

Summary of Sustainable Development Investments approach

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Summary of Sustainable Development Investments approach

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 APG AM's approach to integrating the United Nations Sustainable Development Goals (SDGs) into our investment process and how it is implemented, applied and maintained.

The SDGs were adopted in 2015 to end poverty, protect the planet and ensure prosperity for all. On behalf of our clients, and as a leading long-term responsible investor APG AM uses the SDGs as a guideline for investments whose core business makes a positive contribution to the SDGs and thereby on people, the environment and a more sustainable economy. We actively seek for investments that contribute to the SDGs, in line with our clients' specified investment ambitions. At the end of 2019, APG AM had invested € 72.3 billion in companies that contribute to the SDGs.

APG's definition of SDI

'We invest in solutions that contribute to the UN Sustainable Development Goals.

These investments meet our financial risk and return requirements and support the generation of positive social and/or environmental impact through their products and services, or at times through acknowledged transformational leadership.

We distinguish between investments where impact on the UN Sustainable Development Goals has and those where it has not been measured, and stimulate the latter to report on measurable impacts.'



Setting a global asset-owner led standard for investing into the SDGs

In 2015, APG AM's client set an investment ambition related to the SDGs for 2020 which has been renewed and extended until 2025 since. Hence, APG AM started with a definition for Sustainable development Investments (SDIs) in 2015/ 16, in collaboration with PGGM and other investors.

In 2017, this collaboration developed the [SDI Taxonomy & Guidance](#) translating the SDGs and its subgoals into investable opportunities in order to determine which companies contribute to the SDGs with their products and services. We call these investments Sustainable Development Investments (SDIs). Just like all other investments in our portfolio, SDIs must meet our criteria for return, risk and cost. If a company contributes to the achievement of the SDGs, we see this as an important advantage and an extra argument to invest in that company.

In 2019, APG AM and PGGM announced their intention to establish an Asset Owner Platform (AOP) with the aim to standardize and create greater efficiencies for financial institutions who would like to for example analyze how their investments portfolios can be mapped to the UN Sustainable Development Goals. Since then, British Colombia Investment Management Corporation and Australian Super have joined the SDI AOP, which was legally established in 2020, a truly global cooperation to set a standard for investing into the SDGs.

The SDI AOP provides a common definition, taxonomy and data source for investments into the SDGs, offering insights that can be used by investors to analyse, select and engage with their worldwide investments. An increasing number of global asset owners and institutional investors aim to understand the contribution they make, through their investments, to the SDGs. The SDI AOP allows them to integrate these insights into the investment process, and to shift more capital to investments that contribute to the SDGs. Speaking a common language also improves engagement with companies and eventually should drive more meaningful disclosures by companies. As asset owners report on the same basis on their investments into the SDGs, their disclosures become comparable and provide stakeholders with more transparency.

The SDI framework is gaining traction and leading the way as to how institutional investors can contribute to the SDGs, as it has become available to the market for all investors to use.

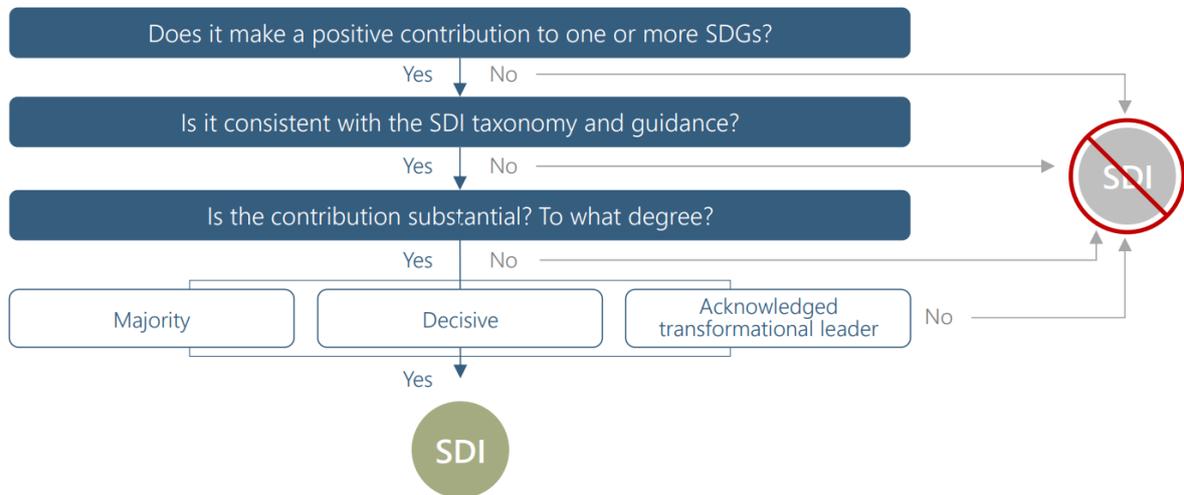
The governance of the SDI Asset Owner Platform

The aforementioned four asset owners together form the Design Authority (DA) which is the decision-making authority within the AOP and responsible for the development and maintenance of the SDI taxonomy and guidance, SDI definition and classification methodology. The structure of the SDI AOP consists further of a technology provider, which is responsible for the translation of the taxonomy & guidance and rules into an SDI classification making use of structured and unstructured data. A global financial services company is the distributor of the SDI standard bringing the SDI classifications to the market at the same time to all subscribers. The SDI definition and taxonomy are applicable to all asset classes whereas the automated SDI classifications cover a global capital markets portfolio.

Methodology

The methodology applied in determining whether a company can be classified by APG AM as SDI consists of several steps for which we apply the following decision tree.

SDI DECISION TREE



First, we determine whether the company/asset in question has a positive contribution based on the SDI Taxonomy & Guidance.

Then we determine whether the contribution is substantial and as a result a contribution type is assigned. For example, revenue generated by company’s products and services positively contributing to the SDGs should amount at a minimum to 10% of its total revenue in order for the company to classify as an SDI. In addition to a revenue-based classification method, the SDI AOP also applies other classification methodologies for certain sectors.

In a further step APG AM makes an assessment of whether there is a serious known conflict with other SDGs or APG AM clients’ Responsible Investment policy objectives. This finally determines whether we classify a company as SDI and therefore count towards our SDI exposure.

Insight into impact on risk and return

To measure the extent to which E/S characteristics are met, in 2021, APG AM will start to develop 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.

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