Summary of Inclusion Approach

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Change log			
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2.0	30 December	Project Group SFDR	

Summary of Inclusion Approach

As a fiduciary manager for Dutch pension funds whose goal is to provide their beneficiaries with a good retirement income that they can enjoy in a 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 diverse characteristics of the portfolio of assets we invest in on behalf of our clients require a clear overarching but also a customized approach to integrating responsible investing objectives for each asset class. Thereby we can ensure that they all contribute to the fullest extent possible to the overall objective of the Responsible Investment Approach.

As a leading long term responsible investor, we are convinced that beyond setting a clear minimum bar by 'excluding' investments, we can have the greatest positive impact by making deliberate choices about where we want to invest. This is why since 2015 we have been applying the Corporate Inclusion Approach.

This document describes how we implement our clients' Inclusion policy and should be in read in conjunction with the Global Responsible Investment and Stewardship Policy and the Corporate Governance Framework where we set out our general approach in more detail.

What do we mean by Inclusion?

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

This document describes the Corporate Inclusion policy and how it is implemented, applied[1] and maintained.

We evaluate all companies that we can invest in through publicly traded shares or bonds (the investment universe) based on return, risk, cost and the degree to which they operate sustainably and responsibly. APG AM uses a proprietary method in order to categorize companies as 'ESG leaders' and 'ESG laggards' on the basis of ESG-criteria. We aim to invest only in companies which are attractive from a return, risk and cost perspective and leading on ESG, on behalf of our pension fund clients. Where companies lag behind in terms of ESG performance, we can only invest if we engage with them to improve. Thereby engagement and good stewardship becomes a condition for investing. We call such companies 'potential improvers'.

[1] The Corporate Inclusion policy applies to the following investment strategies: Developed Markets Equity, Developed Markets Equity Minimum Volatility, Emerging Markets Debt (quasi-sovereign positions), Emerging Markets Equity, Fixed Income Credits, Strategic Real Estate (listed), Tactical Real Estate (listed).

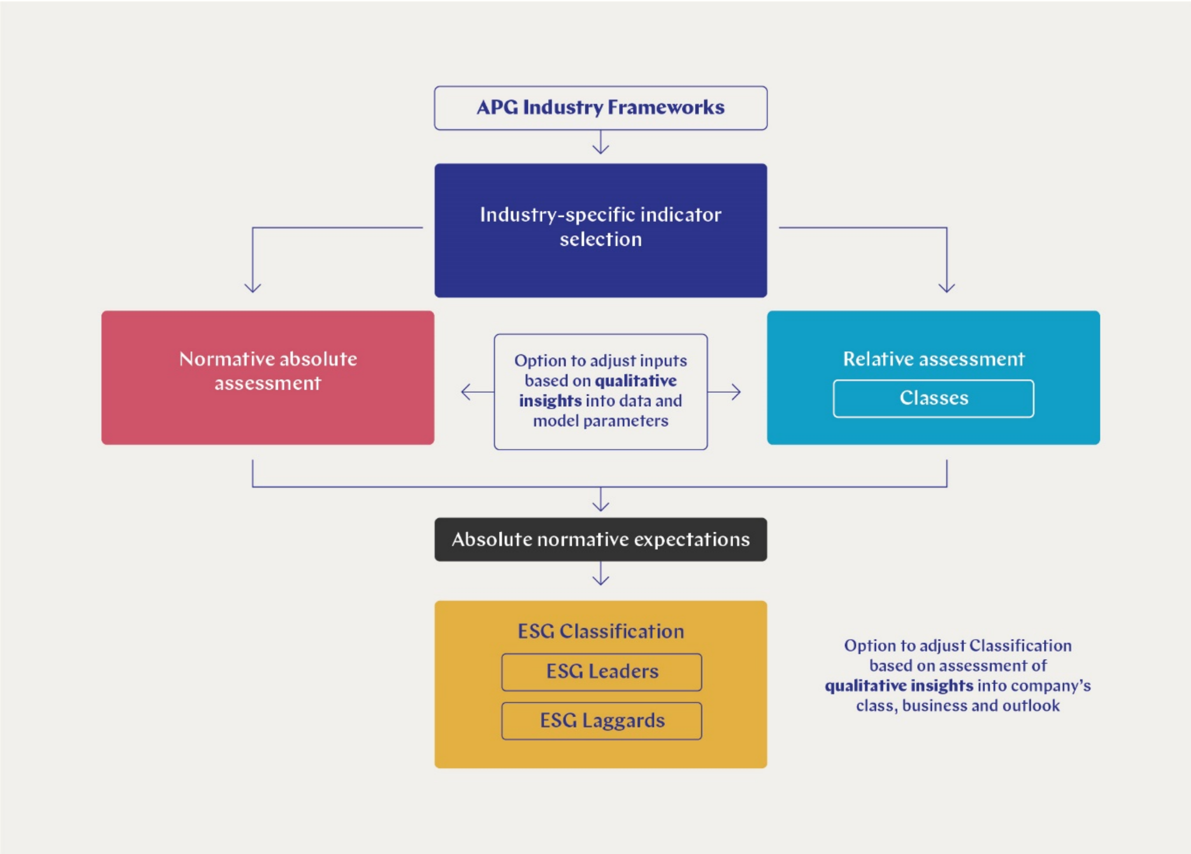
The Inclusion policy enables our clients to move towards a more sustainable and responsible portfolio while not compromising risk return expectations. Moreover, we can affect genuine change at companies through using our influence, and thereby contribute to a more sustainable world. The scale and scope at which we implement such a sophisticated approach positions our clients, and APG AM, at the forefront of the industry. We assess over 10,000 companies globally, and the policy applies to over €280 billion invested via quantitative and fundamental investment strategies (February 2021).

The Inclusion policy and its application is inherently dynamic, which is characteristic of any innovation path. From a company culture perspective, the level of collaboration across teams during its development and implementation has strengthened our investment approach significantly.

Proprietary ESG classifications

The main objective of the Corporate Inclusion methodology is to be able to meaningfully identify companies in our portfolio that are considered to be leading on ESG ('leaders'). The intention is ensure that companies' performance is assessed in comparison with their peers (relative dimension), while still requiring that companies work towards good ESG practices, regardless of whether it has (yet to) become standard within a company's peer group (normative dimensions). The method allows us to identify the ESG-'leaders' and ESG-'laggards' to inform investment decisions.

The Corporate Inclusion methodology assesses companies on a combination of *normative* criteria and a *relative* assessment against a company's class, which is not necessarily defined solely as the industry the company operates in. The combination of the class-relative and normative assessments allows us to distinguish between companies with relatively good and weak performance compared to their peers, while also helping us assess the extent to which (groups of) companies are (not) demonstrably abiding by fundamental normative standards.



The classification is partly *rule-based* to generate consistent results most efficiently for the investable universe in a transparent way, and partly *qualitative* because it can be further adjusted based on APG AM insights into a company's business and long term outlook, also taking into account engagement results. Inclusion is firmly embedded within the investment approach and does not lead to an upfront limitation to the investment universe, as portfolio managers need to make choices whether they want to spend resources on researching and engaging with ESG laggards if they want to invest in them. A company (not) included in the portfolio remains an outcome of an investment choice being made.

Overall, using this combination results in a strong impact on decision-making in the investment process and makes the Inclusion process very ambitious. This is because portfolio managers and the Responsible Investment & Governance (RI&G) team not only have to take account of how prepared a company is for addressing the most essential industry-specific risks and its practices, but also achieve tangible engagement results in order to remain invested.

In arriving at the proprietary APG AM ESG classifications, we have opted to use bespoke inputs. This was decided for several reasons.

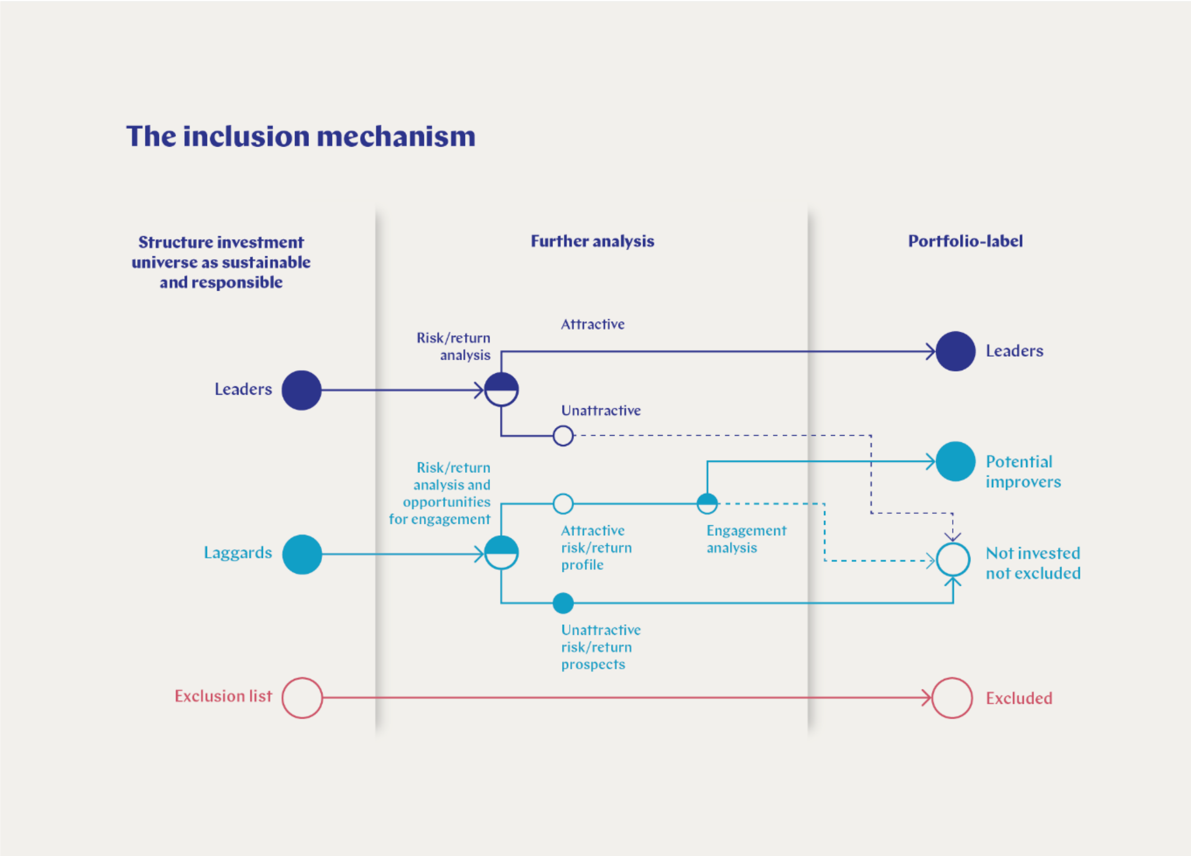
Criterion	Examples
Business ethics	Bribery & corruption, money laundering, inappropriate promotions of medicine, lack of whistleblower schemes
Labor rights	Health and safety at work, working conditions
Human rights	Relationships with local communities, data privacy & safety
The environment	Emission of greenhouse gases, standards for waste and water use, expansion of coal capacity

Firstly, we consider it crucial to be selective about the indicators we use to really choose what is business relevant within an industry. In the APG AM Industry Frameworks we define the issues we find relevant in the context of the UN Global Compact themes and the expectations of investors and companies under the OECD Guidelines.

Secondly, besides helping us to focus on the ESG issues that have the greatest potential to impact return, a thorough understanding of industry-specific risks also enhances the dialogue between portfolio managers and companies.

Thirdly, we prefer full visibility on what issues and data are being used to assess a company. This allows us to interpret the results in their context and to set the engagement agenda in a manner consistent with the ESG evaluation factors.

We prefer to perform our own analysis and draw our own conclusions rather than relying on an external party's view. Furthermore, ESG data is still less mature than regular financial data and often qualitative performance assessments are translated into numeric values. It is therefore important that regular checks on underlying data availability and quality are performed, and data distributions need to be known to avoid incorrect inference about a company's ESG standing versus its peers.



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

We receive several types of company-specific ESG information from external data providers in the form of ordinal indicator and exposure data. This allows us to distinguish between companies that appear to have strong or no evidence of specific policies, and good or poor practices. These indicators are then used as a proxy to determine whether a company is exposed to certain ESG risks (*involvement*), how committed a company is to managing their ESG risks (*preparedness*), and as a measure of how (un)successful in doing so the company has been to date (*performance*).

Principle Adverse Impacts

The following principal adverse impact indicators are considered by the Inclusion approach for the applicable asset classes through the use of indicators in the screening methodology.

INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES

CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS

Adverse Sustainability Indicator			SFDR Metric	Inclusion indicator	Inclusion indicator Summary
Biodiversity	7.	Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	a. Emissions Effluents and Waste (SC) b. Land Use and Biodiversity (SC) c. Water Use (SC) d. Palm oil exposure e. Soy & Cattle exposure	a-c. APG AM assesses whether companies are involved in the controversies on biodiversity and identifies these companies as laggards. d. APG AM assesses companies active in palm oil on whether they have RSPO memberships, certifications and supplier requirements. e. APG AM identifies companies with large exposures to soy and cattle in Brazil as laggards. f. APG AM assesses the quality of companies' site closure and rehabilitation practices and water management programmes.

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

Adverse Sustainability Indicator			SFDR Metric	Inclusion indicator	Inclusion indicator Summary
Social and employee matters	10.	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development	Share of investments in investee companies that have been involved in violations of the UNGC principles	a. Access to Basic Services b. Bribery and Corruption (SC) c. Community Relations (SC) d. Employees Human Rights (SC)	a-g. APG AM assesses whether companies are involved in violations of the UNGC Principles and identifies these companies as laggards. For "SC" rules we assess both in direct operations and in the supply chain.

		(OECD) Guidelines for Multinational Enterprises	or OECD Guidelines for Multinational Enterprises	e. Labour Relations (SC) f. Occupational Health and Safety (SC) g. Sanctions	
	14.	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	a. AN-E-Weapons	a. APG AM assesses if companies are observed to be involved in controversies on controversial weapons and identify these companies as laggards. *We also exclude companies found to have exposure to controversial weapons under the Exclusion Approach.*

The following PAI indicators are not directly assessed as per the PAI formulas, but we consider related performance and/or measure adverse impacts by assessing whether we observe companies to be involved in controversies on these topics.

INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES

CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS

Adverse Sustainability Indicator			SFDR Metric	Inclusion indicator	Inclusion indicator Summary
Greenhouse gas emissions	1.	GHG emissions	Scope 1 GHG emissions Scope 2 GHG emissions Scope 3 GHG emissions Total GHG emissions	a. Carbon Impact of Products b. Energy Use and GHG Emissions (SC) c. Long-term emissions reduction target d. Air Emissions Programmes	a-b. APG AM assesses whether companies are involved in controversies around GHG emissions and identifies these companies as laggards. d. APG AM assesses whether high impact companies in the oil & gas and utility sectors have a long term quantitative CO_2 reduction target; we do not invest in companies that make insufficient commitments. APG AM expects all companies in high climate
	3.	GHG Intensity of companies	GHG intensity of investee companies		

				impact sectors to disclose quantitative long-term emission reduction targets. e. APG AM assesses the quality of companies' air emissions programmes.
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	a. Exposure to coal mining and tar sands b. Coal expansion	a. APG AM does not invest in companies that derive more than 30% of revenues from coal mines or more than 20% from tar sands. b. APG AM does not invest in energy utility companies that plan to invest in new coal-fired power generation.
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	a. Site Closure Rehabilitation b. Water Management Programmes	a-b. APG AM assesses whether companies are involved in the controversies on biodiversity and identifies these companies as laggards. APG AM assesses companies active in palm oil on whether they have RSPO memberships, certifications and supplier requirements. APG AM identifies companies with large exposures to soy and cattle in Brazil as laggards. APG AM assesses the quality of companies' site closure and rehabilitation practices and water management programmes
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	a. Emissions Effluents and Waste(SC) b. Environmental Management System c. Hazardous Waste Management	a. APG AM assesses if companies are involved in controversies around hazardous waste and identifies these companies as laggards. b-c. APG AM assesses the quality of companies' EMS and hazardous waste management system.

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

Adverse Sustainability Indicator		SFDR Metric	Inclusion indicator	Inclusion indicator Summary
Social and employee matters	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	a. Bribery Corruption Policy b. Community Involvement Programmes c. Conflict Minerals Policy d. Environmental Management System e. Health and Safety Management System f. Human Rights Policy g. Whistleblower Programmes	a-g. APG AM assesses for relevant industries if companies have miscellaneous policies, programmes and systems.
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	a. Diversity Programmes	a. APG AM assesses the quality of all companies' diversity programmes.
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members		

Inclusion Engagement & Implementation

Achieving change through engagement is an objective in and of itself. ESG laggards become *potential improvers* once in the portfolio, and there is an obligation to engage with them against predefined objectives in order to be invested. We distinguish between three different types of potential improvers:

- Those with which we engage and where the outlook for becoming a leader is positive;
- Those where we believe we can achieve meaningful change but not necessarily enough for them to become a leader, and;
- Those where the impact of achieving the change at these companies could be significant and material, and change is expected to be achievable over time.

When ESG Laggards enter the portfolio, clear engagement objectives have to be defined against which progress will be measured. All clients and APG AM have to be in a position to explain why it is invested in an ESG Laggard, and especially those where progress has been or is expected to be limited.

As a matter of principle, we will allocate engagement resources based on where they are considered to have the potentially greatest impact in the portfolio. There is a requirement to be engaged with all *potential improvers*, but engagements will vary in their intensities and timelines from monitoring, through regular dialogue, to focused engagement for change. We also engage with leaders.

Strong governance

Responsible investing is firmly embedded within APG AM's governance structure in order to enable effective oversight of how the RI policy is implemented portfolio-wide and to ensure that the systems architecture duly facilitates this. APG AM's governance of RI is industry-leading and befits an active asset manager whose objective is to embed RI fully within the investment management process. The governance structure is multi-layered and a strategic feature as well as an operational component.

APG AM has established the Investment Committee, the highest level Committee, which comprises the CIO (Chair), Chief Financial & Risk Officer, as well as MD Legal, MD Responsible Investment & Governance and the MD Asset Allocation & Overlay. The IC receives regular reports on progress on the Implementation of the RI policy, alongside other relevant material.

The Inclusion Board is the main decision-making body for matters concerning the implementation of the Inclusion Policy across APG's capital markets portfolios (including listed Real Estate). The Board consists of representatives from the RI&G team and from the investment teams for the strategies to which Inclusion applies.

The RI&G team formally has to sign-off on every ESG classification (adjustment) and all engagement plans, objectives and assessments of progress. The proprietary APG AM Knowledge Management System (KMS) is the main instrument to ensure that all portfolio -related decisions and information, including ESG, are well-documented. Its built-in workflow tooling enables RI&G to perform important checks and balances as part of the governance process.

Insight into impact on risk and return

APG AM is developing methods to assess the likely impacts of sustainability risks on the returns for its financial products and gain further insight into the impact of the various policy instruments, such as inclusion, exclusion and Sustainable Development Investments, on the ability to meet risk and return targets. Our aim is to be able to measure and monitor any impacts on an ongoing basis, initially for liquid investments and extending it to other asset categories at a later stage.