Climate Action Plan 2022

An overview of our climate targets

december 2022

APG is committed to contribute to the goal of the Paris Climate Agreement to keep global warming limited to 1.5 °C. We aim for a Net Zero emissions portfolio by 2050 or sooner.

Our commitments

We are a member of the Net Zero Asset Managers (NZAM) initiative, which, among other things, requires setting interim targets commensurate to the attainment of a Net Zero portfolio in 2050. We are also a signatory to the Climate Commitment of the Financial Sector (hereafter: Climate Commitment), in which Dutch financial institutions - including pension funds and their asset managers - pledge to:

- measure and report on the CO_2 impact of their relevant financing and investment activities;
- draw up action plans to contribute to the goals set out in the Dutch Climate Agreement and the Paris Climate Agreement, including 2030 targets.

This year, APG publishes its first Climate Action Plan following the requirements of the Climate Commitment. The structure of this document follows the Guidelines developed by the financial sectors' industry bodies[1].

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APG aims to steer the portfolio towards Net Zero emissions by 2050 or sooner.

Overall approach

Our approach is based on three pillars:

- **Measurement** of the CO_2 footprint of our investments;
- **Steering** the portfolio towards Net Zero emissions in 2050 or sooner;
- **Investing in solutions** that contribute to the transition towards a low-carbon economy.

Measuring our CO_2 footprint

APG has been measuring the CO_2 footprint of the listed equity portfolio since 2013. Since then, carbon footprint measurement and disclosure has been expanded to include other asset classes, including real estate, corporate bonds and private equity.
As of December 2021, we report on the carbon footprint of 61 percent of our assets under management.

APG aims to measure the CO_2 footprint of all relevant investments. However, due to methodological and data challenges, it is not yet possible to do so for all investments and in all asset classes. APG is closely involved in initiatives to overcome these challenges, including the Partnership for Carbon Accounting Financials (PCAF) and the Carbon Risk Real Estate Monitor (CRREM). More information on how we measure the CO_2 footprint of our investments is included in our Responsible Investment Report (pages 60-66).

Steering towards Net Zero

APG aims to steer the portfolio towards Net Zero emissions by 2050 or sooner. All our clients on whose behalf we invest[2] and APG itself have set 2030 reduction targets in line with the IPCC 1.5 degree scenario with limited or no overshoot. APG co-chairs the Paris Aligned Investment Initiative (PAII), which has developed the Net Zero Investment Framework (NZIF). The framework offers practical guidance for investors to align portfolios with the Paris climate goals and informs APG's approach to steering towards Net Zero.

1 | The Guidelines were developed by the Dutch Banking Association, Pension Federation, Association of Insurers and Dutch Fund and Asset Management Association, in collaboration with the Ministry of Economic Affairs & Climate and the Ministry of Finance.

2 | Our clients have published their climate action plans (in Dutch) on their respective websites.

Investing in climate solutions

We actively search for investments that contribute to the UN-established Sustainable Development Goals (SDGs). We call these Sustainable Development Investments (SDIs). Two of our clients have set 2025 targets for the proportion of their assets that demonstrably contributes to the SDGs. Our largest client has also set a specific target for investments contributing to the energy transition.

As of December 2021, we hold € 20.8 billion in investments contributing to SDG 7 on behalf of our pension fund clients. In addition, we invest € 46.6 billion in SDG 11: 'Sustainable cities and communities' and € 450 million in SDG 13: 'Climate Action'.

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How we measure investments in climate solutions

In 2020, APG co-founded the SDI Asset Owner Platform (2020) which allows investors to classify investments on the basis of their contribution to the Sustainable Development Goals in a credible and consistent manner.

The platform uses artificial intelligence to determine whether companies contribute to the SDGs. Classifications are based on the publicly available SDI Taxonomy & Guidance, which translates the Sustainable Development Goals into investable opportunities in order to determine which companies contribute to the SDGs with their products and services.

The SDI AOP is encouraging international investors to join the platform with the aim of making it a global standard for investing in the SDGs.

Approach per asset class

The Climate Commitment requires financial institutions to measure and report on the CO_2 impact of their relevant financing and investment activities. In principle, all financing and investment activities are relevant, with the exception of categories for which emissions are negligible, e.g. hedge funds and liquid commodities.

However, the Climate Commitment Guidelines acknowledge that for the purpose of measurement and target setting, what constitutes relevant financing and investment activities may differ per financial institution and over time. In this respect, climate impact and measurability are important factors to take into consideration.

Prioritization helps financial institutions to formulate the most effective climate policy possible and maximize impact while taking into account existing constraints in terms of measurement methodologies and data availability. Financial institutions are to explain prioritization choices in their reporting.

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We aim to measure the CO_2 footprint and set climate targets for all relevant investments.

We aim to measure the CO_2 footprint and set climate targets for all relevant investments to steer our portfolio towards Net Zero by 2050 or sooner. For purposes of measurement and target setting, we prioritize asset classes based on:

- the **Climate Commitment Guidelines**, which identify category 1 (priority) and category 2 asset classes;
- the **availability of high-quality data, standards and frameworks** that support measurement and target setting;
- the **relevance of the asset class** in proportion to assets under management and in terms of its potential climate impact.

APG has already established CO_2 footprint measurement and set climate targets for all category 1 asset classes, with the exception of mortgages. We aim to progressively phase in measurement and target setting for mortgages and all category 2 asset classes as well.

Due to their size in relation to total assets under management and their potential climate impact, we prioritize measurement and target setting for sovereign bonds, private equity and infrastructure. We consider hedge funds and liquid commodities not to be relevant asset classes for the purpose of CO_2 measurement and climate target setting due to the nature of these investments (e.g. the use of derivatives) and the fact that these are niche strategies.

Asset class	Category	CO_2 footprint measurement	CO_2 and/or climate target	% of AUM (31-12-2021)	
Listed equity	1	Yes	Yes	32%	Measurement + targets in place
Credits	1	Yes	Yes	13%	
Real estate	1	Yes	Yes	8%	
Mortgages	1	No	No	<1%	Prioritized for measurement + target setting
Sovereign bonds	2	Yes	No	25%	
Private equity	2	Yes	No	7%	
Infrastructure	2	No	No	3%	
Alternative credits	2	No	No	1%	Measurement + target setting to be phased in going forward
Illiquid commodities	2	No	No	<1%	
Thematic investments	2	No	No	<1%	
Hedge funds	2	No	No	4%	Not relevant
Liquid commodities	2	No	No	5%	

The table above summarizes our approach per asset class.

Listed equity and credits

APG aims to reduce the absolute CO_2 footprint[3] of the listed equity and credit portfolios by 50 percent in 2030 (compared to 2019). The target considers direct and indirect emissions of a company's own activities (scope 1 and 2).

In our CO_2 footprint disclosure, we currently also take scope 3 emissions of a the oil & gas and mining sectors into account, in line with the requirements set out by PCAF Global. Measurement of remaining emissions in the value chain (scope 3) will be phased in going forward.[4] We will also explore possibilities to include scope 3 in future target setting. Scope 3 emissions data are not yet as widely available and reliable as scope 1 and 2 data.

In line with our commitment to contribute to limiting global warming to 1.5 °C, we have used the 1.5 °C scenarios (with limited or no overshoot) developed by the International Panel on Climate Change (IPCC) and the International Energy Agency (IEA) to determine the reduction target for the listed equity and credits portfolios.

> **APG aims to reduce the absolute CO_2 footprint of the listed equity and credit portfolios by 50% in 2030.**

To achieve real world impact, we take a multi-pronged approach to reducing the CO_2 footprint of our portfolio through portfolio change (i.e. selling high-emitting companies in favor of low-emitting companies) and through emissions reductions by portfolio companies. Therefore, we apply a combination of instruments to reduce the CO_2 footprint of our portfolio:

- CO_2 budgets per relevant investment strategy
- Assessment of the investable universe based on climate indicators
- Stewardship activities, in particular engagement and voting
- Investing in climate solutions

Our Inclusion approach provides for the assessment of all companies in our listed equity and credit portfolios on environmental, social and governance (ESG) factors. If a company does not meet our ESG criteria, we can only invest if we believe we can encourage it to improve its sustainability performance. A lack of engagement progress is one of the reasons why we may decide to longer be invested in a company.

We apply strict climate criteria for companies to be investable. For instance, we:

- do not invest in companies that derive more than 30% of revenues from coal mines or more than 20% from tar sands;
- do not invest in energy utility companies that plan to invest in new coal-fired power generation;
- assess 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.

On behalf of our largest client we are in the process of selling all its investments in fossil fuel producers. We expect the majority to be sold in 2023.

3 | tCO_2e based on attribution using Enterprise Value Including Cash (EVIC).

4 | In 2024, scope 3 emissions of the transportation, building, materials and industrial sectors will be included in our CO_2 footprint measurement.

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We expect companies in high-impact sectors to have a governance structure that supports their climate strategy.

How we vote on climate

We vote on behalf of our pension fund clients at the shareholder meetings of companies that we invest in. Ahead of the 2022 AGM season, we tightened our voting policy with regard to climate-related governance, disclosure and targets for companies in the energy sector and in sectors with a high climate impact, e.g. industry and transportation.

- In principle, we support shareholder climate resolutions, unless there are weighty reasons (e.g. legal objections) not to do so.
- If companies put their climate strategy to a shareholder vote, we will only support the strategy if it includes a Net Zero ambition and is demonstrably aligned with the goal to limit global warming to 1.5 °C.
- We expect companies in high-impact sectors to have a governance structure that supports their climate strategy, to be transparent about their climate impact and to set clear, science-based targets for reducing scope 1,2 & 3 emissions; if a company fails to meet one or more of these expectations, we vote against reappointment of the Chair of the Board.
- We vote against remuneration proposals at companies in high-impact sectors that do not contain clear and relevant sustainability-linked performance targets.

Engaging for real world impact

We engage with companies we invest in to reduce their CO_2 emissions and promote the transition to low-carbon business models. We do this individually and in collaboration with other major investors through Climate Action 100+. Within this partnership, we are in the lead for the engagement with Holcim and Heidelberg Materials, two large producers of cement, as well as for petrochemical conglomerate SK Innovation. In addition, we co-lead on the engagement with automaker Stellantis. APG is also a member of the Dutch Climate Coalition (DCC), a collaborative initiative by Dutch financial institutions to engage with carbon intensive companies on their alignment with the Paris Climate Agreement.

> **Our 2030 goal is that on average the real estate portfolio is Paris-aligned based on the CRREM pathways.**

Real estate

APG measures and reports on the CO_2 footprint of its real estate portfolio. To manage transition risk and steer the real estate portfolio towards Net Zero, we co-founded the Carbon Risk Real Estate Monitor (CRREM).

CRREM publishes science-based decarbonization pathways for various property types per country consistent with a 1.5 degree scenario. Our 2030 goal is that on average the real estate portfolio is Paris-aligned based on the CRREM pathways. Currently, the required data and CRREM pathways are not yet available for all property types.

For new private investments in real estate, alignment with the CRREM pathways is required and included in legal documentation. We also require private investments in real estate to participate in the Global Real Estate Sustainability Benchmark (GRESB) and to work towards a four or five star rating. In listed real estate, we encourage real estate funds to align with the CRREM pathways and disclose sufficient data for assessment.

In 2022, we joined the Global Real Estate Engagement Network (GREEN). The goal is to collectively engage with the real estate sector to reduce its carbon footprint and manage progress against science-based Paris-aligned targets, e.g. the CRREM pathways.

Mortgages

With regard to our mortgages portfolio, the focus of our efforts is on obtaining relevant CO_2 footprint data from mortgage originators Munt Hypotheken and Vista Hypotheken. This follows the Guidelines which note that since investors usually do not have a direct client relationship with mortgage customers, priority should be given to retrieving data and determining action plans rather than setting climate targets.

As of December 2021, we invested on behalf of our clients € 1.3 billion in green mortgages offered by Vista Hypotheken. Customers receive a discount on the mortgage interest if they buy a home with an ‘A’ energy label or upgrade to this label.

Sovereign bonds

APG measures and reports on the CO_2 footprint of the sovereign bond portfolio. Currently, we do not have a climate target for sovereign bonds. We are exploring the role and possibilities of sovereign bonds in a Net Zero investment strategy.

Physical and transition climate risk indicators are included in our fundamental analysis of sovereign issuers. Also, we monitor our sovereign bond portfolios on climate performance and evaluate the willingness and ability of sovereign issuers to meet the Paris climate goals, based on the sovereign issuer’s carbon policy and economic dependence on fossil fuels.

Within the general investment strategies, we have a preference for investing in labeled bonds, including bonds that contribute to climate change mitigation and adaptation. We support the further development of the green bond market. In our dialogue with sovereign issuers we stress the importance of maintaining high green bond framework integrity.

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By investing in green and sustainability bonds we provide capital to corporate and sovereign issuers to finance projects that have environmental and social benefits.

Investing in green bonds

APG is one of the world's largest investors in labeled bonds, including green bonds. The proceeds of these bonds are used to finance predetermined sustainable projects or to achieve fixed sustainable objectives. As of December 2021, we invested on behalf of our clients € 13.7 billion in green bonds and € 1.6 billion in sustainability bonds (the proceeds of which are intended to finance a combination of green and social projects).

By investing in green and sustainability bonds we provide capital to corporate and sovereign issuers to finance projects that have environmental and social benefits. APG is strongly committed to the development of the green bond market:

- We are a contributor to several industry initiatives aimed at expanding the size, scope and transparency of the labeled bond market, including the Climate Bond Initiative.
- We encourage issuers to establish labeled bond programs when we engage with them directly.
- We actively engage with investment banks and syndicate teams to understand their role in encouraging companies to increase labeled bond issuance.
- We publish Guidelines for Green, Social and Sustainable Bonds to make (potential) issuers aware of our expectations and foster healthy market development.

Private equity

APG measures and reports on the CO_2 footprint of the private equity portfolio. However, for private equity the footprint is entirely based on sector averages since reliable data on CO_2 emissions of private equity companies is generally not yet available. To improve data quality, APG co-founded the ESG Data Convergence Initiative, which provides a standard for ESG (including climate-related) metrics in private equity investments.

In 2023 we will explore the possibility of setting a climate target for our private equity investments.

Infrastructure

APG currently does not measure and report on the CO_2 footprint of the infrastructure portfolio. In 2022, we conducted a pilot CO_2 measurement, which will be continued and developed further in 2023. In 2023 we explore the possibility of setting a climate target for our infrastructure investments, considering new NZIF guidance.

A relatively large proportion (17%) of our infrastructure investments contributes to SDG 7: 'Affordable and clean energy'. For example, we invest in onshore and offshore wind energy, solar energy and hydropower.

Policy advocacy
Government policy is crucial for creating an environment that promotes large-scale private investment in the energy transition. However, there is a gap between the commitments governments have made thus far and the efforts required to limit global warming to 1.5 °C. As a a signatory to the Global Investor Statement to Governments on the Climate Crisis, APG urges world leaders to rapidly implement a number of policy steps to combat climate change, including:

- stepping up national climate ambitions for 2030;
- optimizing conditions for investments in climate solutions, for example by introducing realistic carbon prices and abolishing fossil fuel subsidies;
- requiring companies to report on their transition plans in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

We also engage with individual national governments on climate policy. For instance we have called on the Dutch government to implement effective carbon pricing. Recently, we urged South Korea's government to outline a clear and Paris-aligned decarbonization pathway and stop building new coal-fired power plants.

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Going forward

Data availability, quality and comparability continue to be a challenges for CO_2 measurement and climate target setting. However, we do see that significant progress is being made. Quality data is becoming more broadly available for a wider range of asset classes and sustainability frameworks are becoming more refined to capture the complexities of assessing climate impact. We are firmly committed to promoting increased data availability and the further development and adoption of solid ESG market standards. Over time, this will enable us to enhance our approach and expand the scope of climate target setting to include an ever larger proportion of our assets under management. Engagement and collaboration remain important tools for realizing real world impact. We will continue to seek and allocate capital towards climate solutions to live up to our commitments.

APG will annually update its Climate Action Plan and report on the progress made in achieving our climate targets.