ATHORA NETHERLANDS
FUNDAMENTAL INVESTMENT PRINCIPLES

ATHORA

Contents

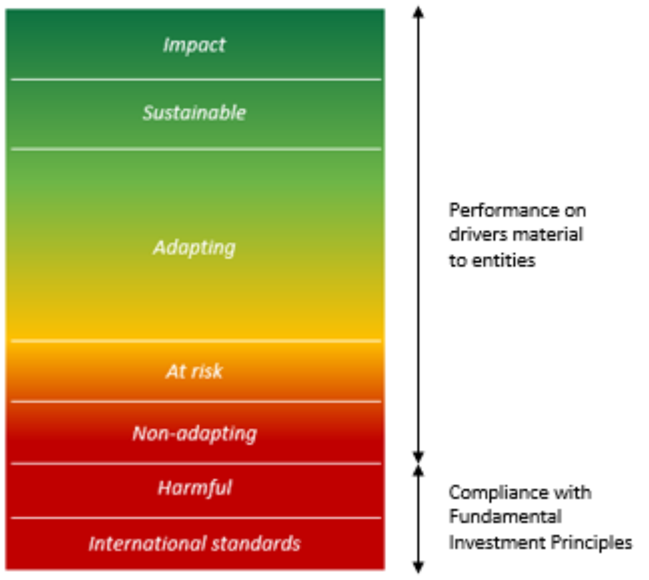
1. Introduction

This document describes Athora Netherlands' Fundamental Investment Principles for investments in companies 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 companies and sovereigns 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' plus the 'Adaptive' zone 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 therefor 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', 'Adaptive', '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 companies and to sovereigns – see Figures 2 and 3. Although the basic ethical and social principles adopted by Athora Netherlands are comparable for listed equity, corporate bond and sovereign bond issuers, the implementation and data used are distinct.

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

2. Fundamental Investment Principles themes 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. 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 mechanisms consulted). These international guidelines are considered universal. The Fundamental Investment Principles also enable Athora Netherlands to only invests in entities that act in accordance with the *good governance principles* as referred to in article 8 of the Sustainable Finance Disclosure Regulation.

Non-compliance with the international treaties, conventions and best practice guidelines which are at the base of these 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 Principles presents reputational and therefore 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 and conventional weapons, no production and sale of civilian firearms and no provision of military equipment to military regimes.

Principles related to society

4. Compliance with international sanctions
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. Principals related to humans and humanity

Human rights

The *UN Guiding Principles on Business and Human Rights*, endorsed unanimously 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. Athora Netherlands is guided by international norms on labour right issues and considers violations by companies or their key suppliers on the following conventions to be a violation with the Fundamental Investment Principles:

- **Child labour**
    - Minimum Age Convention, 1973 (ILO Convention No. 138)
    - Convention on the Rights of the Child, 1989
    - Worst Forms of Child Labour Convention, 1999 (ILO Convention No. 182)
    - Principle 5 of the UN Global Compact

- **Forced labour**
    - Slavery Convention, 1926
    - Forced Labour Convention, 1930 (ILO Convention No.29)
    - Supplementary Convention on the Abolition of Slavery, the Slave Trade, and Institutions and Practices Similar to Slavery, 1956
    - Abolition of Forced Labour Convention, 1957 (ILO Convention No. 105)
    - Principle 4 of the UN Global Compact

- **Employee Rights**
    - ILO Declaration on Fundamental Principles and Rights at Work and its Follow-Up (1988, Annex revised 15 Jun 2010)
    - Freedom of Association and Protection of the Right to Organise Convention, 1948 (ILO Convention No. 87)
    - Right to Organise and Collective Bargaining Convention, 1949 (ILO Convention No. 98)
    - Equal Remuneration Convention, 1951 (ILO Convention No. 100)
    - Discrimination (Employment and Occupation) Convention, 1958 (ILO Convention No.111)
    - Minimum Wage Fixing Convention, 1970 (ILO Convention No. 131)
    - Hours of Work Convention, 1930 (ILO Convention No. 30)
    - Convention Concerning Occupational Safety and Health and the Working Environment, 1983 (ILO Convention No. 155)
    - Principles 3 and 6 of the UN Global Compact

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 international law and banned by international conventions or treaties, 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

In addition to the conventions listed above, Athora Netherlands considers the following international conventions when applying the principle on weapons:

- Protocol for the Prohibition of the Use of Asphyxiating, Poisonous or Other Gases, and of Bacteriological Methods of Warfare, 1925
- Treaty on the Non-Proliferation of Nuclear Weapons, 1968
- Article 36 of Protocol I Additional to the 1949 Geneva Conventions, 1977
- Comprehensive Nuclear-Test-Ban Treaty, 1996
- 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

Athora Netherlands further excludes companies that are primarily involved in the production of conventional weapons, with a **revenue threshold of 10%**. Excluded activities include the production of conventional weapons, ammunition and related weapon systems. Support activities, such as combat training, repair services, or the provision of communication systems, will not be excluded since they have no direct lethal effects and could potentially contribute to the safe usage of conventional weapons for defensive purposes.

Athora Netherlands excludes investments in companies that are involved in the trade and provision of conventional weapons, arms and 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 regimes[1], 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 military vehicles in the sense that the decision to kill is solely made by algorithms and not remotely by a human operator. Human Rights Watch has expressed concerns about such weapons violating the principles of distinction and proportionality as set out in international law. 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 companies from its investment universe for which sanctions have been ordained by international organisations acting within the rule of law, such as United Nations and the

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[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.

European Union. Sanctions are compelling tools used in response to violations of international law or human rights. Specifically, it includes the regulations listed below.

List of EU-sanctions:
- Annex to EU regulation No 269/2014
- Annex to EU regulation No 512/2014/CFSP
- Annex to EU regulation No 833/2014

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. In addition, Athora Netherlands considers involvement in corruption, as defined by the following mechanisms, to be a violation of the Fundamental Investment Principles:

- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, 1997
- Principle 10 of the UN Global Compact
- UN Convention Against Corruption, 2003
- OECD Guidelines for Multinational Enterprises, 2011

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. As for animal welfare abuses, Athora Netherlands expects companies to act in accordance with the relevant international codes and agreements – see Appendix.

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 international 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.
Athora Netherlands seeks guidance from the following international environmental conventions, declarations and best practices, as well as environmental laws and regulations, when determining whether a company is in violation with the Fundamental Investment Principles:

- Ramsar Convention on Wetlands, 1971
- UNESCO World Heritage Convention, 1972
- Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), 1975
- Convention on the Conservation of Migratory Species of Wild Animals, 1979
- Rio Declaration on Environment and Development, 1992
- The Earth Charter, 2000
- Principle 7 of the UN Global Compact, 2000
- International Union for the Conservation of Nature (IUCN) Protected Areas Categories I through IV, 2008
- IFC Performance Standards on Social & Environmental Responsibility, 2012
- The Paris Climate Agreement (UNFCCC), 2015

[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.

2.4. Implementation steps for fundamental investment principles for companies

To identify the companies operating below the minimum set of criteria as described above, all companies in the investment universe on are screened on a look-through basis on their compliance with the Fundamental Investment Principles. For this, two 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 have taken sufficient measures when one or more of the following conditions is met:

- The company has coherent management systems applicable to the violating activities, which include 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.

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.

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 programs.

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 programs 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 en 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 (pubic) 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 considered in the FIP assessments:

- 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
- Discrimination (Employment and Occupation) Convention, 1958 (ILO Convention No.111)
- Earth Charter, 2000
- Equal Remuneration Convention, 1951 (ILO Convention No. 100)
- European Union Sanctions policy, 2016
- FAO Code of Conduct for Responsible Fisheries, 1995
- Forced Labour Convention, 1930 (ILO Convention No.29)
- Freedom of Association and Protection of the Right to Organise Convention, 1948 (ILO Convention No.87)
- ILO Declaration on Fundamental Principles and Rights at Work and its Follow-Up (1988, Annex revised 15 Jun 2010)
- Indigenous and Tribal Peoples Convention, 1989 (ILO Convention no. 169)
- IFC Performance Standards on Social & Environmental Responsibility, 2012
- International Covenant on Civil and Political Rights, 1966
- International Covenant on Economic, Social and Cultural Rights, 1966
- International Principles for Responsible Shrimp Farming, 2006
- IUCN Protected Areas Categories System
- IUCN Red List of Threatened Species (CITES)
- Minimum Age Convention, 1973 (ILO Convention No. 138)
- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, 1997
- OECD Guidelines for Multinational Enterprises, 2011
- Protocol for the Prohibition of the Use of Asphyxiating, Poisonous or Other Gases, and of Bacteriological Methods of Warfare, 1925
- Protocol I Additional to the 1949 Geneva Conventions, 1977
- Ramsar Convention on Wetlands, 1971
- Right to Organise and Collective Bargaining Convention, 1949 (ILO Convention No. 98)

- Rio Declaration on Environment and Development, 1992
- Slavery Convention, 1926
- Supplementary Convention on the Abolition of Slavery, the Slave Trade, and Institutions and Practices Similar to Slavery, 1956
- Sustainable Agriculture Standards, 1997
- Terrestrial Animal Health Code,1968
- Treaty on the Non-Proliferation of Nuclear Weapons, 1968
- UN Convention Against Corruption, 2003
- UNESCO World Heritage Convention, 1972
- UN Global Compact, 2000
- UN Guiding Principles on Business and Human Rights, 2011
- UN Straddling Stocks Agreement, 1982
- Universal Declaration of Human Rights,1948
- Voluntary Principles on Security and Human Rights, 2000
- Verbond van Verzekeraars Code Duurzaam Beleggen, 2012 BIJLAGE 9
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