APG's Guidelines for Green, Social, and Sustainable Bonds

Introduction

APG is a leading long-term responsible investor for Dutch Pension Funds. This means we want to invest in activities that contribute to a good pension which can be enjoyed in a livable world. We aim to steer our clients' portfolios towards Net Zero emissions by 2050 or sooner and to make impactful investments in the real-world economy. Investing in green, social, and sustainable use of proceeds bonds (hereafter: green and social bonds[1]) helps us achieve our clients' sustainability objectives.

In this document we set out our expectations[2] of green and social bond issuers to ensure these bonds are structured to achieve our clients' responsible investment ambitions, thus promoting the market's credibility and scalability. When considering making an investment in a green or social bond, we assess and monitor the following criteria:

- **Issuer's Sustainability Profile & Strategy:** Adhere to our clients' minimum set of sustainable and responsible investment criteria. Additionally, we encourage issuers to disclose how the issuance supports the issuer's broader transition or sustainability strategy.
- **Creation of Real-World Impact:** Contribute to achieving the 17 UN SDGs based on the Sustainable Development Investment Asset Owner Platform (SDI AOP) taxonomy and guidance, and/or align with the EU Taxonomy.
- **Alignment with Internationally Recognized Market Standards:** Align with internationally recognized green and social bond principles and standards.
- **Strength of Issuer's Green and Social Framework:** Proceeds should be allocated to forward-looking spend, with majority of the capital deployed to CapEx spend.
- **Clear & Timely Reporting Disclosure:** Preference for pre-allocation disclosure and annual post-allocation impact reporting at the bond and/or project level.

The guidelines apply to green and social bonds that are issued by sovereign, government-related (supranational, sub sovereign & agency), securitized, and corporate entities. We provide guidance on sustainability-linked bonds[3] in a separate document. Our guidelines may not always match current standards and regulations. In many cases, we use a stricter approach because we prioritize our clients' ambitious sustainability criteria while leveraging our own internal expertise and deep market understanding.

For APG to consider investing in a green or social bond, the issuance must meet the criteria in our internal assessment framework. Our assessment is binary: a green or social bond either does or does not meet our standards. We do not consider gradient scorecards that rank the "greenness" of issuance to be of great value. The assessment framework also tracks issuers that

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[1] Green bonds are debt securities issued by companies, governments or government-related entities to finance or partly refinance environmental sustainability projects. The main characteristic of a green bond is its use-of- proceeds structure where the funds raised by the bond are earmarked for specific projects that can be clearly quantified and assessed such as renewable energy and clean transportation.

[2] The guidelines also apply to other alternative labels, such as SDG bonds and Transition bonds.

[3] See 2021_APG Guidance on Sustainability Linked Bonds

require follow-up and post-issuance analysis of the allocation of proceeds and/or impact metrics. These guidelines serve as a starting point for our baseline expectations, and we encourage further discussion with our external partners.

Guidelines on Best Practices for Green and Social Bonds

1. Issuer's Sustainability Profile & Strategy

As the first step of any potential green and social bond investment, APG evaluates to what degree each issuer operates sustainably and responsibly alongside considerations of risk, return, and cost in a portfolio context. Our pension fund clients regularly refine their criteria for responsible investments to reflect their ambitions and focus areas. As a result, we continually tighten our minimum set of sustainability criteria for all issuers, raising our expectations on the way to ensure the environment, labor, and human rights are respected. All green and social bond issuers must meet these minimum set of social and environmental norms defined by our clients. We will also not invest in green and social bonds that feature on our clients' exclusion list.

ESG Considerations for Corporate Issuers

If a corporate issuer no longer fits the minimum expectations or is involved in major controversies, we cannot invest in their green or social bond. This includes companies that have certain product related involvement (e.g. operates within the fossil fuel chain), are involved in severe controversies, or fail on good governance practices.

ESG Considerations for Sovereign Issuers

We will not invest in green or social bonds from sovereign issuers that fall below our clients' minimum ESG thresholds specific for sovereign issuers. We assess a country's performance on climate transition risk and most notably to the extent that climate policy action and commitment to the Paris agreement is aligned with potential green bond issuance. Other labelled bonds we will screen for alignment between use-of-proceeds and government (in)action.

After assessing if a green or social bond issuer meets our minimum responsible investment criteria, we take an issuer-centric approach to ensure the issuer is materially improving from a sustainability perspective. The green and social bond issuance should broadly fit with the issuer's net zero or sustainability strategy. For green and sustainability bonds we evaluate the alignment between the issuer's climate transition plan and capital allocation planning. We may choose to not invest in a green or social bond that is not sufficiently ambitious or credible, or deemed to not have a lasting positive impact.

Engagement

Engagement with issuers, syndicates, and market stakeholders like rating agencies and second-party opinion providers is a key instrument for expressing our expectations, safeguarding our clients' interests and improving market standards. This process starts pre-issuance to bankers and issuers when APG regularly provides input on topics especially on inaugural green and social bond frameworks at the draft stage. We also discuss initial ideas with syndicate banks and issuers about how to approach certain sectors or project categories. Throughout the entire issuance cycle we are involved, up until after the issuance when allocations and impact reports are published.

Creation of Real-World Impact

Since 2015, APG has actively sought investments that contribute to the UN Sustainable Investment Goals (SDGs), in line with our clients' specified investment ambition. APG, along with PGGM, British Colombia Investment Management Corporation, and Australian Super are sponsors of the Sustainable Development Investments Asset Owner Platform (SDI AOP) and leverage the SDI Taxonomy & Guidance, which translates the SDGs and its subgoals into investable opportunities for investors. The SDI Taxonomy & Guidance helps to determine which companies contribute to the SDGs with their products and services, based on financial metrics, most often revenue based.

Typically, entities covered by the SDI AOP are mapped to the SDI taxonomy and a determination is made on the issuer's contribution to one of the 17 SDGs. However, for green and social bonds our internal teams evaluate the SDI contribution at the bond level. We believe this is the best approach as use of proceeds green and social bond instruments reflect an issuer's commitment to spend the amount of money raised on clearly defined environmental and social projects. Additionally, the company's corresponding impact metrics to demonstrate real world outcomes via impact reporting.

While the issuer might not always disclose how the bond will be allocated across the eligible use of proceeds categories at the time of issuance, our internal team makes an evaluation to ensure no investment is classified as an SDI if 10% or more of the transaction's eligible use of proceeds goes towards certain negative contributions as defined in the SDI AOP taxonomy. Post-investment, the use of proceeds project categories are analyzed and mapped to the most relevant SDI category based on the SDI Taxonomy & Guidance. This assessment leads to a proprietary SDI-classification for our labeled bond investments. All SDI classifications are reviewed on annual basis to ensure accuracy and consistency with the SDI AOP classifications. SDI classifications can evolve over time and are refined on a periodic basis by the SDI AOP.

In addition to SDIs, there are other frameworks for determining whether certain green and social bonds have a positive social and/or environmental impact. These frameworks also ensure investments do not cause significant harm to other environmental and/or social objectives. For example in Europe, under article 2(17) of the Sustainable Finance Disclosure Regulation (SFDR), the European Commission has established a definition and criteria for "sustainable investments (SI)[4]." While we aim for all green and social bond investments to meet the SI criteria, this is not yet a requirement as we understand regulations are still developing and different regions have different data requirements.

2. Alignment with Internationally Recognized Principles and Standards

APG prefers clearly defined labels and terminology in line with the ICMA's Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG). Although we encourage the use of existing bond labels, we recognize issuers may rely on alternative labels, such as Blue Bonds, SDG Bonds or Transition Bonds, to promote their sustainability activities. We follow the same guidelines when evaluating these types of bonds.

The European Green Bond Standards (EU GBS)

In addition, APG welcomes the development of other standards like the EU Green Bond Standard Regulation (Regulation) and the use of the designation 'European Green Bond Standard' (EU GBS) for such bonds, which came into effect at the end of 2024. As such we encourage issuers to comply with the requirements set forth in the Regulation, as the EU GBS designation helps investors to classify activities as potential SIs.

APG's green and social guidance does differ from the Regulation. First and foremost, the scope of the SDI AOP Taxonomy is beyond 'green' expenditures and includes social goals. In some areas our classification of certain activities differs from the EU taxonomy. For example, APG's clients do not consider nuclear or natural gas energy as 'environmentally sustainable' unlike the EU taxonomy rules. We also have stricter restrictions on look-back period and prefer prompt deployment of funds towards sustainable projects. At this time, we do not require bonds to be designated as EU GBS, as data availability and treatment of non-EU issuers remains an issue.

3. Strength of Green and Social Bond Framework

Use of Proceeds

APG has a clear preference for green and social bonds that target capital expenditure (CapEx) projects with a direct impact on achieving the UN Sustainable Development Goals. Issuers should indicate the area of focus for their bond proceeds allocation – especially where an issuer has an extensive number of eligible use-of-proceeds categories.

In specific cases, we will accept operational expenses (OpEx) and Research and Development as eligible use of proceeds if they do not constitute the majority of the total proceeds. Proceeds targeting OpEx must enhance the longevity or future value of the green assets. Eligible OpEx may include costs associated with acquiring, upgrading, or maintaining green assets. We will also consider operational expenses directed towards circularity projects, such as purchasing

[4] See APG's Sustainability Related Disclosures.

materials for recycling (including purchase of waste, crushed glass, used equipment or other recyclable raw material). General procurement, power purchase agreements, certifications, salaries, and other similar expenses are not typically eligible.

For sovereign issuers, we recognize that substantial investment in national infrastructure is essential to fulfill global commitments and build resilient economies. We believe sovereign issuers sustainable development commitments should be clearly reflected in bond issuance. We expect use of proceed bonds from sovereigns to raise funds for SDG related challenges that are expected to be picked up by the government (given their unique status and which sets them apart from corporates) and that the issuance being raised is meant for the specific challenge of that sovereign. For green bonds that is investments in climate and biodiversity solutions. For social bonds, this can be financing towards education and poverty reduction services in support of sustainable development. We prefer eligible expenditures to be allocated towards domestic projects and/or spending in which the government has a direct influence over policy action and a role in governance and accountability.

Ahead of any new issuance we would like to see the expected use of proceed categories and expenditure type. Furthermore, we welcome a strengthened governance structure from governments in which there is interministerial or interdepartmental oversight or at a level higher than the debt management office. We also expect strong commitment from the government to prioritize sustainable development initiatives. Governments should have the institutional capacity to oversee, manage, and execute the projects funded by SDG bonds effectively. This involves assessing the strength and quality of National Sustainable Development Plans (NSDPs), Integrated National Financing Frameworks (INFFs), and the legislative/governance frameworks.

Look-Back Period

Our preference is for green and social bonds to fund new projects and assets. We expect issuers to be transparent if projects are to be refinanced. Post issuance, we prefer for issuers to report on how much of the funding was spent on refinancing post issuance.

We expect the issuer to state the expected look-back period included for these refinanced projects. We prefer forward-looking spend, with a prompt deployment of capital and will engage pre issuance to gain insights around the time horizon for spend and eligible projects. We will invest in a use of proceed bond with up to a 36-month look-back period but have a strong preference for shorter 24-month period.

Re-labeling /Requalification of Green or Social Bonds

We do not favor re-labelling or requalifying an existing conventional bond to a green or social bond. The issuer should wait until the next new issuance to label a bond as green or social to support the credibility of the market.

External Verification

We prefer each issuance to receive a second party opinion (SPO) or independent external reviewer from a reputable provider as recommended by the GBP, SBP, and SBG, though we do make exceptions on a case-by-case basis. Issuers should explain how the green bond proceeds are allocated towards eligible green projects, does not significantly harm any environmental objectives, and are relevant and material. Second party opinions facilitate easier evaluation of green/social credentials and guard against "greenwashing." Therefore, we generally require a second party opinion, but there are instances where issuers may believe the extra cost is unnecessary if the impact of their project is directly measurable and very clearly green – for example a utility green bond financing a specific renewable energy generation project.

In the absence of a second party opinion, we still expect an external reviewer, typically an independent accountant, to validate the project spend and reported impact. Following investment, we also conduct our own analysis to understand how the designated use of proceeds creates a positive SDG impact and attempt to link this back to the issuers' overall sustainability profile. Our own analysis goes further than the second party opinions, which sometimes do not take as strict a view as APG does around project eligibility and materiality.

4. Clear & Timely Reporting Disclosure

APG encourages issuers to provide pre-issuance disclosure and post issuance allocation and impact reporting. Prior to issuance, issuers should disclose a timeline for when funds will be allocated and the eligible projects or assets to be funded. Once the bond is issued, we expect issuers to disclose the first impact report no more than eighteen months after issuance or after the full allocation of the proceeds of the bonds.

In addition, we encourage issuers to report on the environmental and social impact over the life of the bond, with detailed quantitative and qualitative output-based impact metrics (i.e. carbon emissions avoided), case studies, methodologies, assumptions, detailed breakdown of OpEx vs. CapEx, and baselines of assessment. Impact reporting should be provided at the project level and tied to a specific bond ISIN or CUSIP, where possible. This is so that we can track our direct investor contribution. We encourage issuers to leverage the ICMA— Reporting to standardize impact metrics being reported.

If an issuer does not meet the reporting standards outlined in the GBP, SBP, SBG or the EU Green Bond Standard, we seek to understand the reasons why and determine whether this undermines the "green integrity" – a comply or explain approach. If we do not hear back from the company within 18 months, we will determine what escalation strategies to implement including sending letters to management or in some cases divesting from the bonds.

Appendix

Green and Social Bond Assessment Framework:

Structure of Green and Social Bonds		
Are the use of proceeds relevant to the issuer's broader sustainability strategy?	Y/N	How are the projects aligned with the issuer's overall sustainability or net zero strategy (link to strategy where appropriate)?
Does the issuance include projects or assets with less than a 3-year look-back period. Is the majority of spend on forward looking projects?	Y/N	If look-back period is longer than 3 years, cannot be designated as a green or social label. Preference for two years.
Are eligible projects material to the core business, generate meaningful impact, and aligned with the SDI taxonomy?	Y/N	Are the eligible projects clearly stated and core to business? Preference for green and social bonds that fund capital expenditure projects that align to UN SDGs. Operational expenditures should not be majority of spend. Cannot be designated as a green or social bond if projects have significant exposure to nuclear energy or natural gas.
Are there other concerns?	Y/N	Concerns related to deal structure, reporting, relabeling, other issues.
Final Assessment		
Does the green or social bond meet our guidelines?	Y/N	If the issuer fails to meet our expectations, the bond would not be investable.
Does the investable green or social bond require additional follow up and engagement post issuance?	Y/N	Please select yes, if there is a need to validate allocation based on answers above or other reasons (i.e. concerns about majority OpEx spend, allocations to immaterial projects, unclear impact metrics); based on analyst discretion.
Did we participate in the green or social deal?	Y/N	Please explain if bond met out criteria and we passed on the deal. Or if the bond did not meet our criteria and we invested.