apg

# Stewardship Overview 2023

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# Foreword



APG wants to contribute to a sustainable future while securing long-term returns for our pension fund clients and their beneficiaries. This is why – in addition to assessing the risk and return characteristics of our investments - we closely review how they manage the effects of sustainability issues on their performance and their governance practices as well as the impact they have on society and the environment. As a Dutch firm managing a global portfolio, we are navigating more stringent regulation in Europe, while sentiment regarding sustainability is becoming increasingly negative in the US. We work with wide range of stakeholders and believe that as investor we need to address systemic risks like biodiversity as part of our stewardship efforts. Realizing our and our clients' ambitions also means actively seeking investments that contribute to solving societal and sustainability issues. Having a real-world impact and being able to measure that impact, forms the foundation for our work. Our annual Stewardship Overview is part of our commitment to being transparent and making our activities tangible for our stakeholders, in pursuit of our goal to create a more sustainable future."

**Claudia Kruse, Chief Sustainability & Strategy Officer**

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# Introduction

**We have a fiduciary duty to protect our clients' assets in the long term and act in their best interests. In addition to taking financial considerations into account, this also means incorporating environmental, social and governance (ESG) factors into the investment decision making process.**



## Mandatory disclosure

The APG approach to stewardship with investees is laid out in our Stewardship & Responsible Investment Policy and Summary of Corporate Governance Voting Approach. APG endorses and complies with the Dutch Stewardship Code. This obliges us to annually report on engagement and voting. This includes an outline of the key points of the dialogues and topics we discussed with companies we engaged with. We also disclose how we implemented the voting policy of our clients by reporting on our voting behavior, including information on how we voted, how we use the services of proxy advisors and details of any significant votes.

## Proprietary methodology combined with a collaborative approach

The sustainability specialists in our Responsible Investment Execution team work closely with investment teams to carry out stewardship activities for their portfolios. We assess all our capital markets investments on the basis of pre-defined ESG criteria aligned with our clients' sustainability preferences as documented in their RI policies. According to the results of this analysis, we prioritize engagements and enter into a dialog with those companies where we see the highest risks; risks of causing harm and risks for the investment case. We also seek out companies where we think we can make the most impact. These ESG criteria are also incorporated in the voting policy that guides how we exercise our voting rights.

## A systems perspective

For a company like APG it is vital to have insight into and help shape political and legislative developments that can impact our activities. The world of pensions and pension administration and the world of investing are both highly regulated by the government and the applicable laws and regulations are frequently updated and amended, especially in the area of sustainability. It is very important for both legislators and supervisors to be aware of the consequences of possible changes to regulations and policy. As a result, they often organize consultations with market participants. APG and its pension fund clients often take an active role in these. APG also directly or indirectly provides opinions on policy and legislation on its own initiative.

In 2023, we participated in several ESG related consultations and responded either as APG AM or via our membership of Dufas (Dutch Fund and Asset Management Association) and Dutch corporate governance forum, Eumedion. The topics covered ranged from greenwashing and the use of ESG or sustainability-related terms in funds' names, SFDR, the integration of sustainability preferences in suitability assessment and product governance arrangements to European Sustainability Reporting Standards, Dutch CSRD implementation and climate legislation for the Dutch financial sector.

## Global reach

In addition to our activities in the Netherlands, we also work through European umbrella organizations such as Pensions Europe and EFAMA. These Europe-wide entities aim to coordinate the position of a large number of EU Member States and are important forums for advocacy within the institutions of the European Union, to which APG contributes. APG has co-founded a number of international investor-led data driven disclosure standards, such as GRESB (real estate and infrastructure), EDCI (private equity) and Sustainable Development Investments Asset Owner Platform (SDI AOP). During 2023, SDI AOP launched a number of innovative solutions to expand its SDG focused data offering. At the end of 2023, we started co-leading a working group under Global Investors for Sustainable Development (GISD) on tackling local currency risk. This can help create more SDG investment opportunities in emerging markets. We also frequently collaborate with other global like-minded investors and are affiliated with a number of organizations such as Climate Action 100+ and PRI.

## We cannot and will not rest on our laurels

APG has been recognized globally as a leading responsible investor. In the annual Principles for RI (PRI) benchmark, in 2023, we again attained the maximum five stars for Policy, Governance & Strategy, scoring 97, surpassing the peer median score of 88. Our scores on the other modules ranged between three and five stars. At the 2023 IPE Conference Awards, APG also received awards for ESG Strategy and Stewardship & Engagement. Our pension fund clients were recognized for their progress on responsible investing too. The VBDO (Dutch Association of Investors for Sustainable Development) assesses how responsibly the 50 largest pension funds in the Netherlands invest their assets. Our clients came first (bpfBOUW), second (ABP) and nineth (SPW). However, it was not all good news, our ranking of 26th (4th in 2020) out of 77 in ShareAction's Point of No Returns report of the world's largest investment managers was disappointing and shows we must continue to be proactive and also to be transparent about what we do and how and why we do it. On a positive note, in the separate Climate and Biodiversity section, our climate scenario analysis and integration in investment decision making was cited as being leading practice.

# Engagement

**On behalf of our clients APG engages with investees to influence them to improve their performance on environmental sustainability, act in a socially responsible manner and apply good governance practices to enhance their long-term value and meet our clients' ESG requirements. We are providers of capital to many different entities, such as listed companies where we provide equity or debt capital, or private market investments in infrastructure, real estate and private equity.**



## We engaged with 433 listed companies on ESG issues in 2023

Our website contains an overview of these companies, including the issues we engaged with them on. Our clients disclose the progress and outcomes of the engagements on the basis of their proprietary RI policies on their websites and in their reporting. Engagement with companies is an indispensable part of APG's and its clients' responsible investment approach. It enhances our investment knowledge, helps us better assess risks and opportunities, and improves long-term performance. In combination with the exercise of voting rights, it is a powerful lever for influence towards more sustainability. We endeavor to maximize our impact by cooperating with other investors and regularly discuss sustainability and shareholder rights with legislators, regulatory bodies and other stakeholders.

In our engagement we usually target individual companies with specific asks based on our clients' respective ESG criteria to ensure they qualify for inclusion in our investment universe. This also means we may reconsider an investment if insufficient progress is being made in meeting these requirements. Our engagement activities span a broad range of issues and markets across asset classes in both developed and emerging markets.

### Client focus themes

We aim to raise the bar in certain areas by engaging with industry leaders, and through collaboration with other investors and stakeholders or through focused initiatives. The themes of these multi-year engagement trajectories (usually three years) are based on our clients' preferences and policies and chosen in collaboration with them. The selected themes reflect areas where challenges exist that pose significant sustainability and governance risks to us as investors, which are important for the portfolio and where engagement can really have an impact, for example, by setting sector or industry standards. Our clients focus on a number of themes including climate, human rights, biodiversity and good governance.

### Proprietary engagement monitoring tool

In the course of an engagement, we make use of in-house expertise, corporate disclosures, company-specific data provided by our research providers and other external sources such as brokers, NGOs or investor networks. We also have an in-house centralized knowledge management system (KMS) which enables us to track our engagement with the listed companies in which we invest. Both the investment and the Responsible Investing Execution teams have access to this system, enabling them to record information and share findings. We report to our clients on a quarterly basis on the engagement activities we carry out on their behalf and provide in-depth reports on our focus thematic engagements.

## Private markets

On behalf of our clients, we invest in a range of private markets. Although the principles we apply to engagement are generally like those we apply to capital markets, there are some differences. Information may not necessarily be in the public domain, so establishing close ties with companies and maintaining a dialogue is vital in ensuring that we have all the information we need to make well-balanced investment decisions. Furthermore, as private investors in various asset classes we typically hold larger stakes, enabling us to get closer to the business and be more influential in the choices the company makes through strong strategic controls. In the context of private markets, engagement is important both before and after we invest. Prior to investing, we can, for example, influence how conditions are set, establish governance rights and take up board seats in our investee entities. We also agree on the RI ambitions to be met and the related reporting requirements.

> *"The fundamental aim of our stewardship activities is to bring about change by encouraging individual companies to meet our clients' responsible investing criteria and to promote best practice. Engagement and voting are powerful tools, but if our investee entities are reluctant to change, or if the speed of improvement means it will take too long to meet our respective clients' targets, we will divest. Documenting and reporting on our stewardship activities enables us to effectively monitor all our investments in terms of ESG performance and to determine whether our time and effort are well spent. It also enables our clients and their participants to see how their responsible investing policies are implemented and how their pension money is invested."*
>
> *Estelle Beretta, Head of Responsible Investment Execution*

## Reporting

Our fund clients have signed the IMVB covenant which contains agreements with the government, trade unions, and environmental and civil society organizations to prevent malpractice at companies in which pension funds invest. The covenant is based on the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

The covenant expired at the end of 2023, but our clients intend to remain committed to the agreements made, and we continue to implement the OECD guidelines (which were updated in 2023) and the UN Guiding Principles. In line with the covenant, they reported on the outcomes of engagements closed in 2023 relating to their listed equity and corporate bond investments. Topics that we engaged on with investee companies on behalf of our clients differ based on asset class, sector and geography, ranging from climate transition plans and social supplier standards to business ethics.

## Prioritizing the fight against financial crime

In 2019, we started engaging with **Danske Bank**, when allegations of large-scale money laundering through the bank's Estonian branch surfaced. The controversy raised serious concerns about Denmark's largest bank's anti-money laundering (AML) governance and controls. In response, the bank adopted a multi-year action plan to strengthen its AML procedures and practices. Danske Bank initiated an organization-wide overhaul of its financial crime framework including, for example, its customer due diligence processes, transaction monitoring, and policies and procedures related to AML, bribery and tax evasion. To improve governance, it expanded the executive board to include the role of a Chief Compliance Officer and established a Conduct & Compliance Committee. Danske Bank also announced that it would close its Baltic and Russian banking operations and introduced a mandatory training program for employees to help build a culture of compliance. In view of the substantial progress the bank has made in strengthening its AML governance and control framework, we closed this engagement in 2023.

*"Danske Bank's anti-money laundering controversy was not an isolated incident, but rather indicative of sector-wide issues which the banking industry needs to address effectively. As gatekeepers to the financial system, banks play a key role in preventing and combating financial crimes. This gatekeeper role carries significant responsibilities; banks should give the role the priority it deserves. During our engagement, we periodically monitored and discussed the progress of Danske Bank's transformation plan, including accountability actions, regulatory compliance, culture change and IT investments. It's encouraging to see Danske Bank not only take steps to improve its internal governance but also make proactive efforts to develop industry-wide initiatives to collectively combat money laundering and other financial crimes."*

*Paul Beijsens, Senior Portfolio Manager Credits*

# Engagement numbers 2023

## Dialogue with companies about sustainability and good governance

### Companies APG AM has spoken with

Number of companies

433

### Number of conversations about

Good corporate governance
196

Business ethics*
82

Human rights
46

Other topics
135

Environment
233

Working conditions
102

Sustainable financing
42

* Including bribery and corruption, money laundering, inappropriate promotion of medicines, and lack of whistleblowing mechanisms.

# Asset Class: Equities



**On behalf of our clients, APG uses its influence to improve companies' sustainability and long-term performance. We enter into a dialogue with many of our investee companies and investment entities in order to influence them to improve their performance on sustainability and corporate governance. If these engagement efforts do not result in the progress we are striving to achieve, we may signal our concerns through the voting action we take on behalf of our clients.**

## Improving transparency on animal testing

In some sectors, animal testing plays a key role in the assessment of potential risks. Healthcare companies, for example, may be required by law to conduct animal testing before bringing a new product to market. For our clients, adherence to the 3Rs principle[1] is important. APG expects companies to have appropriate policies and programs in place and to publicly disclose them. We engaged on the subject of transparency with implantable hearing solutions provider **Cochlear** and sterilization solutions provider **Steris**. Both companies have published their animal testing policies – including a commitment to the 3Rs.

*"As there was little public information available about Cochlear's policy on research involving animals, APG started engaging with the company. We requested more disclosure on the company's animal testing policies and practices. Cochlear later told us that APG was instrumental in their decision to improve transparency on animal testing. A formal and public commitment to the 3Rs principle is not only important to APG's clients, but also to other long-term shareholders."*

*Tjibbe van Houten, Senior Portfolio Manager Focus Equities*

## Unblocking share blocking

The practice of share blocking creates an impediment to voting, as it prevents shareholders from trading shares that are voted. In some markets, like Norway, share blocking is allowed. We engaged on this topic with **Tomra**, a Norwegian manufacturer of collecting and sorting machines, as investors were required to block their shares to be eligible to vote at the company's AGM last year. We shared our views with Tomra and asked it to engage with custodians to encourage them to lift the requirement. The company was receptive to our concerns and has taken steps to address this issue. At the 2024 AGM shareholders were no longer required to block their shares.

## Fostering a healthy workplace

APG has engaged with video game developer **Activision Blizzard** over a number of years on working conditions, corporate governance and other issues. In 2021, the company faced public and legal allegations of workplace misconduct. Activision Blizzard subsequently increased its efforts to establish a safe and respectful workplace. The company drafted a new

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1. Replacement: avoid animal testing where possible, Reduction: limit the number of animals used in testing, and Refinement: minimize the suffering of animals.

workplace integrity policy and building on our ongoing dialogue with the company, during this process we were able to express our views directly to the company's policymakers. Activision Blizzard has adopted the new policy and worked to introduce best practices within the organization. The company has also disclosed details of employee misconduct complaints and other workplace-related information in its inaugural transparency report.

*"The regulatory attention and public scrutiny in 2021 led to an "ESG discount" on the company's share price. This situation, in combination with the company's willingness and ability to improve, created a unique opportunity to effect change through engagement and achieve an attractive investment return. From the start, management displayed a willingness to take the necessary steps. This commitment has played a key role in the company's ability to strengthen its policies and procedures to resolve workplace concerns and to take appropriate corrective measures. The significant improvement in transparency underscores Activision Blizzard's commitment to foster a healthy workplace."*

*Frank Dekker, Expert Portfolio Manager Developed Markets Equities*

## Addressing a potential conflict of interest

Italian domestic appliance manufacturer **De'Longhi** is a family-owned company with a focus on coffee equipment. The De'Longhi family's significant equity stake in La Marzocco, a manufacturer of professional coffee equipment, raised concerns about a potential conflict of interest. APG expressed these concerns in a letter to De'Longhi's CEO. We also commissioned a third-party market study to assess the long-term value of the company's different product segments. This study recommended that De'Longhi expands its coffee equipment activities, particularly the professional segment. We shared these findings with the Executive Board of the company. In 2023, De'Longhi announced that it would integrate its professional coffee equipment activities with those of La Marzocco. This step is in line with the market study's recommendations and solves the potential conflict of interest.

## Aligning executive pay with shareholder interests

**Avantium** is a Dutch chemical technology company that produces plastics and chemicals. One of its innovations is a plastic called PEF made from plant-based sugars instead of crude oil. APG has engaged with Avantium over an extended period of time. We helped shape part of the company's corporate governance arrangements set at the time of its initial public offering. More recently, our ongoing dialogue with Avantium on the topic of remuneration encouraged a fundamental change in its long-term incentive scheme for executive management: the company introduced performance-based remuneration, replacing the previous purely time-based awards.

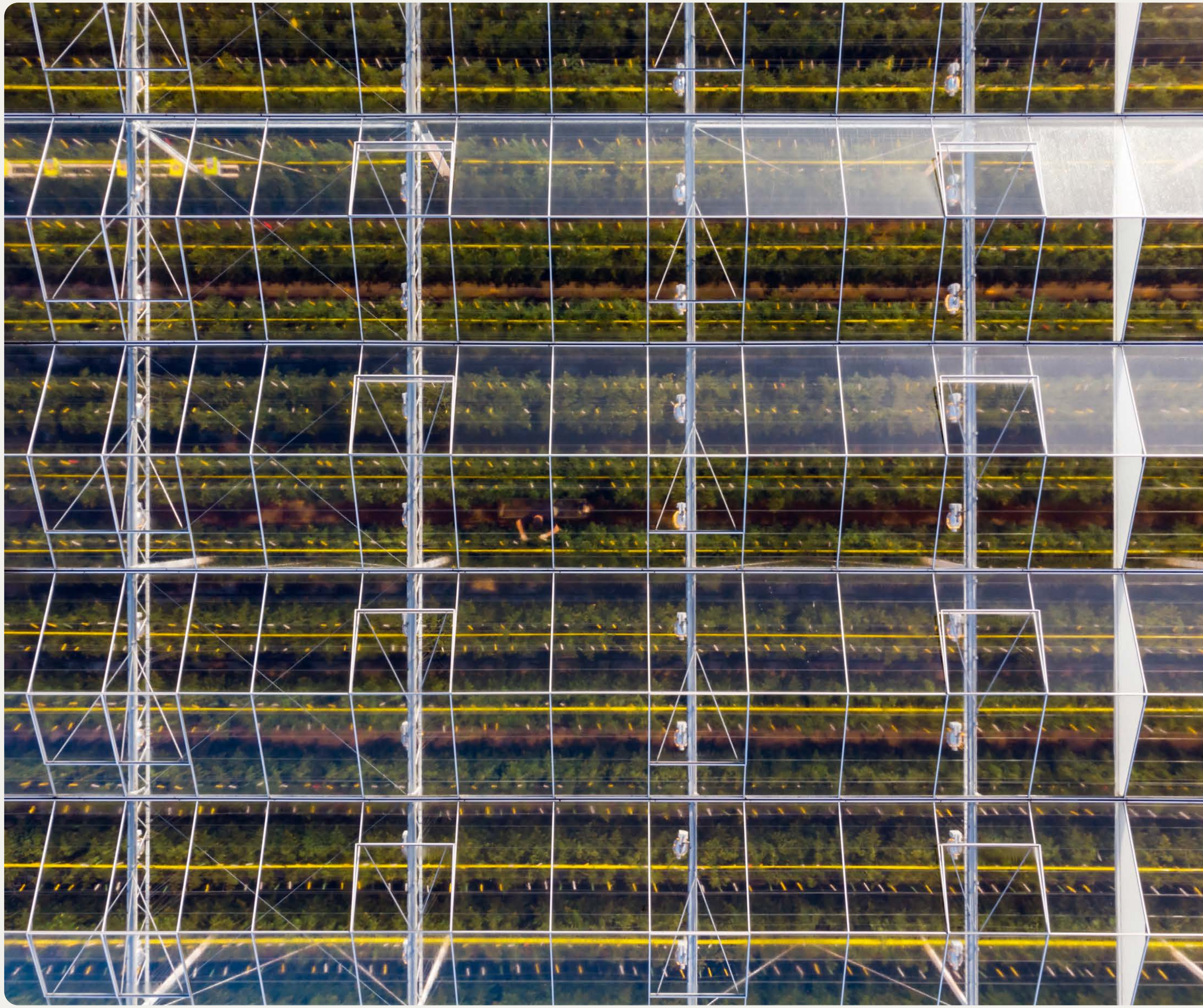
*"The introduction of performance-based incentives for executive board members marks an encouraging step forward towards a more robust remuneration structure. In supervisory board remuneration, Avantium also replaced option-based rewards with share-based ones, providing a more direct alignment with shareholder interests. We are supportive of this direction of travel."*

*Paul Andriessen, Senior Portfolio Manager*

### Prioritizing emissions disclosure

**SPS Commerce** is a supply chain management software provider which as a result of the nature of its business has a limited carbon footprint. Partly due to its low level of emissions, the company had not made its environmental disclosure a priority. APG engaged multiple times with SPS Commerce on this topic. In 2023, the software provider began taking inventory of its carbon emissions. The company enhanced its disclosure by providing a percentage breakdown of the mix of its Scope 1, 2 and 3 emissions. It also discloses its absolute levels of carbon emissions.





# Theme: Climate

**Climate change is a key theme for our pension fund clients and their participants. We engage with companies to reduce their greenhouse gas emissions in alignment with the Paris Agreement and promote the transition to low-carbon business models. We focus our engagements on major consumers of energy and companies with a major climate impact, targeting high-impact sectors such as electric utilities, construction materials, transportation and real estate.**



## Climate Action 100+

Some of our climate engagements are part of global collaborative initiatives where investors join forces and as a result can exert significant leverage to address emissions. APG took an active role and in 2022 and 2023 carried out a two-year engagement program, taking on the role of lead engager, for example, for Holcim and Heidelberg Materials.

## CA100+ - Engagement overview

The companies in scope largely delivered on the Climate Action 100 assessment areas of net zero ambition, long-term climate targets and Task Force on Climate Related Financial Disclosure (TCFD) requirements. The level of detail on overall decarbonization strategies such as green capex plans is still a key area for improvement. The progress the companies make and challenges they face in meeting the CA100+ assessment criteria provides valuable input in planning future climate stewardship activities.

**Holcim**, one of the world's largest producers and distributors of cement, aggregates and ready-mixed concrete, was engaged through CA100+ to further improve its climate plan. The company had several successes over the course of the engagement and put their transition plan to a vote at the AGM in 2022. The Science Based Targets initiative (SBTi) validated Holcim's updated targets to be 1.5°C aligned in 2023. In its 2023 climate report (published Q1 2024), Holcim managed to add more detail on their decarbonization pathway and further updated their Scope 3 target to include emissions from the company's investments. Holcim also improved capex disclosures by providing more detail on capex for low carbon technologies and alignment with EU Taxonomy. The company failed to adequately disclose future green capex plans.

The engagement with **Heidelberg Materials**, another major cement producer and distributor, was aimed at improving their performance against CA100+ disclosure framework criteria. We saw the company make considerable progress. In 2023, SBTi validated Heidelberg's updated targets to be 1.5°C aligned. The company also improved Scope 3 disclosures and targets, focusing on purchased clinker and cement. Regarding capex, they increased the share of revenues from green products but, similar to Holcim, had not yet addressed future green capex plans as of 2023.

In 2023 we also became CA100+ lead engager for **Baoshan Iron & Steel**, **Samsung Electronics**, and **Tata Steel.** Through these engagements, we aim to encourage these companies – among the largest in their respective countries and industries and therefore potentially important drivers

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of change – to establish clear targets and timelines to reduce emissions in line with the Paris Agreement goals.

### Dutch Climate Coalition

APG is a member of the Dutch Climate Coalition (DCC), which was launched in 2022. This is a collaborative initiative by Dutch financial institutions to engage with carbon intensive companies on their alignment with the Paris Agreement's goal of limiting global warming to a maximum of 1.5 °C. ABP has divested its holdings in fossil fuel producers, so we do not engage with these companies on their behalf. In 2023, we carried out engagements with several oil and gas companies on behalf of bpfBOUW, SPW and PPF AG under the DCC.

### Research as an engagement tool – maximizing efficiency and impact

In 2023, together with fellow DCC members, APG co-sponsored a comparative study by Accela Research on the five European oil majors in the run up to the AGM season. This Climate Transition Analysis underscored the role of research in supporting our stewardship activities. It informed our pre-AGM dialogue with companies and, to some extent, our voting decisions. For example, it gave us valuable input to discuss net zero targets in a meeting with BP and facilitated taking a clear stance on TotalEnergies' shareholder proposals.

> *"APG, as a large investor, has more than enough choices when it comes to companies to engage with. But it is not about quantity – the quality and efficiency of our engagements are key. Quality refers to the benefits to be gained from engaging with companies and how this improves our portfolio. Efficiency concerns the return on our time and resources invested. Comparative sector analyses such as this help us narrow down the field; enabling us to target companies that require the most guidance and pose the greatest ESG risk. Companies where we can have the most impact."*
>
> *Asimwe Ruganyoisa, Manager Responsible Investment Strategy & Partnerships*

In 2022, **BP** was one of the first oil and gas companies to commit to net zero emissions by 2050. This applied to both its own emissions (Scopes 1 and 2) and emissions from the use of its products (Scope 3). Unfortunately, in early 2023, the company decided to tone down some interim targets. We made our dissatisfaction known prior to the Annual General Meeting and voted in favor of a shareholder proposal that called on BP to bring its interim targets in line with the Paris Agreement. The proposal was not passed but we continue to share our concerns that the current targets are insufficient.

### Focused engagements: banks and utilities on their climate strategies

In the third quarter, in addition to our ongoing collaborative engagements, APG officially launched its climate focused engagement program on behalf of ABP. It targets companies in the electric utilities, automobile, cement, chemicals and banking industries. The focused engagements incorporate ABP's climate expectations and go a step further by also including sector specific asks that go beyond market best practice.

We engaged with **US electric utilities** on their climate action plans and to enhance our understanding of industry specific sustainability and governance considerations. Due to significant industry shifts, utilities are facing steep additional power requirements alongside their climate commitments.

*"Given the pivotal role electric utilities play in the decarbonization effort, we undertook a comprehensive benchmarking exercise across the industry before kicking off the focus engagements. During this process, we met with a number of key utilities (including CMS Energy, Entergy Corporation, and Southern Company) to emphasize our clients' priorities and learn more about individual companies' climate strategies. These dialogues also enabled us to act as a sounding board for management and give our views on best practice for the utility space. Market dynamics, regulatory requirements, and infrastructure challenges present obstacles to US utilities looking to electrify. Investors need to encourage them to accelerate climate targets despite these dynamics."*

*Lee Anne Hagel, Responsible Investment Credit Analyst*



In the case of **US and Canadian banks**, we engaged with several companies (JPMorgan, Bank of America and Toronto Dominion) on behalf of ABP. Additionally, we expanded the benchmarking exercise we had undertaken to increase our knowledge on how banks are integrating climate targets into their operations and how they address the associated risks and opportunities.

*"Through discussions with other major banks, asset managers and non-profit organizations, we have gained a deeper understanding of the sector's challenges, in particular amidst the ESG backlash in the US and the withdrawal of high-profile financial entities from initiatives promoting the energy transition (CA100+). These developments underscore the importance of our engagement efforts on behalf of our clients in aligning investee entities with their climate ambitions and promoting best practice across the sector."*

*Simone Andrews, Senior Responsible Investment Manager Fixed Income*

## Climate engagements in Japan

We continued our engagement with ten large carbon emitters in hard to abate sectors (including automobiles, chemicals, and metals and mining). This "Climate Focus 10" program targets the biggest emitters in a specific country in our portfolio and asks them, amongst other things, to provide a clear commitment to net zero and accurate representation of their carbon reduction targets and pathways. Many of our target companies made progress in 2023:

***Automakers:*** increased electric vehicle and battery investment (**Toyota**), mid-term Scope 3 target (30% by 2030), 100% EV/fuel cell vehicle transition by 2040 (**Honda**)
***Metals & Mining:*** increased engagement with regulators/customers to fund transition (**Nippon Steel**), new capital injection to fund transition to green steel (**JFE Holdings**)
***Chemicals:*** set Scope 1+2 net zero target by 2050 (**Shin-Etsu Chemical**)
***Telecom:*** set Scope 3 net zero target by 2050 (**NTT**)
***Industrials:*** submitted 1.5°C targets for SBTi Validation for Scope 3 (**Hitachi**)

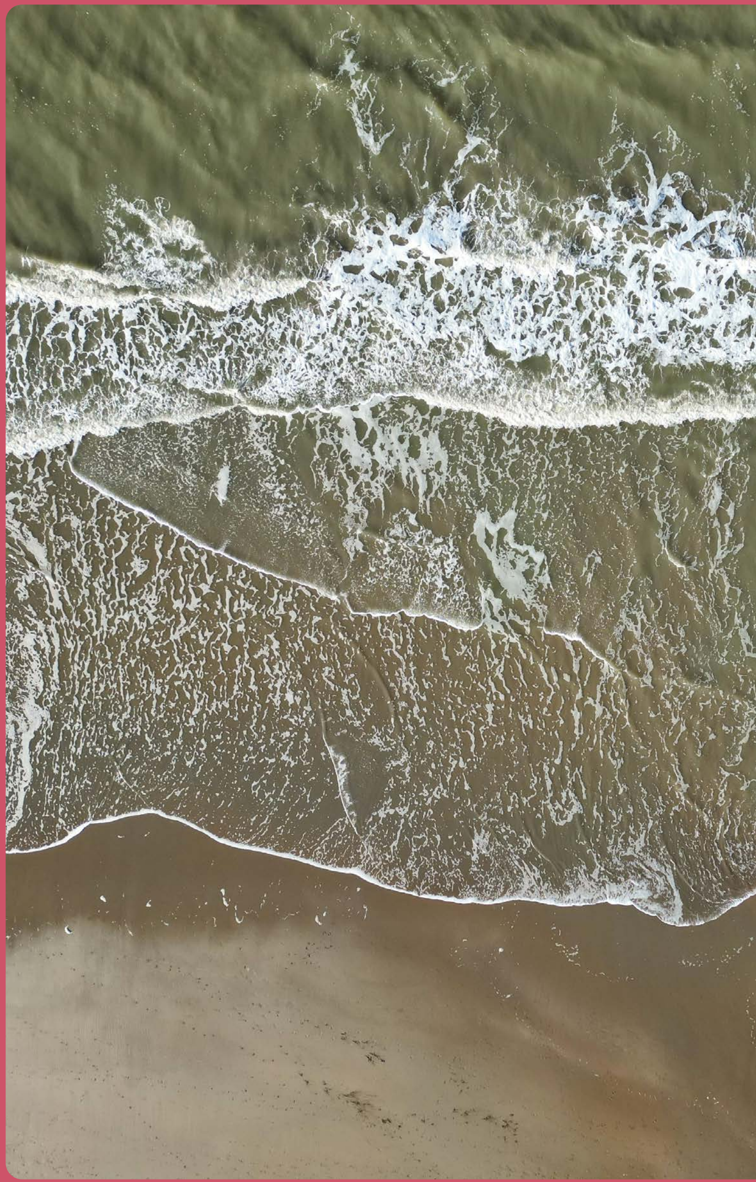
Among high Scope 1+2 emitters, **Mitsubishi Corp** showed emission reductions, but Scope 3 emissions remain a challenge. No progress was made on our engagements with **Sumitomo Chemical** and **Daikin** so we will continue to push for concrete results and intensify the engagement accordingly.

## IIGCC engagement with Japanese mega banks

On behalf of clients, APG is a key contributor to the Institutional Investors Group on Climate Change (IIGCC) and we engage with Japanese megabanks (Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group, Mizuho Financial Group) as a co-engagement leader. With their global financing presence, these banks can play a key role in influencing funding away from fossil fuels towards solutions that result in less carbon emissions – our engagement focuses on this.

*"We shared our expectations on Paris Agreement goal alignment by sending out letters to the board chairs and presidents and the banks have been largely open to our engagement. That said, although disclosure is improving, from a global perspective they still lag behind in terms of emission goals. We are pushing for credible transition plans and clear reduction targets, for example, for coal-based power plants and oil & gas-related projects. We are also encouraging the banks to reflect their climate progress in their remuneration scheme to motivate top management to focus on this matter."*

*Sara Lee, Director, Responsible Investment & Stewardship*



# Asset class: Infrastructure

**The direct and active investment approach of APG's infrastructure strategy enables us to have a significant influence on company management, co-shareholders, and other stakeholders. This allows us to improve the ESG profile of our infrastructure assets and to implement long-term strategic decisions that align with our clients' responsible investment ambitions. Our engagement efforts are not only meant to reduce environmental impact, but aim to create more sustainable business models that reduce risk, make companies more equitable, and unlock value, ultimately enhancing financial performance and resilience in a changing world.**

## GRESB Infrastructure – supporting ESG performance benchmarking and reporting

On behalf of our clients, together with a group of infrastructure investors, APG set up the GRESB Infrastructure Assessments in 2015. GRESB allows us to measure the ESG integration and performance of infrastructure assets and fund managers. In early 2023, a separate Sustainable Finance Disclosure Regulation (SFDR) Survey was launched to facilitate compliance with EU regulations and to improve quality of data for Principle Adverse Impact (PAI) indicators.

GRESB participation is mandatory for all of our portfolio assets. For the annual assessment, our investments are expected to show ongoing improvements in their scores and/or achieve above average scores compared to the overall GRESB benchmark within three years. In this sense, the GRESB benchmark forms the starting point for our engagement activities, as portfolio managers maintain a dialogue on how to improve scores in addition to focusing on any defined ESG engagement priorities.

*"109 APG portfolio assets participated in the GRESB Infrastructure 2023 annual assessment, which equates to 94% of the portfolio's net asset value (89% in 2022). Our portfolio weighted average score also continues to improve year-on-year, reaching 90 (on a scale of 0 to 100), up from 85 in 2022. Whilst these scores are a good indication of ESG integration, we also increasingly leverage the underlying data to feed into core ESG initiatives such as carbon footprinting and impact. In 2023, 82% of the portfolio's net asset value also completed the separate GRESB SFDR survey – a fantastic result for the first year of regulatory reporting."*

*Cameron Talbot-Stern, Senior Portfolio Manager Responsible Investing*

## 2023 in numbers

**~109**

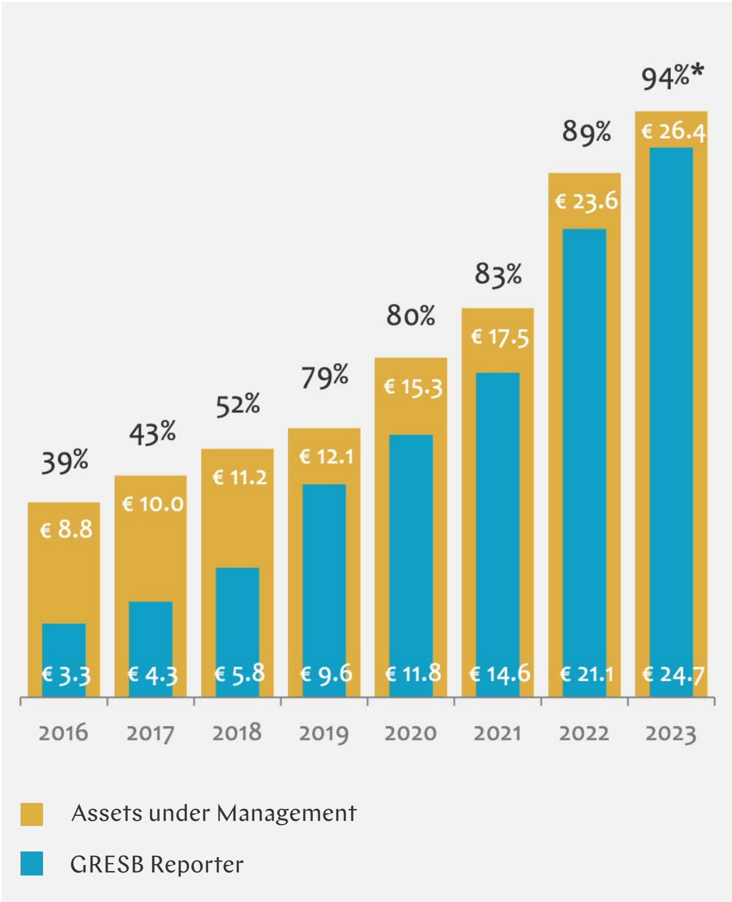
Individual asset submissions

**94%**

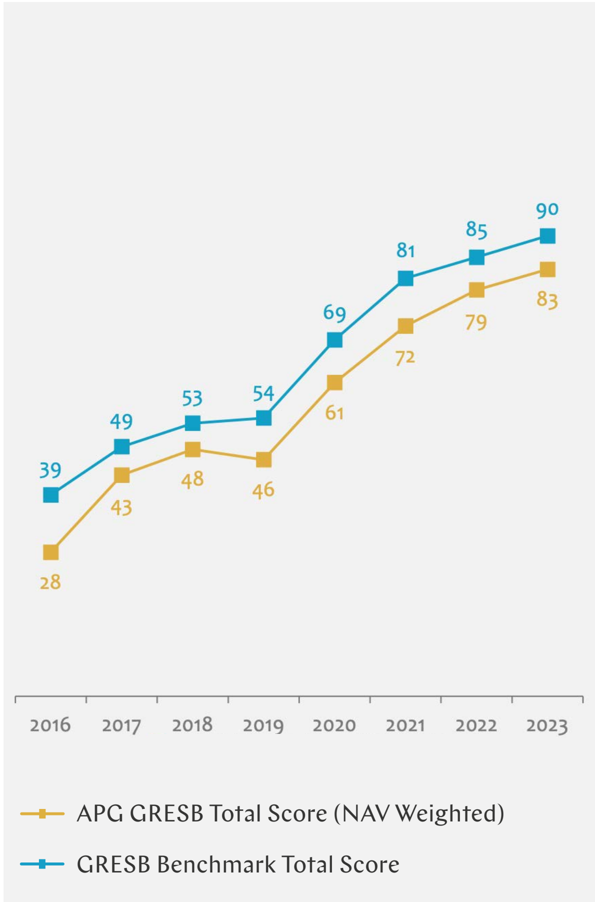
Participation based on the AUM

* 2023 figure includes €1.2Bn in AUM that are reporting under "Grace Period" (as it is their first-year reporting to GRESB) or at Fund Level Only

## GRESB APG Asset Participation / Reporting (AUM €Bn and % Participation)

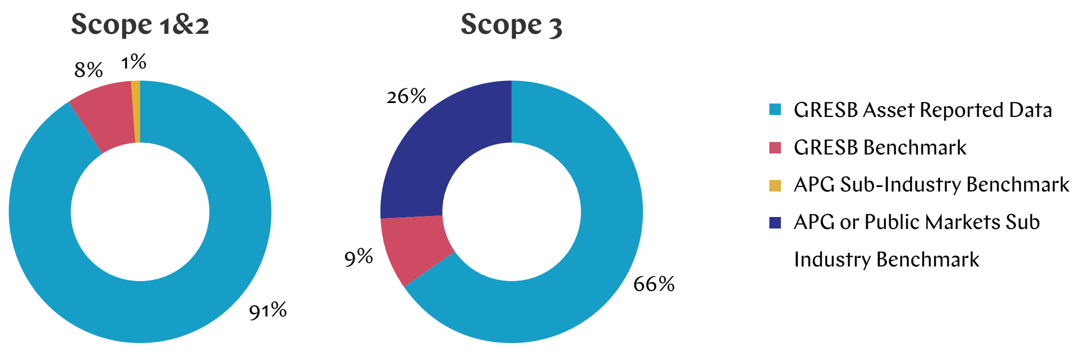



## GRESB Total Score for APG NAV weighted vs GRESB Average



## Carbon Footprinting

These pie charts illustrate the importance of the GRESB annual survey as a source of asset-level data for calculating the portfolio's Scope 1 and 2 emissions footprint (91%). Although Scope 3 reporting (related to the entire value chain) is more difficult and less mature, here too significant progress has been made. Improvement of the data quality of all scopes, through third-party verification, is a key focus area for 2024.




## Looking ahead to future uses for GRESB data



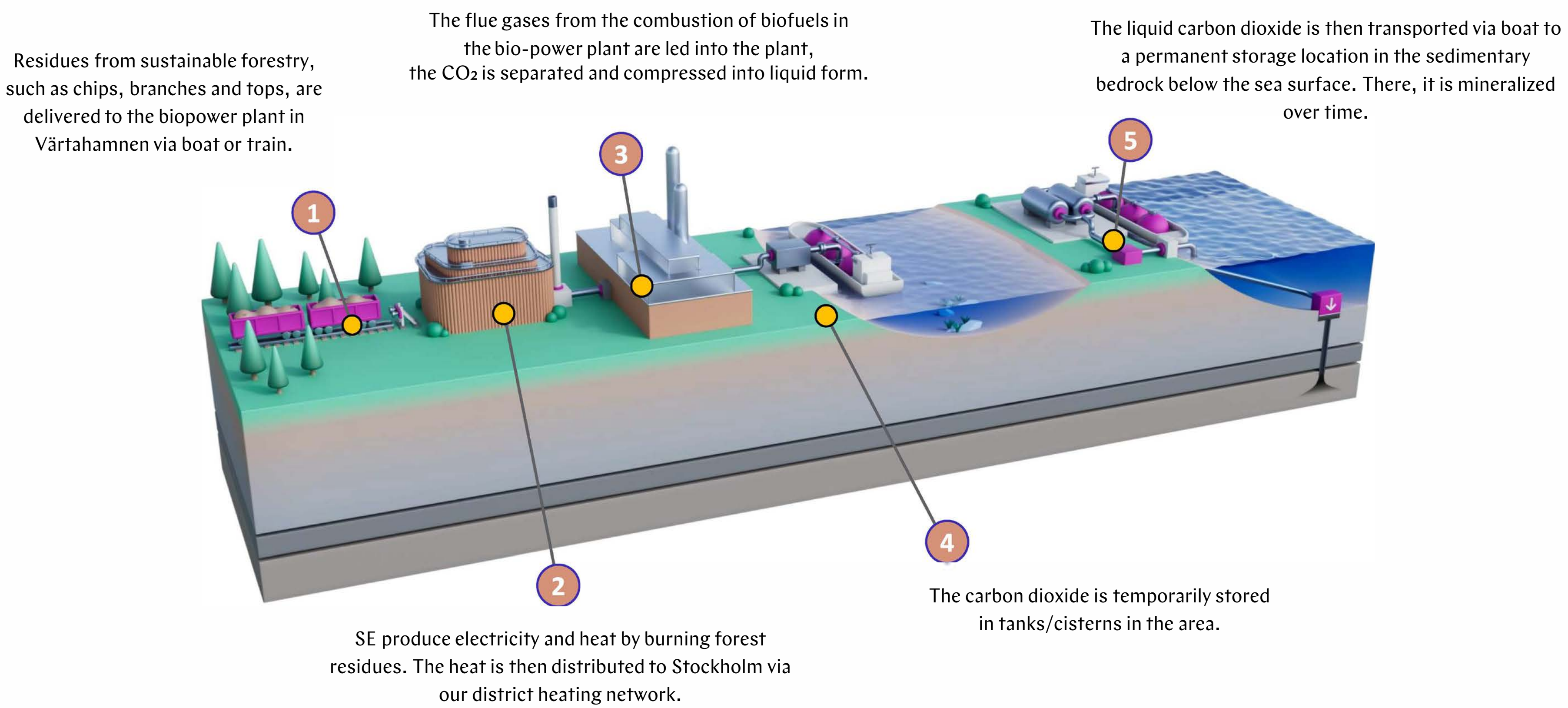
The Infrastructure team has developed an in-house survey, based on the recently released Institutional Investors Group on Climate Change (IIGCC) Guidance for Infrastructure Assets (which complements the Net Zero Investment Framework). This can assist with GRESB Foundation research to enhance the annual assessment and further promote a "one-stop" ESG GRESB data source. Work is also underway at APG to expand how GRESB Infrastructure is used as a risk monitoring tool. Expanding the use of GRESB ESG data internally in this way will further embed its use and improve our collaboration and the feedback loop with GRESB. Finally, as several clients launched impact policies in late 2023 and APG is now starting implementation, we are actively exploring how GRESB data can be leveraged to feed into ongoing impact investment reporting.

## Meeting net zero goals while helping others to decarbonize

**Stockholm Exergi** (SE) is the largest district heating provider in the Nordics, with a system that spans over 1,500km and provides close to 10 TWh of heating and cooling to over 800,000 people. As a fossil-free energy supplier, SE's energy sources are biomass, waste, bio-oil, electric heat pumps and waste heat. SE has plans to implement bioenergy with carbon capture and storage (BECCS)[2] at its Värtan heat plant, one of world's largest carbon capture facilities and recipient of a €180 million grant from the EU Innovation Fund.

This technology will help the company to meet its net zero goals by 2032 while enabling companies in industries that are hard to decarbonize to decrease their emissions. This high-profile project aims to capture up to 800,000 tonnes of $CO_2$ annually, which is roughly equivalent to the emissions of around 2,000 fully loaded round-trip flights (11,000 km) between New York and Amsterdam on the Boeing 787 Dreamliner or the average emissions from around 180,000 European homes. It is expected to become operational by 2028.

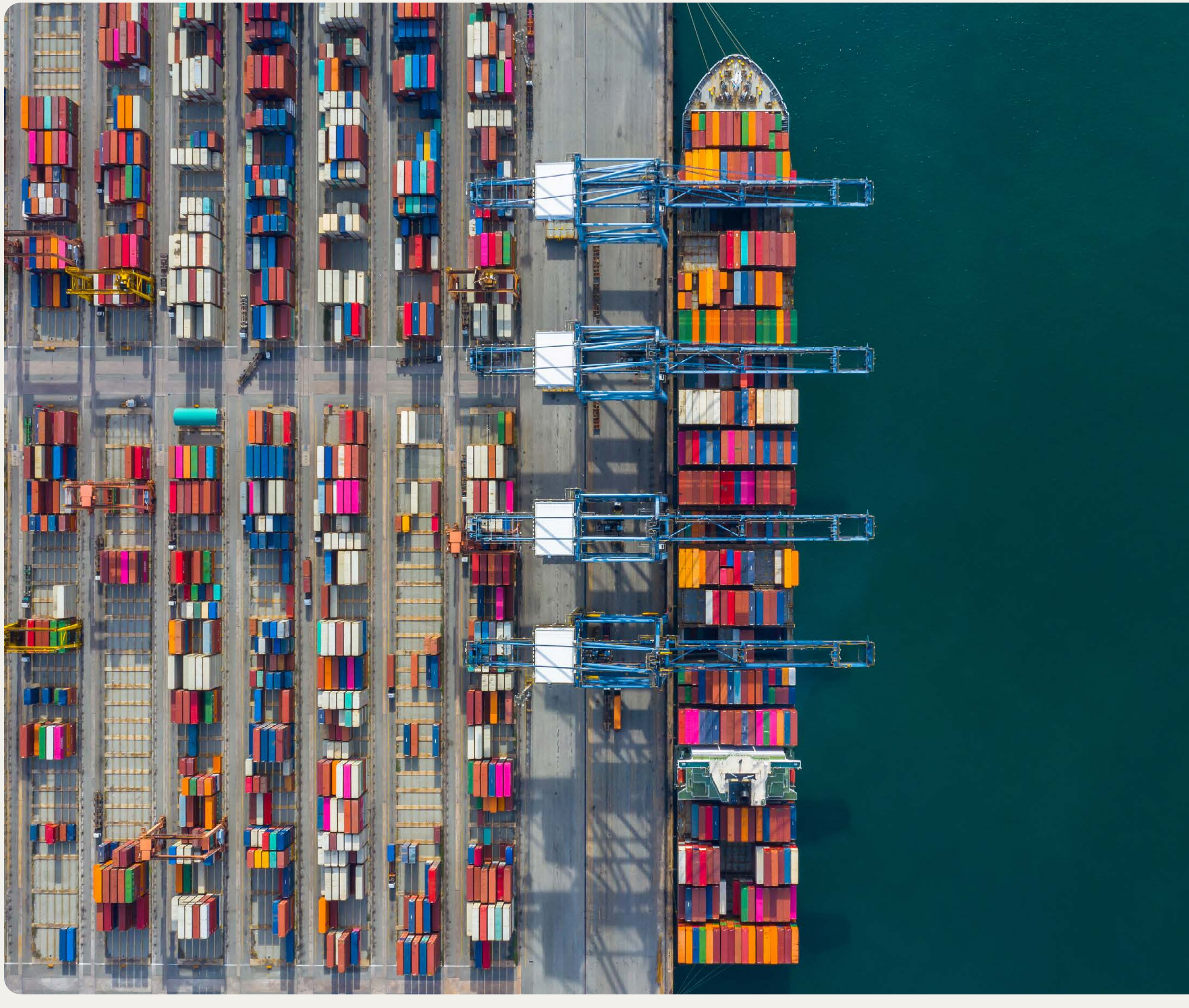
2. BECCS is the process of extracting bioenergy from sustainable biomass and capturing and storing the carbon.




Source: Stockholm Exergi

*"APG has taken a lead role in building the BECCS business case, which, subject to further refinement, is expected to lead to an investment decision by June 2025. With a 20.5% shareholding, APG is the largest private investor in SE and a key decision maker. As the project is the first of its kind in the sector, creating a long-term bankable business plan continues to be challenging, also in the context of regulatory changes and the maturity of the associated value chain. The infrastructure team continues to be involved on a number of levels: leading the project steering group, driving strategic discussions and assessing options from a value creation and risk assessment standpoint. The team is also involved in due diligence, advisor selection and in developing the business and financing plan to support the structuring of the debt for the projects."*

*Carlo Maddalena, Senior Portfolio Manager and board member of Stockholm Exergi*



# Theme: Biodiversity

**According to a 2024 Word Wildlife Fund report, there has been a 73% decline in the average size of monitored wildlife populations in just 50 years (1970-2020). This loss now poses a major systemic risk, with widespread and drastic long-term implications. Preserving biodiversity means preserving the benefits that nature provides to society and the economy. Policymakers and regulators are focusing on measures to protect and restore biodiversity. APG's clients are increasingly incorporating biodiversity into their responsible investment policies and targets.**

## Collaboration and initiatives on biodiversity

APG is a signatory to the Finance for Biodiversity Pledge. This pledge has now been signed by around 177 financial institutions (August 2024) and calls on global leaders to take action and commit to protecting and restoring biodiversity through their finance activities and investments. APG is also actively involved in the Taskforce on Nature-related Financial Disclosures (TNFD) and in the Partnership for Biodiversity Accounting Professionals (PBAF). Under the auspices of these organizations, financial institutions develop a shared methodology to measure and report on the impact their investments have on biodiversity and the related risk management implications. In September 2023, the TNFD launched its risk management and disclosure framework for organizations to report and act on nature-related risks and opportunities. APG is also a member of the Biodiversity Workgroup of the DNB Platform Sustainable Finance (Netherlands central bank), has been involved in initiatives with academic institutions such as the Cambridge Initiative and has research ties with Wageningen University in the Netherlands. At the end of 2022, we attended the Cop15 on Biodiversity to bring an investor voice and have been working since with other stakeholders on how to address biodiversity as a systemic risk. In 2024 we plan to attend the COP16 to reinforce the message as global policy commitments need to be detailed and accounted for.

## Contributing to nature and eco-system services

**Forico** is the largest plantation forestry company in the Australian state of Tasmania and custodian of a natural estate, managed for conservation and ecological values. Forico was the first forestry manager in Australia to achieve FSC Ecosystem Services certification for its approach to protecting biodiversity. Sustainably managed forests are also important for sequestering and removing $CO_2$ from the atmosphere. In 2023, Forico was acquired by a consortium of investors, including APG on behalf of ABP. Since the acquisition, APG has actively engaged with Forico to ensure the company continues to evolve its practices, especially as the global reporting landscape and obligations for businesses continue to change, with proposed legislation to make nature- and climate-related reporting mandatory.

> *"We have encouraged Forico to continue to raise the bar and they have done so. In 2023, the company published a combined nature-and-climate-related financial disclosure under the TNFD and TCFD guidelines. More recently, Forico published its fourth award winning Natural Capital Report, highlighting the company's growing understanding of integrated reporting and the benefit of quantifying its contribution to nature and ecosystem services outcomes alongside traditional financial performance."*
>
> *Ben Avery, Senior Portfolio Manager, Natural Resources Asia Pacific*

### Biodiversity materiality analysis to support engagement

In 2023, APG used ENCORE (Exploring Natural Capital Opportunities, Risk and Exposure) to conduct a top-down analysis and explore biodiversity-related dependencies and impacts at a portfolio level. This tool, which currently has more than 4,000 registered users, aims to align with the TNFD as the main biodiversity framework for the finance industry. ENCORE enables users to assess the contribution of an ecosystem service, for example, to a sector, sub-industry, or production process (dependency) and the materiality of the impact (also financial) if this service is disrupted. At the same time, it looks at the potential effect those same sectors and industries have on natural capital (impact). This results in a range of materiality and severity ratings.

> *"This is an important step in assessing how our portfolio depends on and impacts nature. It also helps us as an organization to learn about ecosystem services, impact drivers, and biodiversity from a more holistic perspective. Understanding its materiality for our portfolio and the financial sector is critical to effectively promote positive change and contribute to the global biodiversity agenda. By helping us explore biodiversity-related risks, ENCORE enables us to engage more strategically on biodiversity with both existing portfolio companies and prospective investments."*
>
> *Santiago Cortes, Senior Responsible Investment Manager*

### Contributing to healthy seas and oceans

On behalf of ABP, APG participated in a 5-year blue bond, issued by leading Danish offshore wind power and former state oil company, **Ørsted**. Blue bonds are similar to green bonds in terms of the use-of-proceeds structure but focus on contributing to healthy seas and oceans. The bond's biodiversity focus aligns with our pension fund clients' responsible investing ambitions, targeting projects that contribute to the conservation and restoration of marine ecosystems, and sustainable sea transportation.

> *"We already had a well-established relationship with the issuer when the bank arranging the financing approached us as one of three parties to invest via a private placement. As a result, we were able to make agreements with Ørsted about certain terms, for example, the maturity and to influence the structure of the projects that the bond's proceeds were to finance, ensuring that a certain percentage would be biodiversity focused. An example of an engagement process where our efforts put us in a position*

*to invest in a cutting-edge issue that creates real-world impact for our clients."*

*Oscar Jansen, Expert Portfolio Manager Credits*

## Divesting from Brazilian meat companies

As a result of more stringent client policies on biodiversity, we divested our holdings in Brazilian meat companies **Minerva** and **Marfrig**. These companies have failed to meet our criteria in terms of their sustainability policies, primarily their approach to deforestation. We considered the likelihood of successful engagement with these companies to be insufficient in the context of the work required, their risk-return profile and portfolio relevance.

## Dutch sovereign green bond with a blue focus

In October 2023, the **State of the Netherlands** issued its second green bond. This issue has a particular focus on water-related investments, with proceeds earmarked, for example, for the Dutch Delta Fund, to protect the country from flooding, mitigate the impact of climate change and ensure supplies of freshwater. APG has regularly met with the Dutch State Treasury Agency (DSTA) over the years, sharing our clients' expectations and giving our input on the first green bond framework, subsequent revisions and on its EU taxonomy alignment. In the weeks preceding the launch, members of the team met with the DSTA to find out more about the deal and discuss the terms.

*"Discussions with the issuer help us to better understand their intentions and allow us to give our views and those of our clients on certain responsible investing themes. This is the first triple-A sovereign green bond to have "blue" activities fully mapped to the EU Taxonomy. The updated framework further aligns the green bond issuance program with Dutch policy and targets on climate change and emphasizes the Netherlands' ambitious and lasting commitment to meeting the Paris Agreement climate goals."*

*Kim Liu, Expert Portfolio Manager Treasuries*

# Asset class: Credits

**As a large global credit investor, APG has built relationships with both issuers and bank syndicates, regulators, and certification bodies. We use different types of engagement across our network and experience to source investments for our clients that further develop the responsible credit market while upholding its integrity.**

## Sixth annual labeled bond roundtable – impact through real-world outcomes

The sixth APG roundtable in 2023 covering the green, social, sustainability and sustainability-linked (GSSS) bond markets brought together a range of stakeholders to exchange views on ways to help grow the sustainable debt market. This year's focus on impact reflected the increasing importance of transparency and reporting against a backdrop of tighter regulatory standards.

*"Each edition of the roundtable focuses on a specific topic and as most of the participants are actively involved in market transactions, the conclusions help foster consensus on best practices within the industry. The discussion also takes place behind closed doors, so people speak freely. Establishing the key takeaways and next steps is a group effort – we work together, from the perspective of our different roles, to figure out what the market needs to grow and develop. The roundtable also helps to formalize APG's view and convey this to the rest of the market."*

*Willem Hettinga, Senior Portfolio Manager RI Fixed Income*

## Establishing a strong relationship with a loan originator for solar ABS

In 2023, APG made its first investment in US solar asset-backed securities (ABS). The solar ABS segment is an important driver of the increasing adoption of residential solar technology in the US, by making it more accessible and affordable. This ABS was issued by finance technology company GoodLeap, an originator that has been running a solar loan generation platform since 2017 and is a major solar ABS issuer.

*"We proactively reached out to GoodLeap to discuss both public and private opportunities in solar residential loans and to share our clients' responsible investment objectives. As Goodleap was about to bring a social loan ABS deal, this gave us the opportunity, as one of three institutional investors, to secure meaningful allocations before the deal was officially announced. The due diligence process enabled us to give input to help ensure the structure fulfilled the more stringent EU securitization requirements for this type of instrument in terms of risk retention and transparency, for example. It also paved the way for future transactions in other areas such as sustainable agriculture and social housing financing."*

*Jay Lee, Senior Portfolio Manager*

## Empowering women in developing countries

The Women's Livelihood Bond is a financial product aimed at providing access to capital for women entrepreneurs in select Asian and African countries. Our investment in the sixth bond issue (WLB6) provides a balance between risk, return and impact and was the result of nearly nine months of intensive engagement and due diligence with the manager and sponsor of the transaction – Impact Investment Exchange (IIX).

*"We engaged on impact reporting, the financial characteristics of the underlying portfolio companies, and expectations for the continued growth of the WLB platform. Our due diligence process also entailed engagement with the US International Development Finance Corp (DFC) which provides a partial guarantee for the transaction. Engagement with the DFC also helped expand our sourcing network for interesting transactions in need of private capital that can deliver positive real-world outcomes while offering attractive risk-return profiles."*

*Ben Rosado, Senior Credit Analyst*

## Opinion Process

APG provided feedback on S&P's newly launched second party opinion (SPO) process for sustainability-linked bonds (SLBs). S&P specifically sought out APG as a respected voice in the labeled bond market, to understand what we view as best practices for an SPO provider, specifically with respect to SLBs. Engaging with S&P enabled us to share some of the key tenets of our documented standards and criteria for SLBs to help push the market in the right direction. These include key performance indicators (KPIs) that incorporate a broad transition plan with absolute emission reduction targets, clear spending programs and concrete timeframes. For example, we stressed the importance of considering Scope 3 emissions in SLB performance targets when it is the primary contributor to the issuer's overall emissions profile.

## Cross-border transaction to finance green and blue hydrogen products

APG's investment in a green bond issued by chemical company **Air Products and Chemicals Inc**. offered an opportunity to finance large-scale green and blue hydrogen projects. We participated in both the EUR and USD tranches of the issue, representing a unique cross-border transaction. This deal came on the heels of APG's direct engagement with several banks on expectations for labeled bond issuers in the chemicals sector. Our teams in the Netherlands and the US held multiple joint calls with bank counterparts to outline what we expect from sustainability leaders in this sector and what we would view as appropriate use of proceeds.

*"As a leading responsible investor, APG has an important role to play by providing feedback to issuers and bank underwriters. The goal is to create a virtuous circle where a landmark deal for a sector can set a positive precedent for other companies to follow, as was the case with this issue in the chemicals sector. We do this by being transparent on what our standards are, by staying in close contact with issuers and bankers and by determining parameters together with them. Encouragingly, companies in this sector also look to the banks to find out what investors like APG are looking for from a sustainability perspective."*

*Joshua Linder, Senior Credit Analyst, Lead Sustainability Research*

# Establishing a sovereign dialogue on sustainability topics

**While engagement policies on the corporate side are well developed, the approach to sovereigns is less well defined. APG's clients are eager to use engagement more proactively as a tool to mitigate those sustainability risks that are associated with emerging market investing. Working with the Emerging Markets Investor Alliance (EMIA) is an example of how we are developing this area and actively involved in collective engagement with likeminded investors.**



EMIA is a non-profit organization that enables institutional emerging market investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest. EMIA engages leading ESG policy experts to educate emerging market investors and publicly listed corporates on sustainability issues that impact business performance. APG has joined two specific EMIA programs focusing on Debt and Fiscal Governance, and Decarbonization.

Within these programs, work groups made up of a small group of investors and ESG policy experts engage in in-depth discussions on ESG best practices with a dual focus on enhancing stakeholder awareness/education and advocacy.

*"In terms of engaging on climate and biodiversity, government policy is crucial for stimulating large-scale private investment in the energy transition. Through collaboration and co-ordination, the EMIA aims to unify and amplify the message of global investors to emerging market countries. We believe these efforts will help us to have more impact when engaging with governments on issues such as decarbonization and deforestation. Furthermore, developing a consensus approach to complex human rights and governance issues helps us finetune our investment and engagement approach."*

*Sjacco Schouten, Head of Emerging Market Debt*

# Theme: Human rights

**APG and our clients view respect for human rights as a prerequisite to ensure that the major transitions the world is facing take place in an equitable and sustainable manner. We expect the companies we invest in to act in accordance with the UN Global Compact and to respect the rights of their employees, local communities, and other stakeholders.**



## Progress on human capital management

Building on the work carried out in 2022, in early 2023, we visited **Amazon's** warehouse in Germany. Our focus objectives for this engagement were for Amazon to demonstrate effective human capital management practices and effective two-way employee engagement. We were able to see how the measures that Amazon had initiated in the context of warehouse working conditions played out in practice. For instance, we saw how adjustments and automation in the work process had reduced the number of repetitive movements and (heavy) lifting, with parts moving automatically to the employee responsible for packing and processing them. We also saw how management is using feedback, collected, for example, through noticeboards and workers' council consultations.

In 2023, during both face to face and virtual meetings we continued to engage with **McDonald's** on the topic of labor standard violations. We have been monitoring progress on updating the Global Brands Standards and for re-occurrence of cases relating to harassment of female employees and child labor violations at the company's franchises. Our discussions focused on progress on human capital management but also covered other topics such as animal health and biodiversity. The company has confirmed that Department of Labor violations are completely unacceptable to them. McDonald's has informed us that they are reviewing how to best improve disclosure on compliance by franchises with their Global Brand Standards, which is one of the things we have been asking for. The company has also committed to providing annual updates to the OECD National Contact Point in the US.

*"Both companies have showed a willingness to take steps on employee welfare. Amazon has taken great strides in improving transparency on employee health and safety, including a dedicated annual report on this topic. At the same time, we have observed an improvement in the safety statistics reported by the company to government bodies. The company has moved from being a laggard to an average industry position in this area, which means there is still room for further improvement. McDonald's has been very responsive to our engagement with them on this topic. The situation is complex, due to the franchised nature of the McDonald's system. However, the company recognizes the need for action and the Global Brand Standards are the best tool to effect change."*

*Olivier van Hirtum, Strategy Lead Analysis & Engagement*

### PRI Advance – investor initiative to address human rights and social issues

APG participates in Advance, a stewardship initiative facilitated by PRI (Principles for Responsible Investment), where institutional investors collaborate to address human rights and social issues. Through this initiative, participating investors leverage their collective influence with companies and decision-makers to drive positive outcomes for workers, communities, and society at large. In 2023, four companies were selected for PRI Advance engagement. APG was lead engager for German multinational energy company, RWE AG, and also collaborated on engagement with the other three (First Quantum, Engie and CLP Holdings). First, we identified the issues to be prioritized for engagement together with other investors within the initiative.

The priority areas identified for **RWE** include human rights and supply chain policies, just transition, indigenous peoples, community engagement and human rights due diligence and management. In late 2023, RWE published its human rights policy statement in response to a joint letter citing the company's poor scores in the last World Benchmarking Alliance (WBA) assessment on human rights indicators. After RWE had shared an initial draft earlier in 2023, it became clear that the company was placing human rights higher on the agenda. This was also reflected in the company's decision to appoint a Human Rights Officer. However, despite these positive developments, the current human rights risk management (HRRM) system still focuses heavily on the supply chain (raw materials/manufacturing) and as yet there appears to be no comprehensive approach and commitment from senior management. These aspects give us grounds to continue our engagement. RWE is also expected to integrate the new German Supply Chain Due Diligence Act (SCDDA) in 2024 which will require, for example, documentation of how RWE fulfills its due diligence obligations.

### PLWF - A living wage is a fundamental human right

APG is an active member of the **Platform Living Wage Financials** (PLWF), a coalition of financial institutions that encourages companies to tackle the non-payment of a living wage in their own operations and in their supply chains. APG is involved in the Food & Agri and Food Retail working groups. An important focus for 2023 was the update of the assessment methodology, aiming to raise the bar in both sectors. For Food & Agri companies, it will no longer be sufficient to have a human rights policy in place, living wages and income must also be explicitly included. Under the updated methodology, most food and agriculture companies now fall into the embryonic and developing categories[3]. This means that these companies have either barely recognized the importance of living wage or do not have formal processes to tackle it with their own operations or supply chains. We also worked on drafting and implementing the engagement strategy for specific companies.

As lead investor, we were involved in assessing **Coca-Cola** using the revised, stricter methodology, which now only recognizes specific references to living income/living wages in policies. Coca-Cola remains in the developing phase.

3 PLWF has five categories based on where companies are perceived to be on their journey to implementing living wage. These are 'embryonic,' 'developing', 'maturing', 'advanced', and 'leading'.

Progress still needs to be made on purchasing practices and paying a living wage to their own employees. Furthermore, as is the case with many companies in the sector, there has not been much progress on establishing grievance mechanisms.

> *"Our work through the PLWF complements our one-on-one company dialogues. These highly focused engagements aim to tackle a systemic issue that requires a collective approach involving multiple stakeholders. It allows us to set clearly defined asks, mentor the companies and provide best practice examples. Although the PLWF's activities are bearing fruit, there is still a lot to be done. We hope the increasing awareness created by the Platform and its solid assessment methodology will help bring about a systemic change that can have a real-world impact on workers globally."*
>
> *Sethanyi Setati, Responsible Investment Specialist*



### Research report on civic space

In 2023, APG collaborated with four other financial institutions to explore methods for enhancing human rights risk assessment in countries where civic space is restricted. Countries with the poorest human rights records are usually those where it is a challenge to obtain credible information without jeopardizing the safety of human rights defenders. Filling in these gaps through collaborative attempts to devise methodologies and share data is vital. The research report – "No news is bad news" –provides valuable insights into how companies can bolster their assessment of human rights risks in regions where civil liberties are constrained. One key finding underscores the importance of engaging with potentially affected individuals or communities to swiftly identify and address human rights risks. Additionally, financial institutions can deepen their understanding of the local human rights landscape by exchanging knowledge with academics, representatives of civil society organizations and ESG data providers.

### Collaboration on methodology for screening human rights risk

Through collaboration with Shift, an expertise center on the UN Guiding Principles on Business and Human Rights, APG is refining its methodology to assess companies' performance on a wide range of human rights indicators, such as working hours and remuneration. This builds on the previous work APG has done as part of the Corporate Human Rights Benchmark (CHRB), now part of the World Benchmark Alliance (WBA). Shift has developed a method that identifies which human rights risks are relevant, based on a company's business model. These are 'red flags' that require extra attention. For example, a company whose business requires it to process a lot of personal data will generally have a higher risk of privacy violations. We have gone a step further and worked on establishing our expectations for companies to mitigate the identified risks.

### Developing criteria to manage human rights at technology companies

APG took part in a tech accountability consultation set up by Whistle Stop Capital in coordination with the NetGain Partnership and the Investor Alliance for Human Rights (IAHR). The aim was to develop a set of indicators to help investors understand and analyze the risks that technology companies pose to society and come up with a rationale to address these in their investment portfolios. Through interviews with a broad set of tech and human rights experts and investors, including APG, the project developed criteria outlined by two main pillars: Broad Accountability, which looks at a technology company's overarching ability to understand and manage human rights at the board and executive level, and Privacy, which looks at criteria specific to evaluate human rights practices and policies.

*"Technology companies' transparency on the human rights governance and remedies of harms of AI systems remains incredibly opaque. Consistent and standardized human rights disclosures are a prerequisite if we are to be able to evaluate these real-world risks in our investment process. This project seeks to tackle this challenge by identifying where attention to privacy and human rights may support long-term company value creation and benefit portfolio returns. Addressing these risks can also lead to better customer loyalty and branding, which is a positive driver for the business. While AI can offer benefits to society, there are real risks too and investors like APG need better consistent disclosure so we can effectively engage with corporates and evaluate them on performance."*

*Simone Andrews, Senior Responsible Investment Manager Fixed Income*

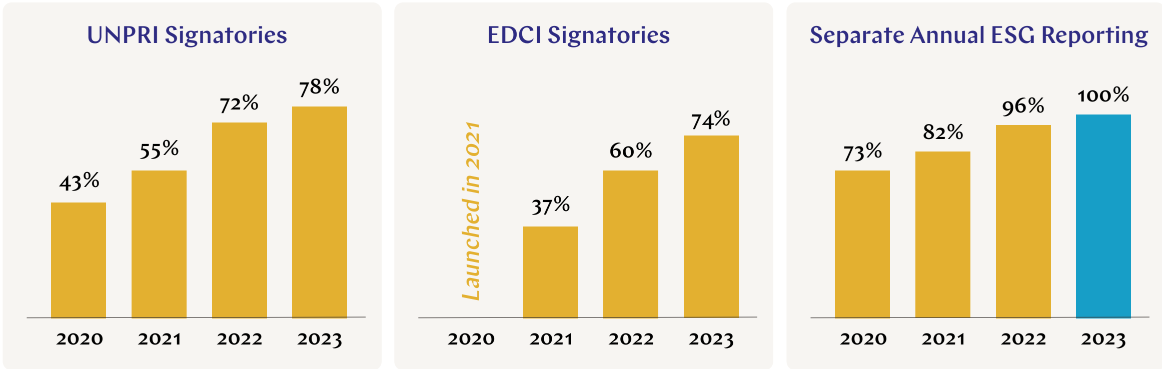
# Asset class: Private Equity

**APG's in-house Private Equity program was established in 2013 and since then we have established ourselves as a leader in responsible investing within the private equity industry, influencing manager ESG programs and industry standards.**

In 2023, we made further progress in encouraging our managers to align with recognized market initiatives and standards for ESG reporting. It was also a milestone year, with 100% of our managers now publishing dedicated ESG Annual Reports. Furthermore, more than 700 companies in our portfolio are reporting Scope 1 and 2 emissions, a significant increase from the handful of companies who were reporting just three years ago.

## Proactively influencing managers and the market

APG Private Equity endeavors to actively drive industry transformation and propel ESG best practices forward. We have a dynamic engagement strategy encompassing three key initiatives.




## Targeted ESG roundtables for existing and prospective GPs

For the past two years, we have been actively pursuing our ESG roundtable initiative. In 2023, we held three roundtables for our US, Asia, and European managers, organized by geography, so that we could focus the discussions on specific trends and themes. Furthermore, the roundtables provided a forum to communicate our clients' heightened expectations more widely on ESG and net zero. These collaborative sessions expanded dialogue with our relationship managers and facilitated direct peer-to-peer collaboration on how to achieve progress. Participants walked away with practical guidance on ESG best practice.

The final session in the series, planned in 2023, was our Impact webinar, held in June 2024. Over 150 representatives attended from impact funds that APG has previously engaged with. The presentation included a discussion of our definition of impact, reporting and co-investment expectations, and a preview of our clients' future priorities.

## Targeted ESG Roundtables

**Hosted 2023**

### Asia
December 5, 2023
8 Attending Firms
Themes: Strengthening ESG Maturity, Net Zero
Manager Speaker: CVC Asia, FountainVest

**Hosted 2023**

### U.S. Middle Market
December 6, 2023
29 Attending Firms
Themes: Emissions Reporting, SFDR Article 8
Manager Speaker: Frazier, New Mountain

**Prepared 2023**

### EU Middle Market
March 12, 2024
28 Attending Firms
Themes: Promoting Diversity, Net Zero
Manager Speaker: Cinven, Bregal

**Prepared 2023**

### Impact
June 20, 2024
28 Attending Firms
Themes: APG impact methodology and investment requirements for prospective managers

*"The collaborative sessions served as a platform to highlight ESG best practice and address shared challenges with managers. By tailoring discussions to regional contexts and investment universes, we were able to target our entire portfolio, and participants were able to engage in more focused and productive conversations, addressing ESG aspects unique to their respective markets."*

*Greg Jania, Global Co-Head of Private Equity*

### Steering the market through industry engagements

We take a proactive role in industry associations such as the ESG Data Convergence Initiative (EDCI), United Nations Principles for Responsible Investment (UNPRI), and Institutional Limited Partners Association (ILPA). Throughout 2023, senior members of the APG Private Equity team sat on the ILPA Board and the EDCI Steering Committee, steering for further ESG progress and advocating for our clients' priorities. Given the nature of PE investing, we believe it is important to engage the market to ensure tangible progress towards more sustainable investing for all managers, including our own.

## Intentional Guidance: Bespoke ESG Playbooks

As part of our rigorous underwriting process, we provide managers with a quantitative ESG score ranging from 1 to 100, accompanied by recommendations for improvement. This then forms the basis for our engagement activities. In the past, these recommendations were presented in a simplified format, but we have now replaced this tool with customized ESG playbooks for each manager in our portfolio.

*"This new initiative has received widespread praise from managers. It ensures transparent communication of APG's expectations, by clearly laying out our ESG evaluation approach and giving customized recommendations for improvement and practical guidance on how to implement these. Through peer comparisons we can give managers an idea of what they still need to do in the longer term to work towards best practice. These playbooks enable us to better steer ESG progress at both the portfolio company and manager level."*

*Keren Raz, Senior Responsible Investment Manager*

## Progress on implementing ESG recommendations

Funds advised by **Bregal Unternehmerkapital** (BU) invest in mid-sized companies across a wide range of sectors (software, industrial technology, business services, healthcare) in Germany, Switzerland, Italy and Austria. Since APG's first commitment to BU in 2021, APG has engaged frequently over the years, challenging BU to continue improving its ESG performance. BU has demonstrated its commitment to ESG by implementing all the recommendations that APG has put forward. This has led to an impressive 8.2-point improvement in the fund's ESG Assessment Tool score[4] from 64.7 to 72.9, just 2 percentage points away from Leader status.

In the context of diversity, equity and inclusion (DEI), BU has established a formal policy incorporating concrete targets at both the firm and portfolio level and has become an Institutional Limited Partners Association (ILPA) Diversity in Action signatory. With respect to climate initiatives, funds advised by BU have committed to Net Zero by 2050, with the goal of 100% of portfolio companies validated with science-based reduction targets by 2030. The manager expanded its ESG team members from one to five professionals and strengthened the deal team's ESG capacity with a dedicated ESG lead. Key ESG value creation initiatives include the manager's Sustainable Development Fund providing low-interest loans to several portfolio companies to contribute to their sustainability performance, as well as formally incorporating ESG value enhancements in the exit process. We will continue to engage with BU on ESG performance.

4. APG's proprietary ESG Assessment Tool enables us to compare performance, by scoring each manager across a range of ESG parameters. The scores range from 0-100, with managers that score 75+ classified as Leaders.

# Alternative Credit



## APG contributes to PRI report on RI practices in private debt

In 2023, PRI published the findings of its Private Debt Advisory Committee (PDAC) in a report **"ESG Incorporation in Direct Lending, a guide for private debt investors"**. This committee was set up in 2022 and includes representatives from large investors, including APG, and external managers active in the private credit space. The report shows how private debt ESG integration has rapidly grown in recent years, with more asset owners and managers incorporating sustainability criteria into their private debt investment practices. The report focuses on four key themes: improvements to ESG data, engagement and sustainability-linked loans, private lender and private equity sponsor collaboration, and climate-related risks and targets. APG was particularly focused on ensuring climate and net zero alignment were brought to the forefront of this document. In order to set further change in motion, the report includes a number of recommendations, including standardized ESG clauses in loan documents, formulating methods for consistent KPIs and incentives, developing a portfolio-wide climate change response, and actively supporting the standardization of data collection and monitoring of borrowers.

*"We have been successful in encouraging all our alternative credit external managers to become PRI signatories, which means complying with PRI's ESG integration standards. We are greatly encouraged to see the ongoing progress being made when it comes to incorporating ESG factors into investment processes for the private debt segment. The PRI PDAC aims to improve collaboration between investors and external managers on ESG implementation, monitoring and goals, to promote best practice and knowledge sharing, and find synergies with other industry bodies. It also promotes ESG integration as a means of reducing risk and driving positive ESG outcomes in private debt. Being part of this committee and contributing to this publication has enabled APG's Alternative Credits team to play a key role in helping advance ESG standards in private debt."*

*Marcin Lenart, Expert Portfolio Manager Alternative Credits and PDAC Member*

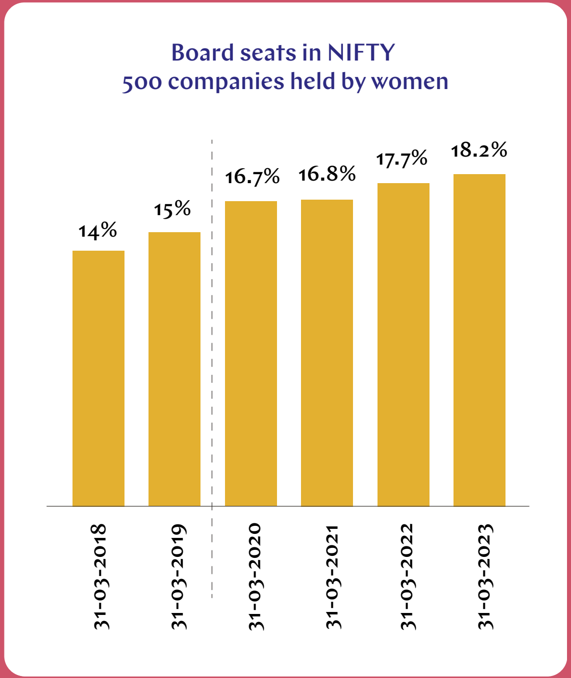
# Theme: Promoting good governance in India

**Corporate governance is the overarching structure that directs a company's corporate behavior. It is key to keep this aligned with shareholders' interests. In India, APG continues to promote our clients' ambitions on governance at individual companies, but also through collaborative efforts, engagement research and maintaining a dialogue with policymakers.**



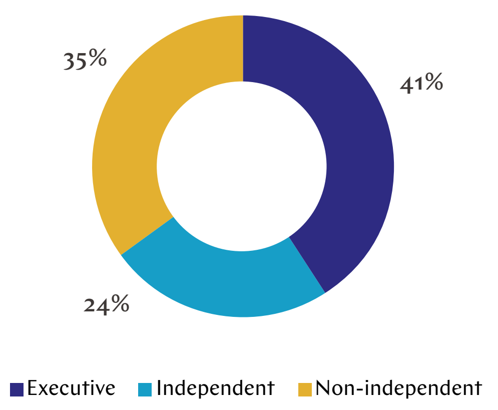
## Board independence and diversity in India

**Diversity:** This topic has always been a strong area of focus for our clients. There is enough empirical evidence to suggest that board diversity helps avoid insularity. In September 2023, APG RI experts conducted a joint study with local partners on board composition trends in India. When this report was published, our policies for emerging markets stated that boards must have at least two women or 20% gender diversity – this has since been raised to 30% in line with our expectations for developed markets. The study revealed that the average women representation on Indian boards is only 18%. In addition, after a few years of progress, diversity levels seem to have largely flatlined since 2020.

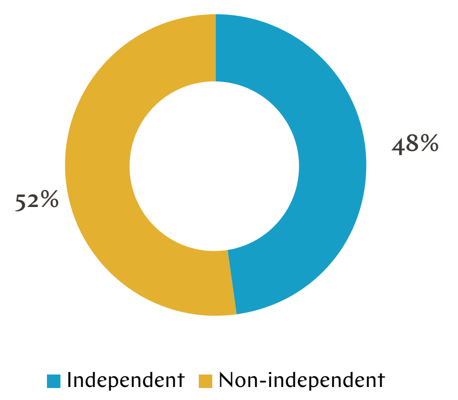



**Independence:** We believe the roles of the CEO and board chair should be separate – despite this now being a voluntary requirement in the market. The functions require distinctly different skills and qualifications, and a combination of the roles can lead to undesirable concentration of power. The study showed that 200 companies in the NIFTY 500 continue to be led by an executive board chair – in such cases, our approach is to, where possible, engage and/or withhold support from the chair re-elections. We believe all boards in India should have majority independent directors, irrespective of the independence status of the board chair. This is particularly important, given the high family ownership and control structures prevalent in the country. The increasing level of board independence identified by the study (currently 52%) is positive, but more urgency is required on rotating tenured directors (those with a tenure of greater than 10 years).

Chairperson classification in NIFTY 500




Average Board Independence




*"For the most part, the current board structures of NIFTY 500 seem to be fairly robust, at least when compared to other emerging markets. A strong regulatory push and the need to access global capital pools have played an important role in this transition. But given the size, scale, and growth ambition, Indian companies need to aim higher and benchmark themselves against the more developed capital markets around the world. Rather than being driven by regulatory edicts, boards need to accept and operate on the principle that board independence and diversity are important for long-term value creation, and therefore must be embraced"*

*Debanik Basu, Head of Responsible Investment and Stewardship APG APAC and Chair of the India Work Group of the Asian Corporate Governance Association*

## India Regulatory Engagement

In 2023, we continued to engage with the Securities & Exchange Board of India (SEBI) to outline some of our observations and suggestions on governance trends in India.

The discussions focused on the following aspects:

- **Executive remuneration** – controlling shareholders are approving their own pay structures, leading to excessive payouts in some cases
- **Royalty payouts** – lack of monetary thresholds on the size of royalty and brand payments, with clear conflicts of interest, are excluding minority shareholders from the approval process
- **Shareholder rights** – shareholding requirement of 10% to propose agenda items is too high, even when compared to other emerging markets, and needs to be reduced

SEBI agreed to look into our concerns and do further investigation on these aspects.

## Varun Beverages

APG's ongoing engagement with the India-based drinks manufacturer and distributor Varun Beverages focuses on addressing potential risks related to the company's sustainability practices. A highlight of this engagement is Varun Beverages' improvement in good governance. Last year, we engaged extensively on the topic of board independence, as the company lagged both our and market expectations. Another concern was Varun Beverages' long-term relationship with its audit firm, which may compromise the objectivity, quality and independence of the audit. The company agreed to remove cross-directorships and rotate conflicted independent directors to improve board independence. Varun Beverages also confirmed that it will appoint joint auditors and avoid engaging the same firm for both audit and consulting services going forward. Executive pay remains a focus area of our engagement with the company, as it is reviewing the feasibility of tying executive compensation to ESG goals.



### Lemon Tree

APG has had a long history of engagement with the midsize hotel chain Lemon Tree. Last year, our engagement focused on the need to increase board diversity. At the time, only 10% of Lemon Tree's board were women. We held multiple meetings with the board and the Nomination Committee to highlight the need for greater women representation on the board and discussed their plans for improving board diversity. We also voted against the re-election of some board directors, as the company did not meet the gender diversity threshold prescribed in APG's voting guidelines. Subsequently, these directors had to step down.

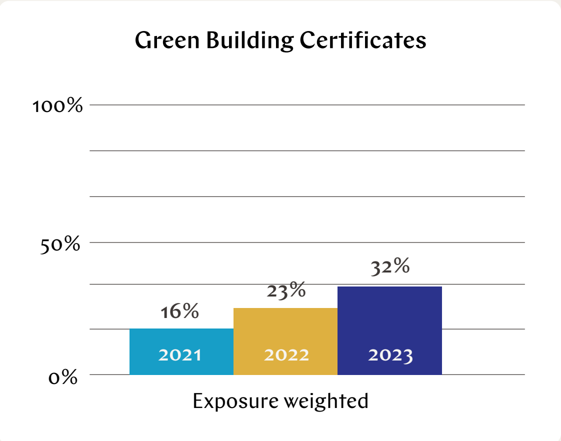
*"We believe our dissent votes helped create some momentum. The hotel chain made substantial progress last year: it articulated a policy on board diversity – not many Indian companies have one. For the first time, the company publicly recognized the value of having a diverse board; it committed to have at least 20% women directors on its board by the end of 2023 and raise this threshold to 30% by the end of 2024. Following the appointment of an additional woman independent director in the last quarter of 2023, Lemon Tree's board gender diversity now stands at 20%. We will continue our dialogue on increasing this further and achieving the stated ambition of 30% board diversity, alongside our continued engagement on the separation of the roles of CEO and Chair."*

*Dominic Doran, Director Private Real Estate APAC*

# Asset class: Real estate

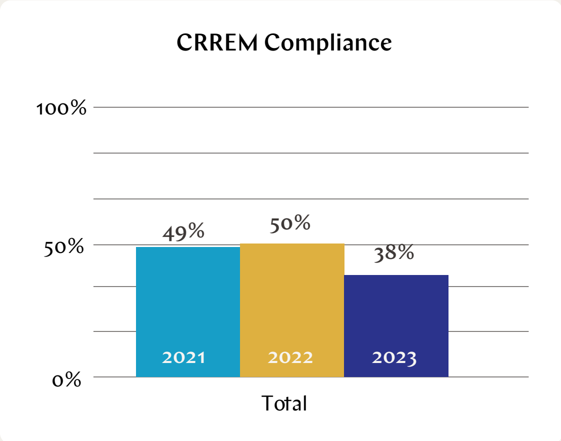
**The building and real estate sectors account for 30 to 40% of global carbon emissions. Curbing carbon emissions in real estate will therefore contribute significantly to the Paris climate goals. APG is a large investor in both private and listed real estate.**

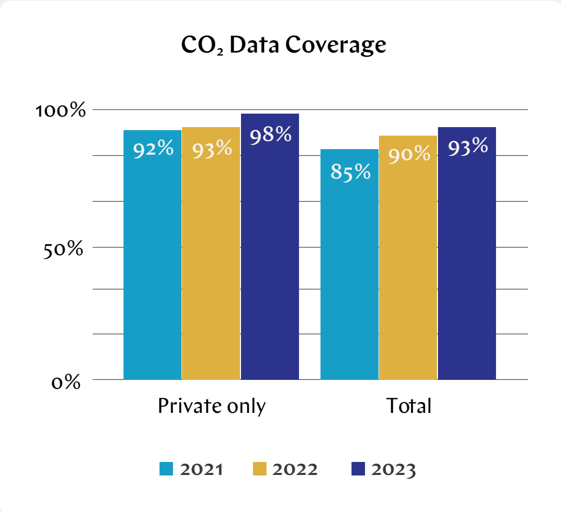
Our climate engagement objectives focus on enhanced disclosures on the robustness of companies' climate strategies, implementation of a strong governance framework for climate change and sustainability, development of science-based transition pathways and promotion of standardized green building certifications.




## Carbon Risk Real Estate Monitor (CRREM)

We encourage the sector to reduce its carbon emissions and manage progress against science-based 1.5°C targets, such as the Carbon Risk Real Estate Monitor (CRREM) pathways. CRREM pathways allow the industry to set targets aligned with requirements of the Paris Agreement to limit global warming to 2°C or better 1.5°C by 2050 and effectively measure the transitional risk of climate change for individual assets and portfolios. We expect each new real estate investment to commit to the CRREM pathways. The reasons why the CRREM Compliance percentage of our real-estate investments shows a decline in 2023 can be attributed to several factors. The most important of these is the periodic review of the pathways, making them more stringent and more difficult to comply with. But the time lag between a company's commitment to CRREM, actual implementation and concrete results also plays a role.



In 2023, APG was a key contributor to the CRREM North America Project Team, a partnership between CRREM, ULI (Urban Land Institute), and the Lawrence Berkeley National Lab (LBNL) aimed at creating more granular curves for the US and Canada. Along with other real estate industry stakeholders, APG provided feedback on proposed methodology changes through working group sessions. Such updates to the methodology will ensure more accurate assessments going forward, enabling more targeted reduction initiatives across the portfolio. APG also participated in the SBTi Expert Advisory Group for Buildings which has resulted in the adoption of CRREM pathways in the SBTi criteria for buildings. APG also plays an active role in the governance of CRREM as one of the funders along with PGGM, NBIM and the Laudes Foundation.

*"The CRREM tool allows us to measure to what extent our global portfolio is aligned with a 1.5 degree scenario. It will also inform our investment decisions going forward and it is used as an engagement tool. We encourage all investment managers, listed real estate companies but also green certification schemes to use these pathways as the common language to measure Paris Alignment. This is also the reason we have decided to fund the development of these pathways outside Europe and to also include non-commercial real estate."*

*Derk Welling, Senior Portfolio Manager Responsible Investments Real Estate and member of CRREM Steering Group*

## Global Real Estate Engagement Network (GREEN)

In 2023, APG continued to be an active member of the Global Real Estate Engagement Network (GREEN), driving conversations on climate risk management during NYC's REIT week. Such participation enables more focused engagement within our portfolio and the industry at large. Through the power of coalition, the institutional investors – with combined assets under management of € 2 trillion – aim to steer real estate companies to strive to achieve the goals of the Paris Agreement, reduce their exposure to climate risk and improve their overall sustainability performance.

## Dutch Social Impact Real Estate Partnership – creating affordable housing

In a partnership managed by Bouwinvest, in 2023, our pension fund clients ABP (€250 million) and bpfBOUW (€150 million) established a partnership to bolster affordable housing options in the Netherlands, specifically targeting the social and low-middle rental segments. Bouwinvest also joined GREEN in 2023.

## Engagement on remuneration and board independence

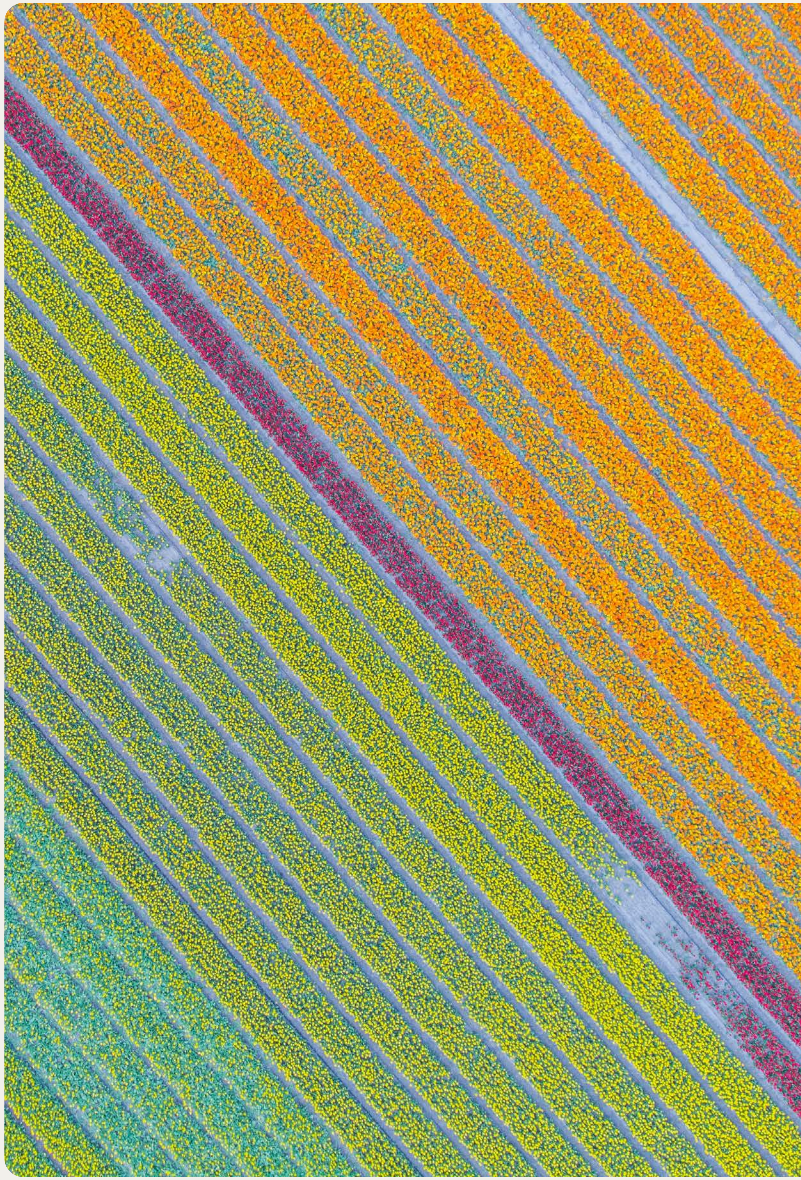
APG has engaged with the largest Real Estate Investment Trust in Asia, **Link REIT**, for a number of years on governance-related topics like CEO remuneration and on the re-elections of remuneration committee members and chair. In 2023 the CEO's pay was raised by almost 1.5x, despite disappointing financial performance. We urged Link REIT to formulate effective compensation schemes which establish incentives to create long-term corporate value and protect shareholders' interests. We also asked them to improve transparency about the pay structure with more detail on the KPIs to give clarity and ensure that efforts are focused on activities that contribute to the organization's success. We voiced our concerns at last year's AGM which prompted the REIT to take action.

We had several meetings with senior management and independent directors, and shared our recommendations, including best practice quantitative KPIs and disclosures. Although we still need to maintain our dialogue, our concerns on remuneration have been raised internally and are being discussed in the context of a new remuneration system.

We have also engaged with **ESR Group Limited**, a large real asset manager in APAC, on governance-related topics for an extended period. We have concerns about the independence of the board's chair: he also holds a position at a private equity firm in a business that is in direct competition with ESR, creating a potential conflict of interest. Furthermore, the company's co-CEO structure creates the potential for power struggles within the leadership team, which may undermine unity within the organization and lead to conflicting priorities. As progress on these topics was slow, in a public statement, we raised our concerns at last year's annual general meeting, which helped to create momentum also with peer investors. Soon after the AGM, we met with ESR's nomination committee and shared our views and indicated that we would expect actions from the board over the next six months. ESR acknowledged the need to improve and later invited us to suggest suitable independent director candidates. There is still more work to be done, but this was an important first step.

*"Since over a third of global energy-related carbon emissions can be attributed to the built environment, engagement efforts in the real estate sector often focus on environmental aspects. But the topic of corporate governance should not be overlooked as these two examples show. If solid governance and remuneration structures are in place, we can be more confident that policies will be implemented that support a broader sustainability agenda, uphold shareholders' long-term interests and mitigating ESG risk. We will continue to engage with Link REIT and ESR to follow up on the points raised and the action taken on these."*

*Wai Yin Wong, Responsible Investment Expert*



# Exercising our shareholder rights



**On behalf of our clients, APG actively exercises its rights as a shareholder, voting at thousands of shareholders' meetings every year for the companies in which we invest.**

Exercising voting rights forms a key part of our stewardship activities. Voting is an important link in the chain of accountability between a company and its shareholders. The right to vote is also a fundamental part of a well-functioning corporate governance system in public markets.

**In 2023, we voted at 5,538 company's shareholder meetings and on 58,363 proposals and resolutions**

APG's voting decisions are based on expectations set out in our Global Corporate Governance Framework and in our clients' voting policies. These explain underlying corporate governance principles, how we meet our responsibilities as an investor on behalf of our clients, and how we decide what to vote on the main agenda items at companies' annual general shareholders' meetings.

## Policy-driven and nuanced approach

Our voting decisions reflect each individual client's specific voting policy requirements and developments resulting from our engagement activities with individual companies. Our clients' voting policies are regularly reviewed in the light of in the light of their specific ESG priorities and regulatory and market developments. Within this framework, APG also looks at the specific context and market in which a company operates. For companies in which APG holds large stakes, where special attention is required, or in cases where a significant allocation of capital is involved, we may consult with the company, investors and other stakeholders ahead of the AGM. When voting in markets where we use external managers, we may also use their input to help inform our vote.

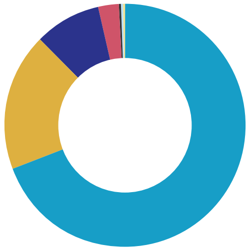
## Proxy voting process

APG uses an electronic proxy voting platform. This enables us to monitor upcoming annual and extraordinary shareholder meetings, assess agendas and make timely and well-considered voting decisions based on our clients' voting policies. It also helps us to oversee and manage voting at a large number

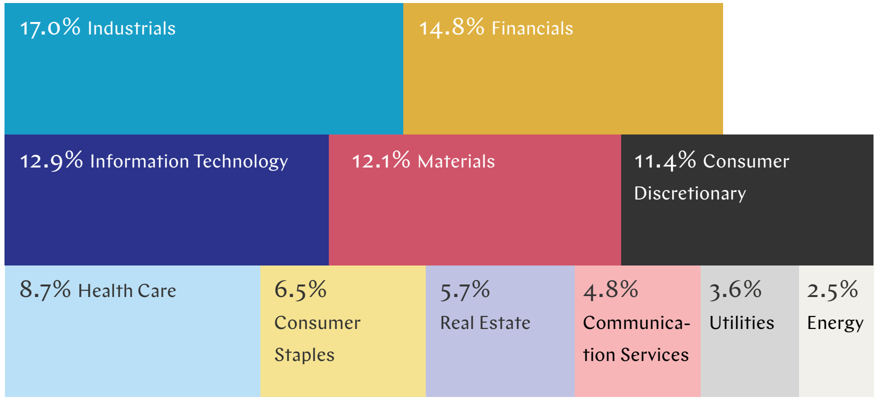
# Voting numbers for 2023*

## Meetings by Meeting Type

With 5,538 distinct company meetings available to vote, 5,434 were voted, leaving 104 unvoted.

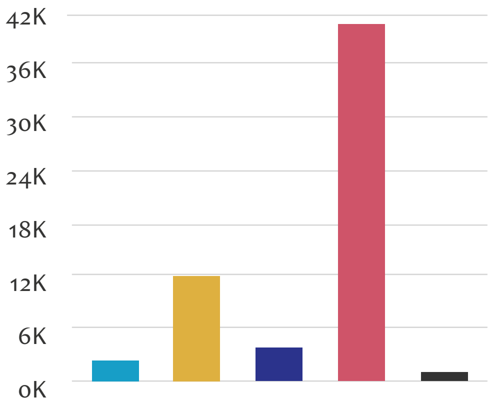



## Meetings by Sector

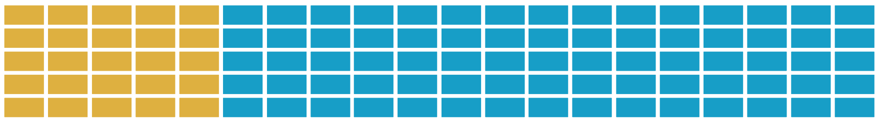



## Voting Statistics

Across 58,363 unique proposals available to vote, we voted 56,718 for which 174 proposals were voted in varying ways for the same meeting agenda item.




## Alignment with Management




* The 2023 numbers from our VDS platform are indicative and have not been audited. They should not be used for drawing conclusions on our voting behavior and efforts. Data extracted on 16/08/2023

of companies. Research from our proxy service provider and a number of other research providers can serve as additional input for our voting decisions.

### Website voting disclosure

Our clients disclose their voting activity and APG reports on how we have voted on our website. We believe that it is important to be transparent about how we exercise our voting rights on behalf of our clients and so details per company and statistics on how we voted on specific agenda items are accessible via the website.

We consider good corporate governance to be a prerequisite for companies to operate responsibly. This is why we ensure we always exercise our voting rights on standard AGM governance items such as board appointments and remuneration.

### Voting on directors

When voting on the appointment or reappointment of directors, we look at whether the board is balanced and diverse, and whether the majority of non-executive directors are independent. We expect directors to have the right knowledge, experience, and skills. The composition and performance of the board and its individual members should be evaluated regularly. In larger companies, especially those in sectors with a substantial societal or environmental impact, we expect the board to have a director responsible for sustainability issues.

**We voted on 20,807 nomination proposals, voting in favor in 69% of the cases**

### Voting on remuneration

We expect the companies we invest in to clearly show in their annual report how directors' remuneration is determined, what the targets are, and what performance must be achieved before any remuneration or bonus is paid. It is also important that incentive plans and remuneration are linked to relevant aspects of ESG performance.

**We voted on 2,056 remuneration proposals. We voted against 48% of the proposals and in favor of 50%.**

### Board diversity

We require companies to consider board diversity when appointing directors. This includes, for example, a balanced mix of gender, ethnicity, education, personality, and age. We voted against or withheld votes from incumbent nominating committee members if the board lacked at least one female director, and if the board was not at least 30% diverse in terms of gender (for emerging markets this figure was 20%). For companies with no formal nominating committee, we also voted against or withheld votes from the entire board of directors except new nominees.

### Remuneration and board diversity in Australia

During the main voting season in Australia from October to November, our voting highlighted two key issues – remuneration and board diversity.

We voted against remuneration reports at 20 Australian companies. The companies were mostly large caps and included Insurance Australia Group, Quantas, Woolworths Group and Dexus. In most cases, the negative vote was linked to a mismatch between compensation and business performance. In the case of Dexus, for example, 2023 remuneration was well above business performance and there was a plan to adjust the scheme to provide more incentives for executives. We shared our concerns that the long-term incentives are mainly based on non-financial performance. Around 30% of investors voted against the report and we expect this to encourage Dexus to incorporate a more transparent and reasonable remuneration scheme in 2024.

We also voted against the nomination committee member elections at 25 companies. These were mainly listed real estate companies with insufficiently diverse boards. In general, Australian companies have already made good progress on gender diversity (35-40%), fulfilling our requirement of 30%+ gender diversity, while a number have also been improving their board ethnic diversity.

# Strengthened client voting policies in 2023

**All four asset management clients enhanced their tailored voting policies in 2023. These enhancements focus on four themes: climate, biodiversity, human rights and tax.**

## Climate



One of the main areas where the climate voting policy has become stricter is emissions disclosures. Companies with a high climate impact – for example, in the mining, steel and transport sectors – are now required to report on Scope 1 and 2 emissions and, in the case of ABP, also on Scope 3. ABP also requires all other companies to disclose at least Scope 1 and 2 emissions. If this disclosure is absent, APG will vote against the Chair of the Board[5]. Furthermore, all our clients want to encourage the integration of climate metrics into executive remuneration. If companies in high-emitting sectors do not do this, we will also oppose the executive remuneration policy.

## Biodiversity

ABP has also enhanced its voting policy for biodiversity. We will vote against the reappointment of the Supervisory Board Chair at companies deemed to be in a high-risk sector for biodiversity that do not have effective policies in place to conserve biodiversity and mitigate negative effects. Examples of sectors that pose a high risk are those with links to deforestation (meat, animal feed, palm oil, cocoa etc.), animal welfare (including animal testing) and the metals and mining industry.

## Human Rights

The human rights voting policy focuses on companies with insufficient human rights due diligence mechanisms. To help us assess whether companies meet our expectations where available, we use data from the Corporate Human Rights Benchmark (CHRB) (now part of the World Benchmarking Alliance (WBA)), which APG co-founded in 2017. This benchmark assesses the extent to which a company has systems and processes in place to implement its human rights policy. For all our clients, where companies lack effective human rights due diligence, as expressed by a score of 0 or 1 for this area on the Corporate Human Rights Benchmark for three years, we will oppose the Chair of the Board. For example, in the 2023 voting season, we opposed the election of the Chair at Apple and Starbucks as both companies are deemed to lack adequate due diligence measures in the context of the CHRB.

## Tax

Where companies are deemed to not be operating in line with our clients' responsible tax expectations, using our proprietary scoring system, we will vote against the Chief Financial

5. Board structures vary across different markets. Broadly APG opposes the Chair of Supervisory/Non-Executive Boards in a two-tier/dual structure system and the Board Chair in a one-tier/unitary structure.

Officer (CFO) or the Chair or members of the Audit Committee. We have developed a proprietary system to identify companies that are non-compliant with our clients' tax expectations. For example, companies that do not disclose their tax strategy or do not have an adequate effective tax rate. We saw a 15-20 percent increase in the director elections that we opposed in 2023 on the basis of tax-related issues.

## Voting against the chair as key tool to push for change

*"Voting against the chair is really a means to escalate and to make a statement on topics where there is no opportunity to vote more directly, for example, on the themes that our clients prioritize. From our perspective, the responsibility ultimately lies with the chair. This approach is key as it provides us with a tool to encourage improvement on topics that lie beyond the scope of the typical AGM agenda. In future, this approach may be expanded so that if the chair isn't up for election, we use other standard agenda items, like financial statements, which are routinely put to a vote, to leverage our influence and help push for changes in company practices."*

*Tara-Jane Fraser, Senior Portfolio Manager Responsible Investment Equities*

# Voting highlights and shareholder proposals

**We vote on all shareholder proposals and support those that we consider to be in the interests of the company and its shareholders. In general, APG supports resolutions that seek to generate greater transparency and accountability when we deem this to be reasonable and practical and especially in cases where problems have arisen, suggesting risks are not adequately managed.**

To further support our clients' climate ambitions, where possible, we supported climate shareholder resolutions in 2023 and exclusively voted in favor of climate strategies that included concrete goals. For example, we supported shareholder proposals asking for disclosure of climate transition plans that include efforts to align financing activities with greenhouse gas emissions at a number of banks including Bank of America, Wells Fargo, Goldman Sachs and JPMorgan.

We co-filed two significant climate-related shareholder proposals at Engie and Toyota.

### Engie

APG's pension fund clients want to focus their voting and engagement efforts on bulk users of fossil fuels. Utility company Engie is a good example. Together with a group of 15 investors from Belgium, France and the Netherlands, we co-filed a shareholder proposal at Engie. The proposal requested that Engie amend its articles of association to include a 'Say on Climate' vote, giving investors a consultative vote on Engie's climate strategy every three years and its implementation progress every year. The group also requested that the company publishes and discusses, several key indicators at the AGM that would allow investors to better assess the company's climate strategy alignment to 1.5°C.

*"Although we did not get the 66% vote required for the resolution to be adopted, we were still able to garner 24% shareholder approval, which amounts to 44% of private votes if you exclude the French government. For comparison, in 2023 investor support for climate resolutions averaged only 14%. This makes ours one of the most successful climate shareholder proposals of the season. Additionally, prior to the AGM, the group held talks with Engie's board, and we managed to get a commitment on several of our disclosure-related asks. We are happy that the board was willing to have intense discussions with us and were open to some suggestions for improvement."*

*Asimwe Ruganyoisa, Manager Responsible Investment Strategy & Partnerships*

### Toyota Motor

Together with two other asset managers, APG filed a shareholder resolution for Toyota. APG and co-filers had been intensively engaging with Toyota in the preceding three years but were unable to find common ground on the topic of climate-related lobbying activities. According to independent thinktank InfluenceMap (funded by CA100+), despite improved transparency, Toyota and its industry associations continued their lobbying activities against the Paris Agreement in several countries. The aim of this proposal was to urge the company to improve disclosure of its lobbying activities, reduce climate change associated risks and demonstrate industry leadership in support of the Paris Agreement's goals.

We met almost 100 institutional investors, many of whom publicly pre-declared their support for the resolution. Given the two-thirds majority requirement, we were not surprised that the proposal was not passed, also because 50% of the shares are owned by the company itself or cross-holding companies. However, the resolution was backed by 15% of votes. As a result, under the terms of the Japan Corporate Governance Code, we expect the board to provide improved disclosure to address the issues that we raised.

> *"In a broader sense the proposal aimed to protect long-term shareholder value and mitigate reputational risk, by supporting the long-term sustainability of Toyota's business. As Toyota Motor plays such a pivotal role in Japanese industry and hence the country's economy, we believe this resolution was also a wake-up call for all Japanese companies in terms of their progress on decarbonization."*
>
> *Sara Lee, Director, Responsible Investment & Stewardship*

### Japan: Trying to remove obstacles for foreign asset managers to attend AGMs

As a result of Toyota declining APG's request to attend its AGM, we met regulators and local lawyers to explore how foreign asset managers can attend as shareholders rather than observers. Japanese companies allege that asset managers are not legal shareholders as the shares are deposited with custodians. We specifically asked for rule changes which will allow foreign asset managers to exercise shareholder rights on behalf of beneficial owners. Given that Japanese regulators are also keen on improving corporate governance and responsible investing activities, we will continue to engage with them on this.

### KT Corp – tackling crossholdings in Korea

In Korea, treasury shares (repurchased shares held by the company) are a major investor concern as companies often use them to minimize the impact of minority shareholders. KT Corp used accumulated treasury shares to create cross-shareholdings to strengthen its own position. APG filed a shareholder proposal requesting (i) clearer explanation of the reason for not cancelling treasury shares and (ii) board approval for the creation of crossholdings using treasury shares. These suggestions were accepted and tabled on the company agenda, subsequently receiving more than a two-thirds approval at the AGM.

> *"This success set an important precedent for the Korean market. It was the first successful shareholder proposal that was filed regarding treasury shares, sending a strong signal to issuers on their capital management. As such, it has helped curb the rising trend among large companies to create cross-shareholdings."*
>
> *YK Park, Head of Responsible Investment & Governance Asia Pacific*



**Stellantis – special voting shares**
We co-filed a shareholder proposal prior to the AGM of Stellantis to cancel special voting shares which would boost the voting rights of the top three shareholders from 27% to 43% in 2024. We co-filed with 12 other shareholders, but unfortunately failed to achieve the ownership threshold of 3% required in the Netherlands for a proposal to make it onto the AGM agenda. As part of the filing process, we sent a letter to the Chair and the Senior Independent Director outlining our concerns, and we plan to use this as the basis for a further dialogue.

**Starbucks – collective bargaining**
We supported a shareholder proposal to enable third-party assessment of Starbucks' collective bargaining policies and additional proposals to create a Sustainability Committee and on the company's approach to succession planning. The proposal on collective bargaining was supported by 52.03% of shareholders and so the company will have to act on it.

**Hammerson – supporting the board**
APG joined other large investors to back Hammerson's board in the wake of resolutions put forward by Lighthouse (an investment vehicle owned by a former director that holds around 23% of the company's shares) to appoint two new board members because it was dissatisfied with the company's strategy. APG pre-disclosed its intention to support Hammerson's board and, as a key shareholder, this vote played a crucial role in defeating Lighthouse's two resolutions. Although the company faces challenges, APG is confident that the current management is working to address these and chose to support the board of directors to continue in their roles.

**Philips – vote of no confidence**
APG joined other shareholders to vote against the discharge of the collective members of the Philips management board. This meant we were not prepared to release the directors from their liability for the policy pursued during the financial year. Voting against this often fairly standard item on the agenda reflected our lack of confidence in the company's management and its response to the significant reputational and financial damage the company and shareholders have suffered as a result of product recalls and the inadequate management response.

**Tesla – director independence**
APG joined other shareholders and voted in favor of co-founder and former CTO JB Straubel returning to the company as an independent director. Although we believed his presence would make the board stronger from a technical, skills and experience perspective, there were some concerns about his independence. APG will continue to monitor this closely but believes that he would be a great asset for the Tesla board.