with an approved financial institution (assessed as issuer; see the Banks and Insurers policy paper to this end) and/or invest in approved government bonds (see section [3.1](#)). This is explained in more detail in ASN Groenprojectenfonds' prospectus.

#### **4.6 ASN Biodiversiteitsfonds**

ASN Biodiversiteitsfonds finances projects that enhance biodiversity. Section 4.6.1 first describes what biodiversity projects the fund finances and then how we select these projects. Decision-making for ASN Biodiversiteitsfonds is discussed in section 4.6.2. ASN Biodiversiteitsfonds also invests in green bonds and companies. Information about the selection of green bonds is provided in section 3.2; the selection of companies can be found in section 4.1.

ASN Biodiversiteitsfonds runs sustainability risks by investing in projects, companies and green bonds. Sustainability risk is the risk that an ecological, social or governance event gives

rise to financial loss or may have an adverse impact on the value of investments under management. The following risks have been identified for ASN Biodiversiteitsfonds:

- Ecological risk: this risk is inherent in the type of product and, as such, will not be hedged. The risk is indirectly mitigated by extensive screening during the selection of investments, sectoral diversification, and geographical spread.
- Social risk: as many local communities depend on nature for their income and/or food supply, it is essential that an investment is not detrimental to local communities. This risk is mitigated by extensive screening on social criteria during the selection of investments.
- Governance risk: the risk of fraud and money laundering. The fund also invests in developing countries headed by unstable governments. This risk is mitigated through geographical spread, by extensive compliance and tax screening during the selection process and by monitoring the investments.

ASN Biodiversiteitsfonds mitigates these risks by:

- solely investing in projects and issuers that have been admitted to the Investment Universe;
- applying specific limits for the spread and diversification that apply after the fund's start-up phase. They start applying in the third year after the fund's establishment or, if earlier, as soon as the fund assets amount to at least EUR 75,000,000. This is with the exception of the maximum percentage for each loan participation and the maximum percentage for participating interests in individual undertakings for collective investment. These maximum percentages apply immediately;
- applying a concentration limit:
  - I. 50% is invested in illiquid investments in a range of 30%-60%;
  - II. 50% of the share of illiquid investments is invested in funds in a range of 30%-60%;
  - III. no more than 5% is invested in listed companies in a range of 0%-5%;
- investing 10% of the fund assets in green bonds in a range of 0%-15%;
- assessing the concentration risk for each country: the percentage of ASN Biodiversiteitsfonds that is invested in projects in any individual country by means of participations in private loans is up to 15% of its fund assets;
- assessing the concentration risk for each individual investment: the maximum stake that ASN Biodiversiteitsfonds may hold in any individual undertaking for collective investment is 19.9% at the start of the investment in that undertaking for collective investment. The fund may participate in loans provided to any individual debtor for up to 10% of its fund assets;
- assessing the sustainability risk: if applicable to the investment, the following may be assessed:
  - the risk of wildfires and mitigating measures;
  - the risk of water stress and drought and mitigating measures;
  - the risk of climate change and mitigating measures;
  - the risk of diseases and pests and mitigating measures;
- extensively screening for integrity and money laundering risks at the start of the investment and during the investment;
- carrying out an extensive due diligence investigation in respect of ecological, social and governance criteria before the start of an investment, according to the AII Sustainability Policy.

The Principal Adverse Impacts (PAIs) of investments in projects are negative effects on the environment and society according to the SFDR. The points of departure for ASN Biodiversiteitsfonds are the existing sustainability policy and the investment process. These

result in the selection described in sections 4.6.1 and 4.6.2. The sustainability objective and the sustainability policy contain multiple criteria and requirements, which minimise the risk of PAIs occurring in the portfolio.

#### **4.6.1 Selection process for biodiversity projects**

We use information provided by the issuer of an investment to assess the sustainability of biodiversity projects. For investments in biodiversity projects through other investment funds, we also use information obtained from specialist research institutes. The Investment Committee applies a number of criteria when assessing whether a project will be included in the investment universe, including the sustainability criteria and the biodiversity indicators. The biodiversity indicators are used to estimate the positive and negative impact the project has on biodiversity. Projects carrying out activities that we exclude or avoid are not included in the investment universe (see section 4.1.5.1).

#### **4.6.2 Selection methodology for biodiversity projects**

ASN Biodiversiteitsfonds invests in projects focusing on the restoration and protection of biodiversity. The investments are aimed at 'sustainable forestry', 'sustainable agroforestry and agriculture', 'sustainable use of the seas and sustainable fisheries', and 'ecotourism'. Below, we describe how we apply the selection.

#### **4.6.3 Assessment criteria for Biodiversiteitsfonds' investments**

SDG targets: 8, 13, 14, 15

Below, you will find the biodiversity issues and the criteria used to assess them. The criteria below are general criteria that apply to all projects. We have also worked out more specific criteria for each issue, which you will find in the table in this section.

Sustainability criteria applicable to all investments:

- The project or fund aims to have a net positive impact on biodiversity that is tailored to the regional biodiversity priorities and plans, which must be followed up and reported.
- The project or fund is not involved in controversies or serious misconduct.
- The project or fund complies with the IUCN guidelines for Protected Area Management Categories and does not develop activities in categories I-IV of the IUCN.
- The right to Free, Prior and Informed Consent (FPIC) is safeguarded.
- The project or fund must comply with all applicable laws and regulations and nationally ratified international treaties, conventions and agreements.
- The project or fund must comply with the Equator Principles, if applicable.
- The project or fund must comply with the IFC Performance Standards or an equivalent standard.<sup>77</sup>

The table below explains which criteria apply to virtually all projects in each sector and what aspects are assessed. Assessment against the supplementary criteria is explained in the table itself.

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<sup>77</sup> Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts  
Performance Standard 2: Labor and Working Conditions  
Performance Standard 3: Resource Efficiency and Pollution Prevention  
Performance Standard 4: Community Health, Safety, and Security  
Performance Standard 5: Land Acquisition and Involuntary Resettlement  
Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources  
Performance Standard 7: Indigenous Peoples  
Performance Standard 8: Cultural Heritage

Issue	Criteria
Sustainable forestry	<p data-bbox="549 226 831 257"><i>Sustainability criteria:</i></p> <p data-bbox="549 259 759 291">Absolute criteria</p> <p data-bbox="549 293 1318 360">The project or fund meets<sup>75</sup> the conditions set by one of the following internationally accepted standards:</p> <ul data-bbox="600 389 1398 703" style="list-style-type: none"> <li>• FSC: for all forestry and timber or paper products;</li> <li>• the principles and guidelines of the International Union for the Conservation of Nature (IUCN) for the ecological restoration of protected areas;</li> <li>• the IUCN Green List Standard: it prescribes guidelines for successful nature conservation in protected areas;</li> <li>• the International Principles and Standards for the Practice of Ecological Restoration of the Society for Ecological Restoration (SER).</li> </ul> <p data-bbox="549 705 852 736">In addition, we require:</p> <ul data-bbox="600 743 1378 842" style="list-style-type: none"> <li>• compliance with the guidelines of the Convention on International Trade in Endangered Species of Wild Fauna and Flora.</li> </ul> <p data-bbox="549 884 751 916">Relative criteria</p> <p data-bbox="549 918 691 949">Preferably:</p> <ul data-bbox="600 978 1418 1361" style="list-style-type: none"> <li>• the project or fund collaborates with well-known NGOs;</li> <li>• the project or fund carries out awareness-raising activities to enhance the local population's understanding of the condition of the natural environment;</li> <li>• the project or fund reports on: <ul data-bbox="647 1155 1418 1361" style="list-style-type: none"> <li>○ basic principle: the number of hectares and type of land use at the start of the investment and during the investment;</li> <li>○ the number of hectares of protected area;</li> <li>○ the number of hectares of deforestation/degradation avoided.</li> </ul> </li> </ul> <p data-bbox="549 1408 708 1440">We exclude:</p> <ul data-bbox="600 1469 1398 2018" style="list-style-type: none"> <li>• activities that adversely affect protected or official nature conservation areas;</li> <li>• the felling of primeval forests, tropical rainforests, High Carbon Stocks (HCS) and mangrove forests;</li> <li>• deforestation, destruction or degradation of High Conservation Value Areas (HCVAs). High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance. In addition to areas protected by law, these are areas having a high biodiversity value that are not protected, or not yet protected;</li> <li>• land use changes that have an adverse impact on Red List species. This does not necessarily pertain to nature conservation areas; it does pertain to areas on which Red List species depend;</li> </ul>



	<ul style="list-style-type: none"> <li>• the introduction or increased competition of invasive species;</li> <li>• nature restoration that is performed as a compensatory measure to create a similar environment as the environment destroyed by development activities. The emphasis must be on restoring ecosystems and other natural environments that have actually been damaged or destroyed by projects and human activity in the past.</li> </ul>
Sustainable agroforestry and agriculture	<p><i>Sustainability criteria:</i></p> <p><b>Absolute criteria</b>  The production of agro-commodities that may have a negative ecological impact, such as coffee, cocoa, sugar, tea, soy and palm oil, must at least comply with the best practice guidelines for these commodities drafted by international forums.</p> <p>We believe that the certification schemes, standards and/or guidelines of the Rainforest Alliance, the Sustainable Agriculture Network (SAN), CCB77 or ProTerra are generally sufficient for all agro-commodities listed below, as well as for coffee, tea, cocoa or nuts, for example. We also adhere to the following certification schemes or internationally accepted guidelines:</p> <ul style="list-style-type: none"> <li>o FSC – for all timber or paper products;</li> <li>o RSPO – for palm oil;</li> <li>o RTRS – for soy;</li> <li>o NTA 8080 – for biomass;</li> <li>o Bon Sucro – for sugar cane;</li> <li>o Better Cotton – for cotton.</li> </ul> <p>In addition, we require:</p> <ul style="list-style-type: none"> <li>• compliance with the Convention on International Trade in Endangered Species of Wild Fauna and Flora;</li> <li>• clear end dates for commitments to end deforestation and land use change. Clarity about end dates is essential for establishing precise, workable and verifiable commitments regarding supply chains that are free of deforestation and land use change.</li> </ul> <p><b>Relative criteria</b>  Fairtrade or biological certification may occasionally be sufficient, which will be determined on a case-by-case basis. For example, not all biological certification excludes deforestation.</p> <p>Aiming to avoid pollution of the natural environment and minimise human health risks, we demand that projects and funds comply with the following treaties:</p> <ul style="list-style-type: none"> <li>• for crop protection agents: compliance with the Rotterdam Convention;</li> <li>• for chemical waste: compliance with the Basel Convention;</li> <li>• for persistent organic pollutants (POPs): compliance with the Stockholm Convention;</li> <li>• for ozone-depleting substances: compliance with the Montreal Protocol.</li> </ul>

	<p>If applicable, the project or fund preferably reports on the following:</p> <ul style="list-style-type: none"> <li>○ basic principle: the number of hectares and type of land use at the start of the investment and during the investment;</li> <li>○ the number of hectares of protected area at the project location (the benefits for neighbouring protected areas or areas downstream of the project location are also included in some cases);</li> <li>○ the number of hectares of deforestation/land degradation avoided.</li> </ul> <p>We exclude:</p> <ul style="list-style-type: none"> <li>• activities that negatively impact protected or official nature conservation areas;</li> <li>• the felling of primeval forests, tropical rainforests, High Carbon Stocks (HCS) and mangrove forests;</li> <li>• deforestation, destruction or degradation of High Conservation Value Areas (HCVAs). High Conservation Value (HCV) areas are defined as natural habitats whose values are considered to be of outstanding significance or critical importance. In addition to areas protected by law, these are areas having a high biodiversity value that are not protected, or not yet protected.</li> <li>• land use changes that have an adverse impact on Red List species. This does not necessarily pertain to nature conservation areas; it does pertain to areas on which Red List species depend;</li> <li>• the conversion of savannas and natural grasslands into agricultural land;</li> <li>• wetland reclamation and peat extraction;</li> <li>• the introduction of invasive species or an increase in their competitive advantages.</li> </ul>
Sustainable use of the seas and sustainable fisheries	<p><i>Sustainability criteria:</i></p> <p>Absolute criteria</p> <p>Fisheries must at least comply with the best practice guidelines drafted by international forums. Projects or funds must meet the following relevant certification schemes or internationally accepted guidelines for fisheries:</p> <ul style="list-style-type: none"> <li>• MSC: for wild-caught fish;</li> <li>• ASC: for farmed fish;</li> <li>• IPRSF: for shrimp farming.</li> </ul> <p>In addition, we require:</p> <ul style="list-style-type: none"> <li>• compliance with the guidelines of the Convention on International Trade in Endangered Species of Wild Fauna and Flora;</li> <li>• Marine Protected Areas<sup>84</sup> (MPAs) must be respected;</li> </ul>

	<ul style="list-style-type: none"> <li>• projects or funds actively seek to improve the welfare of caught and farmed fish by changing harvesting and slaughter methods.</li> </ul> <p>Relative criteria</p> <ul style="list-style-type: none"> <li>• compliance with the FAO Code of Conduct for Responsible Fisheries;</li> <li>• compliance with the Principles for Investment in Sustainable Wild-Caught Fisheries;</li> <li>• compliance with the MARPOL regulations.</li> </ul> <p>Preferably, the projects and funds we invest in:</p> <ul style="list-style-type: none"> <li>○ use farmed fish species with a Feed Conversion Ratio below 2.5;</li> <li>○ exclusively use sustainable feed;</li> <li>○ have a policy for maintaining and improving the water quality in their operating areas.</li> </ul> <p>We exclude:</p> <ul style="list-style-type: none"> <li>• the introduction of invasive species or an increase in the competitive advantages of invasive species;</li> <li>• fishing boats sailing under 'Flags of Convenience';</li> <li>• overfishing;</li> <li>• projects or investments that avail themselves of destructive fishing practices, i.e. practices that irreparably damage marine populations and that may destroy entire habitats of fish and other organisms. This includes: <ul style="list-style-type: none"> <li>○ fishing with dynamite or other explosives;</li> <li>○ cyanide fishing;</li> <li>○ bottom trawling;</li> <li>○ shark finning;</li> <li>○ muro-ami.</li> </ul> </li> </ul>
Ecotourism	<p><i>Sustainability criteria:</i></p> <p><b>Absolute criteria</b> The company has legally acquired rights of ownership and land and water rights and ensures that it performs its role and activities in accordance with local and national laws and regulations when it comes to the environment, health, safety and labour. Moreover, it respects the rights of the local and indigenous population.</p> <p><b>Relative criteria</b> The project may, for example, comply with one of the following standards or certificates:</p> <ul style="list-style-type: none"> <li>○ Green Key certificate;</li> <li>○ Global Sustainable Tourism Council;</li> <li>○ tour operators may be accredited with a Travelife certificate;</li> </ul>

	<ul style="list-style-type: none"> <li>○ the project or company is a member of The International Ecotourism Society (TIES).</li> </ul> <p>Preferably, the fund or company:</p> <ul style="list-style-type: none"> <li>• obtains food and drink locally;</li> <li>• has an environmental impact plan for its campsite or organisation that covers energy, waste processing and water consumption;</li> <li>• collaborates with the local and indigenous population.</li> </ul> <p>We exclude:</p> <ul style="list-style-type: none"> <li>• tourist activities that disturb or harm animals or their habitats;</li> <li>• projects or organisations that use and exploit wild animals for entertainment;</li> <li>• the trade in endangered animal species;</li> <li>• the hunt – the practice of seeking, pursuing and catching or killing – for wild animals.</li> </ul>
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*Activities to be excluded and avoided*

All projects must meet our criteria concerning activities to be excluded and avoided as described in section 4.4.1.

*Laws and regulations*

Projects must comply with all laws and regulations and have obtained the permits required.

*Misconduct*

We expect the projects not to be involved in (serious) misconduct, such as misconduct in respect of the local population. Section 4.1.4 states how we assess misconduct.

**4.6.4 Liquidities**

ASN Biodiversiteitsfonds holds part of its assets in liquid form. This may pertain to fund assets that are not invested, or not yet invested, in participations in private loans or in undertakings for collective investment, or assets intended to facilitate inflow and outflow of fund investors. To this end, the fund may hold assets in a savings or other account with an approved financial institution (assessed as issuer; see ASN Bank’s Financial Services policy paper to this end) or invest in green bonds. For efficient operational liquidity management, the fund may make limited use of bank accounts of financial institutions that have not been approved by ASN Impact Investors. The liquidity policy is explained in more detail in ASN Biodiversiteitsfonds’ prospectus.

## 5. Appendix

A number of sectors form part of ASN Bank's non-selling portfolio. These are residential construction and housing associations, healthcare and welfare, education, culture and leisure, and water boards and water companies. The selection methodology for projects in these sectors is explained in this appendix.

### 5.2 Residential construction and housing associations

We believe it is important that people have access to good and affordable homes: homes that are in good condition and situated in healthy, attractive surroundings. As a result, the objectives of housing associations have many aspects in common with ASN Bank's vision and mission.

The SEC analyst assesses whether residential construction projects comply with ASN Bank's sustainability policy and sustainability criteria and makes a recommendation. The head of the SEC may or may not adopt the recommendation. The ASN Bank Management Board takes the final decision whether or not to finance the project.

The following applies to fixed-interest loans of ASN Bank and investments of ASN Impact Investors (AII). First, the analyst assesses whether they comply with the sustainability policy and sustainability criteria and makes a recommendation. A second analyst assesses the recommendation. The recommendation is discussed during the research consultation and subsequently by the Investment Committee. Finally, the ASN Bank Management Board or, in the case of investments by the ASN Investment Funds, the AII Board of Directors takes a decision.

#### **Selection methodology and criteria for housing associations**

**SDG targets: 7.2, 7.3, 11.1, 12.7, 13.2, 15.2**

We can assess housing associations' policies on a scale ranging from 'insufficient' to 'excellent'. We only assess housing associations' policies if they do not carry out any activities that we exclude. Housing associations may positively stand out in various areas.

**Insufficient:** The housing association has not included any of the points below in its policy.

**Sufficient:**

- The housing association adheres to the Aedes Code and the Housing Associations Governance Code. If it does not do so, it explains its reasons for this in detail.
- The housing association has drawn up integrity rules.
- The housing association has a point of contact where occupants and others can report misconduct.
- There is no misconduct at the housing association. If an occasional incident occurs, the housing association immediately takes adequate measures.
- The housing association's objective is to improve the level of energy labels for the housing stock as a whole.
- The housing association constructs new buildings that have energy label A as a minimum. Non-residential buildings, such as social properties, comply with any of the following standards:
  1. GreenCalc+ environmental index for buildings: label class A or B
  2. LEED for new construction: Gold or Platinum
  3. BREEAM NL for existing/new buildings: Very Good or Excellent
  4. GPR Gebouw: 9 or 10 stars

- Good: The housing association satisfies the conditions mentioned at 'Sufficient' and has included one to seven of the points below in its policy.
- Excellent: The housing association satisfies the conditions mentioned at 'Sufficient' and has included seven to ten of the points below in its policy.

#### *Human rights and governance*

- Complaints mechanism:  
The housing association has a complaints mechanism. It is transparent about the number of complaints received and how these were handled.
- Transparency:  
The housing association is affiliated with an umbrella organisation that aims to improve its members' performance, such as *Aedes, Kwaliteitscentrum Woningbouwcorporaties Huursector* or similar initiatives.  
The housing association is subject to internal and external supervision and verifies compliance with the standards.  
The housing association engages with its stakeholders.  
The housing association is subject to a review every four years.
- Procurement policy: the housing association has a sustainable procurement policy.

#### *Climate*

- The housing association reports on the CO<sub>2</sub> emissions of its residential portfolio.
- The housing association takes initiatives to carry out renewable energy projects.

#### *Biodiversity*

- The housing association has included in its policy that it uses sustainably produced timber (wood certified by the Forest Stewardship Council (FSC)) as far as possible.
- The housing association is not involved in the construction of new buildings in green, undeveloped areas.

### **5.3 Healthcare and welfare**

ASN Bank finances healthcare institutions through project loans, through loans to healthcare institutions and through investment funds.

'Care and health' include:

- access to healthcare:<sup>78</sup> healthcare institutions such as hospitals, institutions for old-age care and other professional and non-professional care providers, such as home care and informal caregivers;
- both physical and mental health;
- access to medicines;  
access to the basic conditions for health: safe drinking water and sanitary facilities, safe food and sufficient nutrition, adequate housing, sufficient sports and movement;
- access to information about health.

In addition to healthcare institutions, we also select projects and institutions focusing on the welfare of vulnerable groups, such as the elderly, disabled people and children. In this document, they are all classified as 'healthcare institutions'.

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<sup>78</sup> In healthcare, three types of healthcare are distinguished: prevention (preventing illness), cure (recovery from illness) and care (living as comfortably as possible with a chronic disease).

The SEC analyst assesses whether healthcare and welfare projects in the Netherlands comply with ASN Bank's sustainability policy and sustainability criteria and makes a recommendation. The head of the SEC may or may not adopt the recommendation. The ASN Bank Management Board decides whether or not to finance the project.

The following applies to fixed-interest loans of ASN Bank and investments of ASN Impact Investors (AII). First, the analyst assesses whether they comply with the sustainability policy and sustainability criteria and makes a recommendation. A second analyst assesses the recommendation, which is discussed during the research consultation and subsequently by the Investment Committee. Finally, the ASN Bank Management Board or, in the case of investments by the ASN Investment Funds, the AII Board of Directors takes a decision.

### **Selection methodology and criteria for healthcare institutions**

**SDG targets: 3.8, 3.c, 12.4, 12.7, 13.2, 15.2**

#### *Project finance and loans to healthcare institutions in the Netherlands*

ASN Bank complies with healthcare laws and regulations when assessing healthcare institutions.

Many healthcare aspects are enshrined in laws and regulations, such as:

- patient safety;
- privacy;
- quality of care;
- radiological materials and other chemical waste.

We verify that no misconduct is apparent from media reports or inspection reports. Our assessment is positive if organisations are members of a sector organisation and are certified.

#### *Financing of healthcare institutions through the investment funds outside the Netherlands*

Healthcare institutions are subject to the same criteria that we apply to companies (see also section 4.1.1). In addition, we conduct research into the following extra points for attention:

- Is the institution a member of a sector organisation?
- Is the institution certified?
- Does the institution have any policy for employee health and safety?
- Does the institution have any policy for handling radiological materials and other chemical waste?
- Is the institution engaged in genetic modification?
- Is there a code of conduct (good governance)?
- Does the institution have any policy to guarantee consumer protection?
- Does the institution have any environmental policy with attention being paid to:
  - an environmental management system with attention being paid to prevention, reuse and recycling?
  - energy consumption (in the context of our climate objective)?
- Does the institution have a procurement policy?

## **5.4 Education, culture and leisure**

To ASN Bank, education and culture are important components of a sustainable society. We envisage a society in which people live without poverty and in which everyone has access to education, good housing and medical care. ASN Bank contributes to this society in various ways:

- through its bank balance sheet: ASN Bank directly finances educational and other institutions;
- through project loans for the buildings of educational and cultural institutions.

The following applies to loans provided to education projects and culture and leisure projects in the Netherlands. First, the analyst assesses whether they comply with ASN Bank's sustainability policy and sustainability criteria and makes a recommendation. Subsequently, the head of the SEC may or may not adopt the recommendation. Finally, the ASN Bank Management Board takes a final decision.

The SEC analyst assesses whether fixed-interest loans comply with ASN Bank's sustainability policy and sustainability criteria and makes a recommendation. Then, a second analyst assesses the recommendation. Finally, the ASN Bank Management Board decides whether or not to provide the loan.

### **Selection methodology and criteria for education, culture and leisure institutions**

**SDG targets: 4.a, 7.2, 7.3, 12.7, 13.2**

When assessing educational institutions, we pay attention to the following aspects:

- Is the institution involved in any misconduct? Section 4.1.1.4 describes how we assess such misconduct.
- Does the institution have proper governance? Are there any rules of conduct and what are the rules for the remuneration of directors?
- Is the institution transparent about the energy consumption of its buildings?
- Does the institution have a procurement policy?

## **5.5 Water boards and water companies**

ASN Bank invests in bonds of Dutch water boards and water companies. This does not include internationally operating water companies; see section 4.1.1 in that regard.

### **Selection methodology and criteria for water boards and water companies**

**SDG targets: 2.4, 6.1, 6.3, 6.4, 12.7, 13.2, 15.1**

We assess the water boards as a sector, because individual differences between water boards are minimal. This is because they:

- have similar objectives;
- are subject to the same laws and regulations;
- are united in the Association of Regional Water Authorities,<sup>79</sup> where they develop a common – and therefore strong – uniform policy.

We do assess water companies individually. We examine the following aspects when assessing water boards and water companies:

#### *Activities to be excluded and avoided*

The water boards and water companies must meet our criteria concerning activities to be excluded and avoided as described in section 4.1.5.1.

<sup>79</sup> The Dutch water boards are united in the Association of Regional Water Authorities, which promotes water boards' interests and arranges for the exchange of knowledge and cooperation between water boards. The Association represents the water boards both nationally and internationally. It is the employers' organisation of roughly 11,000 employees working at 23 water boards in the Netherlands. The Netherlands is home to a total of 24 water boards. The water board for Blija Buitendijks, an uninhabited region outside the dike off the Frisian Wadden Sea coast, is not a member of the Association of Regional Water Authorities. <http://www.uvw.nl/vereniging/>



### *Governance*

We expect water boards and water companies to have a governance policy in place. Topics we assess are: board remuneration, rules of conduct, including anti-corruption policy, compliance with laws and regulations, and lobbying activities. Finally, there must be no (serious) misconduct<sup>80</sup> in terms of governance.

### *Human rights*

As these are Dutch water boards and water companies, they are not very likely to violate human rights. This is because Dutch legislation provides sufficient safeguards. Water boards and water companies sometimes pass on their knowledge to third-world countries. There may be no misconduct in that regard.

### *Climate and biodiversity*

We expect water boards and water companies to comply with environmental laws. We also expect no misconduct to emerge. Preferably, they draw up an environmental policy and report on their environmental performance.

### *Supply chain policy*

We expect the supply chains of water boards and water companies to be free from (serious) misconduct. Preferably, they have a sustainable procurement policy containing criteria for governance, human rights and the environment.

The SEC analyst assesses whether water boards and water companies comply with ASN Bank's sustainability policy and sustainability criteria and makes a recommendation. The head of the SEC may or may not adopt the recommendation. The ASN Bank Management Board decides whether or not to provide a loan.

The analyst assesses whether listed water companies that qualify for investment by the ASN Investment Funds comply with the sustainability policy and sustainability criteria and makes a recommendation. Then, a second analyst assesses the recommendation, which is discussed during the research consultation and subsequently by the Investment Committee. Finally, the AII Board of Directors decides whether or not to invest.

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<sup>80</sup> Section [4.1.1.4](#) describes how we assess (serious) misconduct.