ESG Integration at APG Asset Management

APG manages € 452 billion (April 2017) in pension assets for its clients in several business sectors including education, government, construction, housing associations, energy and utility companies. APG’s assets under management come from over 40,000 employers, providing the pension for approximately 4.5 million participants or one in five families in the Netherlands.

The way APG manages its clients’ pension assets is about more than realizing financial gains. On behalf of our clients we implement a Responsible Investment Policy through which they can demonstrate their social responsibility and assure a long term good investment. The Responsible Investment (RI) Policy applies across all asset classes.

Good governance and responsible investment are key

One of our investment beliefs is that we can improve the risk–return profile by factoring non-financial elements into the investment process. To APG Asset Management, responsible investing is a way to improve the investment portfolio’s ratio of risk and return and simultaneously contribute to sustainability. We do this for example, by paying attention in the investment process not only to companies’ financial performance, but also to how they fulfil their social responsibility and how the executives of these companies deal with their shareholders.

Therefore we take account of environmental, social and governance (ESG) factors as an integral part of the investment process in order to:

- contribute to risk-adjusted financial returns
- to demonstrate social responsibility and
- contribute to the integrity of financial markets.

Our RI Policy applies across all asset classes, not only capital markets but also alternative investments. For example, we are a real estate RI leader.

We hold companies to account by using our voting rights at shareholder meetings and by engaging with them to affect positive change. Moreover we actively seek to make investments that provide solutions to sustainable development issues, such as renewable energy, healthcare or microfinance.

We expect companies to act in line with the UN Global Compact Principles. On a regular basis we screen our equity and bond portfolio and start engaging with companies who we think are in breach of these. Where engagement does not lead to the desired change we can decide to divest.

Stepping up our efforts

In 2015, our largest client ABP has revised its RI Policy. This further affirmed the long-standing responsible investment related investment belief and the specific targets set by the client have been integrated in the investment process through RI goals for 2016-2020.

Other clients (bpfBouw, SPW) have also been revising their RI policies to the same effect.
**Specific targets**
For 2016-2020 ABP has set the following objectives:

- €5 billion of our assets invested in renewable energy
- reduce the CO2 footprint of our listed equity portfolio by at least 25%
- double our investments in High Sustainability Investments (from €29 billion to €58 billion)
- invest €1bn 500 million in education-related properties and infrastructure
- invest €500 million in communication infrastructure

Additionally, the following engagement objectives:

- Companies in the textiles and clothing sector are expected to provide safe working conditions throughout the production chain (in line with the agreements in the Bangladesh accord)
- Companies in the shipbuilding sector are expected to publish a policy for safe working conditions to be applied throughout the chain
- Support the GRESB Infrastructure benchmark as the new sustainability standard (including safety, health and the environment) for investments in the field of infrastructure and at least half of our infrastructure investments are expected to report to GRESB Infrastructure
- ICT, textiles and clothing and energy companies are expected to publish human rights policies
- Engage with companies in the cocoa production chain to eliminate child labour in the supply chain

Our other clients have also been revising their RI policies to incorporate similar elements.

**In practice**

APG’s Responsible Investment (RI) Policy applies across all asset classes and includes:

1. **Responsible investment is an integral part of the investment process at APG.**
   We take shareholder rights and environmental and social factors into consideration in our investment decisions. Issues around sustainability and shareholder rights are considered and may lead to a decision to decline a certain investment offer, to sell the investment, or to increase or reduce the size of the investment.

2. **APG enters into dialogue with companies in order to achieve sustainability and good corporate governance.**
   In meetings with companies we make our standards on sustainability and shareholder rights clear. To emphasize our message, we often cooperate with other investors in this area.

3. **APG expects companies to act with respect for the principles of the UN Global Compact, and we will sell the shares we hold if dialogue does not lead to improvement. Moreover, APG does not invest in products which are banned under Dutch law or international regulations.**
This means that we do not invest in companies that are directly involved in the production of land mines, cluster munitions and the firing systems for such munitions, or the production of chemical and biological weapons or nuclear weapons in contravention of the Nuclear Non-Proliferation Treaty. The minimum standards for companies in the fields of human rights, labour standards, the environment and corruption are specified in the UN Global Compact.

4. **APG does not invest in sovereign bonds issued by countries that are subject to an arms embargo by the UN Security Council.**
   A UN Security Council arms embargo indicates that there is serious concern about a country's human rights situation.

5. **APG actively exercises our rights as shareholder.**
   We vote at the shareholders' meetings of the companies in which we invest and we publish our voting behaviour.

6. **APG strongly advocates robust Dutch and international laws and regulations aimed at promoting sustainability and good corporate governance.**
   We regularly discuss sustainability and shareholder rights with legislators and regulatory bodies. We also contribute to the development of standards aimed at improving the integrity of the financial markets over the long term.

7. **APG actively looks for attractive investments that promote sustainability.**
   We seek investments that contribute to more sustainable societies by addressing environmental and/or social challenges including climate change, pollution, water scarcity, the loss of habitats and species, education, poverty and socio-demographic trends and imbalances. APG's main societal responsibility is to deliver affordable pensions to its clients and their beneficiaries, and hence these investments have to match APG's risk-return requirements.

8. **We actively propagate our responsible investment policy in order to promote sustainability and corporate governance.**
   We cooperate with other asset managers and pension funds across the world in order to increase the effect of our responsible investment policy for our clients. We are active in various Dutch and international forums of cooperation and we communicate extensively about our activities.

**Exclusions**
APG does not invest in companies involved in the manufacture of landmines, cluster bombs, chemical or biological weapons, or nuclear weapons made in violation of the Nuclear Non-Proliferation Treaty. In addition we do not invest in government bonds by countries subject to an arms embargo by the UN Security Council.