



Fundamental Investment Principles

Athora Netherlands

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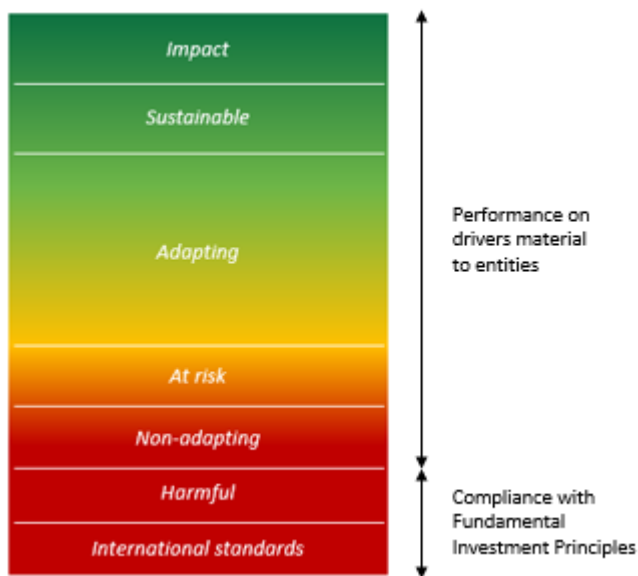
1. Introduction

This document describes Athora Netherlands’ Fundamental Investment Principles for investments in companies, funds and sovereigns – from here onward called entities. It also describes the consequences if entities in Athora Netherlands’ investment universe fail to comply to these principles.

The aim of Athora Netherlands’ Sustainable Investment Policy is to stimulate entities to operate within the safe and just operating space or move towards this space. As described in that policy, entities in the safe and just space do not overshoot planetary boundaries and do not fall short on universal social and governance norms. As part of the Sustainable Investment Policy, Athora Netherland evaluates whether entities operate in this safe and just space or not. The safe and just space is defined as the ‘Positive impact’ and ‘Sustainable’ as indicated in figure 1 below.

As the first step in the screening process, an entity is evaluated on compliance with Athora Netherlands’ Fundamental Investment Principles – from here onward also referred to as “FIPs” or the “Principles” – and assessed whether it exhibits unacceptable behaviour (‘Harmful’ zone and ‘Violation international standards’ zone, in figure 1) and therefore to assess whether it does not act in accordance with the set of minimum criteria as described in this document. Secondly, when the entity does comply, it is evaluated how it manages risks and opportunities. The combination of risks and management performance determines in which of the remaining zones (‘Non-adaptive’, ‘At risk’, ‘Adapting’, ‘Sustainable’ or ‘Impact’- as illustrated in figure 1) the entity operates on the basis of several material sustainability drivers.

Figure 1: Athora Netherlands’ Sustainable Investment Framework



This document describes the first step: the Fundamental Investment Principles. Athora Netherlands uses these to evaluate which entities exhibit unacceptable behaviour. The Principles are clustered in three themes that apply to all entities – see Figures 2 and 3.

Figure 2: Fundamental Investment Principles themes for companies







Theme		
	Principles related to humans & humanity	
	Harmful	Non-compliant with international standards
	1. The sale of civilian firearms or involvement in conventional weapons	2. Non-compliance with basic human rights 3. Non-compliance with basic labour rights 4. Involvement in controversial weapons
	Principles related to society	
	Harmful	Non-compliant with international standards
	5. Significant involvement in products or businesses doing harm to human (mental) health or animal welfare	6. Systematic involvement in fraud, corruption and tax evasion 7. Non-compliance with international sanctions
	Principles related to the environment	
	Harmful	Non-compliant with international standards
		8. Systematic involvement in severe environmental damage

Figure 3: Fundamental Investment Principles themes for sovereigns

Theme		
	Principles related to humans & humanity	
	Harmful	Non-compliant with international standards
	1. Violate social and economic development of the nation	2. Systematic violations of fundamental human rights 3. Involvement in controversial arms trade
	Principles related to society	
	Harmful	Non-compliant with international standards
		4. Violation of the principles of good governance and anti-corruption efforts 5. Non-compliance with international sanctions
	Principles related to the environment	
	Harmful	Non-compliant with international standards
		6. No decent management of natural resources and environmental externalities and vulnerability

Although the basic ethical and social principles adopted by Athora Netherlands are comparable for listed equity, corporate bond and sovereign bond issuers and private investments, the implementation and data used differ.

When assessing compliance of an entity with the Principles, Athora Netherlands applies proportionate best effort. While sovereign and corporate disclosure standards are evolving towards greater transparency and consistency, data availability, ease of access, and comparability limit our ability to monitor all aspects of an entity’s activities.

An important component of Athora Netherlands' strategy is growth which can be realised through pension buy outs and acquisitions. Both can be realised through an in-kind transfer of invested assets by those entities which are considered to be out of scope at the moment of the transfer, *i.e.* in-kind transfers are not considered to be direct investments activities. After the transfer Athora Netherlands will, taking into account liquidity and pricing, migrate the transferred assets towards alignment of the respective sustainable policies, considering the best interests of stakeholders.

2. Fundamental Investment Principles for companies

The Fundamental Investment Principles for companies are minimum standards that are defined by ethical, social and environmental principles fundamental for good citizenship and good corporate governance as defined by Athora Netherlands. They are based on a broad range of international treaties, conventions and best practice guidelines, including the UN Global Compact, the UN Guiding Principles on Business & Human Rights and the OECD Guidelines for Multinational Enterprises. (see appendix for a comprehensive list of the international treaties and other mechanisms consulted)

The Fundamental Investment Principles seek to encompass *good governance principles* as referred to in the Sustainable Finance Disclosure Regulation, *i.e.*, sound management structures and appropriately manages employee relations, remuneration of staff and tax compliance. Athora Netherlands assesses compliance with the Fundamental Investment Principles by evaluating, subject to availability and applicability, public disclosures and policies, secondary sources such as reputation risk scores or controversy screenings, third-party data, estimated data and proxy data and is assisted by a third-party service provider for this analysis.

Non-compliance with the Fundamental Investment Principles is considered unacceptable and in conflict with basic (corporate) social responsibility. Next to being ethically unjust and socially or environmentally unacceptable, non-compliance with these Fundamental Investment Principles presents reputational and financial risk to the related entities and their investors.

The Fundamental Investment Principles are clustered in three themes:

Principles related to humans & humanity

1. Compliance with basic human rights
2. Compliance with basic labour rights
3. No involvement in controversial weapons, no production and sale of civilian firearms and no provision of military equipment to military regimes.

Principles related to society

4. Compliance with Dutch and E.U. (including UN) sanctions laws
5. No systematic involvement in fraud, corruption and tax evasion
6. No significant involvement in products or business doing harm to human (mental) health or to animal welfare.

Principles related to the environment

7. No systematic involvement in severe environmental damage

The Principles are evaluated on a regular basis and if new guidelines emerge, these may be added. The Principles are discussed in more detail below.

2.1. Principles related to humans and humanity

Human rights

The *UN Guiding Principles on Business and Human Rights*, endorsed by the UN Human Rights Council in June 2011, underline the corporate responsibility to respect human rights. This responsibility, also affirmed in Principles 1 and 2 of the *UN Global Compact* and the *OECD Guidelines for Multinational Enterprises*, requires companies to avoid causing or contributing to adverse human rights impacts through their own activities, and to prevent, mitigate or remedy human rights impacts directly linked to their operations, products or services.

The responsibility of companies to respect human rights refers, as a minimum, to the core internationally recognised human rights, contained in the *International Bill of Rights*. Depending on the circumstances, companies may need to consider additional universal human rights standards, for instance relating to the protection of the human rights of specific groups, such as indigenous peoples, women, persons with disabilities, and migrant workers and their families.

Athora Netherlands considers violations of the above mentioned international human rights mechanisms to be a violation of the Fundamental Investment Principles.

Labour rights

As stated in the ILO Declaration on Fundamental Principles and Rights on Work: fundamental labour rights include the effective abolition of child labour and the elimination of all forms of forced labour, as well as the freedom of association, the effective recognition of the right to collective bargaining and the elimination of all forms of discrimination in respect to employment. Violation of such rights is a violation of the Fundamental Investment Principles.

The topic of labour rights also addresses the right to just and favourable conditions of work as defined in Article 23 of the *Universal Declaration on Human Rights*, and Article 7 of the *International Covenant on Economic, Social and Cultural Rights*. These include the right to fair wages and equal remuneration, to safe and healthy working conditions, to equal opportunities; and to rest, leisure, reasonable limitation of working hours and periodic holidays with pay. Furthermore, the risk of forced labour, in particular 'human trafficking', whereby workers are trapped in work that they are unable to leave voluntarily, live in very miserable conditions, work extremely long days and receive no or low wages is included within this topic.

Weapon involvement

Athora Netherlands does not invest in companies involved in the production, development, sale, or distribution of controversial weapons or related services or components that are essential or specialised. Moreover, Athora Netherlands does not invest in companies holding a stake (and/or voting powers) of 10% or more in another company that is involved in controversial weapons production. *Essential components or services* are components of services that are crucial for the functioning of the weapon, such as sub-munitions, fuses, guidance mechanisms, and warheads. *Specialised components or services* are components or services that are specifically developed and provided for the controversial weapon and thus are not considered dual-use.

Athora Netherlands considers weapons controversial if they are forbidden under Dutch, European Union law or banned by international conventions or treaties to which the Netherlands is bound, or if they violate fundamental humanitarian principles when they are used. Such humanitarian principles

include the principles of proportionality, which requires the prevention of unnecessary suffering, and distinction, which requires that military and civilian targets are distinguished.

More specific, Athora Netherlands considers the following weapons to be controversial:

- Anti-personnel mines: as defined by the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction, 1997
- Biological weapons: as defined by the Convention on the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction, 1972
- Chemical weapons: as defined by the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction, 1993
- Cluster weapons: as defined by the Convention on Cluster Munitions, 2008
- Nuclear weapons
- Conventional weapons equipped with white phosphorus or depleted uranium

Violation of such rights is a violation of the Fundamental Investment Principles.

Athora Netherlands acknowledges the need for Europe and NATO to re-build its defence capabilities and defence industry in light of new threats and geopolitical shifts. This requires investments in the production of conventional weapons, ammunition and related weapon systems for European and NATO countries and/or their allies.

Athora Netherlands *excludes* investments in companies that are involved in the trade and provision of conventional weapons, ammunition and related weapon systems, military transport systems, other military goods and related services with countries and non-state actors subject to United Nations Security Council and/or the Council of the European Union arms embargoes. This includes provision of military equipment to regimes and to countries deemed to be weak states or oppressive regimes¹, where there is a substantial risk that the weapons may be used to carry out illegal acts of violence against civilians, genocide, crimes against humanity or gross violations of human rights. Also the supply of conventional weapons to these countries is considered harmful. This also includes provision of military equipment to parties involved in conflict unless such parties act in accordance with a UN Security Council resolution, and to parties that spend a disproportionate part of their budget on military expenses. If companies are exporting to these regimes, they are breaching principles of military necessity, discrimination and unnecessary suffering and proportionality. They will therefore be excluded by Athora Netherlands, regardless of the amount of revenues being generated from conventional weapons.

Finally, Athora Netherlands excludes investments in all production of non-military firearms and the sale of (hand)guns to consumers.

Lethal Autonomous Weapons

Lethal Autonomous Weapon (LAWS) are weapon systems that use artificial intelligence to identify, select and kill targets without human intervention (e.g. killer robots). They differ from unmanned

¹ Indicators to identify weak states and/or oppressive regimes are: corruption, government effectiveness, human development, presence of non-state actor, rule of law, state legitimacy, social inequality, political and press freedom, public expenditure on healthcare and education and disproportionately high expenditure on military.

military vehicles in the sense that the decision to kill is solely made by algorithms and not remotely by a human operator. The weapons pose severe risks as they lack human judgment and could lower barriers to conflict, with a risk of rapid conflict escalation. Athora Netherlands excludes investments in companies that produce, develop, sell, or distribute such weapon systems.

2.2. Principles related to society

International Sanctions

Athora Netherlands excludes from its investment companies under Dutch and European Union (including United Nations) sanction laws.

Fraud, Corruption and Tax evasion

Athora Netherlands does not invest in companies that are systematically involved in fraud, corruption or tax evasion. Forms of corruption include bribery, extortion, fraud, collusion, money laundering, embezzlement, illegal political contributions, nepotism and certain facilitation payments. Athora Netherlands also considers conscious withholding, falsifying or twisting information of essential importance to consumers, business relations, shareholders, employees, or other stakeholders to be a violation of its Fundamental Investment Principles. Systematic involvement in fraud, corruption or tax evasion is a violation of the Fundamental Investment Principles.

Involvement in products or businesses doing harm to human (mental) health and animal welfare

Athora Netherlands considers products or businesses that are harmful to human (mental) health and/or animal welfare a violation of good product and business integrity. Companies in violation with Athora Netherlands' Fundamental Investment Principles include:

- Companies with a turnover of more than 5% in the production of tobacco
- Companies with a turnover of more than 5% in pornography
- Companies with a turnover of more than 5% from offering, exploiting, producing, licensing or supporting gambling, lottery and competitive games or from manufacturing and selling the relevant equipment
- Companies with a turnover of more than 10% from the supply, retail and distribution of tobacco

Businesses or products that provide essential and/or specialised support for the above products and/or activities are also considered harmful if the below criteria are fulfilled:

- The support consists of services that are considered essential for the continuation of the violating product and/or activities and directly relate to the core business of the violating company (examples of such essential services are: the provision of real estate, manpower, and/or payment- or marketing services); and
- The revenues coming from such essential services exceed 10% of the total revenues of the company providing the services.

Moreover, Athora Netherlands' vision is that human interaction with animals should occur in a responsible and prudent manner. Should animal-friendly alternatives be available, these should always prevail. Athora Netherlands considers involvement in animal welfare abuse without proven actions to improve the living conditions of animals, a reason for exclusion. Athora Netherlands believes animal testing should only occur only when it is proven to be crucial to society, such as for medical testing

when there is no reasonable alternative available or when it is required by law to test product safety. Athora Netherlands expects companies using animal testing or lab animals to act in accordance with the REACH regulation or to apply the so-called 3R-strategy (Replace, Reduce, Refine)². Athora Netherlands monitors the effort that companies make to find and validate non-animal alternatives. Companies that do not attempt this are considered eligible for exclusion of investment. Athora Netherlands also expects organisations to be transparent about their animal testing methods and policy.

2.3. Principles related to the environment

Illegal environmental pollution, toxic spills and environmental damage

Athora Netherlands does not want to be involved in activities that cause serious environmental damage through toxic emissions, hazardous waste, irresponsible waste management, biodiversity loss or the depletion of natural resources. Athora Netherlands excludes companies that systematically violate national and relevant environmental laws and regulations. This includes illegal trade of wild and endangered species, illegal environmental pollution and toxic spills. It also includes environmental damage, such as illegal logging and illegal extraction of natural resources, (mining) activities in protected areas, riverine tailings disposal, irresponsible waste management or mountain top removal. These are systematic and deliberate activities causing preventable environmental degradation with severe consequences for mankind, nature and society. Violation of such laws and regulations is a violation of the Fundamental Investment Principles.

2.4. Implementation steps for fundamental investment principles for companies

To identify the companies that are not acting in accordance with the minimum set of criteria as described above, companies are screened, using a look through basis where appropriate, on their compliance with the Fundamental Investment Principles.

For investments in asset classes that are fully or mostly covered by common investment benchmark indices, such as large issue public investment grade corporate bonds or large cap listed equities, typically the benchmark constituents or the majority of the benchmark constituents are screened. For other asset classes, screening is done on the asset, depending on whether an investment in a particular entity is being considered by Athora Netherlands. For investments in the private credits (high quality) asset class, it is possible that Athora Netherlands is restricted in its ability to fully screen the asset pool underlying the investment on a look through basis, as set out in paragraph 2.6 below.

² See for instance http://ec.europa.eu/environment/chemicals/lab_animals/3r/alternative_en.htm. The R3-strategy calls upon companies to consider how to: 1. substitute animal testing with animal friendly alternatives, 2. Reduce the number of lab animals per experiment; and 3. improve animal testing in order to prevent and reduce pain and discomfort in lab animals.

For this, the following questions are raised:

1. Are the companies repeatedly or systematically involved in activities covered by the Principles? Do the companies cause structural and systematic adverse impacts that relate to the Fundamental Investment Principles, due to their activities or behaviour?
2. Are the companies that are involved in activities covered by the Principles sufficiently prepared to prevent future negative impacts from occurring and have they succeeded in sufficiently remedying the impact? A company is considered to be violating this principle if demonstrably it does not meet the following conditions:
 - The company has coherent management systems applicable to the violating activities, such as the following components:
 - Management principles
 - An operational policy through which these principles are implemented
 - Adequate procedures to assess, mitigate and address risks
 - Systems for monitoring and tracking risks and risk management steps, as well as implementation of the operational policy
 - Sufficient training and education to help staff, subcontractors and suppliers in the adequate implementation and execution of the policies
 - Mechanisms to encourage frequent feedback to management
 - Regular (public) reporting
 - The company demonstrates credible implementation and/or enforcement of above-mentioned management systems.

The application hereof for smaller or medium-sized companies may vary, as they typically would have lesser sophisticated policies and monitoring thereof.

Based on the answers to these questions, companies are categorised as follows:

- **Compliance:** companies that comply with the Fundamental Investment Principles are (re-) included in Athora Netherlands' investment universe and are subject to further screening based on financially material drivers.
- **Non-compliance:** companies that do not comply with the Fundamental Investment Principles are excluded or may enter a three-month investigative period during which they are systematically assessed. As part of this assessment, Athora Netherlands investigates the severity, nature and number of controversies the companies are involved in, as well as the actions they take to remedy the situation and prevent further violations from occurring. Based on such assessment, the company is:
 - **excluded** from Athora Netherlands' investment universe, if systematic and large-scale non-compliance to any of the criteria proves that companies are incapable of preventing non-compliance from occurring in the future;

- **(re-)included** as part of Athora Netherlands' investment universe, if the violations are of incidental nature and if the company takes sufficient actions to prevent comparable incidents from happening in the future; or
- **engaged**, if the company has not taken sufficient action to prevent future incidents and if engagement with the company is expected to result in the necessary behavioural improvements. During the engagement period, a dialogue is started with the company to discuss options to remedy any real or potential violations of the Principles. Objectives are formulated and regularly monitored. If after an engagement period (of maximum two years) the company has taken appropriate action and proven to prevent further structural violations of the Fundamental Investment Principles, the company will be (re-)included in Athora Netherlands' investment universe. If there is no sufficient progress after the engagement period and compliance with the Fundamental Investment Principles is not reached, the company will be excluded.

2.5. Subsidiaries and affiliates

When assessing subsidiaries and/or affiliates of companies, the following criteria are used to determine whether the subsidiary or affiliate should receive the same assessment as the parent company or receive a separate, individual judgement. A company and its subsidiaries or affiliates generally are considered to be part of the same assessment if the two organisations do not have an independent listing. Furthermore, they are considered to be part of the same assessment when the assessed company owns more than 50% of the voting shares of the subsidiary or affiliate or the assessed company and the subsidiary or affiliate have a largely comparable ownership or governance structure. In all other cases, the company and the respective subsidiaries and/or affiliates receive an individual assessment.

2.6. Investments in private credits (high quality) asset class

For some asset classes, such as private credits (high quality) - high quality meaning investment grade - Athora Netherlands has limited influence regarding the restrictions set out in this policy. This is due to the characteristics of the asset class (large number of underlying investments and variation in time, limited data availability). However, these type of investments also add to a diversified investment strategy aimed at providing the most appropriate level of security to the policyholders.

Athora Netherlands invests in the private credits (high quality) asset class by providing loans. Such loans come in different forms and structures, amongst others the provision of debt financing to private debt and equity funds and funds of funds. As the pool being financed often comprises a large number of assets and changes over time, Athora Netherlands will either (i) assess, and rely on, the sustainability and/or exclusion policy of the manager or originator upon alignment with the sustainability policy of Athora Netherlands, or (ii) in absence of such alignment, apply on a best efforts basis its own screening process, recognizing that a full look through in practice will not be possible. In certain instances, this may lead to indirect investments in companies could be categorised as falling in the 'non-compliant with international norms and standards zone', the 'harmful zone' or not fully meeting good governance requirements. The decision to rely on a best efforts basis on Athora Netherlands' own screening process will only take place with explicit approval of the designated authorised body as referred to in paragraphs 6.2.2 and 6.2.3 of the Sustainable

Investments Policy. Subsequent investments will be made in accordance with a separate and duly approved operational guideline document which describes the approved approach and defined limits into more detail. Athora Netherlands recognises and expects that the standard of sustainability policies applied by managers and the availability of detailed impact metrics at the level of individual assets will increase over the next years. On that basis, we expect over time increased reliance on the appropriate policies of managers, and increased availability of full look-through data.

3. Fundamental Investment Principles themes for sovereigns

Sovereign bonds are an important asset class for Athora Netherlands. While the Fundamental Investment Principles as described above are relevant for both corporate and sovereign issuers, integrating such considerations into the Athora Netherlands investment methodology for sovereign issuers requires a distinct approach. Sovereign debt is traditionally considered to be low risk asset class and there has been a tendency to underestimate the importance of integrating sustainability risks and measuring material sustainability factors for this asset class. This has changed in recent years. Investor, academic and industry research agree that governance, social and environmental factors have a significant impact on countries' risks and opportunities and should be included in the valuation of sovereign debt. Therefore, a proper sovereign bond rating needs to take into account indicators from all three ESG pillars.

To assess whether sovereigns and sub-sovereign bond investments qualify for Athora Netherlands' investment universe, Athora Netherlands first assesses whether the entities comply with the Fundamental Investment Principles for Sovereigns. Sovereigns that do not comply with these standards, i.e. sovereigns that are repeatedly or systematically involved in violations of fundamental rights, environmental standards and global governance norms, are considered unethical and irresponsible investment options and will therefore be excluded from all Athora Netherlands' investments. The fundamental investment principles for sovereigns include the following criteria:

- **Governance:** exhibit good governance, including elements such as compliance with political rights & civil liberties, no involvement in structural corruption, care for institutional strength and no involvement in controversial arms trade.
- **Social:** provision of decent circumstances for human and social capital, including elements such as compliance with fundamental human, social and labour rights.
- **Environment:** incorporation of the impacts of climate change, resource scarcity and other environmental risks into governmental decision making. That is, sovereigns are expected to take the risks, opportunities and impacts of climate change and natural resource scarcity into account in policy programmes.

How these criteria can be interpreted and measured is described below. For some of the criteria, a knock-out approach is used. That is, if a sovereign breaches a screening threshold for one topic, this country is automatically and immediately excluded from investment. In other cases, especially if rankings or indexes are used as data sources, the worst performing countries are removed from the investable universe. Below, it is indicated for each indicator and measure, which approach is adopted.

3.1. Governance

Sovereigns are responsible for effectively formulating and implementing sound (national) policies. Well-functioning governance structures and institutions are a necessary basis for economic stability and a decent standard of living. On the other hand, corruption, malfunctioning legal systems, lack of

civil liberties, undemocratic procedures and low political stability with limited or no political rights, and non-existing opportunities for individual or economic development or the improvement of people's live hamper development. Furthermore, state regimes influence the freedom and security of the population and related level of peace, which should therefore be an inevitable part of the policies in a country. Athora Netherlands only invests in sovereigns that respect *the 1966 International Covenant on Civil and Political Rights* and the *1966 International Covenant on Economic, Social and Cultural Rights*. Furthermore, international sanctions against sovereigns or regimes are taken into account.

To determine which sovereigns are characterised by poor and good governance, each country is evaluated based on the *World Bank Worldwide Governance Indicators*. The World Bank annually assess the governance of the world's major economies based on six, worldwide, governance indicators:

- Voice and accountability
- Political stability and absence of violence
- Government effectiveness
- Regulatory quality
- Rule of law
- Control of corruption

The bottom 20% countries ranked by these Worldwide Governance Indicators are considered to be the worst governed countries. These are considered unethical and irresponsible investments and will thus be excluded from the Athora Netherlands' investment universe. For this assessment, the scores for each of the six underlying World Governance Indicators are combined into one comprehensive governance score for each country.

Secondly, criteria reflecting the financial and political governance of a country are taken into account. Since the institutional capacity of a country affects its ability to support long-term stability and performance of its political, judicial and financial systems, this is relevant for good governance. Also, information on the financial management and the capacity of a government to address and manage environmental and social risk is reflected in the governance pillar of the sovereign assessment. For this analysis, one overall indicator is calculated based on information such as the *Global Peace Index* from the *Vision of Humanity and Resource Governance Index* from the *Natural Resource Governance Institute*. For this indicator, the same criterium is used as for the Worldwide Governance Indicators where the 20% worst governed countries are excluded from the investment universe.

Finally, and in alignment with Athora Netherlands' position on controversial weapons for companies, as outlined in paragraph 2.1, Athora Netherlands will not invest in sovereigns that are under United Nations Security Council or Council or the European Union arms embargoes. Athora Netherlands excludes sovereigns that are involved in the trade of conventional weapons, including the provision of related services, with countries and non-state actors subject to United Nations Security Council or the Council of the European Union arms embargoes. This includes provision of military equipment to regimes and to countries deemed to be weak states or oppressive regimes and to countries where there is a substantial risk that the weapons may be used to carry out illegal acts of violence against civilians, genocide, crimes against humanity or gross violations of human rights, whether or not there is a substantial risk that the arms are intended for this purpose.

3.2. Social

States are responsible for ensuring fundamental rights for their inhabitants. Thus, as a starting point, Athora Netherlands will not invest in any sovereign that repeatedly or systematically fails to uphold and protect the most basic of human rights, such as those enshrined in the *1948 Universal Declaration of Human Rights*. Sovereigns need to acknowledge the importance of human and social capital for the individual in their country as well as for the general development and economic growth of the country itself. Extreme poverty and a lack of education may lead to social unrest and do not allow a country to function sustainably. Investing in a country which does not include social protection into its policies and programmes should be prevented.

To determine which sovereigns are meeting these obligations, several indicators are adopted. First, all sovereigns are evaluated based on the indicators from the Freedom House's 'Freedom in the World' report. This is an annual comparative assessment of political rights and civil liberties worldwide in which countries are labelled "Not Free", "Partly Free" or "Free". Sovereigns that are deemed "Not Free" by Freedom House will be excluded from investments. In addition, in case Freedom House indicates that a country is "Partly Free" or if there is a conflict area in the country which is labelled as "Not Free" or "Partly Free", an individual country assessment is conducted. In the latter case, the following rules are applied: if a disputed territory – within the borders of one country – is invaded, threatened, occupied and/or militarised by another country, then the first country is not necessarily excluded. The affected country does not have effective control over these areas. Countries that are considered "Free" or "Partly Free" are excluded from investments if it is obvious that such countries have effective control over the conflicted areas. Please note that Athora Netherlands has assigned the Freedom House indicators under the Social pillar, but the information provided by Freedom House could also be placed under the Governance Pillar.

Second, in addition to Freedom House, information on the human capital management and the economic environment of a country is taken into account. A country's capacity to develop and maintain a stable, healthy and productive workforce with knowledge capital is believed to enable a supportive economic and social environment for its inhabitants and to advance long-term viability and competitiveness. For this, an assessment is made of how countries safeguard basic human and knowledge capital, support (higher) education, technological readiness and the economic environment, and manage basic human needs, health and wellness. Much of the information to make this assessment is derived from The World Development Indicators which are themselves a collection of statistics about global development composed by the World Bank. The countries within the scope are ranked based on the information and the bottom 20% of this list is excluded from investment by Athora Netherlands because they are considered to take insufficient steps in creating an enabling the right environment for their population.

Finally, the Human Capital Index (HCI) is integrated in the country screening in order to assess to what extent governments take serious and credible initiatives to support social and economic development of their population. This index captures the amount of human capital a child born today could expect to earn by the age of 18, given the risks to poor health and education which are present in the region the child is living in. Since human capital enables people to develop themselves as productive members of society, it is key to end extreme poverty and create more inclusive societies. Next to that, it is also necessary for future stability of societies and economies. HCI measures to what extent (public) investments in nutrition, health care, quality education, jobs and skills, improve the status of human

capital in a country. Athora Netherlands strongly supports the global effort to accelerate more and better investments in people for greater equity and fair economic growth and therefore excludes the bottom 20% of countries ranked by the HCI.

3.3. Environment

Good governance principles also include proper governance of the environment and natural resources. Lacking environmental and natural resources policies may lead to future economic downturn, loss of production opportunities, scarcity of natural resources and health problems. When assessing states, Athora Netherlands takes into account separate criteria for physical and economic risks and opportunities related to the natural environment. For this, government effectiveness and quality to properly manage natural resources and protected areas, to implement international environmental agreements and targets and to prevent illegal activities severely damaging natural resources and the environment play a role.

In order to measure this, the management of natural resources and environmental externalities and vulnerability of a country are taken into account. That is, the ability of a country to protect, harness, and supplement its natural resources, and to manage environmental vulnerabilities and externalities is of importance. For this, Athora Netherlands uses information related to energy security risk, natural resources management, water resources management, exposure to land degradation, presence of mineral resources and management and conservation of protected areas or areas of high conservation value. In addition, information related to the vulnerability to physical impacts of climate change, environmental events and other environmental externalities is taken into account. For this, several data from Human Development Reports of the United Nations and the World Development Indicators from the World Bank are assembled into one variable which is then ranked. Hereafter, Athora Netherlands excludes the bottom 20% of these from investment.

Please note that the ethical screening criteria described here are often intertwined with the material indicators used when assessing the future preparedness of a sovereign. For example, although education must be supported by a government from an ethical perspective, it is also forms a material risk from a future perspective. Currently, these kind of indicators are part of the FIP, however they can also be included in a forward looking assessment from a materiality perspective since it is Athora Netherlands' belief that financial risk ratings do not take this sufficiently into account.

3.4. Sub-sovereign, supranational and state-owned issuers

Sub-sovereign issuers and state-owned companies within excluded countries are not automatically excluded. Rather, any specific controversy pertaining directly to a sub-sovereign or state-owned issuer, will be evaluated on a case-by-case basis. For state-owned companies, this analysis will be based on the Athora Netherlands' Fundamental Investment Principles for Companies. Sub-sovereign entities and supranational will be assessed in line with the mother country.

APPENDIX

List of international treaties, conventions, charters and other mechanisms which were consulted and form the basis of the Fundamental Investment Principles:

Abolition of Forced Labour Convention, 1957 (ILO Convention No. 105)
Aquatic Animal Health Code, 1995
Comprehensive Nuclear-Test-Ban Treaty, 1996
Convention Concerning Occupational Safety and Health and the Work Environment, 1981 (ILO Convention No. 155)
Convention on Cluster Munitions, 2008
Convention on International Trade in Endangered Species of Wild Fauna and Flora, 1973
Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May be Deemed to be Excessively Injurious or to Have Indiscriminate Effects, 2001
Convention on the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction, 1972
Convention on the Elimination of All Forms of Discrimination Against Women, 1979
Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction, 1993
Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction, 1997
Convention on the Rights of the Child, 1989
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