Adverse sustainability impacts statement[1]

March 10, 2021

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

[1] Please note that, because of the draft status of the Regulatory Technical Standards of the SFDR and the missing guidelines, this statement reflects APG AM's best effort based on the SFDR and draft RTS text of 23 April 2020. As such, the information provided by APG AM is provided on an 'as-is' and best effort basis with no guarantees of completeness, accuracy and correct compliance in view of the SFDR and RTS.

Change log			
Version	Date	Author	Change log
1.0	10 March 2021	Project Group SFDR	

Adverse sustainability impacts statement

Summary
APG Asset Management N.V. (‘**APG AM’**, LEI: 549300XWC21UGFTCR876) is considered a financial market participant in accordance with the Sustainable Finance Disclosure Regulation (EU/2019/2088) (**SFDR**). Financial market participants are required to disclose whether they consider principal adverse impacts of their investment decisions on sustainability factors and if this is the case, to disclose a statement on their due diligence policies regarding those impacts. Sustainability factors are considered to be environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

APG AM has drafted this statement per 10 March 2021 because APG AM considers principal adverse impacts of its investment decisions on sustainability factors. In other words: before making investment decisions, APG AM actively considers the adverse impact on the following factors: environmental, social, employee, human rights, anti-corruption and anti-bribery. This statement is part of the required ongoing disclosures in the SFDR and enables investors to make informed investment decisions. APG AM will publish a principal adverse impacts statement on its website on an annual basis.

When reading this statement, the size, nature and scale of APG AM’s activities and type of APG AM’s financial products should be considered. APG AM is a licensed fund manager and manages 30 alternative investment funds and provides individual portfolio management for which currently 58 mandates exist. These alternative investment funds and mandates together reflect the financial products of APG AM. APG AM only deals with professional clients and investors. The investment funds are exclusively open for investors that qualify as pension funds. Furthermore, mandates only exist with the four pension fund clients for which APG AM provides portfolio management activities. This statement relates to all financial products of APG AM.

Please note that all documents marked with (*) can be found at our website under section “Sustainability-related disclosures”.[1]

This principal adverse impacts statement includes the following topics:

- *1. Description of policies to assess principal sustainability impacts* – this section provides information regarding the current policies that APG AM already implements to assess, identify and prioritize adverse impacts on sustainability factors.
- *2. Description of the principal adverse sustainability impacts and of any actions taken to address principal adverse sustainability impacts* – this section describes what APG AM currently considers adverse impacts, and describes APG AM’s goals, actions taken, and actions planned to address the principal adverse sustainability impacts that are currently considered.
- *3. Engagement policies* – APG AM adheres to the Dutch Stewardship Code, complies with the Shareholder Rights Directive (2007/36/EC), and implements a Responsible Investment &

[1] For English: https://apg.nl/en/about-apg/asset-management/responsible-investment/. For Dutch: https://apg.nl/nl/over-apg/asset-management/verantwoord-beleggen/.

Stewardship Policy. In addition, on an annual basis, APG AM publishes a Responsible Investment Report including an overview of engagement activities over the previous year.

- *4. Adherence to international standards* – this section describes the responsible business conduct codes and internationally recognized standards for due diligence and reporting that APG AM adheres to, and sets out APG AM's strategy to align with the goals of the Paris Climate Agreement as part of the Climate Risk Policy.
- *5. Historical comparison* – since this is the first year that APG AM discloses how the SFDR-specific principal adverse impacts of its investment decisions on sustainability factors are addressed, a historical comparison based on the (complete) requirements of the SFDR and the draft RTS is not available yet. However, to foster sustainability disclosures APG AM will disclose historical comparison data that is available and is currently used to consider principal adverse impacts of investment decisions on sustainability factors.

1. Description of policies to assess principal adverse sustainability impacts

The SFDR prescribes APG AM to describe the policies to assess, identify and prioritize principal adverse sustainability impacts on sustainability indicators. We assume that this specifically relates to the ~50 adverse sustainability indicators included in the Draft Regulatory Technical Standards of Regulation (EU) 2019/2088 (**'RTS'**) which are not final yet. These RTS indicators are very specific and require disclosure of a large amount of data on all investments as part of APG AM's financial products.

In anticipation of the final RTS, APG AM has made a best effort to investigate options to obtain such data by assessing our internally available data sources and by entering into conversations with several external data providers. While there is a lot of highly relevant and detailed ESG data available at APG AM, it became clear that most of the exact data regarding adverse sustainability indicators as prescribed by the RTS is neither available within APG AM, nor obtainable with external parties (yet). Also, existing data is not available for investments in all asset classes. APG AM expects that mainly the information related to fund investments ultimately will have to be obtained on asset level which we expect will be a very time-consuming process. Since the indicators are still in draft it is not yet possible to start obtaining such data.

Currently, all existing ESG data from external data providers as well as internally created data is integrated into the portfolio management systems and the core data systems at APG AM. As soon as there is more clarity regarding the sustainability indicators referred to in the SFDR, APG AM will prioritize obtaining as much data as possible regarding the underlying investments.

While the data and metrics regarding the exact adverse sustainability indicators are not available, APG AM has a long history of ESG integration and the use of ESG data in its investment processes (see "Timeline of responsible investment" in Annex). In addition, APG AM and its clients have policies in place to identify and prioritize adverse impacts on sustainability factors that refer to APG AM's and its clients' own interpretation of adverse impact.

The remainder of this statement will describe the multiple approaches that APG AM already has in place to identify and prioritize adverse sustainability impacts. These are all part of the implementation of our clients' overarching Responsible Investment Policies and concern the following:

- Carbon Reduction Target & Climate Risk (*) – Our efforts to reduce the carbon footprint of the portfolio, as well as the way in which APG AM defines, measures, manages and reports on climate-related risks and opportunities, are described in the Carbon Reduction Target and Climate Risk Policy.
- Exclusion (*) – This approach describes the products (relates to companies) and countries (relates to bonds) that APG AM excludes from its investment portfolio, for example controversial weapons and tobacco, in line with the clients' Exclusion Policies.
- Global Corporate Governance Framework & Voting Policy (*) – This policy explains APG AM's policy framework for corporate governance including our underlying principles and expectations. It explains how we, on behalf of our clients, meet our ownership responsibilities and sets out our voting standards on main agenda items at companies' annual general shareholders' meetings.
- Inclusion (*) – 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, APG AM implements our clients' Corporate Inclusion Policy.
- Sustainable Development Investments (SDIs) (*) – APG AM uses the UN Sustainable Development Goals (SDGs) as a guideline for investments with a positive influence on people and the environment or a more sustainable economy. We actively search for investments for our clients that contribute to the SDGs and implement the agreed definition, taxonomy and rules to identify current and potential Sustainable Development Investments (SDIs) in order to meet our clients' SDI targets and ambitions.

The above documents include an explanation of the current indicators used within APG AM, the maintenance and governance of the policies, and a description of the methodology to assess the adverse impacts on sustainability factors including any associated margin of error within those methodologies.

2. Description of the principal adverse sustainability impacts and of any actions taken to address principal adverse sustainability impacts

APG AM considers the adverse impacts on matters such as environmental, social, employee, human rights, anti-corruption and anti-bribery, all of which are addressed in the Responsible Investment Policies of our clients. How we take the adverse impacts into account in our investment processes is further described in the specific policies and targets on:

- Carbon Reduction Target & Climate Risk (*) – in which we mainly address environmental and climate risk related adverse impacts;
- Sustainable Development Investments (*) – which assesses 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 infrastructure, responsible consumption and production, climate action, life below water, and life on land;

- Corporate Governance Framework and Voting Policy (*) – in which we address matters such as environmental, social, employee, human rights, and anti-corruption and anti-bribery through the way we vote on the annual general meetings of the companies in which we invest on behalf of our clients.
- Inclusion (*) – 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.

Over the past year APG AM has taken multiple actions to avoid and reduce adverse sustainability impacts which we report on in our responsible investment report which can be found on our website (*).

In our Carbon Reduction Target & Climate Risk Policy (*) we describe actions taken to avoid and reduce adverse sustainability impacts in the future by addressing how APG AM defines, measures, manages and reports on climate-related risks and opportunities, both at the overall client portfolio level as well as for specific investment strategies. In addition to the existing climate-related goals and policies, we are working on defining an approach, and supporting our clients, in steering the total assets under management to align with the goals of the Paris Agreement by 2030 and net zero portfolio by 2050.

On behalf of its clients, APG AM implements their respective Responsible Investment Policy targets and ambitions which include but are not limited to actions and targets to address sustainability impacts in the coming years (2020-2025) related to the following themes:

1. Climate change and environment - for example, by a large CO2-reduction of the equity portfolio by 2025 (relative to 2015), and by phasing out investments in coal mines and tar sands. In addition, climate risk has been added to the investment risk taxonomy and a climate steering group has been appointed;
2. Transition to new energy generation and renewable energy sources - for example, by setting goals for energy label A in real estate portfolios;
3. Conservation of natural resources - for example, by investing more in companies that have circular business models and other innovative solutions for food and natural resource scarcity and establish criteria to assess companies on demonstrably more efficient, sustainable, and more socially responsible use of natural resources;
4. Digitalization of society - for example, by encouraging companies to take responsibility by investing more in companies that contribute to digital, sustainable solutions with their products and services, and by establishing criteria to assess whether companies respect the digital rights of workers, consumers, and users.
5. Human rights and the ability to demonstrate this in 2050 - for example, by setting goals to refine our methodology and expand our criteria in assessing companies' respect for human rights and align further with the UN Guiding Principles for Business and Human Rights;
6. Working conditions - for example by entering into dialogue with construction companies, shipbuilders and textile companies;
7. Governance - for example by cooperating with other institutional investors in addressing remuneration policies of companies that are not in line with their performances.

Sustainable Development Goals
The transitions addressing climate change, conservation of natural resources, and digitalization of society and prerequisite that companies respect human rights are very closely aligned with the Sustainable Development Goals of the United Nations (SDGs).

In that regard, goals related specifically to the SDGs are:

- 20% of assets under management are allocated to investments that are qualified as Sustainable Development Investments (SDIs). We are working to build consensus for SDI-standards among investors.
- Measure how we contribute to the SDGs through the inclusion policy and through improvement trajectories (engagement) with companies in the field of sustainable and just transitions.

3. Engagement policies
APG AM adheres to the principles of the Dutch Stewardship Code which sets out expectations for asset managers to meet their stewardship responsibilities, and which is closely aligned with the Shareholder Rights Directive (2007/36/EC). We strongly believe that effective stewardship benefits companies, investors and the economy as a whole. Therefore, we actively engage with our investments on issues which in our view contribute to their ability to create and sustain long-term value. This allows us to better understand the business challenges they are facing and ensure that sustainability risks and opportunities are addressed. In our Responsible Investment & Stewardship Policy (*) we explain our approach to responsible investing and stewardship for all the asset classes APG AM invests in on behalf of clients. It sets out our responsible investment focus areas and related expectations of companies, includes an outline of how we meet our responsibilities as a steward of capital and explains how we vote, monitor and engage with the companies and other entities we invest in.

Alongside our engagement activities with our investments, APG AM regularly engages with regulators and policy makers in various markets on corporate governance standards, corporate disclosures and other topics relevant to our role as global long-term responsible investor.

In our annual APG AM Responsible Investment Report, which can be found on our website (*), we report on our stewardship and engagement activities over the previous year.

4. Adherence to international standards
APG AM adheres to the following responsible investment related codes, principles and internationally recognized standards for due diligence and reporting:

- Principles for Responsible Investment (PRI)
  APG AM is a signatory and active member of the PRI and participates in the annual PRI survey.
- OECD Guidelines for Multinational Enterprises

APG AM's responsible investment approach is based on the OECD Guidelines for Multinational Enterprises.

- ICGN Global Corporate Governance Principles
  APG AM is an active member of the ICGN, and APG AM's responsible investment approach is based on the ICGN Global Corporate Governance Principles.
- UN Guiding Principles on Business and Human Rights
  APG AM supports the UN Guiding Principles on Business and Human Rights (Principles) and is a founding member of the Corporate Human Rights Benchmark (CHRB) which is based on the Principles.
- ICGN Global Stewardship Principles
  APG AM is an active member of the ICGN and endorses the ICGN Global Stewardship Principles.
- Dutch Stewardship Code
  APG AM adheres to the principles of the Dutch Stewardship Code which sets out expectations for asset managers to meet their stewardship responsibilities, and which is closely aligned with the revised EU Shareholder Rights Directive.
- Task Force on Climate related Financial Disclosures (TCFD)
  APG AM follows the framework established by the TCFD and annually reports on what APG AM undertakes to address climate risks and opportunities.
- Climate Commitment of the Dutch Financial Sector
  APG AM and its clients have signed the Climate Commitment of the Dutch Financial Sector. As part of this commitment, we will support our clients in setting updated portfolio targets to reflect alignment with the Paris Agreement. In 2022, our clients have to announce these updated portfolio targets.

In addition to the above, APG AM expects investee companies and funds to act in line with the United Nations principles for responsible business practice (UN Global Compact) concerning human rights, labour rights, corruption and the environment.

Paris Climate Agreement
APG AM actively steers the total assets under management to align with the goals of the Paris Climate Agreement by 2030 and net zero by 2050.

To foster alignment of the portfolio with the goals of the Paris Agreement, APG AM adheres to and is actively involved with the TCFD, Climate Commitment of the Dutch Financial Sector, and Climate Action 100+.

APG AM has developed a Climate Risk Policy (*) which provides insight into the following forward looking climate scenarios.

Measurement in Asset Liability Management (ALM) and Strategic Asset Allocation (SAA)
Deterministic climate scenarios are used in the periodic ALM studies performed for our clients with the aim of evaluating the sensitivity of client portfolios for these deterministic scenarios:

- Climate stress tests are used to evaluate the potential effects and implications for the Strategic Asset Allocation. Due to the multi-faceted and non-linear characteristics of climate risks, we do not use a quantitative modelling approach. Instead, we use analogies based on situations in the past featuring physical destruction and heavy government intervention (e.g. natural disasters and wars). These analogue situations give us a rough sense of the range of possible impacts of climate change on asset classes.

Measurement at portfolio level

Climate-related risks and opportunities are measured in the portfolio using the Climate Portfolio Screen (CPS). The CPS identifies sector-level climate risks and opportunities against external expert scenarios. We used a business-as-usual scenario (IEA Current Policies Scenario, 3.7°C) and a 2-degree scenario (IEA Sustainable Development Scenario, 2°C), supplemented with specific information from the IEA Energy Technology Perspectives (ETP):

- The results of the climate scenario analysis have been captured in the CPS, which creates insights into the most prominent climate related risks and opportunities in 2022, 2030 and 2040. For each of the economic sectors, in each of the time horizons, the traffic light model depicts both the transition as well as the physical aspect as ‘high’, ‘moderate’ or ‘low’. This score is determined by the difference in the value of the key climate factor (selected for the specific sector) between the business-as-usual and the 2-degree scenario in the specific time horizon: The larger the difference between those values, the larger the risk or opportunity.
- Vulnerabilities to physical climate impacts and opportunities for contribution to physical climate adaptation are qualitatively assessed into three categories (Low, Medium, High) with no differentiation for future timelines.
- A similar analysis has been done for sovereign bonds at country level. For each country we looked at physical risk (based on the Notre Dame GAIN database) and at transition risks (based on HSBC indicators). This resulted in a low-medium-high risk profiling of the sovereign bonds portfolios.
- Investments in areas with ‘high’ transition risk within the investment horizon, as indicated by the CPS, call for further investigation into the nature of the risk/opportunity and the potential financial impacts by the investment teams.

The CPS is updated on a two-year basis in order to incorporate the latest developments in climate scenarios.

On a more frequent basis, key signpost indicators and the overall speed of the low-carbon transition are tracked through the Climate Dashboard. As such, the Climate Dashboard provides an indication whether the world is leaning more towards a Business-as-Usual or 2-degrees scenario, and it flags the areas in the portfolio where this may signal more immediate risks or opportunities.

5. Historical comparison

APG AM has a long history of prioritizing ESG and of tracking ESG information and integrating it into investment decision-making (see "Timeline of responsible investment" in the Annex).

Since this is the first year that APG AM discloses how the SFDR-specific principal adverse impacts of its investment decisions on sustainability factors are addressed, a historical comparison is not available yet. However, to foster sustainability disclosures APG AM will disclose historical comparison data that is available and is currently used to consider principal adverse impacts of investment decisions on sustainability factors.

Specifically, in view of our carbon footprint, a historical comparison is available at APG AM. This relates to the amount of carbon emitted by companies we invest in through equities and how much of this is attributable to us. This comparison only concerns part of the portfolio. For listed equities we have a target for carbon reduction. We will start developing similar targets for other asset classes.

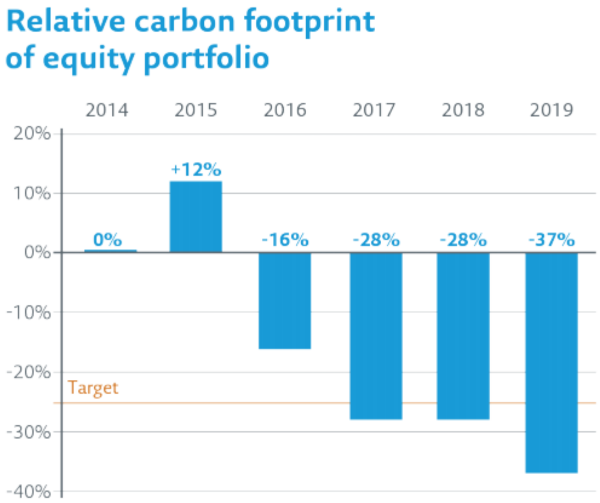

Figure 1: Overview of APG AM's carbon footprint of equity portfolio 2014-2019

For the mentioned Pools and Mandates we constantly monitor the carbon footprint and are able to take it into account when making investment decisions. The carbon footprint of our equity investments has decreased by 37% compared with baseline year 2014. The reduction over the past five years was achieved primarily by investing less in carbon-intensive sectors (such as energy and raw materials) and by focusing on the best-performing companies in the sector with respect to carbon reduction.

The sharp reduction in the carbon footprint is also linked to the exceptional situation in the financial markets caused by the corona crisis in the first quarter of 2020. As a result, we invested less in sectors like energy and industry. Because these sectors make a significant contribution to the amount of carbon in the equity portfolio, the reduction of the carbon footprint has accelerated significantly. At the end of 2019, the reduction was still -30%.

The absolute footprint was 20.4 million tons of carbon. This is a 44% reduction compared with 2014. During the same period, the benchmark footprint remained more or less the same. The benchmark is the pool of investments with which we make comparisons for our return and risk objective. The conclusion is that total emissions from ‘the market’ remained relatively stable, while emissions from APG AM’s equity portfolio fell sharply. APG AM has been doing this for equities since 2015. Now we are also going to map out the carbon impact of other investments, such as bonds and real estate. By 2022 at the latest, our pension fund clients will link them to concrete targets for 2030.

ANNEX – APG Timeline of responsible investment