ABN·AMRO

ABN AMRO ESG and Sustainable Investments

Statement on Fossil Fuel Criteria for Investment Products

Introduction

Human activities are reflected in increasing emissions of greenhouse gases, the biggest contributor being carbon dioxide. The resulting climate change and global warming leads to more frequent extreme weather events, such as floods, droughts, and heatwaves. In turn, this results in loss of biodiversity, ecosystems, poor air quality, among others. To address the effects of temperature rise, in December 2015, 196 countries adopted the Paris Agreement. Ratification of the Paris Agreement implies a commitment to hold "increase in the global average temperature to well below 2°C and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels", to avoid dangerous levels of climate change. The milestones agreement furthermore states that parties should be "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." Phasing out unabated fossil fuel activities in the global economy is critical to meet the goals set out in the Paris Climate Agreement.

The burning of fossil fuels for energy production is the biggest source of carbon dioxide emissions and, according to the United Nations Environment Programme (UNEP) "supply and use of fossil fuels accounts for about three-quarters of mankind's carbon dioxide emissions." Fossil fuel covers hydrocarbon-containing material, such as coal, peat and oil shale (44,4% of GHG emissions), natural gas (22% of GHG emissions) and oil (32% of GHG emissions). (IEA: Greenhouse Gas Emissions from Energy Data Explorer)

ABN AMRO acknowledges its role in transitioning to a sustainable economy and has taken actions as part of its investments by excluding carbon intensive activities with regard to its advisory services and discretionary portfolio management. This document intends to provide an overview of the criteria ABN AMRO has in place in relation to its investment products in fossil fuels.

Scope

This statement applies to the investment products offered by ABN AMRO under Discretionary Portfolio Management and Advisory service concepts, made in direct corporate issuers in equities and fixed income (except green bond investments and private equity). Investments that are made in third-party funds and by clients in Execution-only services are not in scope.

Definitions of Fossil Fuel Activities & Rationale for exclusion criteria

Unconventional Oil & Gas

The oil and gas industry is comprised of upstream, midstream, and downstream activities. The exclusions in place focus on upstream activities. There are two main categories in the production of oil & gas: Conventional and Unconventional methods. The difference between these two categories lies in the different geological formations and extraction methods used to obtain oil & gas.

Conventional Oil & Gas is extracted onshore, in shallow waters or offshore at depths of less than 1000 metres

Unconventional Oil & Gas is extracted via tar sands oil, coalbed methane, extra heavy oil, and Arctic oil & gas, fracking or ultra deep drilling. The following descriptions provide additional information on the methods and issues with unconventional oil and gas.

- Artic oil & gas: The impact of potential spills within oil and gas projects in the Artic circle creates a high risk, given that oil spills cannot be mitigated in cold waters, therefore having devastating consequences for local ecosystems resulting in degradation and fragmentation of natural habitats. Additionally, the associated black carbon emissions through fossil fuel combustion in Artic oil & gas exploration and production pose a risk to the region's capacity to reflect solar irradiance, limiting its capacity to address climate change.
- Tar Sands oil: Oil extraction from tar sands pose a challenge given the difficulty in the extraction method, requiring high amounts of water and land. This method is prone for ecosystem destruction and degradation, as conventional technologies are not equipped to tackle tar sand oil spills.
- Shale oil & gas (Fracking): Similar to Tar Sands, the extraction method used in Shale oil & gas extraction requires fracking fluid into the ground to create cracks in rocky soils to release the trapped oil & gas resources. This method places a serious threat to ground and surface water resources, as or fracking fluids can seep through the cracks created in the rock and into the groundwater

Thermal Coal

Due to its significant contribution of carbon dioxide in the energy industry, rapidly reducing global coal emissions is essential to avoid significant impacts from climate change. Building up clean energy assets to replace coal is essential to reach environmental goals and support economic growth while safeguarding energy security. Through its allocation of resources, the finance industry is in a unique position to help climate and play an active role in the energy transition

Consideration of the abovementioned climate issues and the urgency for a just transition, ABN AMRO has set exclusion criteria for companies whose activities are heavily dependent on coal.

Exclusions

The exclusions in place try to mitigate unconventional oil and gas activities and the potential risk to client portfolios, society and the environment by excluding companies that are involved (up to different revenue thresholds) in Arctic drilling, shale energy (extracting method is also known as fracking) and tar sands extraction methods. Extra-Heavy Oil, Ultra Deepwater and Coalbed Methane are currently not part of these exclusions due to data availability.

ABN AMRO ESG and Sustainable Impact Classification

ABN AMRO has defined classification criteria for ESG and Sustainable Impact Investing used for investment products in advisory and discretionary portfolio management. ABN AMRO is involved in collaborative engagements to address material ESG risks, including, but not limited to, climate related risks and ambitions.

The classification criteria are as follows:

▶ Non-ESG: These are financial products that are subject to minimum exclusion criteria that don't apply any binding ESG criteria. Under this classification, engagement strategies are also used in order to address material ESG risks.

▶ ESG Improver: The financial products under this classification apply additional exclusions in order to mitigate certain ESG risks related to controversial activities and/or countries that are also further addressed through engagement strategies. Additionally, good corporate governance practices are also considered.

▶ ESG Leader: The financial products under this category employ further exclusions on top of the ones already mentioned, while also applying positive selection based on ESG outperformance. Engagement strategies are also being used to address material ESG risks.

▶ Sustainable Impact: The financial products that fall under this category are selected by applying positive selection on ESG performance, excluding any controversial activities. Additionally, financial products are selected based on contributing to a sustainable objective as well as to the Sustainable Development Goals. Next to that, the Do No Significant Harm (DNSH)-principle (based on SDFR requirements on Principle Adverse Impacts (PAIs)) and good corporate governance criteria are applied.

More information about the ESG classifications can also be found in the SFDR documentation of our investment products

Exclusion Criteria Framework

The following exclusions apply to companies active in Fossil Fuel- related activities.

Exclusions for fossil-fuel related-activities	**Revenue Thresholds by ESG Categorization**			
	Non-ESG	ESG Improver	ESG Leader	Sustainable Impact
Unconventional Oil & Gas*	No exclusions	No exclusions	(>5%)	(>5%)
Thermal Coal Extraction	No exclusions	(>10°%)	(>5%)	(>5%)
Thermal Coal Power Generation	No exclusions	(>10%)	(>10%)	(>10%)

*Artic drilling, shale energy and tar sand extraction methods