

Summary of Inclusion Approach

APG is a fiduciary manager for Dutch pension funds whose goal is to provide their beneficiaries with a good retirement income that they can enjoy in a livable world. All our investment processes are geared towards ensuring they can deliver on this objective.

The specific and diverse characteristics of the portfolio of assets in which we invest on behalf of our clients require a consistent overarching, but also a customized, approach to integrating responsible investing objectives for each asset class. Thereby, we can ensure that they all contribute to the overall objective of the Responsible Investment Approach.

As a leading long-term responsible investor, we are convinced that, beyond setting a minimum bar by 'excluding' investments, we can have the greatest positive impact by making deliberate choices about where we want to invest.

We implement the inclusion approach described below for all our clients, with the exception of ABP. ABP has its own inclusion approach, which is described on its [website](#) in Dutch.

This document should be read in conjunction with the Global Responsible Investment and Stewardship Policy and the Corporate Governance Framework where we set out our approach in more detail.

What do we mean by Inclusion?

Inclusion as a concept, i.e. deliberately selecting investments that we want to have in the portfolio in the context of risk, return, cost and sustainability, applies to our entire portfolio.

Figure 1: risk, return, cost and sustainability



APG AM uses a proprietary method to categorize companies based on Environmental, social and governance (ESG) criteria. The ESG criteria are based on client expectations. We use this method which we will describe in this document to evaluate all companies that we can invest in through publicly traded securities (the investment universe). We aim to invest only in ESG leaders and ESG average performers that are also attractive from a return, risk and cost perspective, on behalf of our pension fund clients. Only in exceptional cases and under strict guidelines will we invest in companies not labelled as 'ESG leaders' or 'ESG average performers'. In those exceptional cases, our engagement with these companies is even more focused and targeted than when we engage with other companies.

Proprietary ESG classifications

In line with our client's preferences APG AM has identified 5 key ESG themes by which companies are assessed.

The five key environmental, social and governance themes are:

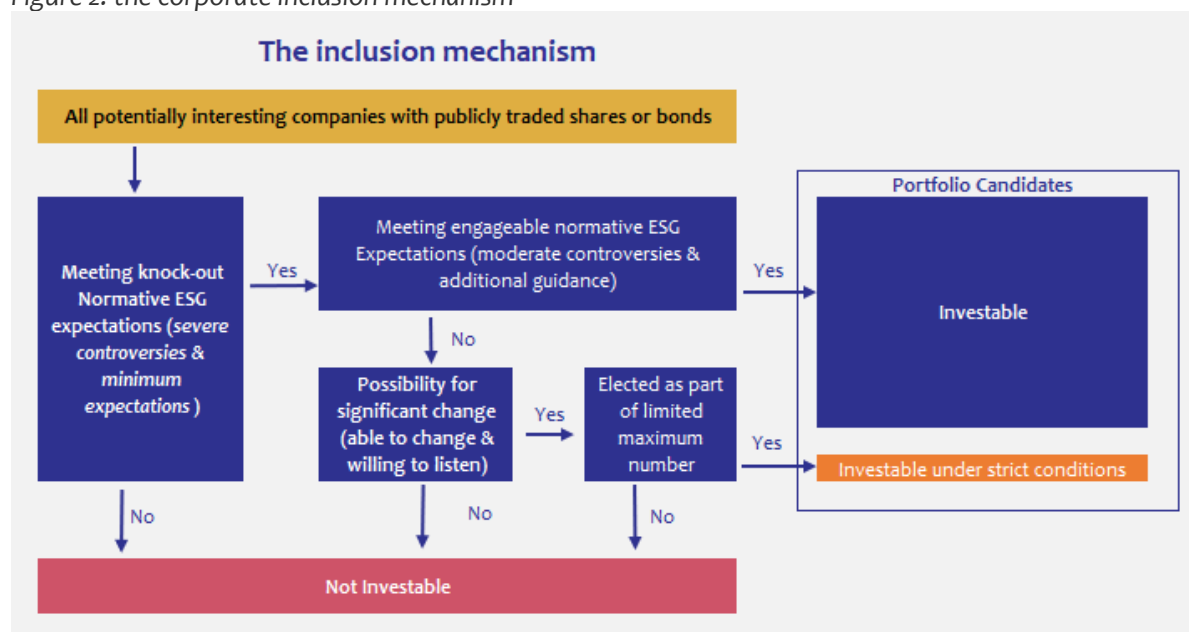
- **Climate:** We expect companies to mitigate the impact of climate change and move towards net zero carbon emissions. We also like to see them proactively adapting to the impact of climate change.
- **Nature & biodiversity:** Companies need to respect nature, limit land use & protect biodiversity. By adopting a proactive approach to environmental management and environmental risks they can positively influence their effect on nature and biodiversity.
- **Human rights:** We require companies to show respect for human rights and take stakeholders' interests into account. Elements like ensuring employee safety and protecting data privacy & security are considered.
- **Business integrity:** APG AM considers the behavior of companies as a part of society as important. Maintaining good product quality & safety, demonstrating ethical business practices and a zero-tolerance attitude towards bribery & corruption should be part of business as usual for any company.
- **Investor alignment:** As investors, we expect the companies in which we invest to act in alignment with our clients' interests. Elements such as reasonable and performance-aligned pay practices, well-balanced and diverse boards and the protection of investors' rights show that a company behaves in line with investors' best interests.

The corporate Inclusion mechanism assesses how companies perform based on normative criteria representing these 5 key sustainability themes.

The main objective of this methodology is to be able to meaningfully identify companies in our portfolio that are meeting our clients' minimum expectations on sustainability ('ESG Leaders' or 'ESG Average performers').

Overall, using this approach results in a strong impact on decision-making in the investment process and makes the Inclusion process very ambitious.

Figure 2: the corporate inclusion mechanism



If a company cannot follow the mechanism described above due to a lack of data, an alternative review process is available, which may still result in the company being deemed investable.

Last but not least, we believe that the sustainability classification must reflect the values underpinning our clients' RI policies. The parameters and data used in the Inclusion assessment will be continuously subject to review to ensure accurate and meaningful results. Under this methodology, portfolio managers are incentivized to invest in understanding the data underlying the ESG classification and develop a holistic understanding of their companies including ESG issues.

We receive several types of company-specific sustainability information from external data providers in the form of ordinal indicator and exposure data. This allows us to distinguish between companies that appear to have strong or no evidence of relevant policies, and good or poor practices.

Importantly, greenⁱ and social bondsⁱⁱ from companies that would otherwise be categorized as non-investable are exempt from the inclusion mechanism, meaning that they can be part of the investment portfolio.

ⁱ Green bonds are fixed-income financial instruments specifically designed to raise capital for projects with positive environmental or climate-related benefits.

ⁱⁱ Social bonds are fixed-income financial instruments specifically designed to raise capital for projects with social benefits.