

Investing and sustainability

Sustainability has been an abiding aspect of our investment strategy. ABN AMRO believes in 'Banking for better, for generations to come' and wishes to further accelerate the transition to sustainable investing. We are proud to share this in-house knowledge and expertise that we have built up over the years with our clients..

Sustainable investing is the norm for us

As our default offering, we will offer new clients sustainable investment options. We discuss sustainability with every client who wishes to invest with us or who is already an existing client, this applies to both investment advice and portfolio management clients. You decide the extent to which sustainability has a place in your investment portfolio.

What exactly do we mean by sustainable investing?

It will come as no surprise to you that there are various definitions of sustainability in common use. To determine how sustainable a company is, we look at how it incorporates environmental, social and governance (ESG) principles in its policy. We also analyse the level at which its operations contribute to the realisation of climate and sustainability goals, while monitoring any existing or potential incidents. Hence we take into account the company's future outlook in all of our investment decisions and advice, as well as the extent to which the company is capable of making changes.

Example: Is this company sustainable or not?

A company that causes severe air pollution and is incapable of changing this situation will not be included in our sustainable portfolios or investment advice. A company that may be indirectly guilty of human rights violations, but has concrete plans or is taking steps to improve, may possibly fall within our definition of sustainability. We will, of course, always carefully monitor whether the company adheres to its policy.

Which dilemmas do we encounter?

In most cases, there is a common agreement and understanding of what is not considered sustainable. It is a widely held opinion that tobacco production and controversial arms manufacturing are not sustainable. It is ABN AMRO's policy not to invest in companies of this nature. Unfortunately, it is not always easy to determine what is sustainable due to differing opinions. In these types of cases, it is important to make a careful assessment and to consult experts wherever possible.

Example: Opposing opinions on sustainability

Genetic modification - Many people are against modified food, or genetically modified organisms (GMO). However, due to the world's rapidly rising population the demand for foodstuff is growing and GMOs may be required to satisfy this growing need.

Animal testing - In the case of medical research, animal testing is sometimes a legal requirement. Although such tests cause significant public opposition, for the time being they continue to be necessary for medicinal production.

Nuclear energy - Modern nuclear power is a relatively 'clean' source of energy. CO2 emissions are minimal and the modern generations of nuclear power stations are much safer than previous generations. They also produce less nuclear waste. To achieve the goals of the Paris Agreement, nuclear energy will also be an important component of the energy mix. Despite the minimal amount of nuclear waste produced by modern nuclear power stations, public opinion still views this as a problem.

This raises the question of how we, as ABN AMRO, should approach such dilemmas. In our view, energy companies that actively follow the recommendations of the Paris Agreement have a place in a sustainable investment portfolio.

This also applies to green bonds issued by companies that are involved in nuclear energy, since the proceeds from these bonds are used to fund sustainable energy projects, such as wind farms and solar panels. The same is true of companies that are concerned with nuclear energy and consider investing in this energy source. The main criterion is that these companies contribute to solutions that benefit climate and sustainability goals.

How do we investigate sustainability?

One medium we use to select sustainable companies is the research agency, 'Sustainalytics.' We study their environmental, social and governance (ESG) ratings, which measures the sustainability risks of a company. First the material sustainability risks of a company are determined, which depends on the sector a company is active in. An oil & gas company will have different material sustainability risks than a company that manufactures clothes. Then it is analysed how the company manages those identified risks. A better management can lower the risk. This results in a sustainability indicator ranking from 1 to 5, from "poor" to "excellent". Companies included in investment funds are rated in the same way and the fund is then scored based on the average. We believe it is important that you also have access to information on the sustainability of companies and investment funds and we therefore provide this sustainability indicator as a component of our investment advice.

How do we promote sustainability?

As soon as it appears that a company or investment fund has not adopted a fitting policy or does not follow its own rules, we enter into a dialogue with that company or fund manager. These kinds of talks often result in an engagement process. Based on international standards and pacts – such as the United Nations Global Compact – we attempt to agree improvement plans and concrete actions with the company or the manager of the investment fund. In many cases, we liaise with other banks and/or fund managers, and we consult experts on relevant topics. A recent example is the engagement talks with palm oil producers. Despite their policy being in order, suspicions of abuse exist at several of these companies.

What can you expect from sustainable investing?

ESG testing and monitoring

Should you choose for sustainable investment advice, ABN AMRO advises you on the sustainability of your investments. You can then decide whether or not to follow this advice. With portfolio management, you give the bank a mandate to manage your portfolio on your behalf. In both cases, we check and monitor your investments for strict compliance with ESG criteria.

Testing and monitoring for compliance with ABN AMRO's sustainability criteria

In addition, we check whether a company meets the bank's sustainability guidelines. Thus we exclude companies that

manufacture controversial weapons, produce tobacco or violate the United Nations Global Compact. We also exclude companies if they have certain activities of a significant size.

Exclusion based on activity

We exclude any company if more than 5% of its turnover relates to:

- ▶ Cannabis
- ▶ Pornography
- ▶ Fur and controversial animal skins
- ▶ Mining
- ▶ Controversial methods of energy production, such as drilling in the arctic, shale gas extraction and oil extraction from tar sands
- ▶ Addictive gambling services, such as casinos, gaming machines and online betting
- ▶ Animal testing unless this is required by law and done in the least harmful way
- ▶ Genetically modified organisms

In addition we exclude companies if more than 25% of its turnover relates to the generation of electricity from thermal coal. The threshold here is higher, so that we can support energy companies that are making the transition to sustainable energy.

In the case of sustainable investment advice, you can also opt for investment funds or third-party investment products. These funds are also used in portfolio management. To determine the sustainability of these investment funds, we ask an objective external party to assess the sustainability of the product. In many cases, we use Morningstar's sustainability ratings. This methodology is also based on Sustainalytics's ESG ratings.

How do you achieve an even greater impact with your investments?

If you want to focus on contributing to specific sustainability goals, you can opt for impact investing. Naturally, you will want to know what the impact of your investments are. The UN Sustainability Development Goals (SDGs) are often used to illustrate this. There are 17 SDG's in total and they are used to show in a simple manner which sustainable goals have been achieved. For example, SDG 8 concerns fair working conditions and economic growth, and SDG 13 climate change.

Questions about sustainable investing?

If you have any questions or would like more information on sustainable investing, your contact at ABN AMRO will be happy to help you. Our Investment advisers have followed an academic training programme on sustainable investing

and are certified by the PRI Academy. We have also created a programme with the University of Oxford to provide training to all staff who are involved in investing. This training programme covers both sustainable investing and impact investing.

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