



September 21, 2023

Description of sustainability risk policies

Approved by APG AM Investment Committee (APG AM IC) on 11 February 2021 (version 1)

Owner APG AM IC

Version 1.1

Change log

| Version | Date | Author | Change log |
|---------|--------------------|------------------------------------|--|
| 1.0 | March 10, 2021 | Project Group SFDR | Initial version |
| 1.1 | September 21, 2023 | Project Group Investment Advice | Minor textual changes. Added references to 'financial advisor' and 'investment advice' in the introduction text "Description of sustainability risk policies" on p3 to indicate that the risk policies also apply to APG Asset Management's investment advice services |

Description of sustainability risk policies

APG Asset Management N.V. ('**APG AM**', LEI: 549300XWC21UGFTCR876) is considered a financial market participant and financial advisor in accordance with the Sustainable Finance Disclosure Regulation (EU/2019/2088) (**SFDR**). Financial market participants and financial advisors are required to publish information on their website about their policies on the integration of sustainability risks in their investment decision making process and investment advice.¹ In this context 'sustainability risk' refers to an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment.

Responsible investing is enshrined in our clients' strategic investment plans and part of the asset liability management process. The integration of governance and sustainability factors in all asset classes is therefore an important feature of our responsible investment approach, which is designed to:

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

The Responsible investment policies that APG AM implements on behalf of its clients are based on eight principles, one of which is that *responsible investment is an integral part of the investment process at APG AM*. This entails that before making investment decisions, APG AM actively considers sustainability risks and the potential negative impact on the value of investments. One way in which we do this is by implementation of the Inclusion Policy (*)² which is based on the UN Global Compact themes (human rights, labour, environment, and anti-corruption) and the expectations of investors and companies under the OECD Guidelines. The Inclusion Policy enables us to meaningfully identify companies in our portfolio that are considered to be leading on ESG and affect genuine change at companies through using our influence.

Our Corporate Governance Framework and Voting Policy (*) explains our policy framework for corporate governance including our underlying principles and expectations and sets out our voting standards on main agenda items at companies' annual general shareholders' meetings. Climate change and sustainability related considerations, such as adherence to the standards as set by the Task Force on Climate related Financial Disclosures (TCFD), are taken into account in our voting decisions to address sustainability risks.

By means of the Sustainable Development Investments Ambition (*) we assess how the products and services of our investments contribute to adverse impacts on Sustainable Development Goals such as no poverty, zero hunger, good health and wellbeing, quality education, clean water and sanitation, affordable and clean energy, sustainable cities and communities, life on land, industry, innovation and

¹ Article 3 SFDR.

² Please note that all documents marked with (*) can be found on our website under section "Sustainability-related disclosures".
For English: <https://apg.nl/en/about-apg/asset-management/responsible-investment/>.
For Dutch: <https://apg.nl/nl/over-apg/asset-management/verantwoord-beleggen/>.

infrastructure, responsible consumption and production, climate action, life below water, and life on land.

In addition to the policies and approaches described above, APG AM belongs to a select group of asset managers that are world leaders in identifying climate risks and the potential impact on investments by means of the Carbon Reduction Target & Climate Risk Policy (*). The Principles for Responsible Investment (PRI) has also recognized APG AM as one of the leaders in responsible investing. By including APG AM in its 2020 Leaders' Group, PRI specifically acknowledges APG AM's excellent disclosure and advanced efforts in climate reporting. Furthermore, the Asset Owner Disclosure Project (AODP) which maps out how institutional investors and their asset managers take climate risks and opportunities into account in their policies, awarded APG AM with the highest rating (A) awarded in 2019.

To identify climate risks and the potential impact on investments, APG AM has developed a proprietary Climate Dashboard which provides insight into climate change related aspects which may impact our investments. APG AM currently applies the dashboard to approximately 70% of all our investments and expects to reach 100% coverage in the coming years. In the investment decision making process, the Climate Dashboard provides insight in:

- Transition speed towards a below 2-degree scenario (world view);
- Overview of portfolio exposure regarding transition risks and opportunities per sector (22 sectors in scope) for the short (2022), medium (2030), and long term (2040);
- Overview of physical vulnerability per sector (22 sectors covered);
- Sector views with insights in the type of risks and opportunities as well as mitigation measures that are in place to mitigate risks or seize opportunities.

In addition to the Climate Dashboard, part of its policy framework and investment decision process, APG AM undertakes measures to mitigate sustainability risks and seize climate related opportunities for APG AM's financial products. Examples of such measures are:

- Monitoring developments in national and global policy, markets and technology developments;
- Analysis of energy companies' transition strategies, capex plans and sector trends;
- Engagement with carbon-intensive companies on carbon emission reductions and climate risk management, e.g. through active participation in the Task Force on Climate related Financial Disclosures (TCFD) and Climate Action 100+;
- Usage of sustainability standards for the assessment of sustainability performance by our investments, such as the Global Real Estate Sustainability Benchmark (GRESB) in Real Estate and Infrastructure, and Forest Stewardship Council (FSC) in timberland investments;
- Commitment not to make any new coal-related investments in the Infrastructure portfolio;
- Commitment to include coal-fired power capacity expansion as a factor in the Inclusion policy methodology. This means that we can only invest in companies which expand their coal-fired power capacity if there is a positive engagement outlook;
- Continuous monitoring of the energy mix of the portfolio of energy investments;
- Investment targets on Sustainable Development Investments, renewable energy investments, and carbon footprint reduction;
- Accounting for carbon pricing, reduced volumes of fossil fuels and other financial impacts in investment cases and the memos submitted to the APG AM Committee of Investment Proposals;

- In illiquid asset classes, an investment rationale focused on next-generation assets. Long-term risks are included in the due diligence and monitoring, and investments are subject to conditions and sign-off by the Responsible Investment team.

As a result, for every single investment, regardless of the investment category, APG AM weighs ESG criteria, meaning that APG AM decides whether to go ahead with an investment based on environmental impact, social impact, and good governance. These criteria are just as important to APG AM as returns, costs, and risk. This empowers APG AM to make better investment decisions, especially since APG AM invests for the long term.

