

Why is responsible investment important to APG?

Responsible Investment is central to the way APG and its pension fund client think and work. A pension fund's fundamental responsibility, of course is to provide pensions for its members. But it is one of our fundamental Investment Beliefs that environmental, social and governance (ESG) issues are important contributors to the financial performance of our investments, and that by taking them into account in our investment processes and decisions we will be able to improve our investment returns and/or reduce the risk we take in making our investments.¹

Environmental challenges such as climate change and the depletion of biodiversity; social issues such as human rights and the way that business affects local communities; corporate governance issues such as executive pay and compliance with accounting standards – all these can affect the financial performance of our investments over the long term. Integrating this understanding into our investment decisions is fundamental to serving the participants' financial interests.

These issues are also closely linked to the values and concerns of our client's members and of society as a whole. Taking account of them is a matter of social responsibility for a large investor such as APG. This includes recognising that there are certain investments that it is not acceptable to make.

We look at these factors both in relation to individual investments – specific companies, for example – and across the market as a whole. To fulfil its purpose of providing attractive pensions to its participants our client depends on a world economy that continues to flourish in the long term and on healthy, trustworthy financial markets. These in turn depend on long-term environmental sustainability and responsible standards of corporate practice that inspire trust in the business community on the part of society. It is therefore in our long-term interest to promote these conditions.

In 2007 our client adopted a new Responsible Investment Policy that provides the overall framework for our work in this area. The Policy has six dimensions:

- Integrating ESG factors into our mainstream investment processes
- Engaging with companies in which we invest in order to promote improved sustainability and corporate governance performance
- Taking an active and responsible approach to corporate governance
- Exploiting opportunities to invest in solutions to sustainability challenges
- Engaging with policy-makers to promote sustainability and raise corporate governance standards in the market as a whole
- Excluding from investment companies whose products are prohibited under Dutch or international law, or which are widely considered to be objectionable.

¹ Our Investment Beliefs are a series of fundamental principles that frame our approach to investment.

Integrating ESG into our mainstream investment process

Our client has for many years been committed to investigating and understanding the relationship between ESG factors and investment decision-making. Having conducted and sponsored a considerable amount of research, and tested the impact of these factors in a small portfolio, we decided in autumn 2006 to begin the process of integrating ESG factors across all our investments. Our Strategic Investment Plan 2007-2009 includes a formal commitment to do this. This is based on our firm belief that investing in this way will help us to improve our risk-return profile.

Our six-person specialist in-house ESG team conducts research on relevant issues and discusses the findings in detail with portfolio managers responsible for investment decisions. Our ESG research can form the basis for decisions not to make an investment, to sell an investment, or to reduce or increase the size of an investment. We make rounded investment decisions based on a company's ESG characteristics *and* its financial prospects.

We are working to integrate ESG across all asset classes. Although historically most of the debate surrounding responsible investment has focused on listed equities, there are enormous issues right across the investment spectrum. So we are looking at sustainability in real estate, the human rights impacts of infrastructure investment in China and the Gulf states, sustainable certification in forestry, integrating ESG into the complex structures of the private equity industry, environmental and social issues in agriculture, and more besides.

Engagement

As a large and very visible organization in Dutch society, and a significant player in a global context, it is important for APG to demonstrate social responsibility. Our client's members expect nothing less. We therefore expect all the companies we invest in to operate in line with the UN Global Compact, and we apply similar standards in our unlisted investments. We pursue an active programme of engagement with companies that appear not be living up to these standards. Our current engagement priorities include oil and gas companies operating in Burma and Sudan (Total, Daewoo International and a number of Chinese, Indian and Indonesian companies); employee relations at Wal-mart; and environmental issues at Freeport-McMoRan. Our policy stipulates that if engagement does not lead to the improvements in environmental and social standards we consider necessary, as an ultimate resort we can divest and exclude the company from further investment.

Investing in sustainability solutions

Addressing the world's sustainability challenges – for example cutting carbon dioxide emissions to limit climate change, protecting forests or reducing poverty - requires investment on a huge scale. Our long-term perspective, approach to risk and size in the market mean that it is well placed to provide investment in such areas. Certain types of investment of this kind can be very attractive not only

because they offer good financial returns in themselves, but because they involve assets that allow us to diversify our portfolio and spread risk. This is true, for example, of investments in infrastructure and private equity. There is low correlation between the return on these investments and that on other investments we make. We seek out such opportunities and exploit them where they offer sufficiently attractive financial returns. The table below provides examples of current investments in sustainability solutions.

Name of fund/investment	Amount	Description
Clean technology private equity	EUR 250 m	Private equity investment in companies specialising in clean technology (renewable energy, environmental technology, etc.)
Ampère Renewable Energy	EUR 100 m	Renewable energy in Europe, primarily onshore wind and biomass
Other infrastructure funds	EUR 85 m	Various renewable energy investments within broader infrastructure funds
Carbon funds	EUR 250 m	Trading carbon in the European Emissions Trading Scheme
Carbon funds	EUR 250 m	Investment in CO2 reduction projects under the Clean Development Mechanism
FE Clean Energy	USD 50 m	Renewable energy projects, including bioethanol and hydropower, in emerging markets, primarily Thailand, China and India
Global Solidarity Forest Fund	USD 68 m	FSC-certified forestry in Mozambique with pro-poor benefits
Microcredit (various funds)	EUR 90 m	Micro-loans to the poor in developing countries; private equity investment in microfinance institutions

Exclusion

There are certain products in which our client does not consider it ethically acceptable to invest. We exclude from investment companies that are directly involved in the production of products that are prohibited under Dutch or international law, or which are widely considered to be objectionable. In practical terms this means we do not invest in companies involved in the manufacture of antipersonnel landmines, cluster bombs or chemical or biological weapons: a list of 15 companies in total. Our client's board keeps this policy under regular review.

What does the future hold?

As far as APG is concerned, responsible investment is here to stay. We plan to broaden and deepen or work across all asset classes in the coming year, expanding our resources as circumstances permit, developing the capability of all investment teams to factor sustainability into their investment decisions and ensuring that we understand risk and capture opportunity linked the kaleidoscope of environmental and social issues.