Guide to ASN Impact Investors' Sustainability Criteria

December 2022

asn impact investors

Contents

1 Introduction

This document is a practical guide to the sustainability research for ASN Impact Investors. 'Sustainability research' means analysing whether current or potential investments meet ASN Impact Investors' sustainability criteria. We have developed special policies for this research. This document shows how we apply these sustainability criteria in practice, where we draw the line and what this process looks like.

The guide help analysts to arrive at an unequivocal assessment and explains to interested parties how we do that. Accordingly, this document serves as:
- a clear description of the research methods;
- a master document for ASN Impact Investors;
- an overview of current policy, because the document is updated and supplemented where necessary.

Changing criteria
Although this is a detailed document, it is not possible to draw up a comprehensive list of sustainability criteria which all of ASN Impact Investors' activities must meet. The reason for this is that our world is in constant flux and is complex. In practice, we are regularly faced with questions to which the criteria do not give an unequivocal answer, and the policy does not always provide clear guidance when new types of investments 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 change and biodiversity. On the basis of these principles, we analyse how to prevent adverse effects or limit them as far as possible.

1.1 ASN IMPACT INVESTORS

ASN Impact Investors is the trade name of ASN Beleggingsinstellingen Beheer B.V. (ABB), the manager of ASN Beleggingsfondsen UCITS N.V., ASN Beleggingsfondsen AIF N.V. and ASN Biodiversiteitsfonds N.V. All was established in 1993 by ASN Bank to implement its vision, mission and strategy through investments. ASN Impact Investors is part of de Volksbank N.V.

For its investment funds, ASN Impact Investors invests in companies, countries, projects, countries and institutions that are part of the ASN investment universe. ASN Impact Investors establishes this universe on the basis of the sustainability criteria described in this guide. To facilitate decisions on the admission to and removal from the investment universe of companies, governments, projects and institutions, the Investment Committee has been set up.

We manage the following funds:
- 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.

1.2 SUSTAINABILITY VISION AND MISSION

As our sustainability vision and mission are leading in the selection process, we will address this in more detail below.

1.2.1 Vision

Based on our vision, we have been striving for a sustainable, just society for 25 years. With the money that our customers entrust us with, we encourage sustainable progress. In this way we contribute to a world where people can live safely and healthily and nature is protected now and in the future.

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.’

On the basis of this definition, we have defined the three pillars of our sustainability policy as human rights, climate change and biodiversity. Furthermore, good governance and animal welfare are important themes for us. These five key concepts encompasses the issues that our customers and us find important.

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

Key concept	Inspiration	Elements
Sustainability	Brundtland report	E.g., fair distribution of wealth, relationship between short term and long term, relationship between the environment and wealth.
Human rights	E.g., the United Nation’s Universal Declaration of Human Rights and the Guiding Principles on Business and Human Rights.	E.g., health care, a living wage, no child labour but school, good working conditions, privacy, housing, social needs.
Climate	Findings of the Intergovernmental Panel on Climate Change (IPCC) of 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 treaties and rules	E.g., corruption, 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 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 come under the need for safety and security. Transport, waste processing and clothing are also important for a good standard of living.

1.2.2 Mission

ASN Impact Investors' 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 shifted to future generations or foisted onto the environment, nature and vulnerable communities. In doing so, we do not lose sight of the necessity to generate a long-term return on the funds that our customers entrust to us that does justice to their expectations.

1.3 SUSTAINABLE DEVELOPMENT GOALS

The sustainable vision and mission of ASN Impact Investors fit in well with the Sustainable Development Goals (SDGs) of the United Nations. In 2015, 193 UN member states signed up to these 17 global goals and 169 underlying targets. The SDGs aim to reduce poverty, reduce inequalities, address climate change and protect natural resources by 2030.[1]

We support the SDGs and ensure through our sustainability policy that our investments do not conflict with these goals. In addition, we actively contribute to various SDGs through our long-term goals and engagement activities.

However, the 169 SDG targets have been formulated for governments and are difficult to translate to companies. We have reviewed which targets relate to our practice. By specifying these targets, we try to indicate how we as a financial institution give substance to the 17 SDGs.

Accordingly, this document contains references to targets of the SDGs. These are indicated in red in the sections that describe the selection criteria for our investments and show the links between our sustainability policy and the SDGs.

1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE PRODUCTION AND CONSUMPTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

1 https://sustainabledevelopment.un.org/sdgs

2 Risk countries

Companies[2] run the risk of violating human rights in any 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 not the case. That is why, for every country, we assess the level of the risk that companies run of violating human rights. We use this risk classification primarily to assess the activities of companies, institutions and projects (see chapter 4). The country risk analysis is not used for the selection of government bonds (see section 3.1).

2.1 ANALYSIS OF 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 risk countries, every two years we assess the countries that are internationally recognised by the United Nations.[3] 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, risk country or high-risk country. The table below clarifies which categories of risk countries we distinguish and how we arrive at this classification.

High-risk country	Risk country	Low-risk country
Countries 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. A country is a high-risk country if it scores 'high' three times or more. See the explanation below.	Countries where companies run a moderate risk of being involved in human rights violations, such as child labour, lack of freedom of association, and corruption. All countries that are not high- or low-risk countries fall in the risk country category. See the explanation below.	Countries where companies run a relatively low risk of being involved in human rights violations. A country is a low-risk country if it scores 'low' five times or more, and has no 'high' score. See the explanation below.

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 has a low, medium or high risk on the topic in question.

Topic		
Peace	Information	If there is no peace, there is an increased risk for companies of being involved in (serious) 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'. Risk countries: countries scoring 'medium'. High-risk countries: countries scoring 'low' and 'very low'.
Democracy and freedom	Information	If there is no democracy or freedom, there is an increased risk for companies of being involved in (serious) human rights violations.
	Indicator	The level of democracy and freedom in a country.

2 Here, we use the term 'company' as a collective term; we use it to refer to all possible organisations, projects and companies in which our investment funds may invest or that they may finance, except for government bonds.
3 We do not publish this list on the website; it is available on request.

	Sources	Freedom House: Freedom in the World.
	Assessment	Low-risk countries: countries scoring 'free'. Risk countries: countries scoring 'partly free'. High-risk countries: countries scoring 'not free'.
Child labour	Information	The prohibition of child labour is one of the fundamental labour rights of the International Labour Organization (ILO).
	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 is included in 'tier 1' of the Children's Rights and Business Atlas. Risk countries: - a country has ratified one convention or neither of the conventions, and/or - a country is included in 'tier 2' of the Children's Rights and Business Atlas. High-risk countries: - a country is included in 'tier 3' or 'tier 4' of the Children's Rights and Business Atlas.
Freedom of association	Information	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 small.
	Sources	Ratification of conventions: - ILO Convention No. 87 concerning the freedom of association and protection of the right to organise (1948) - ILO Convention 98 concerning the right to organise and collective bargaining (1949) - Freedom House: Freedom in the World, sub-score E (Associational and Organizational 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. 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	Information	The prohibition of forced labour is one of the ILO's fundamental labour rights.
	Indicator	The risk of forced labour occurring in a country.
	Sources	Ratification of conventions: - ILO Convention No. 105 concerning the abolition of forced labour (1957) - ILO Convention No. 29 concerning forced labour (1930) - Walk Free Foundation: Global Slavery Index
	Assessment	Low-risk countries: - a country has ratified both conventions, and

		- a country has a score on the Global Slavery Index that corresponds to the scores of the (approximately) 25 countries with the highest scores.[4] Risk countries: - a country has ratified one of the conventions, and/or - a country has a score on the Global Slavery Index that does not correspond to the scores of the (approximately) 25 best- or worst-performing countries. High-risk countries: - a country has ratified neither of the conventions, and/or - a country has a score on the Global Slavery Index that corresponds to the scores of the (approximately) 25 worst-performing countries.
Discrimination	Information	Non-discrimination and equal treatment are fundamental labour rights of the ILO and part of the ESC rights.
	Indicator	The risk of discrimination in a country.
	Sources	Ratification of relevant conventions: - UN International Convention on the Elimination of All Forms of Racial Discrimination (1965) - UN Convention on the Elimination of all Forms of Discrimination Against Women (1979) and the optional ILO protocol (1999) - ILO Convention No. 100 concerning equal remuneration (1951) - ILO Convention No. 111 concerning discrimination (employment and occupation) (1958)
	Assessment	Low-risk countries: - a country has ratified all conventions. Risk countries: - a country has ratified one or more, but not all, conventions. High-risk countries: - a country has not ratified any of these conventions.
Corruption	Information	Corruption is a core issue in, for example, the OECD guidelines; companies run a high risk of getting involved.
	Indicator	The risk of corruption in a country.
	Sources	Transparency International's Corruption Perceptions Index
	Assessment	The countries score as follows on the Corruption Perceptions Index: - low-risk countries: a country scores 70-100; - risk countries: a country scores 30-69; - high-risk countries: a country scores 0-29.

Use of sources
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 the 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 RISK COUNTRIES

The policy and methodology for the analysis of risk countries have been established by the management of ASN Impact Investors. Analysts of ASN Bank's Sustainability Expertise Centre (ECD) prepare the analysis on the instruction of ASN Impact Investors. The analysts explain it to ASN Impact Investors' Investment Committee. The Investment Committee establishes the final list of risk countries.
In the investment process, we take into account that risk that an event relating to ecological, social or governance aspects causes financial loss or may have a negative effect on the value of assets under our management.

4 The Global Slavery Index assigns a score to every country. Countries' scores may change when they are updated. Therefore, we do not mention specific scores here, but instead refer to the scores of the approximately 25 best- or worst-performing countries.

3 Selection of bonds

For the ASN Duurzaam Obligatiefonds, we invest in euro bonds of national governments and local government authorities.
We also have this option for the cash positions of the ASN Groenprojectenfonds and ASN Microkredietfonds. The selection process for these bonds is described in this chapter. The selection process for government bonds for the ASN Duurzaam Obligatiefonds also applies to the bond component of the ASN Duurzame Mixfondsen.

For the Duurzaam Obligatiefonds, the ASN Biodiversiteitsfonds and the ASN Duurzame Mixfondsen, we invest in green, social and/or sustainability bonds. These are bonds issued by other institutions with which sustainable projects will be or have been financed. Through green bonds, we invest in sustainable energy, energy saving and biodiversity. Social bonds are used to finance projects with a social impact, such as microcredits and social housing. Sustainability bonds are used to finance a mix of green and social projects.

3.1 GOVERNMENT BONDS AND LOANS TO LOWER TIERS OF GOVERNMENT

National governments and local and regional government authorities play an important role in a society's functioning. National governments provide basic facilities like housing, education and healthcare, and set rules, such as nature conservation rules – matters that are important now and in the sustainable world of tomorrow. Governments also provide infrastructure. They need money to fund all these activities. Issuing government bonds allows them to obtain capital quickly. Lower tiers of government, too, issue bonds. They redeem these (government) bonds through various means, including by using taxpayers' money.

Investing in countries and green bonds exposes the ASN Duurzaam Obligatiefonds to sustainability risks. Sustainability risk is the risk that an event relating to ecological, social or governance aspects causes financial loss or may have a negative effect on the value of assets under management.

We have identified the following risks for the ASN Duurzaam Obligatiefonds, in respect of which mitigating measures are specified.

- Ecological, social and governance: These risks are mitigated by the establishment of a sustainability investment universe in accordance with the Guide to ASN Impact Investors' Sustainability Criteria. These criteria include detailed criteria for activities to be excluded and avoided, as well as limits that avoid or reduce the exposure to sustainability risks.
- Countries are assessed for their policies on climate, biodiversity and human rights. The countries with the lowest scores – and therefore the lowest sustainability risks – are selected for the investment universe.
- When it comes to green and social bonds, these serve a specific purpose relating to the mitigation of climate and social risks. The designated use of the funds is assessed for each individual bond in accordance with the sustainability criteria.

As per the Sustainable Finance Disclosures Regulation (SFDR), the principal adverse impacts (PAIs) of investments in companies comprise adverse impacts on the environment and society. The ASN Duurzaam Obligatiefonds bases its selection on the current sustainability policy and the investment process. Based on this, the selection process as described in sections 3.1 and 3.2 is applied. The sustainability policy contains several criteria and requirements that minimise the risk of the portfolio giving rise to PAIs.

3.1.1 Assessment criteria for countries

Every two years, we select the countries that meet our criteria. If we have approved a country based on these criteria, the lower tiers of that country's government are also automatically approved, because they comply with the same laws and regulations.

In our selection, we distinguish between exclusion criteria and sustainability criteria. If a country does not meet the exclusion criteria, it is excluded. With the aid of the sustainability criteria, we select the best performing countries.

Country assessment based on exclusion criteria

We only approve countries if they meet the following exclusion criteria in the areas of human rights, climate change and biodiversity.[5]

1. *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[6] occur or where there is a major risk of these violations:

- Crimes against humanity
- Torture: countries can only be approved for admission if they have ratified the Convention against Torture (CAT).
- Slavery: countries are rejected for admission if they have a very high risk of slavery.
- Genocide: countries are rejected if they have 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.[7]

2. *Climate*

SDG targets: 13.2, 14.3

We exclude countries from investment that do not actively contribute to climate protection. Countries can only be approved if they have ratified the Paris Agreement.[8]

3. *Biodiversity*

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

We exclude countries from investment that do not actively contribute to the protection of biodiversity as they do not endorse 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;

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5 For the selection based on the exclusion criteria, we use as many public, reputable sources as possible. These are sources that can indicate whether or not a country meets the exclusion criterion concerned.

6 Countries which are subject to UN sanctions are also included in this category. However, we consider UN sanctions too broad to be used as the only criterion.

7 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 does not violate the United Nations' arms embargoes and does not contribute to crimes against humanity or war crimes.

8 At the Paris Climate Change Conference in 2015, new agreements were made about combating climate change. These agreements were laid down in the Paris Agreement. The Paris Agreement was to take effect when it was ratified by 55 countries jointly responsible for at least 55% of global emissions. This threshold was reached on 5 October 2016. The Paris Agreement took effect on 4 November 2016. 195 countries have now signed it.

- Convention on Wetlands (also known as the Ramsar Convention);
- Unesco World Heritage Convention (WHC);
- UN Convention on the Law of the Sea;
- Cartagena Protocol.

Country assessment based on sustainability criteria

After having applied the exclusion criteria, the countries we don't exclude remain. From these countries, we select the best performing countries based on the sustainability criteria. To this end, we have established a minimum score beforehand. To be approved, countries must achieve this minimum score. We use this score for a number of years in order to guarantee continuity. The aim is both to select the countries that perform best and to ensure sufficient diversification for the investments.

For the selection based on the sustainability criteria, we use various indicators.[9] The selection of an indicator is performed in two steps. First we establish the topic that the indicator needs to measure.[10] Then we look for the indicator that best measures that topic.[11] In exceptional cases, we may not be able to identify an indicator for a selected topic that meets these requirements. In those cases, we do not include the topic in the weighting.

1. 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 generally recognised standards, such as those of the International Labour Organization (ILO). We assess the country on the following topics with their corresponding indicators:

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 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 low freedom of association	The lower the better

9 We decided to use indicators instead of indexes. The difference may not be immediately apparent and therefore requires some explanation. Each index is composed of different indicators and aims to provide an overall assessment on a broad level. Due to this broad composition, indexes often measure items that we do not want to take into account or that we would give a completely different weight to. In addition, indexes tend to use the same indicators. As a result, certain indicators could be counted multiple times, in different indexes, and thus receive too much weight.

10 Topics must meet the following requirements; there may be no more than twenty topics; they do not assess a country's policies, but rather what actually happens in practice; and they overlap as little as possible.

11 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.

2. 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_2 equivalents)	The lower the better
Sustainable electricity	Share of renewable electricity generated in total electricity generated	The higher the better

3. Biodiversity

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

The country contributes to the protection of biodiversity. 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 areas	Share of total surface area set aside as nature conservation areas	The higher the better
Air pollution	Per capita sulphur oxide (SOx) emissions	The lower the better
Waste disposal	Waste disposed on land per capita	The lower the better

Calculation of score, weighting and rating

We calculate each country's score 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 investment universe.
- **Step 3:** Based on the data collected, we calculate each country's score on the relevant indicator. To enable a comparison of countries' scores on the indicators, the data is rescaled.[12] In that process, we determine the highest and lowest values of the data per indicator. Depending on the indicator, the lowest or highest value is the best value, as explained for each indicator in the table above. Next, we assess for each country what the difference is relative to 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 change and biodiversity). We do this because we want to assign equal weight to each of the pillars in the ultimate sustainability score, even though the respective pillars do not have the same number of indicators. On the basis of the rescaled scores, we determine the rank-weighted average[13] per pillar for each country.
- **Step 5:** We calculate the sustainability score, which is the final score for each country. The sustainability score is the rank-weighted average of the score per pillar. The more closely the outcomes of the various indicators align with each other, the higher we rate a country. A country with an uneven spread across the indicators is given a lower rating. This is because 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.

12 Rescaling involves the conversion of the data from various indicators, allowing us to enter the data on a single scale. This enables us to compare the data.
13 'Rank-weighted average' means that the scores are ranked from poor to good, with the poorest scores carrying the most weight and the best scores the least. The purpose of this is to ensure that poor scores cannot be offset by good scores.

When the scores are known, it is clear which countries meet 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 meet the minimum score is submitted to the Investment Committee for approval.

3.2 ASSESSMENT CRITERIA FOR GREEN, SOCIAL AND SUSTAINABILITY BONDS

Although green and social bonds finance different types of projects, the methodology for selecting them is the same. We assess them on the following topics in the following order:

1. Issuer

Financial institutions and companies may issue green, social or sustainability bonds. We always analyse the issuer of the bond. In doing so, we assess the issuer with respect to:

- Activities to be excluded: does the issuer carry out activities[14] that we exclude? If such activities constitute the institution's primary operations, we are very cautious about investing in any green, social or sustainability bond of this issuer, even if that bond does not finance those activities. In section 4.4.1 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 sustainability 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 sustainability bond, we analyse which projects are financed with the bond. To this end, we use the following sources:

- The investment document: this document states the designated use of the money raised with the bond.
- The issuer's selection criteria framework, which stipulates which projects the institution wishes to finance with the green, social or sustainability bond. Some institutions draw up this framework themselves, while others do so with the help of an external party.
- A second opinion: on the issuer's instructions, an independent third party assesses the selection criteria or the green, social or sustainability 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 complied with it or we may set the recommendation as a condition.

We do not invest in a green, social or sustainability bond in the following cases:

- The bond finances activities that we exclude or avoid. For green bonds, for example, the financing of projects in biomass or dams may be a reason for exclusion; for more information, see section 4.4.1.
- Insufficient transparency. We do not invest in a green, social or sustainability bond if it is unclear what projects are being financed with it, as the bond may be used to finance projects that we exclude.
- The bond does not meet our definition of a green, social or sustainability bond. Green, social or sustainability bonds are issued more and more often to finance all sorts of projects. If a bond does not meet 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 define 'green projects' as projects that meet the criteria set for sustainable energy projects. The green bond should preferably comply with the Green Bond Principles. The green bond should preferably comply with the Climate Bond Initiative.[15]
- Social bond: a bond whose proceeds are used to finance social projects.
- Sustainability bond: a bond whose proceeds are used to finance a mix of social and green projects.

14 Activities that we exclude are, for example, fossil fuels, arms and mining.
15 The Green Bond Principles and the Climate Bond Initiative are initiatives for defining a green bond. The Green Bond Principles are voluntary guidelines on the issuance of green bonds to fund environmentally friendly activities. The Climate Bond Initiative is in accordance with Green Bond Principles, but applies a stricter definition of green bonds, whereby climate bonds may only be used to finance climate mitigation or adaptation projects.

3. Risk countries

If it turns out that the issuer finances projects in countries that we regard as risk countries (see chapter 2), we expect the issuer to have in place additional policy with regard to human rights. If the issuer does not have in place sufficient policies to guarantee that human rights are respected, we will not invest in the green, social or sustainability bond.

4. Carbon footprint

We measure the carbon footprint of our investments. That is why it is important to know the carbon footprint of green, social or sustainability bonds. Both green and sustainability bonds may yield a CO_2 benefit. If the carbon footprint is known, we can compare it to see if the calculation method matches our methodology. However, the carbon footprint of green, social or sustainability bonds is not always known. Sometimes this information can be requested from the issuer. Sometimes we can determine the carbon footprint ourselves based on the completed projects. For green and sustainability bonds, we do not stipulate the condition that they must yield a CO_2 benefit. After all, they may also have other positive sustainability effects, such as on biodiversity or social goals.

5. Equator Principles

If any projects are financed through the green, social or sustainability bond to which the Equator Principles[16] apply, we must assess whether these projects meet the criteria of the Equator Principles.

6. Additionality

An issuer may package already completed projects in a green, social or sustainability bond in order to free up cash to finance entirely different projects and activities. We have a preference for buying green and sustainability bonds that finance new projects. In this way, we want to encourage other institutions to carry out new sustainability projects.

Recommendation

Based on the above considerations, we arrive at a recommendation. If all topics meet our criteria, we can admit the green, social or sustainability bond to the investment universe. If the issuer does not meet all the criteria, we may set additional conditions that the green or social bond must meet before we can make a positive recommendation. Two staff members at ASN Bank's Sustainability Expertise Centre (*Expertisecentrum Duurzaamheid*, ECD) review the assessment and together draw up a recommendation. The Investment Committee then takes a final decision on the bond.

16 The Equator Principles (EP) for large project financing require that such financing meets 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. Therefore, in these countries it is sufficient for project financing to comply with local laws, so it does not have to be assessed against the EP; see http://www.equator-principles.com/

4 Selection of companies

The ASN Duurzaam Aandelenfonds, ASN Milieu & Waterfonds and ASN Duurzaam Small & Midcapfonds invest in shares of companies included in the ASN investment universe. This investment universe also applies to equity portfolios of the ASN Duurzame Mixfondsen. ASN Impact Investors establishes this investment universe on the basis of its sustainability criteria. The Investment Committees take the decisions on the admission to or removal from the investment universe of companies, governments, projects and institutions.

This chapter discusses the selection process for companies. It sets out the various recommendations and decisions in that regard. We will also discuss the steps an analyst takes to arrive at a recommendation and the considerations made in that respect.

Investing in companies exposes the ASN Duurzaam Aandelenfonds, ASN Milieu & Waterfonds and ASN Duurzaam Small & Midcapfonds to sustainability risks. Sustainability risk is the risk that an event relating to ecological, social or governance aspects causes financial loss or may have a negative effect on the value of assets under management. For the ASN Duurzaam Aandelenfonds, ASN Milieu & Waterfonds and ASN Small & Midcapfonds, the following risks have been identified:

- Ecological risk: the risk of ecological factors, such as natural disasters, changing weather patterns and sea level rise, having an adverse impact on the investment. Although this risk is difficult to mitigate, ASN Impact Investors tries to have a positive impact on the reduction of the ecological risk through activities that help to limit this risk.
- Social risk: it is assessed whether companies are involved in any controversies relating to human rights in general and labour law in particular. Any such involvement is raised with the company through engagement, and if it does not sufficiently address the issue in response, the company is removed from the portfolio.
- Governance risk: companies are assessed on their governance policy, with a particular focus on their anti-corruption policy.

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

- setting a concentration limit per individual company, whereby no more than five per cent of the fund assets may be invested in any one company;
- extensive screening on integrity and money laundering risks before investing and while investment is ongoing.
- Before a company is approved for admission to the sustainable investment universe, extensive due diligence is carried out in accordance with the Guide to ASN Impact Investors' Sustainability Criteria. These criteria include detailed criteria for activities to be excluded and avoided, as well as limits that avoid or reduce the exposure to sustainability risks.
- After a company has been approved for admission to the sustainable investment universe, it is continuously monitored and negative publicity about it is assessed. Extensive due diligence is carried out least once every four years.

As per the Sustainable Finance Disclosures Regulation (SFDR), the principal adverse impacts (PAIs) of investments in companies comprise adverse impacts on the environment and society. The ASN Duurzaam Obligatiefonds, ASN Milieu & Waterfonds and ASN Duurzaam Small & Midcapfonds base their selection on the current sustainability policy and the investment process. Based on this, the selection process as described in sections 4.1, 4.2, 4.3 and 4.4 is applied. The sustainability policy contains several criteria and requirements that minimise the risk of the portfolio giving rise to PAIs.

4.1 SELECTION PROCESS FOR COMPANIES

ASN Bank's Sustainability Expertise Centre (ECD) performs the sustainability research and makes recommendations to our Investment Committee. The Investment Committee meets at least six times per year and determines the composition of the investment universe. The companies in this universe are re-examined and reassessed at least once every four years.

If a company in our universe is involved in a split-up (*opsplitsing*), a split-off (*afsplitsing*) or a merger or is acquired by another company within the period of four years, the review is brought forward. No later than six months after a split-up, split-off, merger or acquisition, the relevant activities are examined; in the case of a split-up or split-off, the activities of both companies involved are examined. A full analysis of the new company or companies is performed no later than 15 months after the split-up, split-off, merger or acquisition.

The decision-making process for the selection of companies is as follows. The analyst assesses companies and, based on the sustainability policy and sustainability criteria (in section 4.4), recommends to approve or reject the company. The second analyst assesses the examination and recommendation. Following the analyst's explanation, the Investment Committee decides whether or not to admit the company to, or retain the company in, the investment universe of the ASN Investment Funds.

4.1.1 Risk analysis and analysis category

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

First we identify the risks of the sector in which the company operates and those of the company itself. This is based on our three sustainability pillars, i.e. human rights, climate change 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 which activities is it engaged in? We lay down these risks in a sector profile, with the outcome being that the sector risk is low, moderate or high.

ASSESSMENT OF SECTORS AND ACTIVITIES IN PRACTICE

It is important to properly analyse the exact risks a company faces. Therefore, when assessing companies that operate in risk countries or high-risk countries, we examine what their exact activities are in these countries. If, for example, a company has only sales offices there, the risk of child labour or forced labour is low. 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 risk country or a high-risk country.
Even when a company operates in a low-risk sector in low-risk countries, there may still be a risk with respect to specific topics. In the software sector, for example, data privacy is always a risk.

Next, we establish whether the company operates in low-risk countries, risk countries or high-risk countries (see chapter 2 *Risk countries*).

The sector risk combined with the country risk ultimately determines the analysis category. The more the company operates in risk countries and risk sectors and engages in risk activities, the higher the risks and, hence, the stricter the conditions are which the company must meet. The same assessment criteria apply in all cases. The level of detail of the analysis and the admission criterion depend on the company's size (see section 4.1.2 Large and small companies).

Examples of sectors and their risks[17]

Sector	Risk	Subthemes include:
Garment and retail industry	High	Supply chain, child labour, forced labour, freedom of association, healthy & safe working conditions, pollution, living wage.
Food industry	High	Supply chain, land use, forced labour, 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 industry	High	Base chemicals, mining, cement, conflict minerals, healthy & safe working conditions.
Electronics industry	Moderate	Arms, conflict minerals, healthy & safe working conditions, forced labour, supply chain.
Telecommunications industry	Moderate	Arms, conflict minerals, privacy, energy consumption.
Paper and pulp industry	Moderate	Land use, deforestation.
Property development industry	Moderate	Greenfield sites, deforestation, ethical conduct, cement.
Software industry	Low	Arms, privacy, CO_2 emissions via data centres.
Media industry	Low	Freedom of speech, energy consumption, deforestation.

Below, we explain for each topic how these analysis categories affect the assessment with respect to our three sustainability pillars and governance.

The aim of our strict selection process is to ensure that we invest in countries that contribute to making society more sustainable. It also helps us to generate a stable financial return.

1. Human rights

Where national law differs from international law, we consider it important that the company adheres to the provision that provides the best protection to the individuals or group of people concerned.

Avoid

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

- supplies essential humanitarian services or products as its primary activity, thus contributing to human rights in that country (supplying, for example, medical services or homes);
- can guarantee that it is not directly or indirectly involved in serious human rights violations by a country; and
- can guarantee that its activities are in accordance with our other sustainability criteria.

Further analysis

This analysis must answer the following question: does the company sufficiently guarantee that its activities meet all our criteria in countries with insufficient rules on human rights and their enforcement? This is possible if the company has formulated a sufficient policy and monitors its implementation. If a company operates 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

17 The only sectors included here those that are not engaged in activities that we exclude or avoid.

corrupt regime benefits. In that respect, we examine whether there is any misconduct in the area of human rights that is in conflict with the local or international laws and rules.

Normal analysis
This analysis focuses on companies that operate in countries with a low risk of human rights violations. Accordingly, the analysis answers the question as to whether the company's activities comply with the local laws and rules. We examine whether there is any misconduct in the area of human rights that is in conflict with the local laws and rules. Misconduct is defined as a situation in practice that conflicts with our sustainability criteria. In some cases, we expect a company in this analysis category to have in place specific policy. For example, when it operates in a low-risk country known to have a high risk of a specific type of human rights violation.

2. Climate
When assessing companies with respect to climate change, we do not make a distinction based on risk countries. We expect the same of all companies: that they have policies to reduce their impact on the environment and to manage risks. However, we do take into account whether companies operate in a sector with a larger impact on the environment. In that case, we expect them to at least have a policy for those elements that, given their activities, constitute a risk.[18] In that respect, we assess whether there is any misconduct.

3. Biodiversity
When assessing companies with respect to biodiversity, we first assess 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 operates. We expect the substance and quality[19] of the company's policy to be better if the company operates in risk or high-risk countries and/or is engaged in risk or high-risk activities. Finally, we assess whether there is any misconduct.

4.1.2 Large and small companies
Before we start with the sustainability analysis of a company, we first determine if it is a small or large company. This distinction is relevant because the criteria for admission to the investment universe are less strict for small companies than for large companies.

Small company
A small company is a company with a market capitalisation of less than EUR 4 billion at the time of assessment. Our sustainability criteria for smaller companies are less strict when we assess whether they have policy in place. This is because small companies have less resources with which to meet our policy requirements. However, that does not mean that they are less sustainable. We assess these companies with respect to:
- activities to be avoided or excluded: an 'approve' recommendation requires that the company is not involved in activities that we avoid or exclude;
- misconduct: an 'approve' recommendation requires that the company is not involved in any misconduct;
- their mission: for an 'approve' recommendation, we assess to what extent the company contributes to our mission.

18 For example, energy consumption constitutes a major risk for companies operating in the software and services industries. We therefore expect companies operating in these industries to at least say something about their energy consumption and the related CO_2 emissions.
19 The criteria we apply to assess companies' policies are further detailed in section 4.4.

Additional requirements for small companies:
- The company qualifies for a positive recommendation if it has sufficient policies with regard to the adverse effects its activities may have on important sustainability factors. For example, concerning the garment, food and consumer electronics supply chains, which are known to have a considerable adverse impact.
- The company does not need to have a policy on the lesser risks.

Large company
A large company is a company with a market capitalisation of EUR 4 billion or more.
The sustainability criteria based on which we assess large companies are described in the sections below.

Additional requirements for large companies:
- The company qualifies for a positive recommendation if:
  1) the answer to all questions on applicable police components is *yes*; and
  2) no more than four of the company's policy components are assessed to be *poor*.[20]

4.1.3 Game changers
ASN Impact Investors invests in companies that fit in with its sustainability mission and vision. This includes companies that contribute to the transition to a sustainable society: 'game changers'. If these companies have a market capitalisation of EUR 4 billion or more, they can be approved 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 to improve care;
- the global market share of this activity is no more than 25%;
- the company is almost entirely focused on this activity;
- there may be no (serious) misconduct.

4.1.4 Research questions and profile
After the risk analysis and after having determined the level of analysis, we fill in the company profile, in which we answer specific questions. In this section we explain how the profile is filled in and what questions the profile contains. The activities we exclude, how we assess a company's policy and how any misconduct is addressed is described in section 4.4.

In the company profile, we clearly distinguish between the activities of a company, its policy, and how the company performs in practice. We assess the policy based on the various sustainability policy components in the profile.[21] In addition, we assess 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 does not qualify for admission 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 has already been rejected based on other policy components. In that case, we report: *not further analysed*.

In the company profile we answer the following questions:
- Is the company engaged in activities that we avoid or exclude?
- Does the company operate in risk countries and/or high-risk countries?

20 The analyst will sometimes arrive at a positive recommendation on the basis of the entire profile and the estimated risks despite one or more of the company's policy components being assessed to be 'poor'.
21 Examples of policy components for the analyst to assess are: rules for ethical conduct, policies on child labour and forced labour, and environmental policy.

- Does the company have a sustainability policy on human rights, climate change, biodiversity, governance, the chain and, if applicable, animal welfare?[22]
- What is the quality of the company's policy?
- How does the company perform in practice? Is there any misconduct?
- What is the analyst's overall assessment based on the risks, the quality of the company's policy, and how the company performs in practice?

Is the company engaged in activities that 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 a no if the company is not engaged in a particular activity or does not operate in a particular sector.
- The analyst provides a brief explanation of his/her 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 the company does not have a policy for this component, or a *yes* if it does.
- We then assess the quality of the policy, rating it as *insufficient, poor, sufficient, good or excellent*.
- The analyst provides an explanation to clarify how he arrived at his/her assessment.
- Companies operating in low-risk countries do not need to have in place policies on all policy components, as the laws and regulations of the respective countries already provide sufficient safeguards. In such cases, the assessment entered by the analyst will be *yes, sufficient*.
- In some cases, a policy component does not apply to the sector or the company. In that case, we enter *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 his/her explanation, the analyst clarifies how he/she arrived at this assessment. In doing so, the analyst discusses 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?
There are different moments at which misconduct is discussed:
1. Prior to every Investment Committee meeting,
    - for companies in the investment universe: Misconduct identified through the databases is discussed within the Sustainability Expertise Centre. Every analyst reviews a list of cases of misconduct and assesses the severity of the misconduct. This misconduct is discussed in the analysis meeting
    - When companies are scheduled to be analysed.
2. Ad hoc:
    - When serious misconduct occurs that must be urgently addressed, this is assessed by an analyst of the Sustainability Expertise Centre.

When misconduct is assessed to be serious, it is submitted to the Investment Committee. Depending on the severity of the misconduct, we may take the following action:
1. when if a company is not yet included in our investment universe, we reject if for admission;
2. when a the company is included in our investment universe, we engage with the company;
3. we remove the company from the investment universe.

22 The themes of climate change, biodiversity, human rights and governance are subdivided into subthemes, or policy topics, e.g. rules for ethical conduct, policies on child labour and forced labour, and environmental policy.

When is misconduct serious?

The analyst determines whether misconduct qualifies as ‘serious’ by means of the following questions:

- Are human rights being violated? Is there severe misconduct in the field of ethics, biodiversity or climate change?
- What is the scope 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 has the company responded?

Procedure:

- The analyst examines whether and how the misconduct is linked to the company. If there is such a link, the analyst examines whether the company has publicly responded to the misconduct.
- If misconduct 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 overall assessment based on the risks, the quality of the company’s policy, and how the company performs in practice?

The analyst arrives at his/her overall assessment and makes a recommendation based on the risks, the quality of the company’s policy and the company’s performance in practice. The recommendations that an analyst may make are listed in section 4.1.5. In this respect, we distinguish between large and small companies (see section 4.1.2 for further explanation). Whether the overall assessment is ultimately ‘sufficient’ (v) or ‘insufficient’ (x) is shown in the table below.

Overall assessment for large companies (market capitalisation in excess of or equal to EUR 4 billion)

Policy component / sector risk	Insufficient	Poor	Sufficient	Good	Excellent
Low	n/a	V	V	V	V
Moderate	X	V/X[23]	V	V	V
High	X	X	V	V	V

Overall assessment for small companies (market capitalisation of no more than EUR 4 billion)

Policy component / sector risk	Insufficient	Poor	Sufficient	Good	Excellent
Low	n/a	V	V	V	V
Moderate	V	V	V	V	V
High	X	V/X[24]	V	V	V

WHEN IS A COMPANY APPROVED OR REJECTED?

To ultimately qualify for a recommendation to ‘approve’ the company, it must score ‘sufficient’ on all policy components. If the overall assessment is ‘insufficient’, the analyst advises the Investment Committee to reject the company for admission.

23 Dependent on the policy component.
24 Dependent on the policy component.

4.1.5 Recommendations and decisions

The analyst makes a recommendation on the basis of his/her overall assessment, as explained in section 4.1.4. The Investment Committee can then take a decision. The analyst can give two different recommendations regarding a company: *approve or reject*.
Based on this recommendation and its substantiation, the Investment Committee takes its decision. That decision can be: *approve, reject, engagement or postpone*. The approve and reject decisions take two forms: for companies not yet included in the investment universe, and for companies already included 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
A company is not yet included in the investment activities. Its activities and policy meet our sustainability criteria. We therefore admit it to the investment universe.

Approve, retain
A company is already included in the investment universe. Its activities and policy still meet our sustainability criteria. We therefore retain it in the investment universe.

Approve, no comprehensive policy
This category applies to companies with a market capitalisation of less than EUR 4 billion whose policy does not cover all our sustainability criteria. Based on the analysis, the company scores 'sufficient' on the risks, its policy and the company's performance in practice.

Reject, do not admit
A company is not yet included in the investment activities. Its activities and policy do not meet our sustainability criteria. We do not admit it to the investment universe.

Reject, remove
A company is already included 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 structural misconduct (situations in practice that conflict with the sustainability criteria). For these reasons, we remove the company from the investment universe.

Postpone:
'Postpone' entails that further research is needed, as no decision can be made based on the information available. We place the company on the agenda again. Only the Investment Committee can decide on this, not the analyst.

4.2 ENGAGEMENT WITH COMPANIES

'Engagement' means engaging in a dialogue with companies and institutions so as to make them more aware of their sustainability performance and to urge them to improve it. The decision to initiate engagement is taken in the following cases:

- The company has been 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; so it is not engaged in activities we exclude or avoid. We retain the company in the investment universe, but initiate engagement.
- Misconduct has been identified, revealing that the company does not meet our sustainability criteria.
- As a mean to bring the sustainable investment objectives of the equity funds closer by addressing organizations specific responsibilities.

If the Investment Committee decides to initiate engagement, it also decides who will handle this. Engagement activities can be carried out by our Sustainability Expertise Centre, by ASN Impact Investors, by the external

fund managers on the instruction of ASN Impact Investors, or by these parties jointly. We distinguish three types of engagement:
1. light engagement;
2. active engagement;
3. collective engagement.

Light engagement
We conduct light engagement if the Investment Committee has established that a company with a market capitalisation in excess of EUR 4 billion no longer meets the sustainability criteria with regard to its policy. No misconduct has been identified that gives cause to decide differently.

Action and duration:
The analyst sends the company one engagement letter setting out the points on which the company must improve. The company's performance is then reviewed within four years. By that time, it must have developed a sufficient policy on those points. This type of engagement runs for a period of no more than four years.

Active engagement
We conduct active engagement if serious misconduct has been identified at a company (for information on how this is determined and the process for assessing misconduct, see section 4.1.4). In some cases, we may also initiate active engagement if policy is lacking, and the four-year period is inappropriate.

Action and duration:
This type of engagement runs for a period of no more than four years. As soon as the engagement has been completed, the analyst describes the outcome of the engagement process in the company profile. This outcome is discussed in the meeting of the Investment Committee. The Investment Committee then takes a final decision on the company.

Collective engagement
We may conduct collective engagement in response to multiple cases of similar types of misconduct or misconduct in specific areas in a particular sector. We may carry out this engagement together with other investors.

Action and duration:
Depending on the complexity of the issue, collective engagement often lasts several years.

4.3 DATA SUPPLIERS AND SOURCES

We use several sources for the sustainability research. We work with various data suppliers. We also use information from companies themselves, non-governmental organisations (NGOs), including trade unions, and available information from all sorts of media.

The data suppliers provide information relating to a number of areas:
- ESG data, which are 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 reports across the globe, through which data suppliers check if any misconduct has been observed at companies.

4.4 RESEARCH IN PRACTICE

This chapter describes the criteria on the basis of which we assess companies. We will first discuss which activities we exclude and avoid. The criteria we apply to assess the quality of companies' sustainability policies and to assess whether they actually implement these policies in practice are described in section 4.4.2 .

4.4.1 Activities to be excluded and avoided

This section discusses the activities we avoid and exclude. These are activities that do not (yet) contribute to or fit in with 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,[25] regardless of how sustainably the company operates. Avoidance applies to those activities that we could invest in if they were to meet all of our criteria but that, in practice, we generally do not invest in due to major sustainability risks.

This information applies to all activities we finance or in which we invest. For the sake of brevity, below we only refer to 'investment' when detailing the criteria, but these criteria also refer to financing.

Limits

Every criterion for an activity to be avoided or excluded comes with a particular limit. 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 therefore where precisely we draw the line. This is why we have included a '*do*' and a '*don't*' beneath all activities, indicating where the boundaries 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:
  - How much of the company's turnover is generated from the products and/or services? If this is less than five per cent, we do not consider it to be a core activity. In that case, there is no reason to reject the company, unless the company is 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 which are 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 and distribution of or trade in weapons.

Where is the line drawn?

Do: We can invest in companies that make products with a dual-use application, 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.

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25 We make every effort to exclude such activities, where possible. However, it may be the case that even after conducting thorough research, the analyst is unable to discover relevant information. This is because, in this regard, we depend on the company's transparency and public sources.

Don't:
- We exclude companies that manufacture or provide products or services included in the EU Common Military List. This is 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 stations, or distribute or trade in nuclear products. Nor do we invest in companies that are too intertwined with the nuclear energy sector as suppliers and/or that generate more than five per cent of their turnover from these activities.

Where is the line drawn?
Do: We can invest in companies that purchase nuclear energy.
Don't: We do not invest in companies that produce nuclear energy or that are too intertwined with the nuclear energy sector as suppliers and/or that generate more than five per cent of their turnover from these activities.

Tobacco
SDG targets: 3.4, 3.5, 3.a
We do not invest in companies that manufacture tobacco products or electronic smoking products. Nor do we invest in companies that generate more than five per cent of their turnover from selling, distributing or trading in tobacco products or electronic smoking products.

Where is the line drawn?
Do: We can invest in companies that generate less than five per cent of their turnover from selling, distributing or trading in tobacco products or electronic smoking products.
Don't: We avoid companies that are too intertwined with the tobacco industry as suppliers and/or that generate more than five per cent of their turnover from these activities.

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 per cent of their total turnover from selling, distributing or trading in alcoholic beverages.

Where is the line drawn?
Do: We can invest in companies that generate less than ten per cent of their turnover from selling, distributing or trading alcoholic beverages.
Don't: We do not invest in companies that manufacture alcoholic beverages.

Cannabis and cannabis-containing products
SDG target: 3.5
Recreational use of cannabis and/or cannabis-containing products poses health risks. Therefore, we do not invest in companies that produce cannabis and/or cannabis-containing products for recreational use. Nor do we invest in companies that are active in the trade in, sale of and/or distribution of cannabis for recreational use. We can approve companies that are involved in cannabis-containing medicines. A condition is that they manufacture and/or market these medicines in a safe, responsible manner, so as 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 is the line drawn?
Do: We can invest in companies that produce, 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 produce 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 manufacture parts for those games. In short odds games of chance, bets and gains or losses follow each other in quick succession. As a result, they are highly addictive. Examples include fruit machines, casino games, bingo, scratch cards and horse betting.

Where is the line drawn?
Do: We can invest in companies whose activities include operating long-odds games of chance, such as lotteries and prize competitions, which have a long period between the placement of bets and the awarding of prizes.
Don't:
- We do not invest in companies that supply or operate short odds games of chance.
- Nor do we invest in companies that supply parts for short odds games of chance, as a result of which they are too intertwined with companies supplying or operating short odds games of chance, and/or companies where more than five per cent of turnover is generated from supplying parts.

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 has an increased risk of sexual exploitation. Furthermore, we don't invest in companies that realize more than five percent of their turnover by broadcasting porn.

Where is the line drawn?
Do: We can invest in companies such as television companies with channels that show pornography. We can also invest in companies such as television channels, which generate less than five percent of their turnover from broadcasting porn.

Don't: We do not invest in businesses that benefit from pornography, such as escort agencies or prostitution. We don't invest in companies where the core of their revenue model is based on the exploitation of pornography, such as escort agencies, erotic webcam services and prostitution.

Genetic modification
SDG target: 2.5
We exclude companies that apply genetic modification to plants and animals for non-medical purposes, or that instruct others to do so. We do this because there are risks attached to genetic modification. There is, for example, a great deal of uncertainty about the adverse consequences of genetic engineering for people, biodiversity and animal welfare.

Where is the line drawn?
Do:
- We can invest in companies that apply genetic modification to plants and animals for medical purposes, if this is the only solution for a medical problem and takes place under controlled conditions.
- We can invest in companies that apply genetic modification to micro-organisms (these being neither plants nor animals) if this takes place under controlled conditions.
- We can invest in companies that purchase genetically modified products, provided that they are transparent about the way in which they use these products.

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

Animal welfare

Animal welfare encompasses various topics. We want to invest only in companies that contribute to a respectful interaction with animals and to the improvement of animal welfare. Whether or not we invest, and how we apply our vision to animal welfare, is explained below for various topics.

Fur, leather and feathers

SDG targets: 15.7, 15.c

We reject the use of animals for the production of fur. Therefore, we do not invest in the production of and trade in fur. We also reject the use of leather, down or feathers from protected and/or non-domesticated[26] species or from animals kept in appalling conditions. Therefore, we do not invest in companies that make use of fur, leather, down or feathers from protected and/or non-domesticated species or from animals kept in appalling conditions. Of course this also includes animal products that are obtained illegally (poaching) and traded illegally, such as elephant ivory and rhino horn.

Where is the line drawn?

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 species. Nor do we invest in companies that make use of products obtained from animals kept in appalling conditions.

Livestock farming[27]

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 change, biodiversity, human rights and health. We also avoid customers of livestock farms, such as abattoirs and transport companies.

Where is the line drawn?

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

Don't: We do not invest in livestock farms and their direct customers, such as abattoirs and livestock transporters, because it is often the case that they cannot guarantee animal welfare.

Fisheries[28]

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

We avoid investments in the fisheries sector. Overfishing contributes to biodiversity loss. Furthermore, scant regard is paid to animal welfare when fish are caught and processed. The fisheries sector does not sufficiently meet the requirements of international agreements and certification marks, such as the Marine Stewardship Council (MSC), the FAO Code of Conduct for Responsible Fisheries, laws and regulations (including MARPOL and EU law). Nor does the sector sufficiently respect Marine Protected Areas.[29] 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 is the line drawn?

Do: We can invest in companies that buy fish from the fisheries sector and that use the MSC quality label for

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26 Domesticated animals have become dependent on humans over the course of history by being bred.

27 Due to the high sustainability risks, in practice we only invest in companies that have such activities in their supply chain. If livestock farms make their activities fully sustainable in the future, we will assess them according to our animal welfare policy criteria and our other sustainability criteria.

28 The observations regarding livestock farming (see footnote 27) also apply to fisheries.

29 The FAO Code of Conduct for Responsible Fisheries is a code of conduct for responsible fisheries. MARPOL is an international treaty to prevent pollution by ships. Marine Protected Areas are protected areas of seas and oceans without national or international legal status. In these protected areas, disruptive activities that threaten natural values are limited or prohibited as much as possible. Examples of disruptive activities are fishing and leisure activities.

wild-caught fish or the ASC quality label for farmed fish, such as supermarkets and restaurants. In addition, these companies have the goal of increasing the share of certified products.
Don't: We do not invest in fishing businesses or in companies that produce farmed fish (aquaculture) in an insufficiently sustainable and non-animal friendly manner.

Interaction with wild animals
SDG targets: 15.7, 15.c
We do not invest in companies and projects that use wild animals for entertainment or for commercial activities. We can invest in companies and projects that endeavour to protect endangered species.

Where is the line drawn?
Do:
- We can invest in companies that endeavour to protect endangered species and that meet the five freedoms of animal welfare and our biodiversity criteria.
- We can invest in shelters that contribute to animal welfare because they prevent animal suffering, and that take account of animal welfare in their operations.
- We can invest in companies that hunt animals, provided that this is an element of site management, they do this for the purpose of damage control, there are no alternatives and/or they do this to end serious, incurable suffering of animals.
- We can invest in companies that make use of pest control.

Don't:
- We do not invest in tourist activities that disturb or harm animals or their habitat.
- We do not invest in companies that are involved in the trade in endangered species on the 'red list'.
- We do not invest in companies that hunt animals.
- We avoid companies that specialise in pest control by means of pesticides, insecticides and neonicotinoids.

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

Where is the line drawn?
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 keep animals solely for entertainment, such as circuses.
- We do not invest in zoos and dolphinariums where animals are trained for 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 required 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 is the line drawn?
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 this respect (for the conditions, see the section on animal testing).
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 produce cement, as this entails high greenhouse gas emissions and has a harmful effect on ecosystems.

Where is the line drawn?
Do: We can invest in companies that trade in and use cement.
Don't: We avoid companies that produce cement.

Base chemicals and base metals

SDG targets: 12.2, 12.4, 13.2, 15.3

We avoid companies that operate in the area of petrochemicals on the basis of primary fossil fuels. These are companies that turn petroleum into bulk substances for the chemical industry, such as ethylene and polymers. We avoid investments in companies that turn primary ores into new metals.

Where is the line drawn?
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.[30]
- We avoid companies involved in the processing of non-renewable primary raw materials. But in some cases (e.g. raw materials that are essential for sustainability) we can invest in leading companies that process primary raw materials if they meet all our criteria in the areas of human rights, climate change and biodiversity.

Don't:

- We avoid companies that make energy-intensive bulk products for the chemical industry.
- We do not invest in companies that turn primary ores into new metals.
- We avoid companies that operate in the area of petrochemicals on the basis of primary fossil fuels. These are companies that turn petroleum into bulk substances for the chemical industry, such as ethylene and polymers.

Fossil materials

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 materials. Fossil materials means all raw materials with a fossil origin. These are lignite, coal, natural gas, shale gas, tar sand and oil. In addition, we exclude the industrial production of electricity using fossil materials.

Where is the line drawn?
Do: We can invest in:

- purchasers of these products; however, we invest less in companies that consume a lot of fossil materials and as a result have a high level of CO_2 emissions (i.e. have a considerable carbon footprint);
- companies that mainly produce energy for their own consumption using fossil materials.[31]

Don't: We avoid companies that are strongly intertwined with the exploitation, production and refining of the fossil materials as suppliers and which generate more than five per cent of their turnover from these activities.

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 abide by the seven principles of the World Commission on Dams (WCD). In practice, these seven principles do not always provide a sufficient basis for taking decisions. Therefore, we apply the following limits in any event:

30 An exception to this is the conversion of plastic waste into diesel fuel. We do not invest in this. Not only is diesel a fossil fuel, but its combustion also causes pollution.
31 In addition, we can provide mortgages for homes with a micro CHP system fuelled by natural gas.

Where is the line drawn?

Do:

- We can invest in companies that build and/or manage dams if they adhere to:
- Performance Standards 5 and 6 of the IFC (see section 6.3 of ASN Bank's Specific Sustainability Policy (SSP) on Sustainable Energy); and
- the WCD guidelines (see the SSP on Sustainable Energy).
- We prefer to invest in projects for the renovation of existing dams that have a positive net impact and in which the WCD guidelines and IFC standards are complied with. Dam renovations enable the generation of a lot of additional energy, but have far less of an adverse impact on the landscape or local population.

Don't:

- We do not invest in dams or companies that build or manage dams if:
- the relevant dam falls in categories I-IV of the IUCN[32], the UNESCO World Heritage Convention[33] or the Ramsar Convention on Wetlands[34]; and/or
- there is serious misconduct affecting the local population.
- We do not invest in dams or companies that build or manage dams if they do not meet the most recent IFC Performance Standards.
- We do not invest in dams or companies that build or manage dams if they do not have a strategy to protect biodiversity in every phase 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.[35] For other countries, the same or a similar standard must be met. This applies to both the applicant and the supply chain. The origin of the biomass must be demonstrably local, i.e. from an area within a radius of approximately 200 kilometres from the power plant. When biomass is incinerated, the flue gas must be cleaned using the latest techniques.

Where is the line drawn?

Type of biofuel	1st generation: already in us	2nd generation: partly in use, partly being developed	3rd generation: being developed
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, silt 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. Stationary: generation of electricity in power plants.	Mobile: biofuels for cars and aeroplanes.
Pros and cons	Competition for food and land; low CO_2 reduction.	Competition for land; high CO_2 reduction.	Low competition for land; high CO_2 reduction.
Assessment	Do not invest or finance.	Do invest or finance, subject to conditions.[36]	Do invest or finance, subject to conditions.[37]

32 https://www.iucn.org/theme/protected-areas/about/protected-area-categories
33 https://whc.unesco.org/archive/convention-en.pdf
34 https://www.ramsar.org/sites/default/files/documents/library/scan_certified_e.pdf
35 NTA 8080 sets criteria for the sustainability of 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 social well-being. http://www.betterbiomass.com/nl/
36 On no condition do we invest in the use of biomass for the production of biodiesel.
37 On no condition do we invest in the use of biomass for the production of biodiesel.

Conditions regarding whether or not to invest in biofuels:

Wet biomass	Assessment	Conditions
Sewage treatment plant sludge	Positive	Biogas can best be used directly in sewage treatment plants for energy neutral sewage treatment and phosphate separation.
Landfill gas	Positive	Focus on the prevention of methane emissions. Production decreases because waste is no longer landfilled.
Organic kitchen and garden waste	Positive	Digestate from the digester plant must be used as compost. It is better to make it mandatory for waste processing companies to apply separate waste collection and to have organic kitchen and garden waste processed in a digester plant.
Wild 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 options to sell these to the animal feed sector and the quality of the soil is not affected. Digestate must be used as compost.
Manure	Positive, provided that	Only if the focus is primarily on the prevention of methane emissions, by making it mandatory for livestock farmers to do so. Pure manure digestion is strongly preferable to co-digestion.
Wet agricultural crop residues	Negative, unless	Only if there are no options to sell these to 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	Negative, unless	Only if there are no options to sell these to the animal feed sector. Potato peels, pressed pulp, etc. must not be processed in a digester plant, but used as animal feed instead.
Agricultural crops (maize, wheat, sugar beet, etc.)	Negative	No climate benefit due to emissions during cultivation and leakage of methane 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 landfilling waste. We can take into account the incineration capacity in this respect. A high incineration capacity is a negative factor in our assessment because of the resulting emission of greenhouse gas emissions. We follow the order of priority for waste management laid down in Section 10.4 of the Dutch Environmental Management Act (*Wet milieubeheer*).

This order of priority is as follows:

1. prevention: preventing the generation of waste;
2. preparation for reuse;
3. recycling, which breaks down into:
   a. recycling of the original functional material in an identical or similar application;
   b. recycling of the original functional material in an application that is not identical or similar;
   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. landfilling or discharging.

Here, the highest-quality processing is preferred.

Where is the line drawn?
Do: We can invest in waste processing companies where less than 30% of the total waste processing consists of landfilling. We can consider their incineration capacity in this respect. It is preferable that a large portion of the methane gas released from landfill sites it collected at these sites and put to good use.
Don't: We avoid investing in waste processing companies where more than 30% of the total waste processing consists of landfilling.

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 limited insight into their business activities. We therefore cannot assess whether these activities meet the sustainability criteria. From our perspective, this is primarily a high risk for financial service providers with large investment or loan portfolios.

Under no circumstances do we invest in or provide loans to a financial institution that is 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 its activities. In the other cases, it is possible to invest in this sector subject to certain conditions set out in our Sustainability Policy for the Financial Services Sector (*Duurzaamheidsbeleid Financiële Dienstverlening*). These are:
- financial service providers that only offer products that do not relate to investments or business loans (see table below);
- financial service providers that do invest or provide loans, but that operate according to a sustainability policy which is comparable to ours, and which are also transparent about these activities (see table below). This means:
  1. A financial service provider cannot be involved in activities that we exclude and that are referred to in this section; we do not invest in such a party and/or do not provide loans to it.
  2. The other financial service providers are assessed with respect to their sustainability policy and their implementation of this policy (see section 4.4.2). 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.[38]

38 - 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 The Wolfsberg Group is a partnership between eleven international banks founded in 2000, which focuses on the development of standards and guidelines for the financial sector in the area of combating money laundering and terrorist financing (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).

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

Activity	Assessment	Substantiation and conditions
Payment transactions and savings products	Positive	Not applicable, as there is no sustainability risk. We do not set any requirements for savings, but we do for the allocation 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 want to invest our customers' money is negligible. Subject to the condition that it is responsible lending.[39] A separate policy applies to microcredits, see chapter 5.
Mortgages	Positive, provided that	Condition: the institution has a mortgage policy. See our Living and Working Policy (Beleid Wonen en Werken).
Insurance, such as life insurance and non-life insurance (car, fire, etc.)	Negative, unless	Financial institutions invest the premium income they receive in (large) part in shares and bonds. We do not accept a company unless and until it is transparent.
Asset management	Negative, unless	Asset management companies invest customers' funds under their management in assets such as shares and bonds, and usually also in derivatives. We do not accept a company unless and until it is transparent.
Assisting in initial public offerings, acquisitions and/or mergers	Negative, unless	A company can assist entities that we would exclude. We do not accept a company unless and until it is transparent.
Own account trading	Negative, unless	We do not accept a company unless and until it is transparent. It often also involves speculation.
Business loans (including leasing and project financing)	Negative, unless	We do not accept a company unless and until it is transparent.
Offshore banking	Negative, unless	If this activity contributes to the avoidance of payment of taxes, we reject the company.
Derivatives trading	Negative, unless	Derivatives trading can be used to hedge risks, but also for speculation. We do not consider speculation to be sustainable, as it can have major adverse consequences. Consequently, we reject companies that use derivatives trading largely or exclusively for the purposes of speculation.

Transport, mobility and combustion engines

SDG targets: 9.1, 9.a, 13.2

This sector includes all companies involved in the transport of goods and passengers over land and water and by air. Our definition of the transport sector also includes companies that build and maintain infrastructure, as well as 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.[40]

Where is the line drawn?

Do:

- manufacturers of all-electric/hydrogen vehicles and all investments beneficial to this;
- investments in public transport and the accompanying infrastructure;
- We only invest in companies that are constructing new roads, waterways, airports and ports in Least Developed countries (LDCs according to the UN List);

39 Responsible lending concerns 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.
40 For a complete overview, see our Transport and Mobility Policy (Beleid Transport en Mobiliteit) (2020).

- transport companies that have
  - a goal to reduce their emissions by 40% by 2030 and by 90% by 2050 compared to 1990; and
  - which have replaced a least half of their fleet with low-emission or zero-emission alternatives.

Don't:
- manufacturers of vehicles powered by combustion engines and manufacturers of essential parts of combustion engines (which cannot be used for electric cars);
- manufacturers of hybrid, plug-in hybrid and range-extender vehicles (combination of a combustion engine and an electric motor);
- manufacturers of ships powered by combustion engines;
- plane or helicopter manufacturers 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. This concerns companies that own mining operations and companies that manage mining activities.

Where is the line drawn?
Do: The starting point is that we avoid companies involved in the extraction of non-renewable primary raw materials. But in exceptional cases (e.g. raw materials that are essential for sustainability) we can invest in leading mining companies that meet all our criteria in the areas of human rights, climate change and biodiversity.[41]
Don't:
- We avoid companies that are engaged in the extraction of non-renewable primary raw materials that are not essential for sustainability or fossil materials.
- We avoid companies that are engaged in mining activities as subcontractors of mining companies.
- We avoid companies that are too intertwined with mining as suppliers and/or which generate more than five per cent of their turnover from these activities.
- We do not invest in asbestos mines because of the major health risks associated with the use of asbestos.

Web-Retail
The platform economy offers opportunities for economic development, by creating new jobs and it offers consumers extra convenience. However, platform economy also offers unpleasantries. Other jobs are disappearing and the created new jobs, such as delivery drivers, are not necessarily better jobs. The platform economy arises from the digitalization of the economy. This is often accompanied by changes in the value chains. Common bottlenecks are concentration and market power, and issues related to data ownership and privacy. In addition, e-commerce platforms influence the climate, through their CO_2 emissions and packaging waste. We may or may not invest in this sector under certain conditions.

Where is the line drawn?
Do's: we can invest in e-commerce platform if they have formulated their policies on transport, the supply chain, returned products, packaging materials and the privacy of employees and customers.
Don't: We do not invest in e-commerce platforms when;
- there is no privacy policy for their employees and customers;
- the size, content and the number of controversies point towards a strategy for creating a monopoly position or anti-competitive actions;
- there is no policy for reducing CO_2 emissions throughout the transport chain (scope 1,2 and 3);
- lacking of a policy to limit returns of products. Standard destruction of returned products;
- there are no policies or targets for reducing and reusing plastic and cardboard packaging;
- there is no supply chain policy and it is not clear which products providers or consumers are not allowed to sell on the platform (assortment policy), or that policy does not correspond with the guidelines in our sustainability policy.

41 In practice, we have yet to encounter such mining companies. An example of such a mine could be a salt mine.

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 areas with water scarcity to use water responsibly, i.e. not to further increase the 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 utilities. In addition, companies in other sectors, such as the agricultural sector, may also be affected by water scarcity due to the location of certain supply chains.

Where is the line drawn?
Do: We can invest in companies that limit and control their water consumption by ensuring that the impact of the water consumption is minimal. This can be done, for example, by implementing measures resulting from an impact assessment in areas with water scarcity. In addition, the company should take into account the water needs of the local population and ecosystems.
Don't: We do not invest in water-intensive companies operating in areas with water scarcity if they do not make a water scarcity impact assessment and do not take measures to limit water consumption 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 can affect deforestation: agriculture, the construction industry, cotton growing and processing, livestock farming, paper production, the production of palm oil and soy, and mining.

Where is the line drawn?
Do: We can invest in companies that take sufficient measures to prevent deforestation. A company can ensure this as follows:

- for companies, such as retail estate companies, that purchase wood for new projects/ renovations in low, lower-middle and upper-middle-income countries (according to WB classification), at least two-thirds must be FSC certified;
- if the company purchases wood from high-income countries for new projects/renovations, it is sufficient that at least two-thirds of the purchased wood has a certification from the Programme for the Endorsement of Forest Certification Schemes (PEFC).[42]

Don't: We do not invest in companies that are involved in deforestation. Logging of old-growth forests, tropical rain forests, forests with a high carbon content (High Carbon Stocks, HCS) and mangrove forests and the conversion of peatlands are unacceptable.

Palm oil

SDG targets: 12.2, 12.7, 15.2

We expect companies not to be involved in large-scale land use or activities that further increase the loss of natural habitat and biodiversity. Therefore, we closely scrutinise companies that produce food products, consumer goods and personal care products.

Where is the line drawn?
Do: We can invest in purchasers of palm oil or companies processing palm oil in their products, provided that the palm oil is purchased sustainably. This means that companies must have a 'No Deforestation, No Peat, and No

42 The forest certification by the Sustainable Forestry Initiative (SFI), the North-American member of the PEFC, also meets our criteria. The SFI specifically applies to North America. If two-thirds of a company's activities have SFI certification, that suffices.

Exploitation' (BDPE) policy and/or be a member of the Roundtable on Sustainable Palm Oil (RSPO) and report on this.
Don't: We do not invest in the use of palm oil as biofuel or biodiesel, as this qualifies as first-generation biofuel.

Agriculture
SDG targets: 2.4, 3.9, 6.3, 13.2, 15.2, 15.3, 15.5
Agriculture is essential to the food supply. But agriculture also has a significant adverse impact on sustainability, including in terms of biodiversity. Agriculture can have an adverse impact in several ways, including by causing a change of land use, exhaustion of the soil due to overexploitation, and pollution due to the use of pesticides. By causing a change of land use and deforestation, agricultural companies can also have an adverse effect on climate change. Furthermore, in many countries working conditions in the agricultural sector are poor. We avoid investing in agriculture due its adverse impact. We may be able to approve agricultural companies in the future if they meet our criteria in the areas of human rights, climate change and biodiversity.

Where is the line drawn?
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 change of land use, no overexploitation, no pollution and a closed nutrient cycle.
Don't: We do not invest in agricultural companies that are insufficiently circular and sustainable.

4.4.2 Assessment of policy components and performance in practice
Having established that an investment or loan is not connected with activities to be excluded or avoided, we assess the quality of the company's sustainability policy and its performance on sustainability in practice. The assessment is based on our overarching sustainability pillars (climate change, human rights and biodiversity) and governance. These have been detailed in subthemes, which we also refer to as policy components. We distinguish four policy components:
1. governance;
2. human rights;
3. climate and biodiversity;
4. supply chain.

In this chapter we discuss the policy components based on which we assess companies and the conditions a company must meet to be awarded a particular score.

The analyst first establishes whether a policy component applies to a company. The analyst then determines if the company has any policy regarding that policy component and, if so, assesses that policy. The analyst then rates the quality of this policy as insufficient, poor, sufficient, good or excellent. Some areas of sustainability are more highly developed than others. In some cases, a company will be rated as sufficient if there is no misconduct (for example, if they pay a living wage). In other cases, a company will be rated as sufficient if it has a policy on certain topics, such as on child labour.

4.4.2.1 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 the 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 into account diversity in the membership of its management board, including in terms of the

male/female ratio; or it is transparent about board remuneration. There is no known serious and/or structural misconduct.

Excellent: The company has included all of the elements described above in its policy. In addition, the company makes board remuneration partly dependent on performance in the area of sustainability, and bases the variable remuneration partly on long-term goals.

Code of conduct and ethical conduct

We expect companies to have rules in place regarding behaviour and ethical conduct. This pertains to inappropriate behaviour by employees and/or the company and its subsidiaries, such as fraud and scams (forms of deception), money laundering and conflicts of interest.

Insufficient: The company has no policy on ethical conduct.

Poor: The company mentions something about behaviour and ethical conduct, but has no formal policy document, such as a code of conduct.

Sufficient: The company's policy or rules of conduct state 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 takes 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, for example by having employees sign contracts, and by a whistleblower scheme and a compliance officer. 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 concerns 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 in this respect between active corruption (bribing) and passive corruption (accepting bribes).

Insufficient: The company has no policy on corruption, or there is serious and/or structural misconduct.

Poor: The company mentions something about corruption, but has not included this in a policy document.

Sufficient: The company's policy discusses corruption; the company does not tolerate it. There is no known serious and/or structural misconduct.

Good: What the company considers corruption and the measures it takes 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. 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 legislation 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.
- Nor does the company encourage others to violate local laws and 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 engage in tax evasion or serious tax avoidance.

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 (much) lower tax rate and/or against legislation for greater tax transparency?
2. Is the company insufficiently transparent because it has no (visible) tax policy and no transparency per country in which it carries out activities?
3. Does the company have subsidiaries in tax havens without actually carrying out activities there? The sources we use for this are the Corporate Tax Haven Index of Tax Justice Network,[43] which lists the top ten tax havens, and the European Union's list of non-cooperative tax jurisdictions.[44]
4. Does the company have a large 'tax gap'[45]?

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 policy on the payment of tax. Ideally, this policy states that the company wants to make a fair contribution to the society in which it operates by paying tax there. The company publishes its full legal group structure

Excellent: The company has a policy as described above. Moreover, this policy states that the company wants to make a fair contribution to the society in which it operates by paying tax there. The company also commits itself to adherence to leading standards, such as the GRI's performance indicator on tax, or the OECD Guidelines for Multinational Enterprises, Chapter XI Taxation, principle 1 and paragraph 104 of the commentary.

Transparency

SDG targets: 12.6, 16.6

We expect companies to be transparent about their performance in the areas of governance, climate change, biodiversity and human rights.

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 it reports on.

Sufficient: The company reports on or is open about its sustainability policy – although its openness may only be reactive – including regarding its governance,[46] 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 performance in the area of sustainability, 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.

43 https://www.corporatetaxhavenindex.org/
44 https://ec.europa.eu/taxation_customs/tax-common-eu-list_en
45 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
46 By 'governance', we mean matters such as corruption, supply chain policy and lobbying.

Lobbying activities and political contributions
SDG target: 16.6
We expect companies not to lobby for activities that are contrary to our sustainability criteria or to make political donations that promote such activities.

Insufficient: There is misconduct. The company makes political donations that promote measures that are contrary to our sustainability criteria or it lobbies for such activities.

Poor: There is misconduct, but it does not conflict with our sustainability criteria, or the company promises to prevent this in the future.

Sufficient: There is no misconduct. In addition, the company can confirm that it does not make any political donations.

Good: The company is transparent about the goal or goals for which it lobbies or for which it makes political donations and it publishes the amounts of these donations.

4.4.2.2 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 relations or other organisations that are connected with its operations violate human rights.

Insufficient: The company does not refer to human rights or is involved in human rights violations committed by a country.

Poor: The company's performance is rated 'poor' if it:
- only refers to a specific element of human rights;
- refers to human rights, but without including an explanation; and/or
- only respects human rights in part of the company; and/or
- has joined the UN's Global Compact, but has not yet translated this into its own policy.

Sufficient: The company's performance is rated 'sufficient' if it:
- has formulated policy in the area of human rights and refers to human rights treaties; or
- has policy that is in keeping with human rights treaties; and
- has joined leading initiatives, such as the Global Reporting Initiative (GRI), the UN's Global Compact and the OECD Guidelines; or
- has policy that complies with those treaties and initiatives, but makes no reference to them; and
- has declared the policy applicable to all its activities in risk countries; and
- is not involved in serious human rights violations.

Good: The company's performance is rated 'good' if it scores 'sufficient' on this aspect and meets one or two of the following criteria:
- *Risk analysis:* the company conducts a risk analysis of real and potential risks and their effects on human rights, and regularly repeats this analysis.
- *Business processes:* the company implements its policy and the results of the risk analysis in its internal business processes, for example in codes of conduct and contracts.
- *Monitoring:* the company ensures that internal and external monitoring and/or verification is carried out of extent to which it complies with its own policy or – in the case of a normal assessment – with national legislation. It also ensures that the effect of any measures it has taken on the basis of the risk analysis is monitored or verified.
- *Transparency and reporting:* the company is transparent about its actual practices and performance in the area of human rights, in accordance with its policy or – in the case of a normal 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 a 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 or only partly possible. This compensation or redress is in accordance with the applicable national legislation and international standards.

The company confers with victims regarding suitable measures.

Excellent: The company's performance is rated 'excellent' if it scores 'sufficient' on this aspect and meets three or more of the aforementioned 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 show respect to their employees, including those employed on a temporary and flexible basis, as well as their suppliers, customers, local residents and other stakeholders. We expect them to refrain from discrimination on any grounds, and to treat people equally in equal cases.

Insufficient: The company has no policy to combat discrimination.

Poor: The company reports discrimination and explicitly rejects certain types of discrimination. The company is selective in naming types of discrimination.

Sufficient: The company explicitly rejects all forms of discrimination. It has formulated policy regarding non-discrimination and equal treatment. 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 has a good policy, which it supplements as follows:

- It creates a working environment in which there is no discrimination and takes measures if employees discriminate against one another.
- It also takes measures to protect vulnerable groups and has provisions for specific groups, such as the disabled 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 structural misconduct.

Poor: The company mentions something about combating gender discrimination or promoting gender equality, but has not included this in a policy document.

Sufficient: The company has a policy to combat gender discrimination, including violence and harassment. There is no serious and/or structural misconduct.

Good: The company has a policy that is sufficient. In addition, there is a policy to reduce or tackle the wage gap by having equal pay management systems. The company can 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 good policy. In addition, it has a policy to prevent and, where necessary, limit gender discrimination against its customers. And the company 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 company's security is handled by the company's own personnel, external companies or local authorities. This includes all actions by the company's security staff, even if these 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 any recurrence.
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 the International Labour Organization (ILO) guidelines.
Sufficient: The company's policy states that it will not in any event use child labour as defined by the ILO.
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[47] 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, 16.2

We expect companies not to make any use of forced labour. Forced labour is work that is performed involuntarily, under threat of punishment. At companies, this primarily concerns compulsory overtime, human trafficking, debt bondage and bonded labour. Companies may also be involved in this by recruiting 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 it lays this down in policy. This is not the case if an intermediary takes employees' passports or if employees are required to repay recruitment costs.
Excellent: The company endorses the ILO guidelines. Furthermore, it has or supports programmes or initiatives to combat child labour.

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 states that it respects freedom of association, but refers to national legislation in this respect.
Sufficient: The company states that it respects freedom of association.

47 UNICEF, the UN Global Compact and Save the Children, 'Children's Rights and Business Principles', 2012, pages 1-21. Available at: http://www.unglobalcom-pact.org/docs/issues_doc/human_rights/CRBP/Childrens_Rights_and_Business_Principles.pdf

Good: The company states that it respects freedom of association and refers to the ILO guidelines in this 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 the freedom to belong to a trade union, and/or
- it monitors the number of trade union members among its employees and reports on this.

FREEDOM OF ASSOCIATION IN THE UNITED STATES

We only want to invest in companies that treat their employees well and that acknowledge the right to freedom of association. We want to establish a company's intentions in this respect, where possible. But the situation in the United States makes it difficult to do so. Negative intentions are easier to identify than positive ones. Some American companies are favourably disposed to freedom of association but do not communicate about this. The American context is also very different to the European one, with considerable differences between states, companies and trade unions. These differences also run along political and geographical fault lines. Therefore, we can assess a US company's performance on freedom of association as 'sufficient' if:
- the quality of the company's policy is at minimum 'poor';
- there is no known misconduct;
- there are no known anti-union practices or anti-union statements by the company.

Privacy and freedom of speech
SDG target: 16.10

We expect companies to deal with employees' and customers' privacy with respect and to treat the information and (personal) data to which they have access 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 (restriction of access to information) by the government, unless this aims to limit incitement to discrimination or violence.

Insufficient: The company has no policy on this.

Poor: The company states that it respects privacy and freedom of speech, but has not detailed this in policy.

Sufficient: The company has laid down its respect for privacy and freedom of speech in its policy.

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

Excellent: Not only does the company apply the aforementioned policy, but it also states 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.

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 any recurrence.

Sufficient: There are no serious violations of occupational health and safety standards at the company or at its suppliers. Moreover, under no circumstances whatsoever does the company tolerate harassment, violence or threats of a sexual or psychological nature in the workplace.

Good: Not only does the company apply the aforementioned policy, but it also has a complaints procedure and monitors both the number of accidents and the measures taken to avoid any recurrence. For example, the company reports in accordance with 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 health programmes, or an HIV/AIDS programme for employees and their families in areas where this disease is commonplace. It is important that the company has made a long-term commitment in this respect and that it carefully reviews its employees' needs. To this end, the company preferably seeks collaboration with experts or specialised 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 that companies do not engage in serious misconduct in relation to failing to pay a living wage. A living wage is a wage that is high enough to enable an average-sized family to meet its basic needs 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 any recurrence.
Sufficient: There is no misconduct.
Good: The company does not indiscriminately apply national minimum wage regulations, but instead ensures that it pays its employees a living wage. The company assesses to what extent its wages enable employees to meet their basic needs.
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.

Local society and (indigenous) population
SDG target: 16.7
We expect companies to treat the local society and population with respect and not to exploit them.
Insufficient: The company has no policy on this.
Poor: The company states that it respects the local society and population, but has not detailed this 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 to assist the local population.

Consumer protection
SDG target: 16.10
We expect companies to act responsibly towards the end users of their products and services (consumers or customers). This applies, for example, to the sale of consumer goods like food and electronics, and certainly to medicines.
Insufficient: The company provides no information about its products or services.
Poor: The company provides only selective or unclear information about its products or services.
Sufficient: There is no known serious misconduct in relation to the safety and health of consumers. 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. The company can, for example, work according to the standards of the ISO 9001 quality standard.
Excellent: The company has taken all of the aforementioned measures. It stands out positively through initiatives in the area of consumer protection. Examples include a food manufacturer that has a programme to combat obesity.

4.4.2.3 Climate change 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 actively pursue a comprehensive environmental policy. In this respect we assess the nature of the raw materials used, the nature of the end products, energy consumption, saving and efficiency, clean water consumption, the nature and levels of discharged gases, liquid and solid waste resulting from production operations, the possibilities for and extent of recycling of the end product (making the life cycle more sustainable), and an environmental management system.

Insufficient: The company has no policy on this.

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 company-wide.

Sufficient: The company has a management system and policy for topics relevant to its operations, such as CO_2 emissions and energy, water, waste and recycling. It may, for example, work according to the standards of environmental standard ISO 14001.

Good: The company has a management system and a detailed policy. All important components – CO_2 emissions and energy, water, waste and recycling – are described. The system has been externally verified. In addition, the company works, for example, with an energy management system (which is preferably ISO 50001 certified).

Excellent: The company meets the aforementioned criteria and has also published specific targets and deadlines. It has its achievement of these targets and deadlines verified externally. The company is transparent about its results and reports in accordance with the GRI guidelines In addition, it has programmes and initiatives to improve the environment.

Deforestation

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

We expect companies to combat deforestation. Various sectors have a big impact on deforestation: agriculture, the construction industry, cotton growing and processing, livestock farming, paper manufacturing, the production of palm oil and soy, and mining. We expect companies in these sectors to take measures to prevent deforestation.

Insufficient: The company has no policy on this.

Poor: The company has joined reputable sector initiatives or the leading certification programmes (such as the Forest Stewardship Council (FSC), PEFC, UTZ Certified, RSPO) or similar certification programmes.[48]

Sufficient: For companies, such as real estate companies, that purchase wood for new projects/ renovations in low, lower-middle and upper-middle-income countries (according to WB classification), at least two-thirds must ben FSC certified. If the company purchases wood from high-income countries for new projects/renovations, it is sufficient that at least two-thirds of the purchased wood has a PEFC certification.[49] The company also aims to become fully certified.

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

Excellent: The company offsets the loss of biodiversity in accordance with the 'no net loss of biodiversity'[50] principle.

48 It is impossible to include an exhaustive list here. Certifications are a very useful criterion for us in selecting investments. Therefore, we sometimes apply certification as a guideline. We are aware of the fact that certificates are also commercial instruments. Consequently, we do not want to commit ourselves to specific certificates, as these may be subject to change. Moreover, better certificates may come on the market in future, and we do not want to disregard those in advance.

49 The forest certification by the Sustainable Forestry Initiative (SFI), the North-American member of the PEFC, also meets our criteria. The SFI specifically applies to North America. If two-thirds of a company's activities have SFI certification, that suffices.

50 Biodiversity offsetting according to the 'no net loss of biodiversity' principle entails that a company meets the following conditions:
- equivalent quality: the loss of a nature area in one location can only be offset by creating a new, similar (in terms of surface area and species diversity) nature area elsewhere;
- simultaneity: the time between the loss of an area and the creation of a new area to offset this loss must not be too long, meaning a few years at most;
- guaranteed implementation: agreements about the implementation of the offsetting measures must be adequately laid down in a legal document.

Change in land use

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 sectors involved in this are agriculture and forestry.

Insufficient: The company has no policy on this.

Poor: The company has no policy on this, but has the intention to join one of the following standards:
- RSPO (Roundtable on Sustainable Palm Oil) for palm oil;
- RTRS (Round Table on Sustainable Soy) for soy;
- FSC (Forest Stewardship Council) for wood and paper;
- NTA8080, which sets requirements for sustainable biomass to be used for energy purposes;
- similar standards or certificates.[51]

Sufficient: The company has policy in order to meet the requirements of one of the aforementioned standards and intends to meet those.

Good: The company has policy and a management system that, depending on its operating 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 wood from old-growth forests; and/or
- High Conservation Value Areas (HCVAs) that 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
- only using second-generation biomass.

The company reports in accordance with the GRI biodiversity guidelines.

Excellent: The company offsets the loss of biodiversity in accordance with the 'no net loss of biodiversity' principle.

Palm oil

SDG targets: 12.2, 12.7, 15.2

We expect companies not to be involved in large-scale land use or activities that further increase the loss of natural habitat and biodiversity. Therefore, we closely scrutinise companies that produce food products, consumer goods and personal care products.

Insufficient: The company is not a member of RSPO and/or has no NDPE policy[52] and/or is involved in serious misconduct[53] in relation to the production of palm oil.

Poor: The company has an NDPE policy and/or is a member of RSPO, but does not publish any proof of implementation (such as a publicly accessible online list of suppliers, an up-to-date list of complaints and misconduct, a re-entry protocol for non-compliant suppliers, or a progress report.

Sufficient: The company has an NDPE policy and/or is a member of RSPO, but is selective in the type of information it publishes (e.g. its publicly accessible online list of suppliers is outdated). The company responds adequately to any complaints or misconduct.

Good: The company has an NDPE policy and/or is a member of RSPO, has a process to handle complaints and regularly publishes up-to-date proof of implementation. For example, the company is transparent about submitted complaints and actions taken in response or it has an up-to-date list of suppliers.

Excellent: The company's performance is rated 'excellent' if it scores 'sufficient' on this aspect and offsets the loss of biodiversity in accordance with the 'no net loss of biodiversity' principle.

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51 See footnote 48.
52 RSPO stands for Roundtable on Sustainable Palm Oil; NDPE stands for No Deforestation, No Peat, and No Exploitation.
53 Examples of misconduct include a company purchasing palm oil from a plantation that allows child labour. The company is aware of this, but systematically ignores it, postpones any investigation into this matter and/or does not take action.

Introduction of exotic species
SDG targets: 2.4, 15.5, 15.8
We expect companies to handle ecosystems with due care. When humans introduce non-native species, these exotic species can become invasive, dominating the area, and thus posing a threat to local species and ecosystems. We expect companies to prevent this from happening. This concerns sectors such as agriculture, the fisheries sector, tourism and the transport sector, as well as zoos, pet shops and garden centres. These sectors are assessed as follows:

Insufficient: The company has no policy on this.
Sufficient: The company has a policy to prevent the introduction of invasive species.
Good: The company has a policy to prevent 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 an unsustainable manner, this qualifies as overexploitation. There are various types of overexploitation: deforestation in forestry, poor soil management of agricultural land, unsustainable agriculture, the trade in or hunting of endangered species, overfishing, overexploitation due to tourism, and trade in red-list species like whales. The sectors primarily involved in this are agriculture, forestry and the fisheries sector. We expect companies from these sectors to prevent overexploitation. They are assessed as follows:

Insufficient: The company has no policy on this and has not joined sector initiatives or leading certification programmes.
Poor: The company aims to obtain certification from leading certification programmes or similar certifications.
Sufficient: The company adheres to the guidelines of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and/or has joined reputable supply chain certification programmes, such as FSC, MSC (Marine Stewardship Council), UTZ Certified, RTRS, RSPO and NTA8080 or similar certification programmes.[54]
Good: The company not only has a policy on this, but also a management system. It reports on this in accordance with the GRI biodiversity guidelines. If the company makes use of farmed fish, this management system is based on ASC certification (Aquaculture Stewardship Council).

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), introducing into the environment substances whose safety has not been established, or engaging in activities resulting in substances being discharged into ecosystems in such large quantities that ecosystems cannot properly process these substances. This relates to the chemicals and agriculture sectors and the pharmaceutical industry. A company's performance in this respect is assessed as follows:

Insufficient: The company has no policy on this.
Sufficient: There is no misconduct (such as discharging (chemical) substances in the air, water and/or and the company has policies in the following areas:

- Genetically modified organisms (GMOs): the company meet the requirements of the Cartagena Protocol on Biosafety.[55] The company does not apply any genetic engineering to plants and animals for non-medical purposes. If the company applies genetic engineering to micro-organisms, this takes place under controlled conditions. If the company purchases genetically modified products, it is transparent about how it uses these products;
- Pesticides: the company adheres to the Rotterdam Convention;
- Chemical waste: the company adheres to the Basel Convention;

54 See footnote 48.
55 The Cartagena Protocol on Biosafety supplements the Convention on Biological Diversity. The aim of the Protocol is to protect biological diversity from possible risks from genetically modified organisms originating from modern biotechnology.

- Persistent organic pollutants (POPs: various, often toxic chemical compounds that are not biodegradable or very resistant to biodegradation): the company adheres to the Stockholm Convention;
- Substances that deplete the ozone layer (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 to prevent and reduce 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 in accordance with the GRI biodiversity guidelines. The company has published a policy regarding GMOs and informs consumers which products contain genetically modified organisms or raw materials.

Excellent: Besides the aforementioned measures, the company undertakes additional initiatives.

Animal welfare

We only invest in companies that contribute to a respectful interaction with animals and to the improvement of animal welfare. A company must not be involved in activities we exclude, as described in section 4.4.1. Below, we also describe the criteria that apply to the supply chain. In this respect, we draw a distinction between companies that use animal products for food and those that use animal products for consumer goods (products from leather, wool, down and feathers or other animal materials). Secondly, with respect to companies that purchase animal products for food production, we distinguish between those that purchase large quantities of animal products and those that purchase negligible quantities (materiality)[56] and between large and small companies.[57] In addition, the company's level of ambition on improving animal welfare can be taken into account in the assessment of its policy; it is up to the analyst to assess whether this ambition level is sufficient or insufficient. The performance of companies in this respect is assessed as follows:

Insufficient: Consumer goods: There is serious misconduct.

The company has no policy on this or is not transparent about it. There is serious misconduct. This may concern a small company where animal welfare is a material risk, or a large company that has no policy on animal welfare or is not transparent about this. Consequently, the company does not comply with the five freedoms. The five freedoms entail that an animal is free:

- from hunger and thirst by ready access to fresh water and a correct diet;
- from fear and chronic stress;
- from physical and physiological suffering;
- from pain, injury and disease;
- to express natural (species-specific) behaviour.

Poor: Consumer goods: The company has no policy on animal welfare, but there is no serious misconduct.

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 aims to improve animal welfare

Sufficient: Consumer goods: The company has an animal welfare policy to prevent serious misconduct. For example, a policy to combat the live plucking of angora rabbits for wool or birds for down, as well as the mulesing of sheep.

Food: The company is transparent – although its openness may only be reactive – about its animal welfare policy. The animal welfare policy is based on the five freedoms. For example, a company can work according to the standards of ISO/TS 34700 for animal welfare. For customers of livestock farms and fisheries, the following applies:

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56 Animal welfare is classified as a material risk if a compny earns more than five percent of its total turnover from the sale of animal products. If a company can not or does not want to disclose this percentage, we will reject the company as a precaution.

57 As mentioned in section 4.1.2, we make a distinction between large and small companies. Small companies have a market capitalisation of less than EUR 4 billion. We apply less strict sustainability criteria for a small company, provided that we can establish that the company has a policy on animal welfare. We assume that small companies have fewer resources available to meet our policy requirements. However, that does not mean that they are less sustainable.

- The company takes the welfare of livestock into account. This is evidenced by the fact that the company has drawn up an animal welfare policy based on the five freedoms. Or by the fact that an above-average percentage of the animal products it sells is certified under a reputable certification programme, with the company taking action to increase this percentage.
- The company uses the MSC certificate for wild-caught fish and aims to increase the share of MSC certified products.

Good: Consumer goods: The company has drawn up an animal welfare policy based on the five freedoms. Food:

- The farmed fish the company purchases is ASC certified.
- The company is committed to improving animal welfare in relation to the catching of the wild-caught fish it purchases.

Animal testing

We only invest in companies that use animal testing for medical and non-medical products (both end products and ingredients) if they are transparent about this and have a sufficient policy in place in this respect. This applies both to companies that perform animal testing themselves and to companies that give instructions to parties in their supply chain to this end. The performance of companies in this respect is assessed as follows:

Insufficient: The company has a policy on animal testing, but is not transparent about it. Its policy does not meet 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, meaning that it aims to replace animal testing with other tests, and to reduce and refine animal testing.
- The company reports is transparent – although its openness may only be reactive – about the use of animal testing and the purposes for which it is used.
- Animal testing is not used for cosmetics products. If a company uses animal testing for cosmetics products, the company must meet the following conditions: the company has a legal obligation to test cosmetics on animals; it has a clear vision for how to reduce animal testing of cosmetics; and it invests in alternative test methods.

Good: The company has a policy that is sufficient. The company not only aims to reduce the use of animal testing, but has also set targets and deadlines to this end.

Excellent: The company has a policy as described above. The company states that it wants to avoid the use of animal testing and has set target and deadlines to this end; and/or it actively researches alternative test methods or explains how it encourages research into alternative, animal-free test methods.

Plastics

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

More and more plastics ends up in nature, resulting in major environmental problems. These plastics largely consists of packaging. That is why we have drawn up criteria for companies that make plastic packaging and companies that use a lot of plastic packaging. Sectors that make extensive use of plastics include the garment, food, personal care, pharmaceutical and packaging industries.

Insufficient: A company's performance is rated 'insufficient' if:

- it does not comply with legislation and regulations on plastics;
- it has no policy on plastics and/or serious misconduct is known to have occurred at this company;
- it uses biobased plastics from food crops and/or from biobased materials that have not been sustainably sourced (e.g. due to a land use change or deforestation);

Poor: The company has no policy on plastics, but acknowledges the problems associated with plastics and has a statement in this respect (about litter, plastic soup or another relevant issue).

Sufficient: *The company has a policy or strategy to reduce sector-specific risks.* Examples include a packaging company that aims to use more recycled plastics.

Good: The company not only has a policy on plastics, but has also set targets to reduce the use of plastics and to reuse plastics. The company supports initiatives to tackle the plastics problem. It is important that the company has made a long-term commitment in this respect.

Excellent: The company has taken all of the aforementioned measures and also reports on its use of plastics and its objectives and progress in this area.

Water scarcity

SDG target: 6.4

We expect companies operating in areas with water scarcity to consume water responsibly. We also expect companies operating water-intensive sectors to take measures to reduce the use of fresh water. Sectors that consume a lot of water are the mining and metal industries, the oil & gas industry, the clothing industry, the chemical and packaging industries, and utilities. In addition, companies in other sectors, such as the agricultural sector, may also be affected by water scarcity due to the location of certain supply chains.

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

Poor: The company is aware of the water reserves available in the areas where it plans to undertake 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. The company may work in accordance with the ISO 14046 guidelines, for example. Or the company has published a report on the impact of its operations on water scarcity, e.g. in accordance with the ISO 46001 guidelines.

Good: The company has published a report on the impact of its operations on water scarcity, and it takes into account the water needs of local communities and ecosystems. In addition, the company prevents that its activities in areas with water scarcity have an adverse impact on these areas. The company has joined a relevant internationally recognised initiative, such as the UN CEO Water Mandate.

Excellent: The company meets the aforementioned criteria and does not undertake any new activities in areas with water scarcity. The company's activities do not compete with the needs of local communities. In this respect, companies at minimum take into account the 'medium to high' water stress category published by the World Resource Institute.

4.4.2.4 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 chain 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 respect of its core activities.

Insufficient: The company has no supply chain policy.

Poor: The company's performance is rated 'poor' if it:
- has no formal supply chain policy, but has examples of rules of conduct;
- has a formal supply chain policy, but only devotes attention to one of the following aspects: human rights (fundamental labour rights, gender equality and/or healthy and safe working conditions); the environment; ethical conduct; or tax avoidance and evasion.
- has named all relevant topics in its policy, but makes them dependent on a country's national laws.

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 policy specifies those standards: freedom to belong to a trade union, no forced labour, no child labour and no discrimination (including no gender discrimination). The company also has policy regarding healthy and safe working conditions, the environment, ethical conduct and tax avoidance and evasion in its supply chain. We also consider adherence to the RBA[58] Code of Conduct for supply chains to be sufficient.

58 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 sufficient (http://www.responsiblebusiness.org/).

If applicable, the company has policy to reduce 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 regarding ethical conduct and tax evasion and avoidance in its supply chain. It has procedures to implement this policy. For example, it uses questionnaires to query companies in its supply chain and concludes sustainability contracts with its suppliers.

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

EXAMPLES OF SECTORS WITH 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 that proceeds from the mining of and trade in these metals are used to finance armed conflicts. Metals to which the latter risk applies are also referred to as ‘conflict minerals’. We expect companies that may use conflict minerals in their production to have policy to combat the use of conflict minerals (in their supply chain).

Wood and paper

Various companies, such as construction companies, paper mills and printing businesses, use wood, wood pulp and/or paper in their production processes. These raw materials are obtained by logging, which can have a major adverse impact on biodiversity, as it can lead to deforestation and habitat destruction. Sustainable forestry and forest conservation are necessary to limit the risks related to biodiversity. Therefore, we expect companies that use wood products to have a policy to 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 production of certain foodstuffs can entail sustainability risks, such as deforestation, change of land use and the loss of natural habitat and biodiversity. This is caused by the logging of forests to create agricultural land. This concerns foodstuffs such as soy, palm oil, coffee and cocoa. International certificates have been set up for these foodstuffs. 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.

Animal testing

Our animal testing policy states that we only invest in companies that use animal testing for medical and non-medical products (both end products and ingredients) if they are transparent about this and have a sufficient policy in this respect. This applies both to companies that perform animal testing themselves and to companies that give instructions to parties in their supply chain to this end. This entails the following: if there is a risk of animal testing in the supply chain of a company, e.g. a pharmaceutical company, then the company’s supply chain policy must require that its suppliers meet the 3 Rs (Replacement, Reduction and Refinement).

5 Selection of microfinance institutions

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 community organising and awareness raising among large groups of disadvantaged people. An MFI is a financial institution specialised in banking services, such as providing small loans to people with low incomes. By providing loans to small business owners in developing countries, MFIs help these people to make a living. In addition, MFIs provide these people with banking services they can often not obtain from traditional banks.

The ASN Microkredietfonds[59] invests in MFIs and banks with an MFI portfolio. The ASN Duurzame Mixfondsen also invest part of their portfolio in MFIs. This funds are managed by ASN Impact Investors. Triple Jump is the project advisor for the investments in MFIs. The investment proposals are discussed in the Investment Committee.

Investing in MFIs exposes the ASN Microkredietfonds to sustainability risks. Sustainability risk is the risk that an event relating to ecological, social or governance aspects causes financial loss or may have a negative effect on the value of assets under management. For the ASN Microkredietfonds, the following risks have been identified:
- Ecological risk: climate change increases the risk of natural disasters. Such disasters can affect the quality of an MFI's loan portfolio.
- Social risk: access to microcredits can lead to overindebtedness.
- Governance risk: the fund invests in developing countries with a less stable government.
- Governance risk at the MFI: investees in developing countries have an increased risk of fraud and corruption.

The ASN Microkredietfonds mitigates these risks as follows:
- Concentration limit per MFI: investments in any particular MFI are limited to a maximum of 5% of the total investment portfolio at the start of the investment and a maximum of 20% while investment is ongoing.
- Concentration limit per country: investments in MFIs from any particular country are limited to a maximum of 15% of the total investment portfolio.
- Extensive screening on integrity and money laundering risks before investing and while investment is ongoing.
- Before a loan is provided, extensive due diligence is conducted with respect to the following aspects:
- Responsible lending, which includes the microcredit approval process within the MFI, including a calculation of the client's repayment capability, and the MFI's transparency towards the client in respect of the terms and conditions of the loan. An interest-rate traffic light system is applied to check if the client pays a fair interest rate.
- Client protection score, which means that to be admitted to the investment universe, the MFI must score well on the following points: adaptation of services, prevention of overindebtedness, transparency on products, responsible pricing, fair practices with clients, confidentiality of client data, and complaints mechanism.
- Balanced return for the MFI: the MFI's profit must be proportional to the services it provides to its clients.

As per the Sustainable Finance Disclosures Regulation (SFDR), the principal adverse impacts (PAIs) of investments in MFIs comprise adverse impacts on the environment and society. The ASN Microkredietfonds bases its selection of MFIs on the current sustainability policy and the investment process. Based on this, the selection process as described in sections 5.1 and 5.2 is applied. The sustainability policy contains several criteria and requirements that minimise the risk of the portfolio giving rise to PAIs.

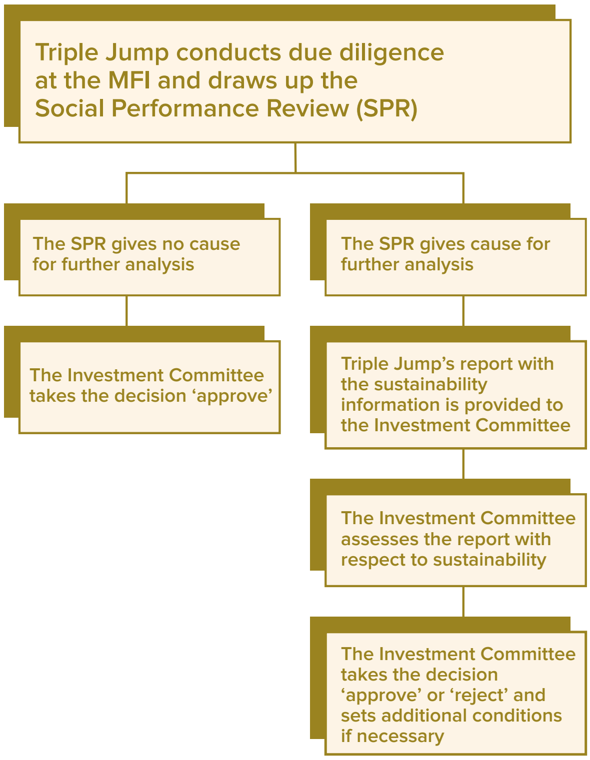
59 The ASN Microkredietfonds was established on 14 June 1996 and originated from a joint initiative of ASN Bank and Oxfam Novib. The fund is managed by ASN Impact Investors. Triple Jump acts as the fund's project advisor.

5.1 SELECTION PROCESS FOR MICROFINANCE INSTITUTIONS

Our process for the selection of MFIs is shown below. MFIs can be selected according to two processes.

The process starts at Triple Jump,[60] which plays an important role in the selection of MFIs. As the project advisor, Triple Jump makes investment proposals for the fund and conducts the due diligence investigation at MFIs based on financial and sustainability criteria. Triple Jump only submits an MFI to ASN Impact Investors if it believes the MFI is likely to qualify for admission to the fund. If Triple Jump has doubts about whether an MFI would qualify for admission to the fund, it may request pre-due diligence advice from the Investment Committee[61] prior to the due diligence investigation.

If Triple Jump proposes an MFI to ASN Impact Investors, the Social Performance Review (SPR) determines which process will then be applied. The Investment Committee can approve the MFI immediately if the scores from the SPR are positive on all criteria. If the SPR gives cause for further analysis, this is prepared by ASN Impact Investors. The Investment Committee then takes a decision on admission to the investment universe.



Triple Jump draws up the Social Performance Review, Triple Jump draws up the Social Performance Review (SPR), which summarises the MFI's Social Performance Management (SPM). SPM is a form of management that enables 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. Important topics in this respect include: client protection, client satisfaction, whether the MFI focuses on female clients (overall gender-related social, cultural, behavioural and identity aspects play a role here), reach and information on socially responsible performance.

The SPR also includes the outcome of the 'interest rate traffic light' (explained below). The interest rate traffic light has been developed by Triple Jump to assess MFIs as objectively as possible on the interest rates 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 an equity stake in the MFI; and/or
- the MFI operates in countries identified as high risk by MIMOSA[62] or by Triple Jump; and/or
- the SPM score is lower than 70%; and/or
- the director's remuneration exceeds 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) exceeds 50%; and/or
- the APR is 20% higher than the rates applied by similar financial institutions in the same country; and/or

60 Triple Jump manages and advises funds that focus on responsible investment in developing countries. Triple Jump was established in 2006 as a spin-off from Oxfam Novib. Triple Jump has four shareholders: Oxfam Novib, ASN Bank, NOTS Impact Entrepreneurs, and Management Company.
61 The Investment Committee consists of the Institutional Relations Manager, ASN Impact Investors' Senior Sustainability Manager, and the Microkredietfonds Fund Manager.
62 The Microfinance Index of Market Outreach and Saturation (MIMOSA) has developed a framework for measuring credit saturation. The countries MIMOSA regards as high risk countries have a highly saturated lending market, which gives rise to a high risk of client overindebtedness. In that case, it is important for the MFI to have good policy to protect clients against overindebtedness. http://mimosaindex.org/

- the MFI's profitability exceeds the norm in the current year or exceeded the norm in one of the two previous 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. Further explanation is then required of the APR, RoE and RoA. An MFI is excluded if:
- the interest rate traffic light is red, the MFI is excluded; and/or
- the client protection score is lower than 70%; and/or
- the MFI has not endorsed the SMART Campaign.[63]

5.2 SELECTION METHOD FOR MICROFINANCE INSTITUTIONS

Below we explain how ASN Impact Investors assesses MFIs. It uses four documents to this end:
- Social Performance Review (SPR): this summarises the MFI's Social Performance Management.
- Interest rate traffic light: see previous paragraph.
- Social Performance Management sheet: this gives information on the way in which the organisation fulfils its social mission and on the management of processes and systems.
- 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, which part of the currency risk is passed on to the borrower.

If ASN Impact Investors any questions about the MFI, it can put these to Triple Jump. If necessary, Triple Jump submits these questions to the relevant MFI.
We assess the sustainability performance of MFIs on the following aspects:
- Responsible lending. This involves assessing the client protection score and the background information in this respect; we check if the MFI has endorsed the SMART Campaign. If the MFI does not conduct its lending in a responsible manner, it receives a negative recommendation.
- 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 establish 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 exceeds USD 150,000 per year and there is insufficient substantiation to justify this salary,[64] or if the remuneration exceeds USD 300,000 per year.
- Embedding of social policy in the organisation; we define this as the MFI having a policy with respect to:
  - protecting its borrowers,
  - transparency;
  - the way in which it determines the price of financial products, and
  - its own staff.

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

63 The SMART Campaign has drawn up a series of basic principles for dealing with clients of MFIs. These basic principles cover: appropriate product design and delivery; prevention of overindebtedness; transparency; responsible pricing; fair and respectful treatment of clients; privacy of client data; and mechanisms for complaint resolution. http://www.smartcampaign.org/

64 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 elements that make managing the MFI a complex matter.

6 Selection of sustainable energy projects

The ASN Groenprojectenfonds invests at least 70% of its assets in projects that comply with the Dutch government's Green Project Regulations 2016 *(Regeling groenprojecten 2016)*. The green projects financed by ASN Groenprojectenfonds relate to various focal areas. The ASN Groenprojectenfonds focuses particularly on the subsegments sustainable construction and refurbishment, renewable energy, and decentralised energy systems. The fund may invest no more than 20% of its fund assets in projects outside of the Netherlands. To this end, we select projects that qualify as designated green projects.

The ASN Groenprojectenfonds has been designated as a Green Institution *(Groene Instelling)*.
Investing in green projects exposes the ASN Groenprojectenfonds to sustainability risks. Sustainability risk is the risk that an event relating to ecological, social or governance (ESG) aspects causes financial loss or may have a negative effect on the value of assets under management. For the ASN Groenprojectenfonds, the following risks have been identified:
- Ecological risk: climate change increases the risk of natural disasters. The main ecological risks for the ASN Groenprojectenfonds are flooding and extreme temperature rises. Such disasters can have an adverse effect on the quality of the fund's loan portfolio.
- Social risk: with projects in emerging markets, there is a risk of insufficient respect for human rights (such as fair wages and adequate housing for temporary project staff).
- Governance risk at projects in emerging markets: with projects in developing countries, there is a high risk of fraud and corruption.
- Governance risk in emerging markets: the ASN Groenprojectenfonds invests in emerging markets with less stable governments.

The ASN Groenprojectenfonds mitigates these ESG risks as follows:
- Concentration limit per borrower: restricting lending to any individual borrower to a maximum of 15% of the total assets under management.
- Concentration limit for emerging markets: restricting the amount provided in private loans in Dutch Good Growth Fund countries to a maximum of 20% of the total assets under management.
- Extensive screening on integrity and money laundering risks before investing and while investment is ongoing.
- Conducting extensive due diligence with respect to various aspects, including human rights, non-discrimination, gender, child labour and forced labour, before providing a loan.
- For the residual risks: setting conditions in the contract (Environmental and Social Action Plan). Improvement actions are periodically monitored.

As per the Sustainable Finance Disclosures Regulation (SFDR), the principal adverse impacts (PAIs) of investments in sustainable energy projects comprise adverse impacts on the environment and society. The ASN Groenprojectenfonds bases its selection of projects on the current sustainability policy and the investment process. Based on this, the selection process as described in sections 6.1 and 6.2 is applied. The sustainability policy contains several criteria and requirements that minimise the risk of the portfolio giving rise to PAIs.

6.1 SELECTION PROCESS FOR SUSTAINABLE ENERGY PROJECTS

The sustainability analyst at the Sustainability Expertise Centre assesses if the project meets the aforementioned sustainability policy and sustainability criteria and draws up a recommendation to 'approve' or 'reject' the project. The analyst then submits the analysis and recommendation to the Investment Committee. The Investment Committee takes the final decision.

6.2 SELECTION METHOD FOR SUSTAINABLE ENERGY PROJECTS

Among other things, the ASN Groenprojectenfonds finances projects in the area of energy generation from renewable sources (sustainable energy projects). In this section we describe what type of sustainable energy projects are financed by the fund and how we select those projects.

Assessment criteria for sustainable energy projects
SDG targets: 7.2, 7.3, 7.a, 13.2, 15.9
Below is a non-exhaustive overview of renewable energy projects that may qualify for financing and the criteria on the basis of which we assess such projects. The table below explains which criteria apply to virtually all projects and what the assessment entails. The assessment against the other criteria is explained in the table itself.

Renewable energy project	Criteria
Wind energy • onshore • offshore	*Sustainability criteria:* We expect a project to meet the following criteria at minimum: • it complies with all applicable legislation and regulations; • it is not involved in (serious) misconduct; • it complies with Equator Principles if these are applicable; • it publishes the emissions avoided; • it complies with our biodiversity policy on nature areas. In addition, a project preferably uses suppliers that meet our sustainability criteria for companies (see section 4.4).
Solar energy generation • roof-mounted solar • in-field solar • Solar on water	*Sustainability criteria:* We expect a project to meet at minimum the following criteria: • it complies with all applicable legislation and regulations; • the project developers that are not involved in (serious) misconduct; • it complies with the Equator Principles if these are applicable; • the power generated by the project is annually reported to us; • an appropriate plan is in place to remove the installations at the end of their useful lives; • During the construction and management phases of the project, appropriate offsetting measures are taken in relation to biodiversity and integrating the project in the landscape. • A solar farm on land or a solar farm on water should not exceed 20 hectares. This does not apply to roof-mounted solar panels. This may be deviated from, depending on how the project fits into its surroundings; • No valuable nature such as woodland should disappear for the construction of the project. • In the case of a solar project on water, the projects should be constructed in areas with built environment features, such as water reservoirs, water storage ponds at business parks or dredge spoil reservoirs; • Developers of solar farms in the Netherlands should endorse the Solar • on Land *(Zon op Land)* code of conduct. • Projects in nature areas, at sea, and in lakes, rivers, canals and polder waterways are excluded; • Outside the Netherlands, the principles of this should be adhered to as much as possible. In concrete terms, this means that local residents are involved in terms of choices relating the plan, its design and getting the to participate financially and that Solar Guide 20 *(Zonnewijzer20)* is taken into account when choosing a location. In addition, the solar farm should be designed in such a way that no irreversible changes are made to the environment. This means that it should be possible to revert to the original land use once the solar farm's useful life has ended. In addition, preferably: • 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 conservation and/or environmental organisations; • The project uses suppliers that meet our sustainability criteria for companies.

Thermal storage systems	*Sustainability criteria:* We expect a project to meet the following criteria at minimum: • it complies with all applicable legislation and regulations; • it publishes the emissions avoided.
Biomass • woody biomass, wood waste, dry green waste • manure • sewage sludge • organic kitchen and garden waste	*Activities to be excluded:* We do not finance projects that use first-generation biofuels. Second- and third-generation biofuels are allowed on specific conditions. Under which category a biofuel falls is explained in section 4.4.1. In addition, the following absolute criteria apply:
Energy generation through: • incineration • mono-digestion • co-digestion	For dry biomass: • 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 NTA8080-1-2015 (Better Biomass). • The applicant and the entire supply chain are NTA8080 certified. • All flows processed in the project are NTA8080 certified. We receive the annual NTA8080 audit report expressly stating this. • The dry biomass flows consist of waste wood and/or pruned wood. • If the wood use of existing and/or planned biomass plant exceeds the available stocks of local pruning wood, we do not finance new biomass plants using local wood. • The developer or owner of the plant may be involved in the trade in illegal wood and/or be involved in any controversies. If the power plant incinerates dry biomass, it must apply flue gas cleaning with the aid of the latest technologies. • If the power plant incinerates dry biomass, it must at least comply with all legislation and regulations applying to emissions, and ensure a proper disposal and treatment or upgrading of residual products (ashes). For wet biomass: • It concerns mono-digestion of sludge, manure, green waste from horticulturists and arable farmers, organic kitchen and garden waste, and similar flows. • We assess applications for co-digestion projects 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 incontrovertibly demonstrated. • Only second-generation cosubstrates (food crops) may be used. • The parties involved may not be not associated with manure fraud; this is verified. • 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 it generates entirely or largely on its own farm. • The biomass flows are of local origin, i.e. from an area within a radius of 200 kilometres from the biomass plant. This should be specifically certified in the annual audit report. • Both the biomass flows and the applicant should be NTA8080 certified and audited. We receive the annual NTA8080 audit report in which the auditor specifically certifies this • There is proper disposal, treatment or upgrading of the digestate (digested manure). *Sustainability criteria:* We expect a project to meet the following criteria at minimum: • it complies with all applicable legislation and regulations; • it publishes the emissions avoided.
Sustainable buildings • new-build • refurbishment	*Activities to be excluded:* 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. Even 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, for example, if the owner or tenant of the building is involved in activities we exclude or avoid.[65]

65 Activities that we exclude are the arms industry, tobacco industry, child labour, human rights violations, environmental offences, and nuclear energy; see section 4.4.1.

	Sustainability criteria:
	We expect a project to meet at minimum the following criteria:
	• no serious misconduct occurred[66] in the phase preceding construction and during construction itself;
	• in the case of new-build projects on greenfield[67] sites, the positive effects far outweigh any negative effects;
	• buildings must have an energy label. Accordingly:
	  • social-use buildings must have an energy label;
	  • commercial-use buildings must have energy label A if newly built and at least energy label B if refurbished;
	• commercial-use buildings should comply with one or more of the following quality labels or similar standards:[68]
	1) LEED for new construction: Gold or Platinum;
	2) BREEAM NL for existing building / new-build: Very Good or Excellent;
	3) GPR Gebouw: 9 or 10 stars.
	
	In addition, preferably:
	• the buildings are easy to reach by public transport and bicycle;
	• the buildings have an indoor climate that is not harmful to the health of the users and occupants of the building;
	• the project concerns financing the refurbishment of existing buildings;
	• the project concerns mixed-use buildings;
	• larger buildings have an environmental policy and an environmental management system;[69]
	• the borrower can demonstrate that sustainable timber is used in the construction project, on the basis of:
	  • the building contract documents;
	  • formal interim progress meetings;
	  • completion report issued upon handover (with list of faults still to be rectified);
	  • contractor's certificate of guarantee;
	• the following criteria apply for social-use buildings:
	  • the owner or manager of the building should aim to improve its energy label;
	  • the building complies with one or more of the following quality labels or similar standards:
	1) LEED for new construction: Gold or Platinum;
	2) BREEAM NL for existing building / new-build: Very Good or Excellent;
	3) GPR Gebouw: 9 or 10 stars.

Hydropower projects • dams • Hydroelectric power	*Activities to be excluded:* We only finance hydropower projects in which dams are constructed if: • the dam complies with the World Commission's seven principles. See section 4.4.1; • there is no misconduct in respect of the local population. *Sustainability criteria:* We have set the following minimum requirements for a project: • it is not involved in any misconduct; • it complies with all applicable legislation and regulations; • it complies with the Equator Principles if these are applicable; • it publishes the emissions avoided.
Plastics • biobased raw materials • reuse and recycling	*Sustainability criteria:* Biobased projects We expect a project to meet at minimum the following criteria: • The project complies with all applicable legislation and regulations and is not involved in (serious) misconduct. • It exclusively uses biobased raw materials for the production of biobased plastics. It does not partly use fossil fuels. An exception is made for the use of recyclate. • It does not use biobased raw materials from food crops. In exceptional cases, this can be deviated from; we assess this on a case-by-case basis. However, food crop waste is allowed for the production of biobased plastics;

66 A few examples of misconduct: the building prompted serious, widely supported protest during its construction, e.g. because it occupies valuable open green space; previous purchases or sales of the building involved fraud; the building does not comply with the current legislation and regulations.
67 Greenfield sites are sites that have not previously been built on.
68 An exception can be made on some points for the financing of the construction of social-use buildings.
69 Larger buildings are buildings whose total surface area exceeds 10,000 square metres.

	• It does not use biobased materials for which a change in land use (indirect land use change) has taken place. The company must demonstrate this, e.g. through the Better Biomass (NTA8080) certification. • The project does not contribute to the release of microplastics due to use or wear and tear of the product. In addition, a project preferably: • uses suppliers that meet our sustainability criteria for companies; • uses innovations that ensure that the biobased plastics can be properly reused or recycled; • provides consumers with instruction on the disposal of the product.
	Plastics reuse and recycling Project financing that focuses on the processing of previously used fossil plastics achieves significant CO_2 gains and a lower environmental footprint compared with primary plastics from fossil materials. This reduction in CO_2 emissions and environmental footprint must be demonstrated by means of a generally accepted Life Cycle Assessment (LCA) method.
Hydrogen	Because hydrogen appears to be an indispensable link in a succesful energy transition, we want to invest in green hydrogen. The following bsolute criteria apply: - Hydrogen is produced in the most sustainable way possible, so with electrolysis and the use of sustainable energy sources. - In addition, we require that all safety measures are observed during the production, transport and use of the gas

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. 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.

Legislation and regulations
Projects must comply with all applicable legislation and regulations and have obtained the required permits, such as a permit under the Dutch Environment and Planning Act (*omgevingsvergunning*) or an Environmental Impact Assessment (EIA). If the required permits have not yet been issued at the time of assessment, we include this as a condition in the sustainability assessment.

Misconduct
We expect projects not be involved in (serious) misconduct, such as misconduct in respect of the local population during the construction of dams, or fraud. How we assess misconduct is explained section 4.1.4.

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.

Avoided emissions
The emissions avoided as a result of the project must be known. We use this information to calculate the CO_2 footprint of the investment. If this information is not known at the time of assessment, we include this as a condition in the assessment.

7 Selection of biodiversity projects

The ASN Biodiversiteitsfonds finances projects that promote biodiversity. In section 7.1 we describe what type of sustainable energy projects are financed by the fund and how we select those projects. The decision-making process for the ASN Biodiversiteitsfonds is discussed in section 7.2.
The ASN Biodiversiteitsfonds also invests in green bonds and companies. You can find information on the selection process for green bonds in section 3.2; the selection process for companies is explained in section 4.1.

Investing in projects, companies and green bonds exposes the ASN Biodiversiteitsfonds to sustainability risks. Sustainability risk is the risk that an event relating to ecological, social or governance aspects causes financial loss or may have a negative effect on the value of assets under management. For the ASN Biodiversiteitsfonds, the following risks have been identified:

- Ecological risk: This risk is inherent to this type of products and is therefore not covered. The risk is limited indirectly through the extensive screening during the selection process for investments, and through sector and geographic diversification.
- Social risk: many local communities depend on nature for their income and/or food supplies. It is essential that an investment is not detrimental to local communities. This risk is limited through the extensive screening during the selection process for investments.
- Governance risk: the risk of fraud and/or money laundering. Governance risk: the fund invests in developing countries with a less stable government. This risk is limited through geographic diversification, and through the extensive compliance and tax screening during the selection and monitoring processes for investments.

The ASN Biodiversiteitsfonds mitigates these risks as follows:

- The ASN Biodiversiteitsfonds only invests in projects and issuers that have been admitted to the investment universe.
- Specific limits apply to ensure sector and geographic diversification. These limits apply after the fund's start-up phase.
- They apply from the third year after the establishment of the ASN Biodiversiteitsfonds or as soon as its fund assets amount to EUR 75,000,000.00 or more, whichever is earlier. These limits do not apply to the maximum percentage per loan participation and the maximum percentage for participations in individual undertakings for collective investment. These maximum percentages apply with immediate effect upon establishment of the ASN Biodiversiteitsfonds.
- Concentration limit:
  - I 50% is invested in illiquid investments, with a bandwidth of 30% to 60%.
  - II 50% of the illiquid investment is invested in funds, with a bandwidth of 30% to 60%.
  - III A maximum of 5% is invested in illiquid investments, with a bandwidth of 0% to 5%.
- 10% of the fund assets is invested in green bonds, with a bandwidth of 0% to 15%.
- Concentration risk per country: The percentage of the ASN Biodiversiteitsfonds that is invested in projects in any single country through participations in private loans is at most 15% of the fund assets.
- Concentration risk per individual investment: The maximum interest that the ASN Biodiversiteitsfonds may hold in an individual undertaking for collective investment at the start of the investment in that undertaking for collective investment is 19.9%. The SN Biodiversiteitsfonds may invest up to 10% of its fund assets in loans provided to an individual debtor.
- Sustainability risks: Where applicable to the investment, the following is assessed:
  - risk of forest fires and mitigating measures;
  - risk of water stress an draught and mitigating measures;
  - risk of climate change and mitigating measures;
  - risk of diseases and pests and mitigating measures.
  - Extensive screening on integrity and money laundering risks before investing and while investment is ongoing.
  - Extensive due diligence on ecological, social and governance criteria according to ASN Impact Investors' sustainability policy.

As per the Sustainable Finance Disclosures Regulation (SFDR), the principal adverse impacts (PAIs) of investments in projects comprise adverse impacts on the environment and society. The ASN Biodiversiteitsfonds bases its selection of projects on the current sustainability policy and the investment process. Based on this, the selection process as described in sections 7.1 and 7.2 is applied. The sustainability objectives and the sustainability policy contain several criteria and requirements that minimise the risk of the portfolio giving rise to PAIs.

7.1 SELECTION PROCESS FOR BIODIVERSITY PROJECTS

We use information provided by the issuer of the investment to assess the sustainability of projects. For the assessment of investments in biodiversity projects through other investment funds, we also use information from specialised research institutions. The Investment Committee assesses whether a project should be admitted to the investment university on the basis of several criteria, including sustainability criteria and biodiversity indicators. The biodiversity indicators are used to estimate the positive and negative impact of the project on biodiversity. Projects that carry out activities that we exclude or avoid are not admitted to the investment universe (see section 4.4.1).

7.2 SELECTION METHOD FOR BIODIVERSITY PROJECTS

The ASN Biodiversity Fund invests in projects focused on restoring and protecting biodiversity. The invests focus on ‘sustainable forestry’, ‘sustainable agroforestry’, ‘sustainable seas and fisheries’ and ‘ecotourism’. The selection method for these investments is described below.

7.2.1. Assessment criteria for investments by Biodiversiteitsfonds

SDG targets: 8, 13, 14, 15

The biodiversity aspects and criteria based on which we assess investments are set out below. These are general criteria that apply to each project. In addition, we have detailed more specific criteria per biodiversity aspect, which are shown in the table below.

Sustainability criteria applicable for all investments:

- the project or fund aims to create a net positive impact on biodiversity, aligned with regional biodiversity priorities and plans, and this is to be monitored and reported on;
- the project or fund is not involved in controversies or serious misconduct;
- The project or fund adheres to the IUCN guidelines for Protected Area Management Categories and does not develop activities in categories I-IV of the IUCN[70];
- the right of Free, Prior and Informed Consent (FPIC)[71] is ensured;
- it complies with all applicable laws, regulations and nationally ratified international treaties, conventions and agreements;
- it complies with the Equator Principles[72] (if applicable);
- it complies with the IFC Performance Standards[73] (or a similar standard):
  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

70 In exceptional cases, we might consider investing in certain categories (II-IV). For example, national parks (category II) often lack funding. A well designed ecotourism project could help generate the funds needed to maintain the park. A project affecting IUCN areas must in all cases result in an actual benefit for biodiversity.

71 FPIC is also covered by IFC performance standard 7. Therefore, if a project complies with the IFC performance standards in general, or performance standard 7 in particular, this can be considered sufficient.

72 https://equator-principles.com/

73 www.ifc.org/performancestandards

The table below explains which criteria apply to virtually all projects and what the assessment entails. The assessment against the other criteria is explained in the table itself.

Theme	Criteria
Sustainable forestry	*Sustainability criteria:* Absolute criteria: The company meets[74] the requirements of one of the following internationally accepted standards: • FSC; for all forestry and wood or paper products; • the principles and guidelines of the International Union for the Conservation of Nature (IUCN) for the ecological restoration of Protected Areas; • the IUCN Green List Standard, provides guidelines for successful nature conservation in protected and conserved areas; • international principles and standards for the practice of ecological restoration from the SER (Society for Ecological Restoration). Furthermore, we require: • adherence to the guidelines of the Convention on International Trade in Endangered Species of Wild Fauna and Flora. Relative criteria: Preferably, the project or fund: • cooperates with well-known NGOs; • carries out public-awareness activities to increase the understanding of local residents about the status of the natural environment and the importance of its conservation and restoration; • reports on the following: • baseline: hectares and type of land use at the start of the investment and over time; • hectares of protected land; • hectares of avoided deforestation/degradation. We exclude: • activities that adversely affect protected nature areas or official nature reserves; • the logging of old-growth forests, tropical rainforests, forests with a high carbon content (High Carbon Stocks, HCS) and mangrove forests, as this is unacceptable; • 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 with a high biodiversity value that are not (yet) protected. • Changes in land use that have an adverse effect on red list species.[75] This does not necessarily concern nature reserves, but areas on which red list species depend; • The introduction of, or increased competitiveness of, invasive species. • Nature restoration which is carried out as a compensatory measure to create a similar environment near the environment that has been destroyed by development activities. The focus should be on the restoration of the ecosystems and other natural environments that have been damaged or destroyed by projects and human activities carried out in the past.
Agroforestry	*Sustainability criteria:* Absolute criteria: The production of agro-commodities that may have a serious ecological impact, such as coffee, cocoa, sugar, tea, soy and palm oil, must at least comply with the best-practice codes for those commodities compiled by international forums. We believe that the certification schemes, standards and/or guidelines from Rainforest Alliance, Sustainable Agriculture Network (SAN), CCB[76] or ProTerra are in general sufficient for all agro-commodities listed below, as well as for e.g. coffee, tea, cocoa or

74 If a project or fund has the intention to achieve the requirements of one of the internationally accepted standards and can provide relevant evidence, this can be assessed as sufficient. This will be reviewed on a case-by-case basis.
75 IUCN Red List, www.iucnredlist.org
76 https://verra.org/project/ccb-program/
If a project or fund aims to achieve a relevant certification and can provide evidence that it is actively working towards obtaining the relevant certification, this can be assessed as sufficient. This will be reviewed on a case-by-case basis.

	nuts. In addition, we adhere to the following certification schemes or internationally accepted guidelines: • FSC: for all timber or paper products; • RSPO: for palm oil; • RTRS: for soy; • NTA 8080: for biomass; • Bon Sucro: for sugar cane; • Better Cotton: for cotton. Furthermore, we require: • adherence to the guidelines of the Convention on International Trade in Endangered Species of Wild Fauna and Flora; • clear cut-off dates for no-deforestation and no-conversion commitments. Clarity on cut-off dates is essential to ensure precise commitments related to deforestation-free and land conversion-free supply chains that can be acted upon and monitored.[77] Relative criteria: In some cases, fairtrade or organic certification can also suffice. However, this will be reviewed on a case-by-case basis. Organic certification, for example, does not always exclude deforestation. In order to prevent pollution of the natural environment and minimise risks to human health, we require projects and funds to adhere to the following conventions:[78] • for pesticides, adherence to the Rotterdam Convention; • for chemical waste, adherence to the Basel Convention; • for persistent organic pollutants (POPs), adherence to the Stockholm Convention; • for substances that affect the ozone layer, adherence to the Montreal Protocol. Preferably, the project or fund reports on the following, where applicable: • baseline: hectares and type of land use at the start of the investment and over time; • hectares of protected land on the project site (in some cases, benefits to neighbouring protected areas or downstream to the project site count as well). • hectares of avoided deforestation/degradation. We exclude: • activities that adversely affect protected nature areas or official nature reserves; • the logging of old-growth forests, tropical rainforests, forests with a high carbon content (High Carbon Stocks, HCS) and mangrove forests, as this is unacceptable; • 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 with a high biodiversity value that are not (yet) protected. • changes in land use that have an adverse effect on red list species.[79] This does not necessarily concern nature reserves, but areas on which red list species depend; • the conversion of savannah and natural grassland to agricultural land; • wetland drainage and peat extraction; • the introduction of, or increased competitiveness of, invasive species.
Sustainable seas and fisheries	*Sustainability criteria:* Absolute criteria: Fisheries must at least comply with the best-practice codes compiled by international forums. Projects or funds must adhere to the following relevant certification schemes or internationally accepted guidelines concerning fisheries*: • MSC: for wild-caught fish; • ASC: for farmed fish; • IPRSF[80]: for shrimp farming. Furthermore, we require: • adherence to the guidelines of the Convention on International Trade in Endangered Species of Wild Fauna and Flora;

77 https://accountability-framework.org/contents-of-the-framework/cutoff-dates/
78 FSC certification adheres to all of the listed conventions
79 IUCN Red List, www.iucnredlist.org
80 International Principles on Responsible Shrimp Farming. The purpose of these International Principles as mandated by the members of FAO and NACA is to provide principles for the management of shrimp aquaculture that provide guidance in implementation of the FAO Code of Conduct for Responsible Fisheries in the shrimp aquaculture sector.

	• that Marine Protected Areas[81] (MPAs) are respected;
	• that projects or funds actively try to improve the welfare of caught and farmed fish by improving methods of catching and killing the fish.
	
	Relative criteria:
	• adherence to the FAO Code of Conduct for Responsible Fisheries;
	• adherence to the Principles for Investment in Sustainable Wild-Caught Fisheries;[82]
	• compliance with MARPOL regulations.[83]
	• Preferably, the projects and funds we invest in:
	  • farm fish species with a feed conversion ratio below 2.5;
	  • exclusively use sustainable feed;
	  • have a policy on conversing and improving the water quality of the areas in which they operate.
	
	We exclude:
	• the introduction of, or increased competitiveness of, invasive species;
	• fishing boats that sail under 'flags of convenience';
	• overfishing:
	• projects or investments may not use destructive fishing practices. This encompasses practices that leave marine populations irreversibly damaged and can destroy entire habitats for fish and other organisms. This includes:
	  • dynamite or blast fishing;
	  • cyanide fishing;
	  • bottom trawling;
	  • shark finning;
	  • muro-ami fishing.

Ecotourism	*Sustainability criteria:* Absolute criteria: The establishment has legally acquired its property, land and water rights and ensures that its functioning and activities in respect of the environment, health, safety, and labour practices comply with local and national legislation and regulations. Furthermore, the rights of local and indigenous people are respected. Relative criteria: • the project adheres, for example, to one of the following standards or certificates:[84] • Green Key certificate;[85] • Global Sustainable Tourism Council;[86] • tour operators can be accredited with a Travellife certificate;[87] • the project or establishment is a member of The International Ecotourism Society (TIES). Preferably, the funds and project we invest in: • use locally produced food and drinks; • have an environmental impact plan for their campsite or organisation in which energy, waste and water use is included; • cooperate with local and indigenous people. We exclude: • tourist activities that disturb or damage animals or their habitat; • projects or organisations that use and exploit wild animals for entertainment; • the trade in endangered species; • the hunting (the practice of seeking, pursuing and capturing or killing) of wild animals

81 Marine Protected Areas are protected areas of seas and oceans that have no national or international legal status. In these protected areas, disruptive activities threatening natural values are restricted or prohibited as much as possible. Examples of disruptive activities are fishing and leisure activities.
82 Environmental Defense Fund, Rare/Meloy Fund and Encourage Capital. 2018. Principles for Investment in Sustainable Wild-Caught Fisheries. Available at: fisheriesprinciples.org.
83 MARPOL is an international convention to combat pollution from ships.
84 If a project or investment can prove that it works according to a (similar) standard or certification, this can also be sufficient. The also applies it one is working towards adherence to a standard or certification.
85 https://www.greenkey.global/criteria
86 https://www.gstcouncil.org/wp-content/uploads/GSTC-Destination-Criteria-v2.0.pdf
87 https://www.travelife.info/index_new.php?menu=standardsandcriteria&lang=en

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.

Legislation and regulations

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

Misconduct

We expect projects not be involved in (serious) misconduct, such as misconduct in respect of the local population. How we assess misconduct is explained section 4.1.4.

8 Liquidities

The assets of the ASN Groenprojectenfonds, the ASN Microkredietfonds and the ASN Biodiversiteitsfonds consist in part of liquidities.

8.1 LIQUIDITIES IN THE ASN GROENPROJECTENFONDS

The assets of the ASN Groenprojectenfonds consist in part of liquidities, which it holds to enable investors to join and exit the fund. To this end, the fund may hold cash in a (savings) account at an approved financial institution (which has been assessed against the criteria for issuers, see ASN Bank's Financial Services (Financiele dienstverlening) policy document) and/or invest in approved government bonds (see chapter 3).
The liquidity policy is explained in more detail in the ASN Groenprojectenfonds prospectus.

8.2 LIQUIDITIES IN THE ASN MICROKREDIETFONDS

The assets of the ASN Microkredietfonds consist in part of liquidities. The liquidities may include fund assets that have not (yet) been invested in private loans and equity participations, as well as cash held to enable investors to join and exit the fund. To this end, the fund may hold cash in a (savings) account at an approved financial institution (which has been assessed against the criteria for issuers, see ASN Bank's Financial Services policy document) and/or invest in approved government bonds (see chapter 3). For the purposes of efficient operational liquidities management, the fund may to a limited extent use bank accounts at financial institutions that have not been approved by ASN Impact Investors.
The liquidity policy is explained in more detail in the ASN Microkredietfonds prospectus.

8.3 LIQUIDITIES IN THE ASN BIODIVERSITEITSFONDS

The assets of the ASN Biodiversiteitsfonds consist in part of liquidities. The liquidities may include fund assets that have not (yet) been invested in private loans and equity participations, as well as cash held to enable investors to join and exit the fund. To this end, the fund may hold cash in a (savings) account at an approved financial institution (which has been assessed against the criteria for issuers, see ASN Bank's Financial Services policy document. For the purposes of efficient operational liquidities management, the fund may to a limited extent use bank accounts at financial institutions that have not been approved by ASN Impact Investors.
The liquidity policy is explained in more detail in the ASN Biodiversiteitsfonds prospectus.