

# Summary of Exclusion Approach (Corporate and Sovereign)

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**Approved by** APG AM Investment Committee (APG AM IC)

**Owner** APG AM IC

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## Summary of Exclusion approach (corporate and sovereign)

As a fiduciary manager for Dutch pension funds whose goal is to allow their beneficiaries to rely on a good income upon retirement and enjoy that income in a sustainable world, all our investment processes are geared towards ensuring they can deliver on this objective. Our fully integrated Responsible Investment Approach encompasses a comprehensive approach towards making a material positive social, economic and environmental contribution in the real economy by investing responsibly for the long-term.

The specific and varying characteristics of the diversified portfolio of assets we invest in on behalf of our clients require a clear overarching as well as customized approach to integrating responsible investing objectives per asset class. Thereby we can ensure that they all contribute to the fullest extent possible to the overall objective of the Responsible Investment Approach.

This document describes how we implement exclusions across the Alternative Investment Funds that APG AM manages ('APG Pools') and how they are applied<sup>1</sup> and maintained. We note that in addition to the APG Pools, APG AM also manages client assets on an individual basis in Segregated Accounts. The specific exclusion policies of our clients apply to these Segregated Accounts, which could deviate from the exclusions described in this document.

### Corporate Exclusion

APG AM, on behalf of its clients, does not invest in companies involved in:

- Controversial weapons

We do not invest in companies that are involved in the production, sale or distribution of cluster munitions, anti-personnel mines, nuclear, chemical or biological weapons. We define involvement as production, sale and/or distribution of the core weapon system, or components/services of the core weapon system that are considered tailor made (or dedicated) for the weapon or weapons system and essential (key) for the lethal use of the weapons. Regarding nuclear weapons, we exclude companies involved in the production, development, sale and/or distribution of the core weapon system. We also consider companies a) involved in the production, development, sale and/or distribution, b) deriving revenues from components or services that are considered tailor-made (or dedicated) for the weapon or weapon system and components or services that are considered essential (key) for the lethal use of the weapon or weapon system.

- Tobacco production

APG AM does not invest in companies involved in the production of tobacco. We define involvement as companies that derive revenues from the production of tobacco products. This relates to companies engaged in manufacturing and producing tobacco products such as cigars, cigarettes, e-cigarettes, beedi, kretek, smokeless tobacco, reconstituted tobacco leaf, snuff, snus, and chewing tobacco. It also includes companies that grow or process raw tobacco leaves.

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<sup>1</sup> These exclusions are implemented across all the relevant asset classes within APG Pools, both in internal and external strategies.

- Indirect involvement

APG AM also does not invest in companies which are indirectly involved through corporate ownership in excluded companies, if:

- a) the company has a stake of more than 20% in an entity that is directly involved in the production, development, sale or distribution of prohibited weapons; or
- b) more than 50% of the company's capital is held by an entity that is directly involved in the production, development, sale or distribution of prohibited weapons. If the boards of the former and the latter are near-identical, and/ or the parent entity is not listed, a lower threshold of 20% applies.

### **Sovereign Bond Exclusions**

In addition to the exclusions applicable to corporates, on behalf of our clients invested in APG Pools, we exclude bonds issued by countries that are subject to an arms embargo by the UN Security Council<sup>2</sup> and/or European Union, or countries that are among lowest ranked on the perceived extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Regarding EU arms embargoes we refer to binding arms embargoes that are based on an EU Council Decision<sup>3</sup>. All bonds from sovereign, sub-sovereign and 100% state-owned issuers are in scope of these exclusions.

### **Governance of the Exclusion implementation**

The APG AM Investment Committee (IC) approves the overarching implementation approach. The Exclusion list of corporates and sovereign bonds is updated bi-annually, per December 1st and June 1st. The APG AM Responsible Investment Execution team reviews corporate involvement assessments from external research providers as well as primary sources for UN and EU arms embargoes and, based on its proprietary analysis, recommends any necessary changes to the list. Based on this proposal the APG AM IC decides on any changes to the Exclusion list to allow for internal APG AM decision making and adequate ability to sell. Upon approval, the Exclusion list is formally communicated by the Chair of the Investment Committee to the organization. Relevant benchmarks are subsequently updated per December and June.

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<sup>2</sup> [Sanctions | United Nations Security Council](#)

<sup>3</sup> [European Union sanctions | EEAS Website \(europa.eu\)](#)