

# Sustainability Risk in Investment Advice

## Sustainability as part of ABN AMRO MeesPierson investment advice

Sustainability is an important part of the corporate philosophy of ABN AMRO MeesPierson. Sustainability plays a central role in the further development of ABN AMRO MeesPierson. In doing so, we are also guided by new legal requirements that the European Union is launching as part of its action plan to finance sustainable growth.

The European regulation on sustainability-related disclosure requirements in the financial services sector, the so-called 'disclosure regulation', will enter into force in March 2021. The disclosure regulation requires us, to inform you about how ABN AMRO MeesPierson deals with certain aspects of sustainability when providing investment advice. In this client information, we describe how ABN AMRO MeesPierson takes sustainability risks into account in its investment advice to you.

## 1. What is a sustainability risk?

Companies are increasingly exposed to environmental, social and governance risks. Sustainability risk in relation to financial instruments means an environment, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment.

## 2. How does ABN AMRO MeesPierson take sustainability risks into account when advising you on investments?

ABN AMRO MeesPierson actively manages and monitors its selection of financial instruments that the bank uses for advisory services, that consists mainly of equity, fixed income, investment funds, structured products and derivatives.

The following exclusion lists apply for all the advisory concepts:

- ▶ Security Sanctions List, and
- ▶ Controversial Weapons Exclusion List.

ABN AMRO MeesPierson obtains information on sustainability risks for almost all financial instruments in its investment universe. Depending on the asset class, it uses assessments by different external providers to analyse sustainability risks.

## Investment funds

Investment funds, including private equity funds, that are managed by asset managers that have not signed the Principles for Responsible Investments (PRI, <https://www.unpri.org/>) or don't have similar practices and policies in place, are excluded from the investment universe that ABN AMRO MeesPierson uses for its investment advisory services.

Signatories of PRI commit to the following:

- ▶ **Principle 1:** signatories will incorporate managing sustainability risk into investment analysis and decision-making processes.
- ▶ **Principle 2:** signatories will be active owners and incorporate managing sustainability risk into our ownership policies and practices.
- ▶ **Principle 3:** signatories will seek appropriate disclosure on sustainability risk by the entities in which we invest.
- ▶ **Principle 4:** signatories will promote acceptance and implementation of the Principles within the investment industry.
- ▶ **Principle 5:** signatories will work together to enhance our effectiveness in implementing the Principles.
- ▶ **Principle 6:** signatories will each report on their activities and progress towards implementing the Principles.

ABN AMRO MeesPierson uses Morningstar, a leading provider of research, to assess investment funds, except for closed-end investments and funds that invest significantly in (semi-) sovereign debt. The Morningstar Globes rating is a classification of sustainability risk on a five-point scale. The higher the rating, the lower the sustainability risk.

In 2016, Morningstar released the Morningstar Sustainability Rating (also called Globes) to help investors use Environmental Social and Governance (ESG) information to evaluate portfolios. The rating provides an objective way to evaluate how portfolios are meeting ESG challenges, based on underlying company ESG Risk Ratings from Sustainalytics (which is owned by Morningstar). For more information, visit, <https://www.morningstar.nl/>

### Shares and bonds

For equities, corporate and government bonds, ABN AMRO MeesPierson uses the sustainability indicator calculated by ABN AMRO. The Sustainability Indicator maps sustainability risk on a qualitative five-point scale (Excellent, Good, Moderate, Weak, Poor). The sustainability indicator is based on data from the provider Sustainalytics.

Sustainalytics, a Morningstar company, is a global leader in ESG and Corporate Governance research and ratings. Based on a range of data and research, Sustainalytics determines the ESG Risk Rating for corporates and the Country Risk Rating. Sustainalytics is an ESG research provider and does

not endorse any product. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>

### Structured products

For structured products the sustainability risks related to shares or bonds as underlying assets will be taken into consideration.

## 3. Sustainable Investment Advice

ABN AMRO MeesPierson offers you among other advisory service concepts, the Sustainable Advice, which takes sustainability risk at front, and gives, as a preferred option to clients a well-balanced investment portfolio through mainly investment funds, index products and ETFs that promotes environmental and/or social characteristics and follows a good corporate governance practice. In plain language; light green.

## 4. Impact on returns

Sustainability risk can have a negative impact on the asset value and expected cash flow like dividends. Examples over the past years include large environmental accidents or fraud cases that result in fines/penalties or additional operational costs. Nevertheless, it is still hard to statistically model the value of sustainability into investment performance. The process of active Investment Universe management as described above could mitigate the potential negative impacts of sustainability risks on the returns.

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#### About ABN AMRO

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