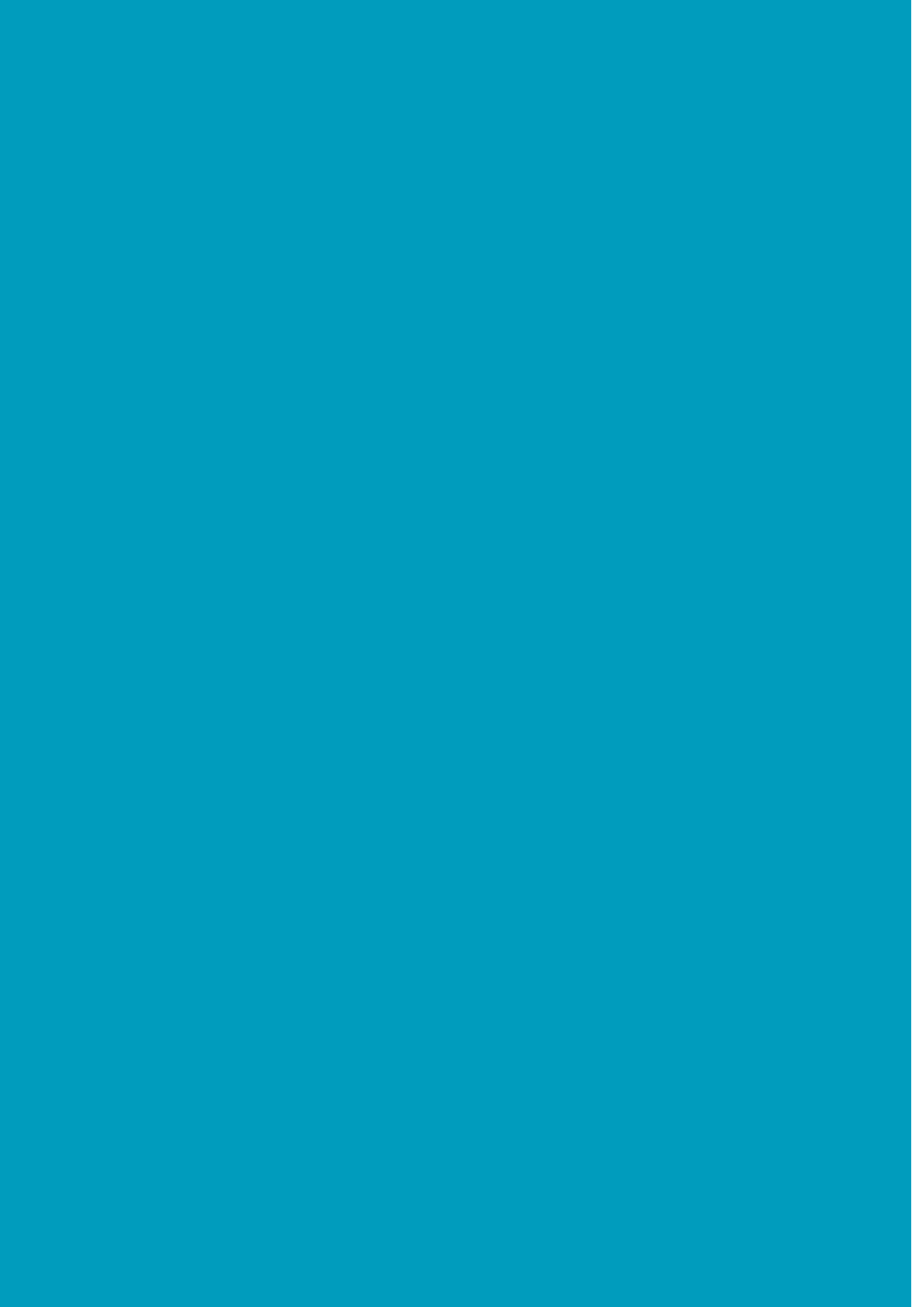


Sustainable and responsible investment 2018





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Foreword

ABP stands for a good pension for our participants now and in the future. We achieve this by investing with an eye for return, risk, costs and sustainability. We are well on our way to realizing the concrete goals that we have set ourselves for 2020.

We want to ensure that our participants have a good pension and therefore we pay close attention to (financial) returns, risks and costs. We are and remain focused on this and this is also what our participants expect from us. Certainly in a time when we cannot increase pensions in line with inflation and the likelihood is increasing that we will have to reduce pensions in the coming years.

At the same time, we expect that our sustainable and responsible investment policy will enable us to take better investment decisions. We are convinced that sustainable and responsible investment and good returns can go hand in hand. This is also supported by academic research. We are obtaining more insight into the risks and opportunities of an investment over the long term. Insight into climate risks is an example of this and we conducted extensive research into this matter this year, as you will be able to read in this report. In this manner, sustainable and responsible investing contributes to a good pension for our participants now and in the future.

And just as important: surveys show that participants expect from us that we take human rights, working conditions, the environment and corporate governance into account in our investment decisions. Many participants consider it important that their pension euros contribute to a better, more livable world for present and future generations.

Therefore, sustainability is not optional for ABP. That is why we set ambitious goals for 2020 when we formulated our policy for sustainable and responsible investment in 2015. We made good progress in 2018 and we are well on

track to achieve these goals. You can read more about this in this report.

We also report on the progress that we have made with the implementation of our inclusion policy. At the end of 2017, our investment organization APG had assessed 600 companies on criteria for sustainable business practices. At the end of 2018, the total number had risen to 7,700 companies. This corresponds with about 90% of the value of our investments in equities and bonds. As a result, we are increasingly better able to select companies with sufficient attention for responsible business practices.

When a company is lagging behind with regard to sustainability, but the return and risk expectations are interesting and the company wants to improve its sustainability performance, we agree to an improvement process with concrete targets. The aim is to make the difference by increasing the company's sustainability. However, if there is no or insufficient improvement we may decide to sell the investment. This was the case, for example, at Posco Daewoo, a company that develops palm oil plantations. Engagement plans have been drawn up with 109 companies. We plan to take further steps to explain why we invest in certain companies and share the results of our dialogue with these companies.

The complete integration of sustainability and responsible business practices is an innovative manner of investing, and therefore this demands a lot from our investment organization APG. The innovative character of the inclusion policy is recognized by the Dutch Association of



Corien Wortmann-Kool, Chair of the Board

Investors for Sustainable Development (VBDO), which acclaimed ABP the most sustainable pension fund of the Netherlands in 2018. This is a fine acknowledgment and encouragement to continue along this path. Moreover, we enhanced our exclusion policy in 2018 with extra criteria. This has led to the sale of our investments in manufacturers of tobacco and nuclear weapons.

With the choices that we make, we sometimes receive a critical assessment from stakeholders or participants. We are actively seeking to enter into a dialogue with them so that we can share standpoints, considerations and dilemmas and can learn from this, also when we disagree. That keeps us alert and I consider this very valuable. In this report, we will also make this aspect of sustainable and responsible investing visible by discussing specific dilemmas and providing insight into our considerations.

“Large investors such as ABP play an important role in achieving the UN Sustainable Development Goals. Returns and sustainability can and must go together”, according to Minister Sigrid Kaag during a seminar that ABP organized in 2018 with representatives of NGOs, pension funds, supervisors and the government. ABP is specifically looking for investments in companies with products and services that contribute to the Sustainable Development Goals of the United Nations, Sustainable Development Investments (SDIs). We aim to provide insight, together with others, into how our investments contribute to these goals.

We also wish to contribute to sustainable economic development close to home. We do this, for example, by investing in green bonds of the grid operator TenneT, which is investing billions in preparing the high voltage grid in the Netherlands for the energy transition. ABP established the Netherlands Energy Transition fund in 2018 especially for investments in relatively small companies and projects that focus on innovative solutions and technologies for the energy transition. We are also looking further into how we can contribute to investments in the Netherlands in this area based on our investment criteria. For instance, Gerard van Olphen, CEO of APG, was the chair of the Financing Task force of the ‘Climate Tables’. This task force identified the opportunities and difficulties pension funds and financial institutions face when financing initiatives.

We join forces with other parties in the Netherlands and abroad. A good example is Climate Action 100+, a collaboration in which large investors join forces to exert pressure on the world’s largest CO₂ emitters. We are also working together in the covenant for International Responsible Investment (IMVB), which was concluded in December and in which the pension sector has entered into agreements with the government and NGOs on how to deal with unacceptable business practices at companies in which we invest.

Putting our sustainable and responsible investment policy into practice presents the necessary challenges and demands a large effort from the employees of ABP and APG. The ABP Board of Trustees sincerely appreciates their engagement and the expertise with which they carry out the implementation step by step. Participants, employers, and other stakeholders react to what we do, as does our Accountability Body and our Supervisory Board, who challenge us to continue to examine our policy critically. I would also like to thank them on behalf of the Board of Trustees. In 2019, ABP will focus on the development of our sustainable and responsible investment policy after 2020. We want to build further on a good pension in a livable world for present and future generations.

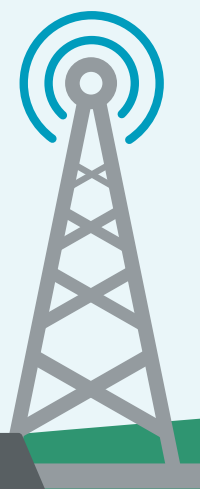
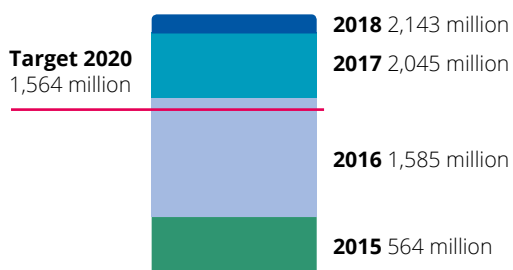
Corien Wortmann-Kool, Chair of the Board

Progress in policy implementation

We have taken important steps in 2018 in the realization of our sustainable and responsible investment targets. These pages illustrate how much progress we have made since the beginning of 2016, when the targets were set.¹

Investments in education and communication technology

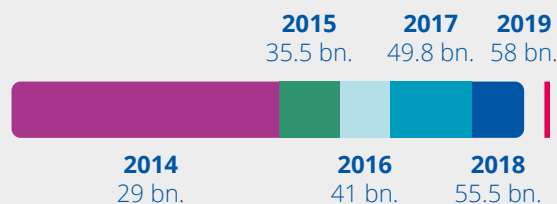
See page 55 >



Investments that contribute to the UN Sustainable Development Goals



See page 24 >



¹ The figures on these pages reflect the position at the end of each year (31 December). A different reference date applies to our CO₂ footprint (see page 35).

Goal 2020
75%

2018
72%

2017
72%

2016
85%

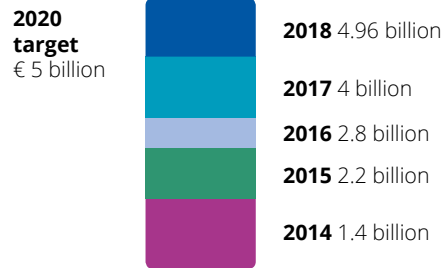
2015
112%

2014
100%

CO₂ footprint
equity portfolio
See page 35 >

Investments in renewable energy

See page 33 >



Implementation of inclusion policy

On track

See page 16 >

1. About this report

What ABP does as a sustainable and responsible investor is relevant to our participants and other stakeholders. With this report, the Board of Trustees accounts for the activities and results in the area of sustainable and responsible investment in 2018.

➔ We asked participants and other stakeholders what they would like to read about in the report

➔ Participants regarded the efficient use of resources and reuse of waste as the most important topics

➔ Among other stakeholders 'Attention for sustainability and good governance in the daily investment decisions' scored the highest

How do we involve our stakeholders?

For the fifth year in a row, we asked stakeholders in advance which topics they would like to read about in the report. We focused on our participants and employers in the pension fund, ABP board members and organizations that are directly or indirectly involved in our sustainable and responsible investment policy. The last group ('stakeholders') consists of, for example, trade unions, NGOs, knowledge institutions, legislators, politicians, media, and other pension funds and pension providers.

In a survey that we commissioned in September 2018, participants indicated their preferences for specific topics. ABP board members and stakeholders could indicate which topics in the 2017 report were so important that they also wanted to read about this topic in this report. They could also choose from a list of topics, involving ABP as a responsible investor, which attracted media attention in 2018.²

How do we take their preferences into account?

Our participants considered 'Efficient use of resources and reuse of waste' to be the most important topic. An example of an investment in this area is Befesa, a company that recycles steel dust and thus contributes to UN sustainable development goal 12 (Responsible consumption and production). You can read more about this in chapter 5.

In recent years, the themes 'combating climate change' and 'access to affordable and sustainable energy' have become more important for our participants. These topics are discussed in this report in chapters 5 and 6.

Both stakeholders and board members would like to see the relationship between responsible investment and returns discussed in this report. This topic is discussed in detail in chapter 2. Investment examples are included in other chapters and we explain how we translate sustainability and responsible business practices into concrete investment choices.

² More information about the survey that was held among participants, ABP board members and stakeholders, as well as the media analysis, is provided in Annex 1 at the end of this report.



We ask participants and other stakeholders what they would like to read about in the report.

Other topics that stakeholders consider important are ‘Attention for sustainability and good governance in daily investment decisions’ and ‘Investing in sustainable development’. We will discuss these topics in this report by including examples of investments and interviews with portfolio managers. In addition, a separate chapter has been dedicated to investing in the UN Sustainable Development Goals (SDIs).³

The board considers it important to report on the execution of policy and on specific policy choices. The execution of the inclusion policy is discussed in chapter 3. We use infographics to show our progress with regard to the targets (pages 6 and 7). We pay attention to specific policy choices throughout the report. Other media topics that stakeholders and the board members consider important are also discussed: the energy transition, fossil fuels, deforestation / palm oil, exclusion of nuclear weapons and tobacco, labor rights and Shell.

Reporting guidelines

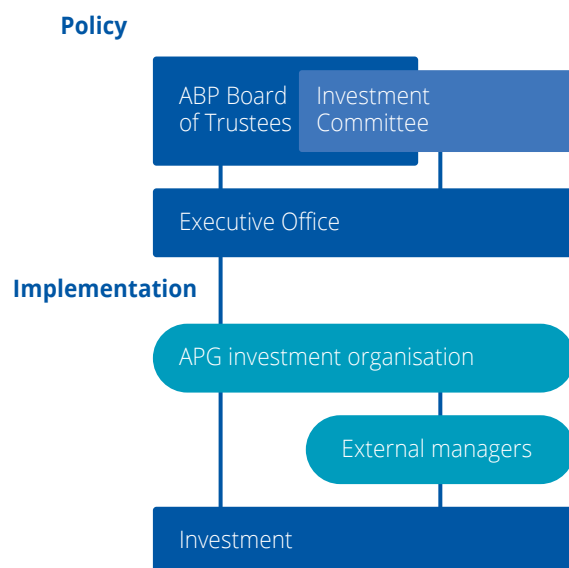
In this report, we have applied the standards of the Global Reporting Initiative (GRI) where relevant. These standards, which are used throughout the world, are guidelines covering both the content of the report and the quality of the reporting. We use our own methodology for determining the CO₂ footprint of our equity investments and our Sustainable Development Investments.

The Board of Trustees decided to publish a separate sustainability report again in addition to the report of the Board of Trustees. In this manner, the reports over the current strategy period (2015-2020) remain consistent and comparable. For the new strategy period as from 2020, we will determine whether we will integrate our sustainability report into the report of the Board of Trustees.

Dutch version prevails

In the event of discrepancies between different versions of the Sustainable and Responsible Investment Report 2018, the Dutch version shall prevail.

Governance structure



³ SDI stands for Sustainable Development Investment. You can read more about SDIs in chapter 5.

Implementation by our investment organization

The ABP Board of Trustees determines the investment policy. Various board members have specific knowledge and expertise in the field of sustainable and responsible investment. Mariëtte Doornekamp was appointed as a member of the Executive Board of Eumedion in 2018. Eumedion represents the interests of institutional investors in their efforts to advance sustainability and good corporate governance among listed companies. Xander den Uyl was reappointed as a board member of PRI in 2018. PRI is a global network of more than 2,200 institutional investors, banks and asset managers, who collaborate to further develop responsible investment.

Decisions on more operational matters are mandated to the Board's Investment Committee, which consists of board members and external specialists. The Board of Trustees and the committee are supported by the ABP Executive Office. The policy is implemented by APG Asset Management⁴ (hereafter: APG), which manages our pension assets. APG has outsourced this management partially to external managers (at the end of 2018: 29%). APG informs the Board of Trustees, through various committees, about the implementation of the policy and the progress several times a year. Where implementation or management is mentioned in this report this is done by APG, unless stated otherwise.

'Driven by the external environment, responsible investment is undergoing a metamorphosis. Public opinion, legislation and forms of collaboration are in a constant state of flux. The Supervisory Board commends the manner in which ABP is fulfilling its pioneering role in this area.

The Supervisory Board has reviewed the results of the evaluation of responsible investment up to now. The Supervisory Board is of the opinion that good progress has been made. Realization of the targets is on track and the Board of Trustees is adjusting its approach based on experiences during the journey. The results have had little direct effect on participants' appreciation for ABP. The Board of Trustees is not discouraged by incidental negative publicity, which is inherent in ABP's ambition, and continues to invest in explaining its approach. The Supervisory Board encourages a long-term perspective with regard to this aspect.'

Supervisory Board ABP in the ABP Annual Report 2018

⁴ APG Asset Management is part of the APG Group. ABP owns 92% of the shares of APG Group.

2. Our sustainable and responsible investment policy

ABP aims for a good pension for its participants. And it aims for a sustainable world in which to enjoy that pension. We pay attention to returns, risks, costs and to how the companies we invest in deal with people, the environment and good governance (ESG - Environmental, Social and Governance).

→ A good and affordable pension is and remains the point of departure for our investment choices

→ Attention for people, the environment and good governance is also important

→ Financial returns and sustainable and responsible investing can go hand in hand

We invest the pension contributions that participants and employees pay each month in various asset categories, such as real estate, equities and bonds. We do this because investing generates a higher return in the long term than saving. After all, our primary task as a pension fund is to provide a good and affordable pension for our participants. Now and in the future.

In addition, ABP wishes to invest in a manner that is sustainable and responsible.⁵ So that future generations can also enjoy their pension in a pleasant and livable world. This can go hand in hand: sustainable and responsible investment and a good return at an acceptable risk.

More and more attention for sustainability

By 2020, we only want to have investments in companies that pay sufficient attention to people, the environment and good governance. Or in companies that we expect are willing to make an effort to improve their sustainability. This is why we started completely integrating sustainability and responsible business practices into our investment decisions in 2015. For each investment, we not only look at the expected return, risks and costs, but also at how sustainable and responsible the investment is.⁶

⁵ With 'responsible investment', we mean that for all our investments we consciously take all aspects into account: risk, return, costs and sustainability. 'Sustainable' investment goes a step further and means that we invest in companies with products and services that contribute to a pleasant and livable world, such as our SDIs (see chapter 5).

⁶ You can read more about this in chapter 3.

We take sustainability and responsible business practices into account in every investment choice



We are convinced that companies that have sufficient attention for people, the environment and good governance perform better in the long term, not only in terms of sustainability but also where financial returns are concerned.

We sometimes face difficult choices, such as investing in fossil fuels and cobalt mining.

Targets

Sustainability is not optional for ABP: we really want to contribute to a world that is clean and livable. That is why we have formulated a number of clear targets for 2020. In comparison with January 1, 2015, we want:

- our investments that contribute to the UN Sustainable Development Goals to have doubled to € 58 billion;
- to have invested five times as much (€ 5 billion) in renewable energy;
- the CO₂ footprint of the overall equity portfolio to have decreased by 25%;
- to have invested an additional € 1 billion in education and communication technology.

We achieved the last two targets at the end of 2018 and the other targets are within reach.

Implementation on track

The Board of Trustees evaluated the implementation of the policy and the progress in June 2018. As in previous years, important steps were taken; by the end of 2018, we had carried out sustainability and responsible business practices assessments for approximately 7,700 of the over 10,000 companies in which ABP can invest via shares or bonds (chapter 3).

In addition progress was made with:

- selling all investments in producers of tobacco and (components of) nuclear weapons (chapter 4);
- identifying investments that contribute to the UN Sustainable Development Goals (chapter 5);
- our thematic engagements in areas such as child labor and safe working conditions (chapter 7);
- updating our Corporate Governance Framework and voting policy (chapter 8).

Embedding in the organization

The attention for and knowledge of sustainable and responsible investment at our asset manager has grown considerably due to close cooperation between the sustainability team and the portfolio managers. The availability of reliable sustainability information is crucial for a good implementation of our policy and remains an attention point. One of the challenges is that uniform definitions are often lacking in the field of sustainability and responsible business practices, such as these do exist for financial data such as 'profit'. In other words: what is sustainable and what is not is often a matter of definition.

At the end of the current policy period in 2020, the Board of Trustees will renew the sustainable and responsible investment policy. You can read more about this in chapter 11.

Contributing to a good return

With the growing attention for sustainable and responsible investment the question arises: is taking people, the environment and good governance into account also positive for risk and return?

A lot of academic research has been carried out into the relationship between responsible investment and financial performance. The majority of the studies show that atten-

Funding the Dutch energy transition

Actively looking for investment opportunities in the Netherlands is part of our investment policy. These investments must meet the same standards as all other investments: they must be attractive in terms of return, risk, and cost, and comply with our policy for sustainable and responsible investment.

Pension funds must invest in increasing the sustainability of the Dutch economy. Politicians, experts and NGOs are increasingly calling on pension funds to do this. Many see a role for pension funds in financing the energy transition. This is the transition from fossil fuels (oil, gas, and coal) to sustainable energy (such as solar, wind, and geothermal energy sources).

ABP wishes to contribute to a sustainable and future-proof Dutch economy. The Board of Trustees agreed

to establish the ABP Netherlands Energy Transition fund (ANET) at the end of 2018. This fund is intended specifically for investments in relatively small projects and companies that are working on innovative solutions for the climate problem, such as sustainable generation or transport of energy. ABP has reserved € 50 million for the fund with the possibility of increasing this amount. We expect to make the first investments in this portfolio in 2019.

Support for promising solutions

By investing in innovative and promising solutions in an early stage, our relatively small investment can make a big difference. It also allows us to gather valuable knowledge about technological developments that may play a big role in the future.



tion for ESG does not necessarily have a negative effect on returns. It can even result in higher returns and less risk.⁷

Academic research strengthens our conviction that we take better investment decisions when we pay structural attention to sustainability and responsible business practices. By paying attention to this, we obtain better insight into the opportunities and risks of our investments.

Financial performance remains a condition in our choice of investments. In other words: even if an investment is good from an ESG perspective, we still will only invest if the expected return, risks and costs are favorable.

We expect from our portfolio managers that they can realize at least the same return as when they would not have taken ESG factors into account. We make use of the regular benchmarks to measure their performance. This means that we compare the return with a basket of investments that do not pay special attention to sustainable and responsible business practices.

ABP number 1 in VBDO benchmark

In October 2018, ABP was ranked number 1 in the annual ranking of the Dutch Association of Investors for Sustainable Development (VBDO), which assesses the responsible investment policy of pension funds. ABP obtained the maximum five stars. This was the first time that VBDO awarded five stars.

VBDO commended the increase of the investments in green bonds, the development of a method to determine whether an investment contributes to sustainable development, and ABP's clear targets for supporting the UN Sustainable Development Goals.

In addition, VBDO praised ABP's inclusion policy. The aim of this inclusion policy is to assess all companies in which we can invest on sustainability and responsible business practices.

New strategic plan

We worked on a new strategic plan in 2018. In this plan, we define what ABP stands for and what our ambitions are for the next three years. 'Working on a sustainable pension in a sustainable world' is one of the pillars of our strategy. Thus sustainable and responsible investment will become even more central to the way we think about pensions.

⁷ Friede, G., T. Busch and A. Bassen (2015), 'ESG and financial performance: aggregated evidence from more than 2000 empirical studies', *Journal of Sustainable Finance and Investment*.



Interview Jan-Willem Ruisbroek – Head of Global Infrastructure Investment Strategy at APG

Sustainable in infrastructure

Investing in newly constructed wind farms provides a good return and supports the transition to climate-neutral energy supply, according to Jan-Willem Ruisbroek. “Such an investment really contributes to the community and to a sustainable world.”

Jan-Willem is Head of Global Infrastructure Investment Strategy and responsible for investments in, for example, high voltage grids, wind farms, ports and toll roads. “These are potentially interesting investments for ABP; they offer stable revenues over a longer period, contribute to the diversification of risks and are often valuable for society.”

What are the challenges when investing sustainably in infrastructure?

“Investing in infrastructure that is yet to be built—for example wind farms or solar parks—brings more uncertainty and thus more risk than investing in existing infrastructure. However, in the meantime, we have acquired the knowledge and experience to be able to assess these risks properly. And the returns are generally much higher than for existing infrastructure.”

Can you give an example of a sustainable infrastructure investment?

“As from the planning phase, ABP has been involved in the Åskalen-park in Sweden, one of the most efficient wind farms in Europe. As from 2020, this park will supply sufficient sustainable energy for 50,000 Swedish households.”

But what if it concerns investing in ‘non-green’ infrastructure such as toll roads?

“In that case, we use our influence to get the management of the company to move in the right direction and to become as ‘green’ as possible. For example, by replacing the lamps in streetlights with led lamps.”

“The point of departure remains that an investment must provide a good return for the participants. There is a lot of demand for investments in sustainable infrastructure and therefore investors often pay a lot for this. In order to still realize a good return, we have to be creative. For example, by looking at alternative green investments, such as solutions for the smart city of the future.”

3. The inclusion of investments

ABP only wants to invest in companies with sustainable and responsible business practices that are expected to provide a good return. Therefore, since 2017, we assess all companies in which we can invest via shares or bonds on these criteria. Of the over 10,000 companies, we have now assessed 7,700.

→ Companies are assessed on return, risk, costs and sustainability

→ About 90% of the total value of our investments in equities and bonds has been assessed

→ We either sell companies that are lagging behind or we stimulate them to improve their ESG performance

With this policy, which we refer to as the inclusion policy, we comply with the guidelines of the OECD (Organization for Economic Cooperation and Development) regarding, for instance, the systematic identification of ESG risks in the portfolio and exerting influence on companies to reduce these risks.

As an active long-term investor, our asset manager has its own investment teams, which manage the largest share of the investments themselves. The portfolio managers are closely involved in the inclusion policy and play an important role in this. Sustainable and responsible investment is always on their minds when they take decisions on investments. Below, we explain how this process works.

How do we assess companies?

We assess all companies in which we can invest via shares or bonds on these criteria:

- Do they provide an attractive return?
- Is the risk acceptable?
- Are the costs not too high?

- Do the companies operate in a sufficiently sustainable and responsible way?

In order to determine whether a company is sufficiently sustainable and responsible, we check whether the company has a policy for the agreements the United Nations has made regarding responsible business practices (the UN Global Compact). This concerns universal principles on human rights, labor, the environment and anti-corruption. For example, does the company communicate how waste is processed safely? Or how it takes the interests of local communities into account? Or protects the personal data of customers?

A policy on paper is not enough. We also check whether a company fulfills agreements in practice. Are incidents known, such as accidents or environmental pollution? How does the company deal with them? We have separate criteria for every sector that take the specific risks in that sector into account.

Invest, sell or improve

If a company satisfies our return, risk, cost, and sustainability criteria, it is designated as a 'leader'. It is a company that we would like to invest in.

Furthermore, there are companies that do score well on return, risks and costs, but are lagging in the area of sustainability and responsible business practices. We refer to these as 'laggards'. If the portfolio manager considers risk, return and costs interesting enough, he can invest in these companies, but only if he expects he can get them to improve their ESG performance. He must find them attractive enough to put time and effort into such an engagement. If these criteria have been met, we can invest in these companies and we refer to them as 'improvement potentials'. We tell such companies which improvements we wish to see and we monitor the progress closely.

Such an improvement process (*engagement*) can be intensive and take a long time. If there are no or only insufficient results within a number of years, we can stop investing in this company. If we do succeed in getting a company to operate more sustainably and responsibly, we have achieved our goal: a better investment in a company that contributes to a sustainable future.

How far are we?

Our goal is to assess all over 10,000 companies in which we can invest via shares or bonds. By the end of 2018, we had assessed over 7,700 companies (approximately 90%

of the value of our investments). We started selling our investments in 'laggards'. Furthermore, 109 companies were assessed as 'improvement potentials. We will communicate to these companies which improvements we wish to see and within which term (you will find examples of this on pages 20 and 21). We will assess the remaining companies in 2019.

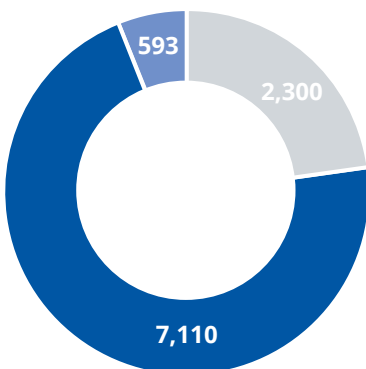
Challenges

Assessing thousands of companies on various criteria is challenging. Systems cannot do everything and many changes have to be implemented manually. Questions that appear to be simple such as 'What is a company?' are sometimes more difficult than expected. For instance, a parent company and a subsidiary can be two totally separate companies that operate in a completely different sector and that therefore each have to be assessed on other criteria.

For instance, it occurs more than once that the parent company scores poorly on our sustainability criteria, while the subsidiary scores very well. Based on our inclusion policy, we would want to invest in the subsidiary but we would not want to invest in the parent company. However, public sustainability information is only provided at the level of the parent company. This means that no distinction is made between the parent company and the subsidiary. In that case, we have to assess the difference ourselves and enter our conclusion into the system manually.

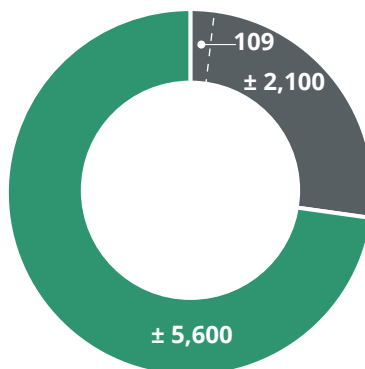
2018: major progress in the inclusion policy

Of a total of 10,000 companies in the investment universe, 7,700 have been assessed



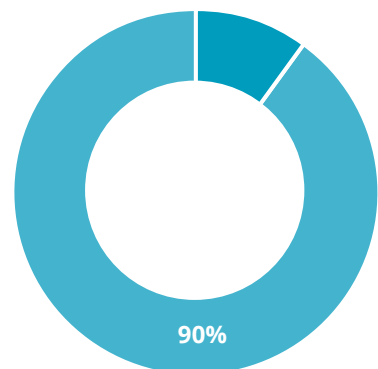
● 2017 ● 2018 ● 2019

Classification of the investment universe assessed (31-12-2018)



● Companies do not meet inclusion criteria, 109 of which have been classified as improvement potentials
● Companies meet inclusion criteria

Percentage of portfolio value assessed (31-12-2018)



What effect does this have on the portfolio?

Participants and NGOs ask how our investment portfolio has changed as a result of the implementation of our inclusion policy. Although we made considerable progress in 2018 with the assessment of companies, it is still too early to draw any conclusions. We started selling 'laggards' and drawing up engagement plans for the 'improvement potentials' towards the end of the year. The composition of the 'new' sustainable portfolio will become clearer in the course of 2019 and we can then report on this more concretely.

The sale of Posco Daewoo

Our engagements with companies are not without consequences, as is apparent from the sale of our shares in South Korean company Posco Daewoo in June 2018. Via a subsidiary, this company was involved in clearing forest on the Indonesian island of Papua to create palm oil plantations.

ABP called Pasco Daewoo to account several times in the past few years on sustainability and responsible business practices. Measures that our portfolio managers proposed were not adopted quickly enough by the company. As a result, we were no longer confident that the company was willing to implement improvements and we sold our investment.



Less carbon, more renewable energy

ABP wants to invest less and less in fossil energy and more and more in renewable energy.⁸ We sold seven coal companies in 2018 that were assessed as 'laggards'. The value of these coal investments in the portfolio amounted to € 71.8 million at the beginning of the year. These companies represent a total production capacity of 34,000 megawatts, and expansion plans of another 18,235 megawatts.⁹ This corresponds roughly with the production capacity of 68 electric power plants and an expansion with 36 electric power plants. These are multiples of the 4631 megawatt capacity that the Netherlands currently has in coal-fired power plants.¹⁰

We ask coal companies in which we still do invest not to expand their coal-fired power plants any further and to develop a strategy for the transition to sustainable energy. In our infrastructure portfolio, we have not been investing in new coal-fired power plants for ten years and we will not do so in the future.



- 8 We will discuss this in more detail in chapter 6. In this chapter, you can also read the interview about steering on less CO₂ in the equity portfolio.
- 9 Urgewald (31-12-2018), 'Global Coal Exit List (GCEL)'. <https://coalexit.org/database-full>. The figure takes into account the size of the interests of the companies in expansion projects, but not the size of ABP's positions in the companies.
- 10 Bloomberg New Energy Finance

Interview Ben Rosado – Senior credit analyst APG

Discussing product safety with General Motors

Why are you talking to General Motors?

“General Motors (GM) has a history of serious safety incidents. For instance, the company failed to report serious defects of the ignition switch, whereas this had already been known within the company for years. In 2014, GM recalled all the cars with this faulty ignition switch. The company later acknowledged that the defect possibly caused 124 deaths and hundreds of wounded. Due to, among other things, GM’s late response, we had our concerns about the company culture in which behavior with such serious consequences was possible.”

What did GM do subsequently?

“The company has announced several initiatives to improve product safety since 2014. They looked good on paper, but as an investor we wanted more insight into the effectiveness in practice. Has safety really been improved, or is it just window dressing?”

What do you require from such a company?

“That is difficult: determining exactly what we want from a company. Inadequate safety is often related to the corporate culture. For example, workers that are concerned about the safety of a product, but who do not dare report this. Therefore, the culture has to change. But how can a company demonstrate that the culture has improved?”

“We have made agreements with GM’s senior management regarding measuring and disclosing, for example, the number of phone calls to their ‘Speak Up for Safety’ hotline. Employees, suppliers and dealers can report possible safety problems via this hotline. We provided constructive feedback and

the company was open to our questions and comments.”

“Ultimately, it boils down to being open and to what extent the management makes an effort to implement improvements. We hear from the managers of the sustainability and safety teams that the Board now discusses the safety of the cars in every meeting.”

Does that mean that the matter has been resolved?

“Although GM’s willingness and openness are certainly signs of a change, we do not simply accept this at face value. We assume that GM’s next sustainability report will report more and more honestly and we will remain in contact with the company about this.”



Steering on improvement¹¹

Within the context of our inclusion policy, improvement plans were drawn up for 109 companies. Below, we provide examples of companies with which we entered into a dialogue in 2018.



HeidelbergCement

Industry: building materials, cement

Engagement objective:

Termination or sale of activities in the West Bank.

Specific ask:

Take a decision to close or sell the Raba quarry.

Carry out this decision before the end of 2019.

The Board of HeidelbergCement has meanwhile decided to sell these activities.

Credit Suisse

Industry: financial services

Engagement objective:

Prevent money laundering, bribery and corruption.

Specific ask:

Publish an anti-bribery and anti-corruption policy, including a ban on bribery, corruption and facilitating such payments.



Formosa Plastics

Industry: plastics

Engagement objective:

Guarantee the health and safety of the employees.

Improve environmental management.

Specific asks:

- Adopt a health and safety policy in accordance with the guidelines of the International Finance Corporation (IFC) and implement concrete measures.
- Adopt an environmental policy in accordance with the IFC guidelines. Develop a detailed system or norms for environmental issues such as water, waste and carbon.

¹¹ The objectives and asks stated above are incomplete summaries.

Volkswagen

Industry: cars

Engagement objective:

Improvement of the company culture and more independence in the supervisory board, to ensure better supervision of the business activities and a better remuneration policy.

Most important ask:

Ensure that there is more independence in the supervisory board.



Photograph: Mohd Razza Rozafalsal / Shutterstock.com



Wilmar

Industry: food (including palm oil)

Engagement objective:

- Implementation of 'No Deforestation, No Peat, No Exploitation Policy'. This policy is aimed at combating deforestation, the cultivation of palm oil on peat land and preventing exploitation.
- Contribute to the improvement of labor conditions in the palm oil industry.

Twenty-First Century Fox

Industry: mass media

Engagement objective:

Effective measures against sexual harassment and discrimination.

Specific asks:

- Provide evidence of an effective, anonymous complaints procedure that provides explicit guarantees that the employer who lodges a complaint will not be penalized.
- Improve the company culture, also through training and by providing information on the policy against discrimination and sexual harassment.



Photograph: Mulevich / Shutterstock.com

4. Exclusion

There are companies, countries and products in which we do not want to invest in any case. These are listed on our exclusion list. ABP decided to stop investing in tobacco and nuclear weapons in 2018 and therefore all interests in these sectors have been sold.

➔ ABP has developed extra criteria to exclude companies from investment

➔ This led to the exclusion of tobacco and nuclear weapons in 2018

➔ South Sudan was added to the exclusion list for countries

ABP's exclusion policy, which was formulated in 2007, means that we do not invest in producers of weapons that are banned based on international treaties that the Netherlands has signed. Concretely, this concerns companies that are involved in the manufacture of cluster bombs, anti-personnel (land) mines and chemical and biological weapons. We already excluded nuclear weapons that were banned based on the non-proliferation treaty. According to this treaty from 1970, which was signed by the Netherlands, only five countries may possess nuclear weapons, i.e. the United States, the United Kingdom, France, Russia and China.

New product exclusions: tobacco and nuclear weapons

We have developed extra criteria to exclude companies from investment. If these four criteria are met, this will lead to product exclusion.

- The product is harmful for people by definition.
- We cannot alter this fact by exerting influence as an investor.
- There are no negative consequences if the product would no longer exist.
- There is a global treaty aimed at banning this product.



We cannot get manufacturers to make healthy cigarettes.

Based on these four criteria, ABP decided in the beginning of 2018 to stop investing in tobacco manufacturers. After all, society would be fine without tobacco and we cannot get manufacturers to make 'healthy' cigarettes. We also decided to stop investing in (all) companies that are involved in the production of nuclear weapons and important components of nuclear weapons.

We sold all our investments in tobacco and nuclear weapons in the course of 2018. The approximately € 4 billion proceeds from selling these investments have been invested worldwide in various other sectors. We examined the effect of this operation on returns and costs. The costs were largely in line with the expectations. The gradual reduction of the interest in tobacco and nuclear weapons had a positive effect on the return over the sales period.

At the end of 2018, in total 150 listed companies were on our exclusion list based on their products.¹²

Exclusion of countries

When the UN Security Council imposes an arms embargo on a country, we no longer invest in government bonds of this country. South Sudan was added to our exclusion list in 2018. Eleven countries are now on our exclusion list.

Companies that do not comply with global agreements

We want the companies in which we invest to respect the UN Global Compact principles on human rights, labor conditions, the environment and anti-corruption. If a company does not respect these principles, we can put it on our exclusion list if we do not succeed in getting the company to improve.

At present, three companies are on our exclusion list due to violation of the UN Global Compact: the Chinese energy company PetroChina, the Japanese energy company Tokoy Electric Power Company and the US supermarket chain Walmart.

¹² <https://www.abp.nl/images/excluded-companies-and-countries.pdf>. External asset managers also apply our exclusion policy to non-listed companies. The non-exhaustive list that is used for this contains another 110 companies. External managers do not have to apply the exclusion policy to non-listed investments that were already in the portfolio before the introduction of the exclusion policy (or parts thereof). Index investments and ETFs (investment instruments that follow an index) are also excluded. We can guarantee for over 99% of the investment portfolio that there are no shares or bonds of companies that are on our exclusion list.

5. Contributing to the UN Sustainable Development Goals

At the end of 2018, ABP had invested € 55.5 billion in companies that contribute to the Sustainable Development Goals of the United Nations.

➔ ABP has invested around 14% of its total assets in the UN's Sustainable Development Goals

➔ Real estate and green bonds contribute substantially to these sustainable investments

➔ Over € 4.9 billion is invested in renewable energy

ABP has formulated the goal to have € 58 billion in investments that both offer a good return and contribute to the Sustainable Development Goals of the United Nations: SDGs.¹³ These goals aim for a better, livable world, for example, by ending poverty, reducing inequality and protecting the environment. A separate target of € 5 billion has been set for investments in renewable energy (part of SDG 7 - Affordable and clean energy) At the end of 2018, we had invested over € 4.96 billion in renewable energy.¹⁴

Together with pension fund PFZW and pension provider PGGM, ABP and our asset manager APG have developed a framework to determine which companies contribute to the UN Sustainable Development Goals with their products and services.¹⁵ These investments are called *Sustainable Development Investments* (SDIs). As is the case

for all other investments in our portfolio, SDIs must satisfy our return, risk and costs criteria. If a company provides a real contribution to the realization of SDGs, we regard this as an important advantage and an extra argument to invest in that company.

Innovation: selecting SDIs with artificial intelligence

In order to determine whether a company contributes sufficiently to the UN Sustainable Development Goals, we must determine criteria and then make many choices based on these criteria. We did this manually in 2017 for thousands of companies. It requires a huge effort to do this every year again. That is why ENTIS, the data analysis team of our asset manager, has developed a unique method to assess SDIs with the aid of artificial intelligence.

¹³ Before 2017, we defined our sustainable investments as 'High Sustainability Investments (HSIs). These were inspired on the predecessors of the UN Sustainable Development Goals: the Millennium Development Goals. We report on SDIs since 2017. The goal has remained the same: € 58 billion invested in the Sustainable Development Goals in 2020.

¹⁴ See chapter 6 for more information about our investments in renewable energy.

¹⁵ You can find more information about this framework on www.apg.nl/en/publication/SDI%20Taxonomies/918

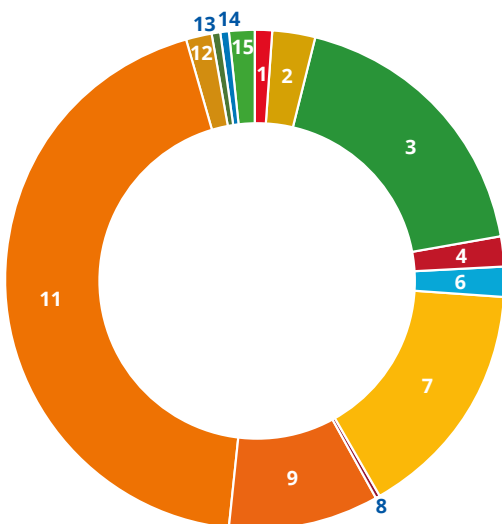
ENTIS uses smart algorithms to determine whether an investment can be regarded as an SDI. This takes place based on criteria that we have formulated ourselves. Of course, human intervention is still required. This is due to, for example, the quality of the available data and the fact

that the years of experience of investment and sustainability specialists in the interpretation of information cannot simply be replaced by technology. At the end of 2018, ENTIS had assessed all 10,000 companies in which we can invest via shares or bonds.

SUSTAINABLE DEVELOPMENT GOALS



Investments per SDG



- 1. No poverty: **0.74 billion**
- 2. Zero hunger: **1.58 billion**
- 3. Good health and well-being: **10.2 billion**
- 4. Quality education: **1.16 billion**
- 6. Clean water and sanitation: **0.96 billion**
- 7. Affordable and clean energy: **8.66 billion**
- 8. Decent work and economic growth: **0.18 billion**
- 9. Industry, innovation and infrastructure: **5.41 billion**
- 11. Sustainable cities and communities: **24.69 billion**
- 12. Responsible consumption and production: **0.86 billion**
- 13. Climate action: **0.26 billion**
- 14. Life below water: **0.41 billion**
- 15. Life on land: **0.78 billion**

Microfinance provider goes to the stock exchange

SDG 1 – No poverty

The flotation of ASA International, one of the world's largest microfinance institutions, took place in 2018. It is the first stock-listed international microfinance institution.

Over the past years, ABP was the largest investor in ASA International and has made an important contribution to the growth of the company. In the ten years in which ABP has invested in ASA International, the number of customers rose from 150,000 to around two million. The investment produced a return that is considerably higher than the average of the portfolio in the past 10 years.

ASA International is an example of an investment that contributes to SDG 1 - No poverty. Microfinance meets the demand for small loans in developing countries. This concerns people with a low income, who are only able to borrow a very small amount or not at all from a regular bank. The loans (of on average € 300) are often too small to be profitable for regular banks.

In particular, women make use of microfinance. For example, they finance their own small company with a loan with which they can improve their living conditions and those of their children. As a result of the flotation, ASA International can provide small loans to more people in developing countries and thus help them to improve their standard of living.



Strengthening the Afsluitdijk Dam

SDG 13 – Climate action

The Afsluitdijk Dam has to be strengthened in order to continue to protect the Netherlands against the sea. In 2018, the Dutch Ministry of Infrastructure and Water Management awarded this contract to the Levvel consortium in which ABP also participates via its asset manager APG.



This investment in infrastructure in the Netherlands contributes to SDG 13 - Climate action. This also includes limiting the consequences of climate change. This is extra important for a country like the Netherlands where a large part of the country lies below sea level. As ice caps are melting and sea levels are rising due to global warming, strengthening dikes and dams is more necessary than ever.

Work on the 85-year old Afsluitdijk Dam started in the fall of 2018 and will be completed in 2023. After the dam has been renovated, it will be able to withstand the type of storm that statistically occurs once every ten thousand years.

Dilemma: palm oil an SDI?

SDG 2 – Zero hunger

Palm oil is an important source of nutrition and of employment in the places where it is harvested. At the same time, the production of palm oil can have negative consequences for people and the environment. How does ABP deal with this dilemma?

An important problem with palm oil production is deforestation, which is a danger for various (protected) species. In addition, cases are known of palm oil companies that intimidate local inhabitants and push them off their land or make use of child labor.

On the other hand, palm oil provides for 35% to 40% of the global demand for vegetable oils.¹⁶ Vegetable oils fall under basic foodstuffs and palm oil is the cheapest version, which also yields three to five times more than other oils per unit of land. As a result, it is the most important food source for poorer population groups and contributes to UN Sustainable Development Goal 2 (Zero hunger). Moreover, just in Indonesia alone an estimated 14 million people are dependent on palm oil production for their income.¹⁷

ABP is conducting tough discussions with the palm oil producers in the investment portfolio. We have a team of local specialists who talk to the companies on location to encourage them to produce palm oil in a more sustainable manner. We have been doing this since 2011. Our asset manager is one of the founding members of the PRI Investor Working Group on Sustainable Palm Oil. We also ask companies to join the Roundtable on Sustainable Palm Oil. This organization is developing global criteria for sustainable palm oil.

Arcadis: Dutch pioneer in sustainable goals

SDG 6 – Clean water and sanitation; SDG 9 – Industry, innovation and infrastructure; SDG 11 – Sustainable cities and communities; SDG 13 – Climate action; SDG 15 – Life on land

Hard figures on the contributions of companies to the UN Sustainable Development Goals are of great importance to increase the sustainability of the whole business community. The Dutch company Arcadis plays a pioneering role in this. As one of the first companies in the world, Arcadis publishes in its sustainability report which percentage of its turnover contributes to the UN Sustainable Development Goals. Working on sustainable solutions is a core activity for Arcadis; 80% of its turnover is related to the UN Sustainable Development Goals.

Arcadis helps governments and companies worldwide in the field of water, the environment, infrastructure and buildings, and has an excellent reputation in the field of

coastal protection. For instance, the company is involved in coastal protection in New York and New Orleans. Arcadis is also working on making the coast in the Netherlands climate-proof. As far as the environment is concerned, the company offers expertise in the field of decontamination and making production processes more energy efficient and environmentally friendly. In the field of infrastructure and buildings, the company is involved in, for instance, the design, coordination and realization of building projects in which the energy transition and circular building play an important role. For example, Arcadis is involved in the iconic sustainable building project Wonderwoods, which will arise in the center of Utrecht in the coming years.



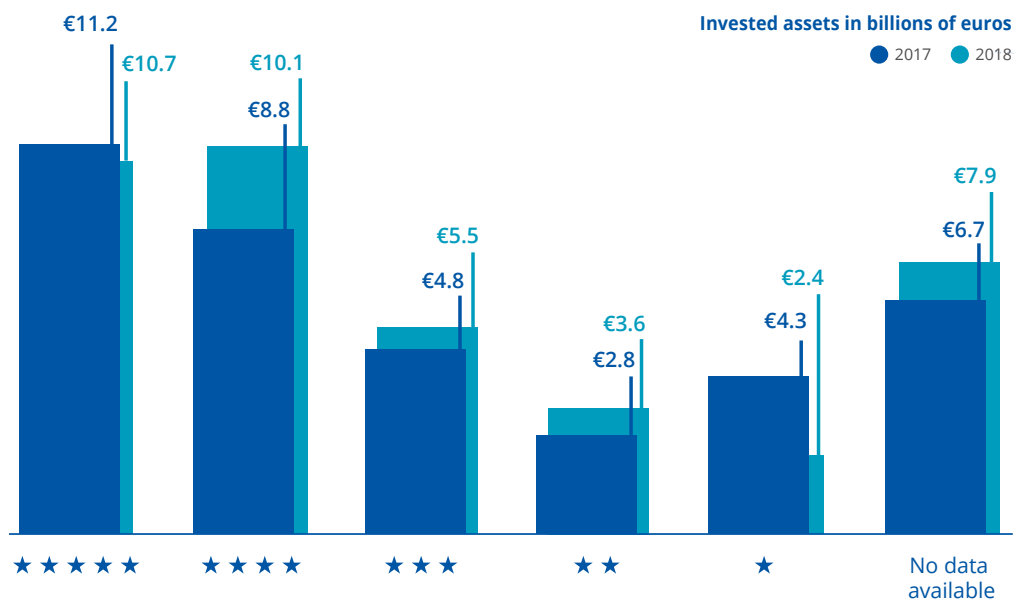
Wonderwoods: a building with 'vertical woods', that is being built in Utrecht

In September 2018, APG and Arcadis discussed whether the company, in view of its important position in the field of sustainability, could provide concrete numerical data on its activities in the area of sustainability. This contributed to Arcadis's decision to include in its sustainability report which percentage of turnover is related to the UN Sustainable Development Goals.

¹⁶ CLSA (2018).

¹⁷ Golden Agri Palm Oil Industry factsheet. The calculations are based on four persons per household.

How does our real estate score in the GRESB assessment?



Recycling steel dust

SDG 9 – Industry, innovation and infrastructure;

SDG 12 – Responsible consumption and production

ABP invests in corporate bonds issued by Befesa. This Spanish company specializes in recycling steel dust and other residual products from the production of steel. The company contributes to the efficient use of resources and reducing waste. With 17 recycling factories in seven countries, Befesa treats over 1.3 million tons of residual waste per year. It makes over 600,000 tons of new material from this waste.

apartments in Finland and Russia. Real estate qualifies as SDI if it is awarded four or the maximum five stars in the annual sustainability assessment of the *Global Real Estate Sustainability Benchmark (GRESB)*.¹⁹

We stimulate funds in our portfolio that have a lower assessment to improve their real estate so that they receive at least four stars in the next assessment.

We also urge parties that already have four or five stars to implement further improvements, so that the benchmark (the yardstick along which they are assessed) becomes higher and higher.

Sustainable real estate plays an important role

The largest share of the SDIs is real estate. We have invested € 19.8 billion¹⁸ in sustainable real estate, with which we make a considerable contribution to SDG 11 – Sustainable cities and communities. Examples are East Village London, which converted the Olympic Village of 2012 into a new residential area with shops, bars and restaurants, and SATO, which offers rental

Our aim is that all our funds report to GRESB. At present, 20% of the funds do not yet do this. This mainly concerns listed real estate. For our direct investments in real estate funds, we have made participation in GRESB obligatory. New investments must also have an assessment of at least four stars within three years. The GRESB scores of

¹⁸ This figure concerns direct investments in real estate. The indirect investments via shares in listed real estate have not been included.

¹⁹ The GRESB rating indicates how sustainable a real estate company is in comparison with the other real estate companies that are assessed by GRESB. Real estate companies that belong to the highest 20% are awarded five stars. The 20% lowest scoring real estate companies receive one star. More information: <https://gresb.com/wp-content/uploads/2017/07/GRESB-RE-Scoring-Methodology.pdf>

funds in which we were invested in 2018 are provided in the overview on page 28.

In 2018, GRESB also provided insight into the share of our real estate investments that have a sustainability certificate. At the end of 2018, this was around 20% of all square meters that were reported to GRESB.

The Student Hotel goes circular

SDG 12 – Responsible consumption and production

Waste no longer exists in the circular economy of the future. We will then reuse everything as raw materials for new products and we will manage our natural resources with care. One of ABP's investments that aim to actively contribute to the circular economy is The Student Hotel. This hotel chain offers students modern and inspiring accommodation with the newest (digital) facilities. It aims to do this in a sustainable manner, for instance, by reducing food waste, limiting the use of packaging and recycling company uniforms.

Strong growth in green bonds

Our SDIs also comprise many *green, sustainable and social bonds* (hereafter: 'green bonds'). These are bonds issued by companies and semi-government and government institutions for the funding of social and sustainability projects. In this manner, green bonds provide both a financial and a social return. At the end of 2018, we had 141 green bonds with a value of over € 5.5 billion.

In February 2018, we invested € 360 million in a green bond issued by the Belgian State. The proceeds are being used for the construction of wind farms and a system of fast rail connections in the Brussels region. In October 2018, we bought over € 110 million in green government

How has our green bond portfolio grown?



2017 102 green bonds worth € 3,485 million

2016 59 green bonds worth € 1,400 million

2015 38 green bonds worth € 800 million

2014 13 green bonds worth € 300 million

bonds issued by Ireland for the funding of sustainable water and waste management and projects aimed at reducing the consequences of climate change.

ABP also invests in green bonds issued by international institutions, such as the World Bank and regional development banks such as the African Development Bank and the Asian Development Bank. The proceeds are used to finance projects in the area of, for example, education, renewable energy and sustainable infrastructure.

Grid operator TenneT is the largest issuer of green bonds in the Netherlands. We further increased our investment in bonds issued by TenneT in May. In the coming years, TenneT plans to invest billions in, for example, connecting offshore wind farms in the North Sea to the high voltage grid.

Green, sustainable and social bonds

Our investments in green bonds are growing in all areas, in Europe and elsewhere, in corporate and government bonds, for the financing of sustainability initiatives (sustainable bonds) and social projects (social bonds) or a combination thereof.



Clean energy in India

What: Solar Transmission Sector Project
Bond issued by the Asian Development Bank

The reliability of the electricity grid in India leaves much to be desired; 300 million people hardly have access to electricity. The aim of this project is to improve the high voltage grid and connect large-scale solar farms. With this clean energy, 7 million tons of CO₂ emissions can be avoided annually.

Reducing traffic congestion in Brussels

What: Gewestelijk ExpresNet (GEN)
Bond issued by the Belgian state

The Brussels region is becoming increasingly congested due to car traffic. GEN is a large-scale project for faster and more frequent connections between Brussels and the suburban districts. Traveling by train, metro, tram and bus will become easier due to better alignment of the schedules and the introduction of a payment card for all public transportation in the city.



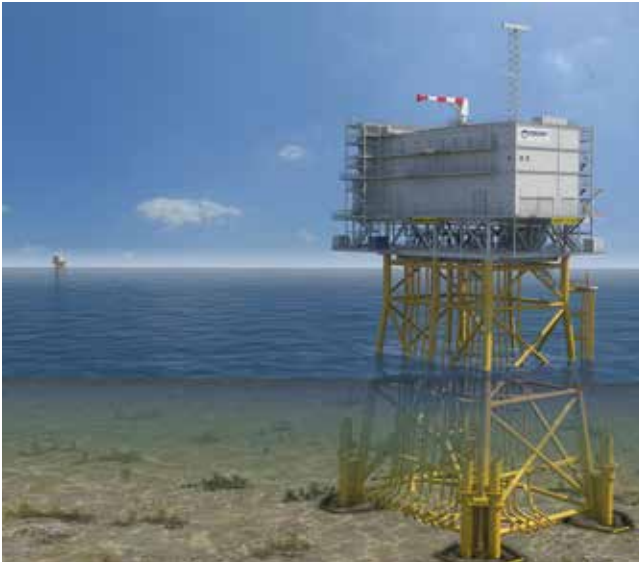
Foto: skyfish / shutterstock.com



Accessible education in Nigeria

What: Afe Bobale University
Bond issued by the African Development Bank

One million young talented people in Nigeria are not able to study due to a lack of capacity. The aim of this project is a substantial expansion of the university so that twice as many students can study at the university in 2025. This project includes the realization of a hospital with 400 beds for the medical faculty, a central library, better agricultural education for local farmers and a small hydrogen power plant.



Preparing for the energy transition

What: Development of a high voltage grid

Bond issued by TenneT

TenneT operates the high voltage grid and is the largest issuer of green corporate bonds in the Netherlands. The proceeds of green bonds are used to connect offshore wind farms to TenneT's high voltage grid in the Netherlands and Germany. TenneT's offshore connections are part of the energy transition in the Netherlands and Germany.

Affordable housing

What: Affordable Housing Bonds

Bond issued by the Netherlands Waterschapsbank (NWB)

The NWB provides loans to Dutch housing associations. The associations' core task is building, letting and managing affordable rented housing up to € 710 per month (2018). They also let social property (such as a neighborhood library) and invest in the livability of neighborhoods. Part of the financing will be used to increase the sustainability of dwellings.



Paris: public transportation of the future

What: Grand Paris Express (GPE)

Bond issued by the French state

GPE is the largest infrastructural project in Europe. The metro system in the Paris metropolitan area will be expanded with four new metro lines, 68 new stations and 200 kilometers of additional tracks. Two existing metro lines will also be extended. In this manner, car traffic will be reduced and the surrounding urban district will receive an impulse for development. GPE will transport 2 million people every day.



6. Dealing with climate change

The consequences of climate change are becoming more and more visible. ABP is leading in identifying climate risks and their possible impact on our investments.

➔ Climate change brings both risks and opportunities for our investments

➔ The CO₂ footprint of our equity portfolio decreased further in 2018

➔ We also invested a lot more in renewable energy

Insight into climate risks

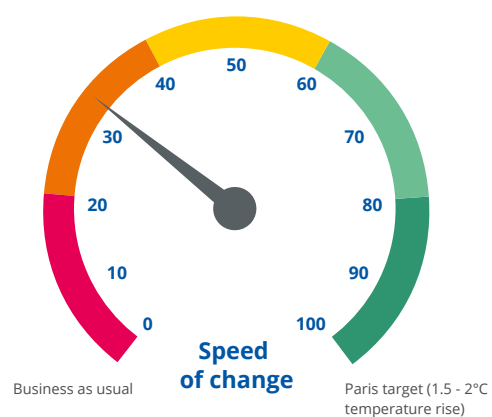
How fast will the energy transition proceed and what consequences can climate change have for our investments? Our analysis shows that at the current rate the energy transition is proceeding too slowly to achieve the goal of the Paris Agreement of limiting global warming to a maximum of two degrees by 2030. And that climate change will have a major impact on more and more business sectors.

In order to obtain insight into how fast the energy transition is proceeding, ABP has developed a climate dashboard. In this dashboard, we look at 25 indicators, such as the demand for oil and gas and investments in renewable energy. Only four indicators are on track for the realization of the Paris Agreement.

The consequences of climate change are already visible now and will increase further in the future. The UN Intergovernmental Panel on Climate Change (IPCC) concluded in October 2018 that global warming is proceeding much faster than we thought and that even in the event that global warming would amount to 'only' 1.5 degrees, the

risks are considerably larger than assumed previously.²⁰ Stricter policy, such as a serious price for every ton of CO₂ that is emitted, is therefore necessary.

The climate dashboard



Climate change also has consequences for investors. In order to take measures in time, ABP wishes to obtain insight into the possible impact on sectors in which we

²⁰ The climate panel states that irreversible effects can already occur in this scenario, such as the melting of ice caps and irreparable damage to fragile ecosystems.

invest. This is why we have made an inventory of the expected impact on 26 sectors for 2022, 2030 and 2040.²¹ This concerns opportunities and risks in the area of Policy & Regulations (for example CO₂ prices), Technology & Market (such as the introduction of clean alternatives), and Physical Impact (consequences of changing weather patterns).²²

With regard to the impact of climate change, we distinguish four clusters of sectors: 'solutions' (for example renewable energy), 'transition' (for example real estate), 'decreasing' (for example coal) and 'neutral' (for example telecom). For 2030, we already foresee large transitions in the '2 degrees scenario' in, for example, electricity production, real estate and the car industry. The number of sectors that will be greatly impacted by the consequences of climate change will increase towards 2040.

Given the fact that ABP invests worldwide and has a very diversified portfolio, we expect that the consequences of climate change and the energy transition will materialize gradually. We will however remain alert to sudden, unexpected changes. We are also already taking measures now to make the portfolio climate-proof:

- When making investment choices, we already take the future costs into account that a company must make in connection with climate change, such as higher CO₂ emission prices.
- We are investing less in fossil energy (for example, no new investments in coal) and more in renewable energy.
- We enter into a dialogue with companies about their strategy for the transition to a low-CO₂ economy.
- We have a goal for lower CO₂ emissions in the equity portfolio in 2020.

On the one hand, these measures enable us as a pension fund to contribute to the energy transition and, on the other hand, our investment portfolio is becoming less vulnerable to the consequences of climate change.

We will further refine this analysis in the future. A challenge in this case is that the physical risks of climate change are to a large extent locally determined and therefore cannot be determined on a sector level. You can read more about how we take climate change into account in our investment choices in Annex 2.

ABP is a frontrunner

ABP is among the pension funds worldwide that are the best at taking climate change into account in their investment policy. This is apparent from a study of the *Asset Owner Disclosure Project (AODP)*, which was published in June 2018.²³ We see this as an acknowledgment that ABP is a frontrunner within the pension sector where the inventory of climate risks and opportunities is concerned.

AODP publishes the *Global Climate Index* annually. The ranking shows to what extent the hundred largest pension funds take the consequences and risks of global warming into account in their investment policy. ABP ranks fourth in this list. The study also shows that over 60% of the pension funds do not provide or hardly provide any information about the impact of climate change on their investments.

Our investment organization APG heads the list of the fifty largest asset managers in the world. APG is the only asset manager with the highest rating (AAA).

Investments in renewable energy

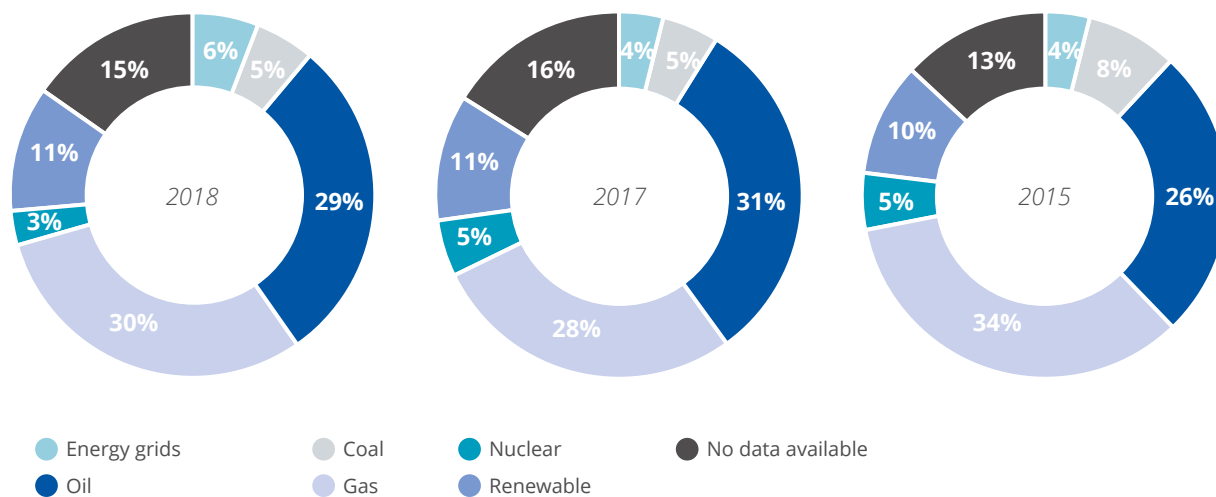
It is our goal to have € 5 billion invested in 2020 in renewable energy, such as wind energy, solar energy and geothermal energy. Clean energy is one of the UN Sustainable Development Goals (you can read more about these goals in chapter 5).

²¹ Together, these sectors represent over half of the value of our investment portfolio.

²² Within these three categories, we distinguish in total 44 types of climate risks and opportunities.

²³ https://aodproject.net/wp-content/uploads/2017/04/AODP-GLOBAL-INDEX-REPORT-2017_FINAL_VIEW.pdf

How are our energy investments distributed?



At the end of 2018, our total energy investments amounted to € 25.9 billion. This largely corresponds to the amount in the spring of 2017. In the fall of 2015, our energy investments totaled € 20.6 billion.

Our investments in renewable energy increased further in 2018. At the end of 2018, we had invested € 4.96 billion in renewable energy.²⁴ This was still € 4 billion at the end of 2017.

An example of the increase of our investments in renewable energy is the expansion of our interest (+ € 48 million) in the Norwegian company Småkraft in September 2018. Småkraft operates over one hundred hydroelectric power plants in Norway. By doubling the capacity, the production in 2020 should be enough to provide sustainable energy to 570,000 households. With an investment of € 287 million, ABP is a major shareholder in Småkraft.

Our infrastructure investments generate about 4,700 GWh in sustainable energy. Based on an average consumption in the Netherlands of 3,500 kWh per household per year, these investments provide green energy to about 1.3 million households for a whole year.

In which energy sources does ABP invest?

Our total investments in the energy sector amount to approximately € 25.9 billion. At the end of 2018, 11% of our energy portfolio consisted of renewable energy.²⁵ This is comparable to the previous measurement in February 2017. The share of investments in oil decreased from 31% to 29%, whereas investments in gas increased from 28% to 30%. The share of investments in nuclear energy decreased from 5% to 3%. The share of investments in coal remained the same at 5%. We cannot allocate approximately 15% of our energy portfolio to an energy source because the necessary data are not available. Some companies do not yet report how they generate their energy or report in manner that is not comparable with the data of our data supplier.

Climate Action 100+

Together with around 310 other large investors, we exert pressure on 161 large companies that are responsible for the most CO₂ emission worldwide. This collaboration

²⁴ When calculating the number of investments in renewable energy, we only include a company if a certain minimum percentage of production is related to renewable energy. We also include green bonds that invest in renewable energy or related technology. An example is the green bond issued by TenneT, of which the proceeds are also used for connecting offshore wind farms in the North Sea to the high voltage grid.

²⁵ This number differs from the € 4.96 billion reported on page 33 due to a difference in calculation methods (see footnote 25). When calculating the energy mix of the portfolio, we break down the value of the company into various energy sources and we allocate the percentages concerned to the energy sources in the mix. Thus a part of the value of a company is allocated to a specific energy source. We focus solely on energy here, therefore green bonds or the manufacturers of wind turbines are not included.

exists since 2017 under the name Climate Action 100+.²⁶ The investors that participate together have € 32 trillion (32 with twelve zeros) under management; it is the largest collaboration that we have ever participated in. By combining our forces, we can exert pressure effectively.

Climate Action 100+ targets companies in sectors that emit a lot of CO₂, such as transport, energy, agriculture and heavy industry. Their own emissions and those of their suppliers and customers are taken into account. Climate Action 100+ asks companies to:

- develop a framework for determining and monitoring climate risks and opportunities;
- take measures to reduce greenhouse gas emissions;
- provide insight into the financial risks of climate change according to the standards of the Task Force on Climate-Related Financial Disclosures (TCFD).²⁷

In December, Shell announced, in a joint statement with Climate Action 100+, that the remuneration of senior executives will be linked to the company's CO₂ targets. ABP had carried out an intensive dialogue about this matter with Shell prior to this announcement and had urged the company to formulate concrete targets for the short and medium term and to link the targets to the management's remuneration.

Shell is leading where it concerns setting concrete CO₂ targets and can serve as an example for other companies in the sector. Total has also promised to reduce CO₂ and other greenhouse gas emissions.

Follow This resolution

ABP abstained from voting at the Shell annual general meeting in May 2018 on the resolution put forward by Follow This, a platform that aims to get Shell to increase its sustainability via the shareholders. In this resolution, Follow This demanded that Shell step up its climate ambitions of November 2017.

We appreciate the aim of Follow This to urge Shell to achieve the goals of the Paris Climate Agreement. ABP is also contributing to this: we ask Shell to play an active role

in the energy transition and to set concrete targets for the short and medium term.

However, we did not consider it necessary to demand from Shell that they already revise the climate ambition that they had only just formulated. It is more important that Shell delivers on this ambition and gradually further extends it. It is exactly for this reason that we have urged the company to link its ambition for the reduction of CO₂ emissions to its remuneration policy.

Our CO₂ footprint

ABP inventoried how much CO₂ is emitted by the companies in which we invest and how much of this can be attributed to us (CO₂ footprint).²⁸ The CO₂ footprint of our equity investments decreased in 2018 by 28% against the reference year 2014. With this, we have realized our target of a 25% reduction by 2020.

We are constantly monitoring the CO₂ footprint of our equity investments and we can take this into account in our investment decisions. A ceiling is imposed on the managers of our investment portfolios every year for the amount of CO₂ that companies in their share of the equity portfolio may emit. By lowering this ceiling every year, we are working on achieving our target step by step.

National Climate Agreement

The National Climate Agreement was signed in The Hague on 21 December 2018. This includes agreements between the government, the business community and NGOs about the manner in which the Netherlands aims to achieve the Paris climate goals. The negotiations for this agreement were conducted at 'sector tables' each with their own CO₂ reduction target.

Gerard van Olphen, CEO of our investment organization APG, led the Dutch financial sector's contribution to the Climate Agreement.

The government did not impose a CO₂ reduction target on the financial sector; however, the financial sector voluntarily undertook to contribute to the target of a 49% reduction in emissions in 2030. This concerns both their

²⁶ www.climateaction100.org

²⁷ www.fsb-tcfid.org

²⁸ For the calculation of our footprint, we determine what our share is in the CO₂ emissions of the companies in which we invest. We do this on 31 March. We take the emissions of the companies themselves into account and the emissions in connection with the production of energy that is purchased by these companies. Fluctuations in stock prices do not have any influence.

Interview Herman Bots – Head of Fundamental Equities

Steering on less CO₂ in the equity portfolio

How does ABP ensure that the CO₂ footprint of the equity portfolio will have decreased by 25% in 2020? By focusing on the best performing companies in the sector where the reduction of CO₂ is concerned and by shifting towards renewable energy, Herman Bots explains. He is Head of Fundamental Equities at our investment organization.

Why has ABP opted for this approach?

“You can also opt to aim for a 25% reduction of CO₂ for the whole equity portfolio. But in some sectors, such as the pharmaceutical industry, there is little to gain. That is why we have chosen to set higher targets for sectors with relatively higher CO₂ emissions and lower targets for sectors where the emissions are already limited.”

Which sectors have the highest CO₂ emissions?

“This concerns sectors that consume a lot of fossil energy, such as oil and coal. For instance coal-fired power plants, mining and the chemical and steel industries. We look at the emissions of the company per euro that we invest in the company. By investing in companies with lower emissions in comparison with other companies in the sector, we can reduce the amount of CO₂ in our equity portfolio.”

Why doesn't ABP sell the investments in these sectors?

“Selling whole sectors is not our strategy. We aim for a shift from fossil energy to renewable energy. That is why we have no longer invested in coal-fired power plants for many years and, for example, why we sold our shares in the German energy company RWE. At the same time, we have started investing more in companies such as NextEra Energy, one of the largest producers of solar and wind energy.”

Doesn't steering on less CO₂ have a negative impact on returns?

“We believe that we can reduce the CO₂ footprint of our equity portfolio and still achieve our return targets at the same time. NextEra Energy is an example of a company that is not only sustainable but also achieves good financial results.”

Why is it important to steer on less CO₂ in the portfolio?

“In this manner, ABP shows the companies in which we invest that we consider it important to take action in the field of climate change. Ultimately, the goal is that companies emit less CO₂. In this manner, our equity portfolio will automatically become ‘cleaner’. In order to achieve that we must continue to exert our influence as a shareholder and encourage companies to implement improvements.”



own business operations (for example energy-efficient offices) and the CO₂ footprint of investments and loans.

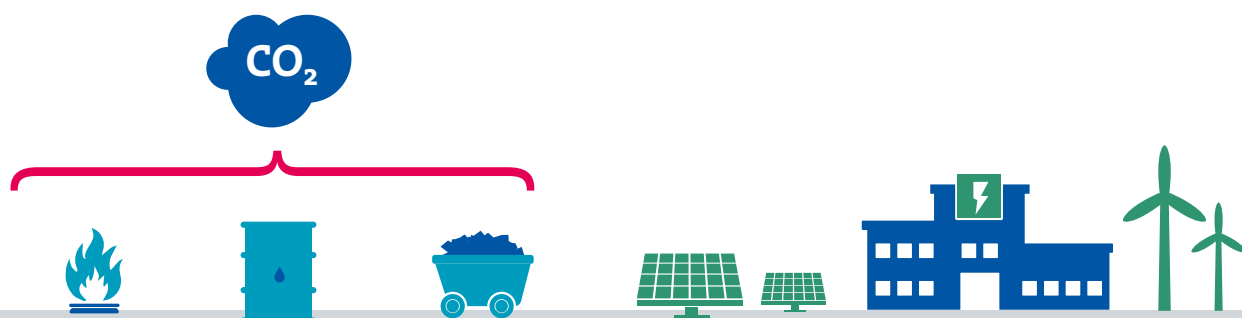
The financial sector, including pension funds, also wishes to assume its responsibility in financing the energy transition. The Financing task force has given the sector tables insight into the possibilities to finance initiatives by the market (thus with little or no government funding). The sector also has plans to resolve difficulties with the funding.

Combating deforestation

Deforestation plays an important role in global warming; about 12% of all CO₂ emissions can be attributed to the felling of trees. Trees produce oxygen and absorb CO₂ from the air. In addition, greenhouse gases are emitted when forests are cut down and burnt.

ABP joined the initiative of seventy food producers and supermarket chains in 2018 to stop the deforestation of the Brazilian Cerrado region. This savanna region in the north of Brazil is one of the world's most important and most threatened ecosystems. Due to deforestation in connection with agriculture, large sections of these forests have disappeared in recent years.

By making smarter use of available agricultural land, the deforestation of the Cerrado can be stopped. We urge companies that are indirectly involved in the deforestation (as purchasers of products from this area) to ban deforestation in their supply chains. Together with other large investors, we call on local producers to stop cutting down trees and to only use existing agricultural land.



Investing in fossil energy

This is a topic about which we receive a lot of questions: why does ABP still invest in fossil energy sources such as oil and coal? Some participants would like us to sell off our investments in 'fossil' companies in favor of renewable energy.

Experts agree that, at present, renewable energy can only satisfy the increasing demand for energy to a limited extent. Therefore, fossil energy will remain necessary for quite some time. However, we would like fossil fuel companies to make the transition to sustainable energy and drastically reduce their CO₂ emissions.

For this reason, we are investing a lot of time and energy—also together with other investors—to get companies to commit to ambitious targets.

The developments at Shell and Total demonstrate that this approach is bearing fruit. We want companies to set concrete targets for the reduction of CO₂ emissions and management to experience the consequences if these targets are not achieved.

Using our influence

If we sold our shares and bonds in fossil fuel companies, we would give a strong signal once but after that we would have lost our influence. As an engaged shareholder or bond holder we can continue to exert our influence to get companies in the sector to increase their sustainability.

We regularly publish factsheets on abp.nl about our sustainability dilemmas, such as investing in coal or tar sands companies.

7. Human rights and labor conditions

ABP wants companies in which we invest to respect human rights. Therefore, in 2018, we encouraged various companies to improve this and supported initiatives to avoid and combat abuses in vulnerable sectors.

➔ With the 'Brooklyn Pledge' we are taking the lead in combating abuses in the clothing industry

➔ Human rights index CHRB helps to increase companies' awareness

➔ Our thematic engagements are aimed at problems in vulnerable sectors

Our human rights policy is based on the UN Global Compact²⁹ framework. The UN Global Compact contains ten principles in the areas of human rights, labor conditions, the environment and anti-corruption. This includes respecting universal human rights and combating forced labor and child labor.

Human rights benchmark

The second report of the Corporate Human Rights Benchmark (CHRB) was published in November.³⁰ In this report, the human rights performance of 101 listed companies in the clothing, extractives and agricultural sector are compared. Violations of human rights and labor rights still occur in these sectors. We were one of the initiators of the index.

The report's message is twofold: on the one hand, the majority of the companies is still clearly making insufficient efforts to avoid and combat human rights violations. On average, the companies in the index only score slightly better than the year before. For instance, more than half of the clothing and agriculture companies do little or

nothing to avoid child labor. Therefore, there is still a lot to be done in this area.

On the other hand, there is a small group of frontrunners. These provide the right example for other companies in their sector. ABP hopes that the annual publication of the human rights index encourages companies to work on improving human rights and incorporate this in the company's strategy.

Furthermore, the ranking is important for us to:

- obtain insight into the human rights performance of the companies in which we can invest;
- increase companies' awareness
- have a starting point to enter into a dialogue with companies about human and labor rights and to encourage them to implement improvements.

This assessment also contributes to limiting investment risks; when companies have their policies and procedures in order, it is less likely that fines or sanctions will be

²⁹ www.unglobalcompact.org

³⁰ www.corporatebenchmark.org. The ranking takes into account, for example, wages, working hours, safety and child labor. It also takes into account how companies deal with allegations of human rights violations.



Serious accidents occur regularly in the shipbuilding industry. We urge shipbuilders and the purchasers of ships to improve the safety at shipyards.

imposed or that they will suffer reputation damage due to human rights violations.

What does ABP wish to achieve?

In our sustainable and responsible investment policy, we state what we wish to achieve in the area of human rights in 2020. The focus lies on three sub-areas: respect for human rights, safe working conditions, and stopping child labor.

In the area of human rights, we pay special attention to the sectors in which human rights related problems tend to occur, such as the clothing industry and the extraction of natural resources. We call this 'thematic engagements'. The following considerations played a role in the selection of these sectors:

- Have we invested in these sectors?
- Is the problem serious and could this have an impact on our investments?
- Do we expect that we will be able to get companies to implement improvements?

We try to make agreements with companies in this sector to implement improvements. In addition, we consider it important that companies join initiatives in their sector to avoid and combat abuses.

Theme: fair raw materials

The mining of natural resources can put human rights under (further) pressure in certain areas. This applies, in particular, to instable regions where companies run the risk of becoming involved in conflicts and accompanying human rights violations.

In 2018, ABP approached 25 companies in the commodities sector regarding their performance in the area of human rights; twelve of these were companies that score the lowest (among the lowest 30%) in the human rights benchmark. These are companies that promise to respect human rights but fall short where policy and practical implementation are concerned.

We expect all companies involved to develop a human rights policy adopted by the Board, including undertaking to carry out investigations, resolve existing problems and adopt a complaints procedure. Nornickel is an example of a company that has clearly made progress. This Russian mining company now has a published human rights policy and reports about human rights in its sustainability report.

Theme: human rights in the ICT sector

ICT companies have a lot of personal data of their customers. When they do not treat this data correctly, this can lead to violations of human rights, such as the right to privacy, freedom of speech and protection against discrimination.

We focus on nine companies in the sector. We expect that they have attention for privacy and human rights up to the board level, that they are transparent about their policy and the implementation of this policy to protect these rights, and work together with other ICT companies in order to prevent digital rights from being violated.

We engaged with Facebook in 2018 following the upheaval over the access of Cambridge Analytica to the personal data of users. We wanted to know how the board supervises privacy and called on Facebook to be more

Dialogue on human rights

What are signs of risks?	Examples	Possible risks	What do we expect?	Example dialogue
Industry	telecom and software	violations of the privacy of customers; government requests customer data	company shows that it is aware of the risks and demonstrates willingness to take action; has human rights and privacy policy	Facebook
	energy and mining	negative impact on local community; excessive violence to guarantee safety	company shows that it is aware of the risks and demonstrates willingness to take action; has human rights policy	Exxon Mobil
Country / region	companies active in contested areas or countries where human rights are violated	company can be linked directly or indirectly to violations of human rights	company shows that it is aware of the risks and demonstrates willingness to take action; has human rights policy	Heidelberg-Cement
News / incidents	companies in the news due to labor unrest, accidents, discrimination, land conflicts or child labor	Incidents can indicate that operational processes are not in order and that human rights are possibly being violated	company takes action to resolve issues, limit the impact and reduce the likelihood of recurrence	Wilmar

transparent about the use of personal data by third parties (such as advertisers). Shortly after that, Facebook strengthened the supervision of the compliance with data privacy by explicitly naming this issue as the responsibility of the audit committee of the Facebook board.

We engaged with Equifax several times in 2018. This company was hit by a data breach in 2017 as a result of which personal data of 143 million people were leaked. Our engagement was one of the factors that led the company to formulate concrete targets in the field of cybersecurity and link them to management remuneration. Technology and cybersecurity at the company are now also being audited by an external accountant.

ABP supported the proposal at Apple's annual general meeting to appoint a human rights committee at board level. Apple focuses mainly on possible human rights violations at suppliers, but also runs a risk itself by sharing user data with governments. This is why we consider it positive that Apple's board is assuming direct responsibility for these risks.

Theme: abuses in the clothing industry

It is estimated that around 70 million people work in the clothing industry worldwide. Unfortunately, poor working conditions often still exist in this sector; it is unsafe and workers are underpaid in many production companies.

ABP introduced the Brooklyn Pledge to Accelerate Change in December 2018. With this pledge, we ask clothing companies to take action on 57 recommendations, such as improving the rights of employees, tightening suppliers' policy, and increasing consumer awareness. This initiative was set up with the Brooklyn Fashion + Design Accelerator (BF+DA), an institute for ethical fashion. Various institutional investors have now pledged their support.

ABP wants clothing companies and their suppliers to work consciously on safe working conditions and fair labor. This is why we are entering into a dialogue about these issues. We have discussed these issues with 19 clothing companies between 2015 and 2018. This led to a stricter procurement policy and control at nearly all of the companies and at some companies this also led to limiting the number of suppliers.

We published a statement in September 2018 together with other large investors in which we advocate the continuation of the work of the organization behind the Bangladesh Agreement. This agreement provides for independent safety inspections at textile mills in Bangladesh since 2013. ABP has supported this initiative from the beginning. The future of the Bangladesh Agreement is uncertain after the ruling of the Supreme Court in Bangladesh that the organization that carries out the inspections must close its office in the country.

Theme: safety in shipbuilding

Relatively many fatal accidents occur in shipbuilding. This is why we have asked shipbuilders to publicly acknowledge the importance of safety and that they have a safety improvement policy. We also want companies to be open about their safety performance and to participate in sector initiatives to increase safety.

Shipbuilders have been facing a strong decrease in orders and revenues in recent years. The number of companies has decreased and is still decreasing. It is a challenge in these circumstances to ensure that safety is placed high on shipbuilders' agendas. We are focusing our efforts on eight shipbuilders (all located in Asia) and four larger purchasers of ships.

Shared ambition

"As one of the largest investors that takes human resources into account when investing, ABP plays a unique role in stimulating companies to make the right choices. We share the ambition to achieve better working conditions in the clothing industry. If ABP discusses the results of our investigations at large fashion chains, it is more difficult for that company to ignore our call for change."



Arvind Ganesan, Director of Human Rights Watch's Business and Human Rights Division

Successes have been achieved despite the challenging circumstances. We see progress in particular among the Korean shipbuilders. After tightening its safety policy, Samsung Heavy Industries has taken further steps to improve safety. Hyundai Heavy Industries has tightened its safety procedures and has become more transparent regarding accidents and safety issues.

The involvement of a number of large ship buyers is crucial. Ever since we started focusing on safety in the shipbuilding industry, we encouraged buyers to structurally discuss safety at their suppliers. The buyers—including Shell and other oil companies—have taken this up energetically. An example is the common safety standard that they have developed for the Korean shipbuilders.

We may carry out on-site inspections of the safety situation. We visited the Korean shipbuilder Samsung Heavy Industries in the fall of 2018.

Theme: safety in infrastructure

ABP wants to be able to assess whether our investments in infrastructure pay sufficient attention to safe and healthy working conditions and the environment. Our objective is that in 2020 at least half of our infrastructure investments participate in the annual GRESB Infra assessment, of which ABP is one of the initiators.

In this assessment, the performance of infrastructure investments is compared in the area of safety and sustainability. This takes place at the level of the funds as well as of the individual investments, such as (toll) roads, school buildings, airports and ports, wind farms and solar parks. 52% of our individual investments (based on invested capital) participated in this assessment in 2018 (2017: 43%).

Theme: labor conditions in cobalt mining

The international association of responsible investors PRI set up a working group in November 2018 to encourage companies to improve the human rights situation and labor conditions in cobalt mining. ABP took a seat in the advisory committee and is actively involved in the initiatives of this working group.

Cobalt is an indispensable raw material for batteries in, for example, mobile telephones and electric cars. The demand for cobalt has risen strongly in recent years.



Child labor occurs frequently in some sectors. Our efforts to combat child labor are directed at cobalt mining and the cocoa industry as well as other industries.

With the Brooklyn Pledge to Accelerate Change, we aim to promote safe working conditions and fair labor in the textile industry.



Due to the growing importance of cobalt, the attention for abuses in cobalt mining has also increased.

ABP initiated a collaboration of twenty large investors in 2016 to prevent child labor in cobalt mining in Congo, where 60% of global production comes from. Pressure is being exerted on thirteen large electronics, car and battery producers via this collaboration. We want them to inventory where their cobalt comes from and to take measures if they detect child labor.

After a difficult start, we see that the awareness and the transparency among cobalt buyers is increasing. For instance, Apple discloses all cobalt smelters that supply cobalt to the company and actively detects child

labor in the supply chain. In 2018, Renault disclosed which cobalt smelters it does business with and announced inspections. Samsung Electronics and battery manufacturer Samsung SDI started a pilot project in November 2018 together with other companies for the improvement of small-scale mining and the local living conditions.³¹

Theme: child labor in the cocoa sector

We expect large companies in the chocolate and cocoa industry to stop child labor on the plantations and to publicly commit to eradicating child labor. We also want them to develop policy for detecting child labor, to report about their efforts and to produce a larger percentage of their cocoa in a sustainable manner. In addition, we ask

³¹ The project focuses on a local mine in Congo and is also supported by BMW and BASF. The aim of the three-year project is to gain experience with the improvement of living and working conditions in surrounding communities, so that this can also be applied in other locations in the future. Small-scale mining accounts for approximately 20% of cobalt mining in Congo.

attention for the role that education can play in putting an end to child labor.

In particular in West Africa (where 70% of global cocoa production comes from), farmers generally work on very small plantations. Due to low yields, they are unable to hire paid workers and often have to rely on children.

In an effort to tackle the problem at its source, a number of cocoa companies joined together in 2015 in Cocoa Action.³² This collaboration is aimed at increasing productivity and strengthening the local communities that produce cocoa. This also includes improving education and organizing inspections to prevent child labor. Most cocoa companies have now set up such inspections.

We focus on the five large cocoa buyers (such as Nestlé and Mondelez) and large wholesalers (such as Barry Callebaut). A number of results that Cocoa Action has achieved:

- Cocoa supplier Barry Callebaut aims to have put an end to child labor from the whole chain in 2025.
- Hershey's has set itself the goal to only purchase certified cocoa as of 2020.
- Nestlé and Mondelez have now set up extensive systems for carrying out inspections and putting an end to child labor in hundreds of local communities that produce cocoa.

8. Good corporate governance

Companies perform better when they are well managed, certainly in the long term. We see good governance as a precondition for sustainable and responsible business practices.

→ In 2018, we voted at 4,731 shareholders' meetings on 49,696 proposals

→ We voted against 42% of the remuneration proposals

→ Important themes in 2018: remuneration, diversity and anti-money laundering measures

ABP stimulated good governance in 2018 by voting at thousands of shareholders' meeting and engaging with 366 companies. In total, we voted on over 49,000 proposals and resolutions in 2018. We can participate in so many votes because we make use of a proxy voting agency for standard agenda items that do not require any special attention. This agency votes on our behalf and in line with our voting policy. We vote ourselves for proposals at companies that have our special attention.

Voting on remuneration

An important part of good corporate governance is a responsible remuneration policy. Excessive remuneration for senior executives can lead to increasing inequality, social discontent and social instability.

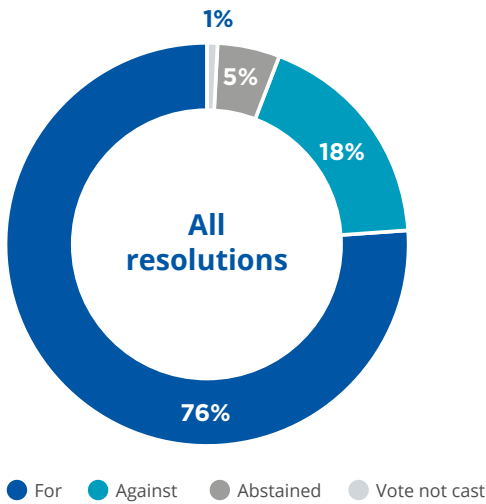
We are of the opinion that the remuneration policy for senior executives should be in line with the general remuneration policy for all employees of the company. The company should clearly state in its annual report how

it deals with remuneration, what the targets are and the performance criteria that have to be achieved before the remuneration or bonus is paid.

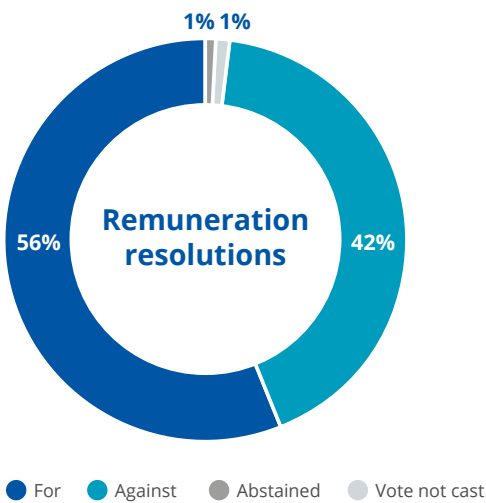
Together with other pension investors, we engaged with twelve companies with high remuneration packages and an unclear relationship between remuneration and performance in 2018. These are companies—such as Oracle, IBM and American Express—in which this group of investors has considerable interests. These discussions began in 2018 and will continue in 2019.

We voted at 1,396 shareholders' meetings in 2018 on 1,515 remuneration proposals. For 56% of the proposals this was a vote in favor, for 42% against. This is comparable to the percentages for 2017. Important reasons to vote against proposals were: overly generous severance schemes, insufficient relationship between remuneration and performance and unclear performance criteria.

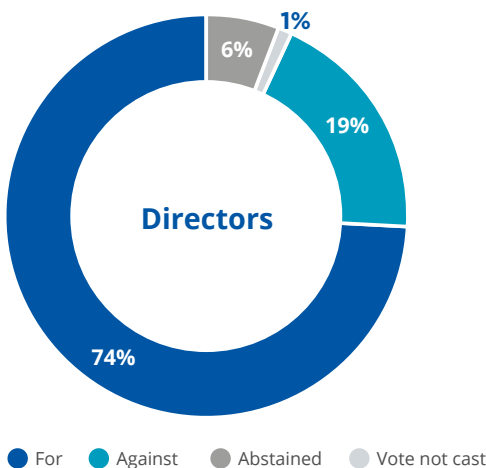
How did we vote on all 49,696 proposals?



How did we vote on 1,515 remuneration proposals?



How did we vote on 18,978 board members?



A vote against a remuneration proposal of Van Lanschot Kempen

We voted against a proposal for increasing the remuneration of the CEO of asset manager Van Lanschot Kempen. According to the company, the proposed remuneration was below the market average. We questioned the peer group used which included parties that were a lot bigger than Van Lanschot Kempen. In addition, the remuneration had already been increased strongly in the past. Despite various discussions that we held with the company, the remuneration proposal was adopted. This was due to the fact that the company had a foundation of certificate holders with the voting right on all shares that are not represented at the shareholders' meeting. The majority of other voters was against.



Voting on board members

A well-balanced composition of the board is also an important precondition for good corporate governance. When we vote on the appointment of new board members we look whether there is a good balance between the number of executive and non-executive (supervisory) directors. In addition, the majority of non-executive directors must be independent. All directors must have the right knowledge and skills and be trained regularly.

We expect a director to stand as a candidate for reappointment every four years; if they have been board members for longer than twelve years, they should stand as a candidate annually. At larger companies, and in particular companies in industries with a big impact on people and the environment, we expect that there is an appointee at board level who is responsible for sustainability issues.

Interview Paul Andriessen – Senior portfolio manager developed equity markets at APG

A vote against at Clariant

As portfolio manager equities, Paul Andriessen is closely involved in voting at shareholders' meetings. For instance, on his advice, in 2018 we voted against an appointment proposal at Swiss company Clariant, a producer of fine chemicals.

What did the proposal entail?

"There was a board proposal to appoint four candidates, nominated by partner company SABIC, as non-executive board members. SABIC is a large chemical company with an interest of 24.99% in Clariant."

What was your objection?

"I did not agree with the disproportional representation of SABIC in the board, which would consist of twelve members. I also thought it was too early to appoint new board members as the financial details of an important deal between the two companies still had to be finalized. The board members nominated by SABIC could then be able to exert influence on this."

Did it have an effect?

"I discussed my concerns with the company. However, despite our voting against the appointment, the board's proposal was ultimately adopted nevertheless."



Photograph: Nils Vermeulen

We voted at in total 2,864 shareholders' meetings in 2018 on the appointment or reappointment of 18,978 board members. Of the proposed candidates, 74% could count on our support. This percentage is comparable to 2017.

Diversity works

A well-balanced board also means a diverse board. More and more studies show that diversity in the boards of companies leads to better decisions and results.³³ This not only concerns a well-balanced distribution between men and women. Board members with a different ethnic background or with specific knowledge and experience can also contribute to a better performance of the company and thus higher returns for shareholders.

Our asset manager together with other large pension investors, which combined have \$ 2.5 trillion under management, have called sixty US companies to account on the diversity of their boards. Of the companies that were approached, 37 subsequently appointed more women to their boards. We also tightened our voting policy: we always vote against the chair of the appointment committee of companies if there is no female board member.

Supporting resolutions

We supported resolutions at three Italian companies in 2018 to appoint a candidate to the board on behalf of minority shareholders. In all three cases, this resolution

³³ For example: Credit Suisse (September 2016), 'Thought Leadership from Credit Suisse Research and the World's Foremost Experts'; McKinsey & Company (January 2018), 'Delivering Through Diversity'; Catalyst (January 2015), 'Companies Behaving Responsibly: Gender Diversity On Boards'; MSCI (March 2018), 'Women on boards and the human capital connection'.

was adopted. We thus made use of the possibility that Italian law offers to minority shareholders to appoint their own candidate to the board. Recent academic research shows that companies with a board member nominated by the minority shareholders pay out more dividend and steer more on the long-term prospects of the company.³⁴

Anti-money laundering procedures at banks

We started a program in 2018 to engage with all financial institutions in which we hold a large position about their anti-money laundering policy. We have spoken with various board members and managers about money laundering incidents in the past and which policies and measures are now in place to prevent this. In this manner, we want to assess the risk of money laundering practices at these institutions and whether this has improved after the changes that they have implemented.

Anti-takeover legislation in the Netherlands strengthened in the future

When exercising their voting rights, shareholders often run into obstacles that make it difficult for them to actually cast their vote. We are actively tackling these obstacles to exercising voting rights. ABP also believes in the principle 'one share, one vote', that grants equal rights to all shareholders.

ABP is against excessive protection measures. In the 2018 Dutch government agreement, it has been determined that the company's management must be given a statutory reflection period when shareholders propose a significant change in the strategy or an acquisition. This is intended as protection against hostile takeovers and was mainly in response to hostile takeover attempts of AkzoNobel and Unilever in 2017. We are of the opinion that Dutch laws and regulations already offer sufficient possibilities to keep aggressive shareholders with a short-term horizon at a distance.

Critical discussions with ING

We held critical discussions with ING in 2018 about the proposed change in the remuneration policy and the failing anti-money laundering measures. We considered the proposed increase in the remuneration of the CEO to be excessive and were—as were other shareholders and politicians—very critical about this proposal. ING ultimately withdrew the proposal under this pressure.

Furthermore, we asked ING which measures it had taken to prevent money laundering and the financing of terrorism. The reason for this was the € 775 million fine that was imposed on ING for shortcomings in its control procedures. The bank took various measures in 2018 to monitor money flows better.

We will continue to discuss this matter with ING.



34 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3302044

Protective measures at Ahold Delhaize

The extension of a protective measure was on the agenda at Ahold Delhaize in 2018. This measure would give a special foundation, Stichting Continuïteit Ahold Delhaize (SCAD), the option to obtain shares with more voting rights than regular shares in the event of a hostile takeover bid. In this manner, the foundation can ward off undesired investors.

We talked with Ahold Delhaize about their intention to extend this measure. At the annual shareholders' meeting, we asked the company to include a number of shareholder-friendly conditions in this measure.

With success. In line with our request, Ahold Delhaize agreed with the SCAD that six months after the option was exercised a shareholders' meeting would be convened to discuss the situation with the shareholders. Furthermore, within one year after the option has been exercised, Ahold Delhaize will convene a shareholders' meeting to vote on the cancellation of the shares that were issued to the SCAD. The SCAD has no voting right at this meeting.



Corporate governance at real estate investments

With our real estate investors, in 2018, we voted against board proposals of US real estate funds aimed at limiting the rights of shareholders to convene a shareholders' meeting.

In addition, we engaged with US company Vornado Realty Trust (VNO). This led to the company agreeing to the appointment of an independent director and the strengthening of this position. We are constantly conducting a dialogue with this company regarding the diversity of the board. At our recommendation, VNO improved its sustainability report in line with the standards of the Task Force on Climate-Related Financial Disclosures (TCFD).

We also engaged intensively with Taubman Centers. The Taubman family's large influence on the company was negatively impacting results and the interests of minority shareholders such as ABP. Therefore, we successfully supported the nomination of an independent board member by another minority shareholder. In addition, Taubman appointed two independent female board members in January 2019. We expect that these appointments will have a positive effect on the management and the performance of Taubman.

Exercising influence in Asia

Corporate governance practices in Asia differ strongly from those in Europe and North America. In some countries, a number of entrepreneurial families have a lot of influence on companies and the rights of minority shareholders are usually less well regulated. However, we do see that the importance of good corporate governance is also increasingly being acknowledged in Asia. Our local team spoke with various parties in 2018, including companies and regulators, about the role and responsibilities of company boards. It is not a general practice in Asia that board members of companies discuss matters directly with shareholders. However, we have urged them to do this for years and our tenacity has finally been rewarded.

We have a seat in committees and working groups in a number of Asian countries that advise policymakers and regulators about embedding good corporate governance. This is the case, for instance, in India and Hong Kong. We also accepted an invitation from the South Korean stock exchange to take a seat in a committee of interna-

tional investors to act as a sparring partner for the authorities where it concerns good corporate governance. You can read more about this in chapter 10.

Dutch Stewardship Code

Our asset manager participated in the drafting of the first Dutch Stewardship Code in 2018. This code lays down requirements for institutional investors (such as pension funds) in the area of sustainability and good corporate governance at listed companies. The aim is to increase their long-term involvement. The code entered into force on 1 January 2019.

New Corporate Governance Framework

We revised our Corporate Governance Framework³⁵ in 2018. In comparison with the last revision in 2011, we provide a more specific explanation of our expectations and our voting policy for the most important corporate governance subjects. We also incorporated developments in the field of corporate governance and changes in laws and regulations.

Investing in Chinese equities

We entered into a dialogue with various Chinese companies in 2018. In these discussions, we indicated in which areas corporate governance was insufficient in our opinion and what the possible solutions could be. The Chinese companies were open to our suggestions. This may be related to the introduction of a Corporate Governance Code for listed companies in China, which is making companies more accessible for international investors. The awareness is growing in China that if the country wants to remain attractive for international investors, companies will have to operate more sustainably and responsibly.

In China, we invest in local A shares that are traded on the stock exchanges of Shanghai and Shenzhen. As is the case for our other equity investments, sustainability is one of the criteria on which we assess companies. However, little information is available about the sustainability performance of Chinese companies. Therefore, we spend a lot of time on our own analysis of each company in our portfolio.



³⁵ This is available on our website: <https://www.abp.nl/images/corporate-governance-framework.pdf>

9. Dialogue with participants and stakeholders

ABP participated in over 200 meetings with participants, NGOs and other stakeholders in 2018. This occasionally led to heated discussions. Discussions with critical organizations such as Greenpeace, ABP Fossielvrij and Both ENDS keep us sharp.

➔ 64% of our participants consider it important that ABP is sustainable and responsible

➔ ABP entered into discussions with critical organizations in 2018

➔ There is criticism in particular with regard to our investments in tar sands, palm oil and fossil fuels

As in previous years, around two-thirds of our participants consider it important that we invest sustainably and responsibly. This is apparent from a survey that Motivaction carried out for us in September 2018 among a representative group of 1,009 participants, inactive participants and pensioners. It was the fourth time that this survey was conducted. We use the results to determine what our participants consider important and what is the best way to communicate about this.

64% of the respondents agree with the statement that 'I consider it important the ABP is a sustainable and responsible pension fund'. 6% of the respondents disagree, 20% neither agrees nor disagrees, and 10% does not know or has no opinion. 61% of the respondents agreed with the statement in 2015, 64% in 2016 and 62% in 2017.

There is a large base of support for our engagement policy. Regarding the statement 'It is ABP's task to stimulate the companies in which it invests to become sustainable and responsible' 68% agrees, 19% neither agrees nor disagrees, 6% has no opinion and 7% disagrees.

There is more disagreement about ABP's investments in fossil fuels. Regarding the statement 'As long as there is still insufficient wind, water and solar energy to satisfy the global demand for energy, ABP will continue to invest in fossil fuels', 40% agrees and 24% disagrees. 36% neither agrees nor disagrees.

Of the respondents, 46% regularly makes sustainable choices in their daily lives and 6% describes themselves as 'idealistic'. 30% would like to make those choices but considers this to be too much of an effort and 8% is not at all interested in sustainability.

More questions from stakeholders and participants

In 2018, we received considerably more emails and letters regarding sustainable and responsible investing than in previous years. Of all emails (about 1,110 as of December 21, 2018), 36% concerned questions about this subject, against 15% in 2017. Of the 237 letters, over 15% concerned sustainable and responsible investing. The theme about which we received the most questions was the decision to stop investing in tobacco and nuclear weapons, followed by investing in palm oil and in Israeli companies.

Contacts with stakeholders

We participated in over 200 meetings with stakeholders in 2018, including politicians, employers' organizations, trade unions, NGOs, sustainability organizations and participants. We will discuss a few of these.

Greenpeace asks us to stop investing in tar sands

We held meetings with Greenpeace in July and September 2018 to discuss our investments in tar sands companies in North America. ABP invests in a number of companies that produce tar sands oil and install pipelines for the transport. Greenpeace requested us in a letter to stop investing in these companies. Greenpeace paid a visit to the company on 31 July 2018 to ask attention for this.

CO₂ emissions are greater in tar sands production than in regular oil production. The landscape and the living environment of the local population are also affected and leaks can occur. Nevertheless, ABP prefers to continue to engage with these companies. As a critical shareholder, we can call them to account on these issues and urge them to improve. When we terminate an investment, we lose our influence on the company. We only do this when there is no longer any prospect of improvement. We very much appreciate the contribution and specialist knowledge of organizations such as Greenpeace and we use this in our contacts with these companies.



Fossil energy companies have to make the transition to sustainable energy and drastically reduce their CO₂ emissions.

Climate change may have large consequences for biodiversity and forms a threat to, for example, the coral reef.



Interview Joris Thijssen – director of Greenpeace Nederland

“There is no longer any time left for a gradual approach”

Greenpeace follows ABP critically and regularly calls the pension fund to account with regard to its investments in fossil energy. There is a difference of opinion mainly about the pace at which companies should become sustainable and how that can best be achieved. “Rather a slightly lower pension than an unlivable world.”

What would you consider a constructive step that ABP has taken in 2018?

“We are pleased with the increase in investments in solar and wind energy. The establishment by ABP of a special fund for the financing of the energy transition is also a good initiative. As far as we are concerned, ABP could still do more.”

In which areas is ABP lagging behind in 2018 in your opinion?

“Tar sands investments. ABP should really get out of tar sands. The production of tar sands oil is devastating for the landscape and emits a lot more CO₂ than ‘regular’ fossil fuels. ABP also still has way too many investments in coal. It would be a good thing if ABP were to publicly announce that it would stop investing in both industries. That would be a very strong signal to the industry.”

ABP continues to invest in fossil fuels in order to be able to exert influence. If you sell, you are certainly making a grand statement, but after that you have lost your influence.

“I see the advantage of investors exerting pressure on a company to urge it to become more sustainable. But the manner in which ABP is approaching this is taking too long as far as Greenpeace is concerned. After a few discussions, it is clear whether a company is or is not willing to take steps. This does not have to take years.”

“There is simply no more time left for a gradual approach if we want to achieve the goals of the Paris Climate Agreement. The last report of the UN Intergovernmental Panel on Climate Change (IPCC) shows that the risks in the event of 1.5 and 2 degrees global warming are bigger than estimated earlier. And we are even not going to be able to achieve that if we continue to go on like this. The world is heading towards 4 degrees or more.”

It was agreed in the Paris Climate Agreement that global warming may not exceed 2 degrees.





Isn't it ABP's responsibility to provide a good pension for its participants? Stepping out of whole sectors strongly reduces the number of investment possibilities to achieve this goal.

"We regard this as a false dilemma. We have to make people realize that time is running out as far as the climate is concerned. Doing nothing is not an option. In our opinion: preferably a slightly lower pension in a 1.5 degree world than a somewhat higher pension in an unlivable world. Time is running out for the climate and thus also for us. Moreover, it is questionable whether selling fossil fuel producers would lead to lower returns. In the equity and bond portfolios, ABP already invests in over 4,300 companies and then I am not even taking the other investments into account. If you stop investing in the 200 largest fossil companies, you still have 4,100 investments left. You also reduce your financial risks, as the risk of stranded assets³⁶ is huge in the fossil sector."

The energy transition can lead to many employees in the fossil energy industry losing their jobs. How can a fair transition take place?

"For us 'fair' is: whoever pollutes the most, must pay the most. This means that polluting companies must pay a higher price for CO₂ emissions and that measures must be taken for employees in the fossil industry who lose their jobs. For instance, retraining employees and financial compensation for employees who are close to retirement. For that matter, the very rapidly growing sustainable energy sector is providing more jobs than the jobs that are being lost in the fossil fuel industry. Many employees in the fossil industry are well educated and can easily find a job elsewhere. Fossil fuels should be reduced in a controllable manner, otherwise we will simply not achieve the climate goals."

Which measurable climate goal should ABP set for itself?

"The most important thing is that ABP brings its targets in line with the Paris Agreement. In order to reduce the emission of greenhouse gases in 2050 to zero, a 50% to 70% reduction is necessary before 2030. This must be translated into concrete targets for all investments, for all greenhouse gases and for all emissions, therefore also those of suppliers and end users."

"ABP should also make (more of) an effort to conserve biodiversity, for example by no longer investing in agricultural companies that use pesticides. Or by making a conscious choice to invest in companies that use environmentally-friendly alternatives. The loss of biodiversity has huge consequences for life on earth."

In which manner could Greenpeace join forces with ABP?

"We would like to exert influence on decision-making in The Hague and Brussels together with ABP. For example, by getting governments to introduce levies on polluting business activities and offering subsidies or guarantees for sustainable alternatives such as solar and wind energy and green hydrogen. As a result, sustainable options would also become more interesting for investors. ABP can help us to really achieve something, certainly if you also seek cooperation with other large investors."

³⁶ Stranded assets are assets that have become obsolete or non-performing or could be subject to a rapid loss of value. For example, oil reserves that cannot be extracted profitably.



Madonna Thunder Hawk in Amsterdam

We received a visit in October 2018 from another critical stakeholder. Madonna Thunder Hawk, Lakota Sioux chief and leader of the American Indian Movement, called us to account on our investment in TransCanada. This company is installing the Keystone XL oil pipeline, which transports oil extracted from tar sands. This pipeline cuts across the tribal lands of the Sioux Indians. On behalf of

ABP, Ronald Wuijster, APG board member, and specialists in this area welcomed Madonna Thunder Hawk at the office in Amsterdam. She shared her objections, insights and experiences. It was very valuable for us to hear the other side of the story. We will take this knowledge with us in the follow-up discussions with companies in which we invest.

ABP ‘honored’ with the ‘Schijtlijster’ [Coward] Trophy

On 5 May, the television program Kassa broadcast an item about companies that invest in palm oil. ABP was named because it invested in the Korean company Posco Daewoo. There is a lot of criticism of the palm oil production of this company because it came to the fore that the company was involved in deforestation on the Indonesian island Papua. ABP understands and shares this criticism. We are also against land theft, deforestation and human rights violations and want to

put an end to this. In order to achieve that, we use our influence as a shareholder.

We have discussed sustainability and responsible business practices with Posco Daewoo several times in recent years. These discussions became more intensive after reports had been published about abuses in which a subsidiary of the company was allegedly involved. Measures that our portfolio managers proposed were, however, not adopted quickly enough by the company. Consequently, we no longer had any confidence in the company’s willingness to implement improvements. We sold our investment in this company in June.

The viewers did not see ABP appear in the studio, as we were not able to comment during the program due to practical reasons. Therefore, we were awarded the Kassa ‘Schijtlijster’ [Coward] Trophy. Unfortunate, because we do not usually avoid issues and are keen to explain what we do. Our board member José Meijer received the trophy with the words: ‘As far as we are concerned this is the first and the last trophy.’

Board member José Meijer receives the Schijtlijster [Coward] trophy





Photograph: Minister Kaag speaks at the SDG event

Working on investments in SDGs

ABP organized an event on 10 September 2018 about the UN Sustainable Development Goals and how these can be translated into investment policy. Around 150 representatives of the government, financial institutions, NGOs, pension funds and supervisors gathered together to share their knowledge. The speakers at this event were: Sigrid Kaag, Minister for Foreign Trade and Development Cooperation, Peter Bakker, President of the World Business Council for Sustainable Development and Jan Rotmans, Professor of Transition Studies and Sustainability at Erasmus University in Rotterdam.

All of them shared the point of view that investing in a sustainable world is a shared responsibility of the government, investors, the business community and science. "Large investors such as ABP play an important role in achieving the Sustainable Development Goals. Returns and sustainability can and must go hand in hand", according to Minister Kaag.

ABP Fossil Free and Follow This

ABP is regularly called to account on its investments in fossil fuel. The board met with ABP Fossil Free in May 2018 to discuss the progress with regard to its sustainability policy, particularly with regard to the Paris Climate Agreement. Fossil Free wants us to sell our investments in coal,

oil and gas companies in the short term because these contribute significantly to climate change due to their high CO₂ emissions.

ABP welcomed thirteen professors in June 2018 to discuss Shell's climate plans and ABP's sustainable and responsible investment policy.

The professors had advised ABP earlier to vote in favor of the resolution of Follow This at the Shell annual general meeting. However, ABP abstained from voting (see chapter 6). Despite ABP's appreciation of the efforts of Follow This to achieve the Paris Climate Agreement, ABP considered it too early to demand from Shell that it should already revise the climate ambition that it had presented in November 2017. There was a constructive and open exchange of views and insights during the meeting. The professors and ABP also showed interest in expanding cooperation in the scientific field.

Investing in participants' themes

In our sustainable and responsible investment policy, we pay extra attention to the themes that are of specific importance for our participants. These are safe work, education and strengthening the economic structure. The investments in student accommodation were increased in 2018 with the opening of new projects in the Netherlands, France, Ireland and Germany. We also increased our interest in the Australian student accommodation company Scape Australia.

In addition, we invest in various companies that offer educational products and knowledge. An example is Infinitas Learning, a Dutch company that contributes to UN Sustainable Development Goal 4 - Quality education. This former education division of Wolters Kluwer offers interactive software, online learning, e-books and printed books. As part of its social responsibility, Infinitas Learning also offers support to communities that do not have access to education.

Our investments in education and communication technology amounted to € 2.143 billion at the end of 2018. The target of € 1.564 billion in 2020 has thus already been exceeded.

10. Working together on sustainability

ABP is actively seeking cooperation with other pension funds and financial institutions. By exchanging knowledge and experience and joining forces, we contribute to sustainable financial markets and we have more influence on the companies in which we invest.

➔ ABP participates in the covenant for International Responsible Investment

➔ With our knowledge and experience, we contribute to the EU's strategy for sustainable financing

➔ Companies must respect the rights of all shareholders

International Responsible Investment covenant

ABP signed the International Responsible Investment covenant in December 2018.³⁷ ABP chair Corien Wortmann-Kool as well as Minister Kaag (Foreign Trade) and Minister Koolmees (Social Affairs and Employment) and representatives of a large number of NGOs were present at the festive signing of the covenant.

In the covenant, the pension sector has concluded agreements with the government, trade unions and environmental and social organizations to prevent abuses in companies that they invest in. The covenant was signed by the Pension Federation and 73 pension funds that together represent nearly 90% of the Dutch pension capital. ABP was one of the initiators and was closely involved in the negotiations.

The parties that participate in the covenant can make use of each other's knowledge and experience in the global

identification of environmental and social risks and the possible negative impact on investments, in combating and preventing abuse, and in exerting influence as shareholders to solve problems at companies in which they invest. The parties are also working together in six concrete projects to increase their influence as responsible investors.

The agreements laid down in the covenant are based on the guidelines for large asset managers of the Organization for Economic Cooperation and Development (OECD), and the UN Guiding Principles on Business and Human Rights). Covenants for international responsible business practices have been signed earlier for sectors such as the clothing, banking and food sector.

The EU's strategy for sustainable finance

The European Commission (EC) aims for a more sustainable financial system. The Commission published an action plan for reforms on 8 March 2018. One of the most important elements is the creation of a EU classification

³⁷ https://www.imvoconvenanten.nl/pensioenfondsen?sc_lang=en

system (taxonomy) to determine which investments contribute to sustainable development.

The Commission's plan is inspired by the recommendations of the High Level Expert Group on Sustainable Finance (HLEG) that published a report on 1 January 2018.³⁸ The HLEG—in which the head of responsible investment and governance of our investment organization had a seat—received the assignment from the EC in 2016 to make recommendations for the financing of sustainable growth.

The Taxonomy on Sustainable Development Investments (SDIs) developed by ABP is cited by the European Commission as one of the possible frameworks for creating an EU-wide classification system.

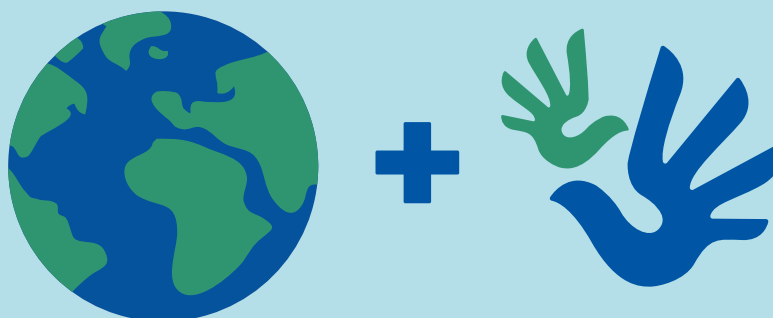
The European Commission's approach can contribute to a shift of capital to sustainable solutions and the integration of sustainability into investment decisions. This is why we wish to stimulate the involvement of the financial sector. Our asset manager organized meetings in March and December 2018 on the impact of European sustainable finance regulations in the Dutch context. We also shared our knowledge and experience—via our asset management organization—on other occasions.

Equal shareholder rights

It is a matter of principle for ABP that shareholders are treated equally. This means: 'one share, one vote'. We voice our concern when a company issues shares with various types of voting rights or only limited voting rights. By limiting the voting rights, some shareholders are less able to call the management of the company to account, for example, when the management takes unacceptable decisions.



The European Commission's approach can contribute to the shift of capital to sustainable solutions.



38 https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en

Interview Emine Bozkurt – Human Rights Policy Director at Amnesty International Netherlands

The meaning of the International Responsible Investment covenant

How does Amnesty International regard the covenant?

“Human rights are being violated all over the world. Companies can be involved in this directly or indirectly. Pension funds are big investors and have the responsibility to use their influence as shareholders to prevent or end human rights violations and to right the wrongs committed. The covenant gives the Dutch pension sector the opportunity to fulfill this role. Amnesty International is therefore pleased that a large number of pension funds have signed the covenant.”

The covenant still has to prove its worth in practice. What are your expectations?

“We are confident that the covenant will provide an important contribution to socially responsible investment by pension funds. The underlying objective of the covenant is to get companies to increase the sustainability of their business operations in which justice is done to people, animals and the environment. If pension funds place the bar high this will have an effect on the policy and implementation of the companies in which they invest.”

How do you see the role of pension funds and Amnesty International in the rest of this process?

“Part of the financial sector does not yet participate in covenants for responsible business practices or responsible investment. In addition, only in practice will we really be able to see what the covenants

actually contribute. It is also for that reason that we support initiatives to create legislation as well. But as long as there is no legislation, we regard the covenant as an important instrument for increasing the sustainability of the sector. Therefore, we are looking forward to contributing our knowledge and expertise as a constructive partner to further improve the policy and the investment choices of pension funds.”



Issuing shares with different voting rights (*dual shares* or *dual share structures*) was introduced in the United States in the 1980s. In recent years, we see that also a number of Asian stock exchanges are inclined to make dual share structures possible.

At its own initiative and together with other large investors, ABP has called on these stock exchanges and their supervisors to refrain from doing so. These efforts were unsuccessful. In 2018, the Singapore (SGX) and Hong Kong (HKEx) stock exchanges decided to allow dual share structures under certain conditions.

For some time now, we have been urging the Korean (KRX) stock exchange to strengthen the rules for good corporate governance and to provide better protection for minority shareholders. We have accepted the invitation to take a seat in an official committee for international investors that provide feedback on the functioning of financial markets in South Korea.

However, it is possible that ABP invests in companies that issue shares with different voting rights. For example, because the share is still attractive in the opinion of the portfolio manager.

Strengthening governance in the financial sector

The revised German Corporate Governance code was released for consultation in November 2018. The proposed updated code is stricter with regard to, among other things, remuneration policy and the independence of directors. For instance, the code demands an independent chair of the supervisory board, of the remuneration committee and of the audit committee. Furthermore, the code makes the link between sustainability and corporate strategies explicit. The head of responsible investment and governance of our investment organization is a member of the committee that drafted the code.

11. Outlook for 2019 and beyond

Our targets for sustainable and responsible investment are aimed at 2020. However, the Board of Trustees is already considering the question what our policy should look like after that period. This is why we would like to know what our participants and other stakeholders consider important.

➔ **ABP is working on its sustainable and responsible investment policy for after 2020**

➔ **We want to involve participants and other stakeholders in our choices by means of accessible communication**

➔ **ABP continues to promote sustainability within the financial sector**

In 2019, ABP will focus on the development of our new sustainable and responsible investment policy for 2020 and beyond. Central questions in this process are: what are our goals, which themes do we focus on in engagements with companies and how does our policy contribute to our ambition to provide a good pension for our participants now and in the future?

As preparation for the development of our new policy, we organize meetings with our stakeholders and take stock of what our participants consider important.

Clear communication

As in the past, we will continue to pay a lot of attention in 2019 to offering accessible communication about sustainable and responsible investment for participants and employers, for example via abp.nl and with factsheets about topical and controversial topics.

Dutch Climate Agreement developments

It is expected that the Dutch National Climate Agreement will be signed in the course of 2019 after the provisional agreement was concluded in December 2018. The financial sector, including ABP, has voluntarily committed to the target of a 49% emission reduction in 2030. This means that a target has to be included in the updated policy for the reduction of the CO₂ emissions of the whole portfolio. The existing target only pertains to equities.

Further implementation of International Responsible Investment

Moreover, in 2019, we will proceed with the implementation of the International Responsible Investment covenant that we concluded in December 2018. ABP will determine a number of themes together with other large pension funds for engagements with companies. We will also enter into a dialogue with organizations in the fields of, for example, human rights and the environment.

12. Annexes



1. Materiality survey and media analysis

We have used various methods to find out which subjects our stakeholders would like to read about in the 2018 Sustainable and Responsible Investment Report:

1. In the participants survey that was conducted in September 2018 among participants, pensioners and former participants³⁹, we asked what they would like to read about in this report. We also analyzed the letters and emails that we received in 2018 regarding sustainable and responsible investment.
2. The agency LexisNexis performed a media analysis in mid-November to see how ABP was referred to in the various Dutch media (newspapers, online news items and Twitter) in combination with the most important topics in the field of sustainable and responsible investments.
3. A questionnaire was sent to around 80 external stakeholders⁴⁰ in January 2019. This questionnaire was also filled in by members of the ABP Board of Trustees⁴¹.

The results of the various surveys were compared with each other and are presented below.

1. What issues are participants interested in?

The base of support among participants for sustainable and responsible investment by ABP remains large. In the 2018 participants survey, two-thirds of the participants indicate that they consider it important that ABP invests sustainably and responsibly. This percentage has been stable since 2015.

It appears from the survey that *'Efficient use of raw materials and reuse of waste'* remains the most important theme for participants. In recent years the themes *'combating climate change'* and *'access to affordable and sustainable energy'* have become more important. In addition, *'good education for everyone'* remains an important theme. Finally, the attention for *'Sustainable use of seas and oceans'* has increased strongly.

In 2018, we received considerably more emails and letters regarding sustainable and responsible investing than in previous years. Of all emails (about 1,110 as of 21 December 2018), 36% concerned questions about this subject, against 15% in 2017. Of the 237 letters, over 15% concerned sustainable and responsible investing. The theme about which we received the most questions was the decision to stop investing in tobacco and nuclear weapons, followed by investing in palm oil and in Israeli companies.

2. With which topics was ABP in the media?

A media analysis by LexisNexis shows that ABP was mainly in the news as a sustainable and responsible investor in the first eleven months of 2018 (up to 23 November) in connection with the climate and the environment. Most of the media attention centered on investments in fossil fuels. The exclusion of products (tobacco and nuclear weapons) and human rights also appeared relatively often in the news.

The word cloud provides an indication of the number of articles and tweets in which ABP was mentioned in combination with key words in the field of sustainable and responsible investment. For the sake of comparison, they also looked into how often ABP was mentioned in combination with the term return.

3. Survey among stakeholders and ABP board members

3a. What would stakeholders like to read about?

The first question in the stakeholder survey that was put to the stakeholders and the individual ABP board members was:

"Please list up to five themes you would like to read about in the 2018 report in order of importance, marking the most important as 1 and the least important as 5. If you miss any themes, you can add these below."

³⁹ For the study 'Support for sustainable and responsible investing' the research agency Motivaction conducted a survey among 1,009 ABP participants, pensioners and former participants.

⁴⁰ For this questionnaire, 79 stakeholders were selected randomly from the ABP stakeholder database with representatives of employers' and employee organizations, social organizations, companies, asset managers and other pension funds. 19 of them sent a list of preferences back.

⁴¹ This concerned 10 board members.



When processing the answers, five points were allocated every time that a respondent ranked a theme first, four points were allocated for a second place, etc. The points were added up and a ranking was made. Figure 1 on page 64 indicates which themes stakeholders (x axis) and board members (y axis) regarded as the most important.

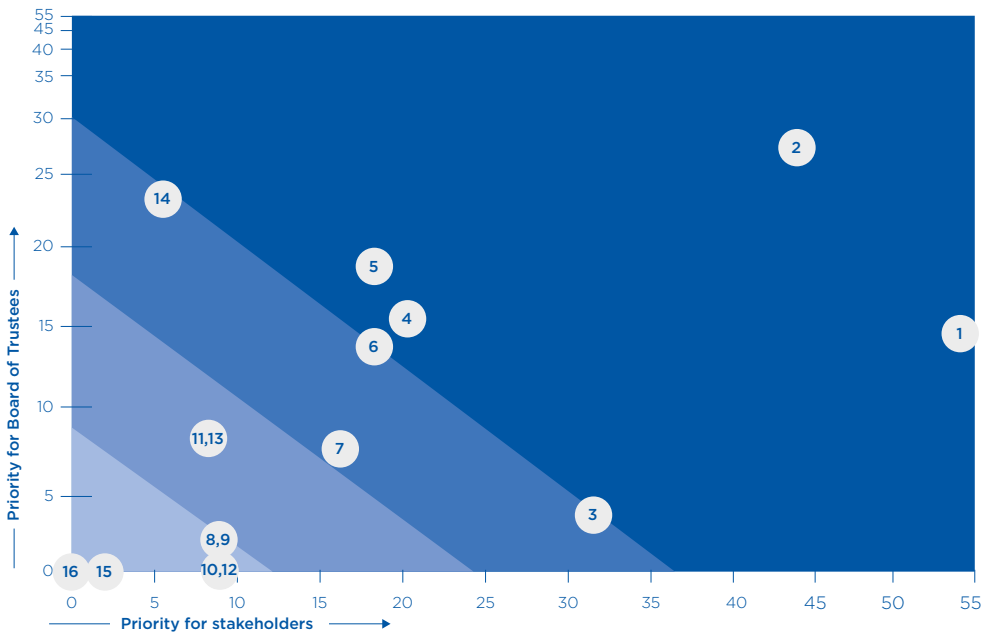
3b. Which issues do stakeholders consider important?

The second question that was put before stakeholders and board members was:

“ABP featured in the media as a responsible investor in connection with various issues in 2018. This mainly concerned the following issues (ranked alphabetically). Please check no more than three issues that you would like ABP to report on in the 2018 Sustainable and Responsible Investment Report. If you miss any issues, you can add these yourself.”

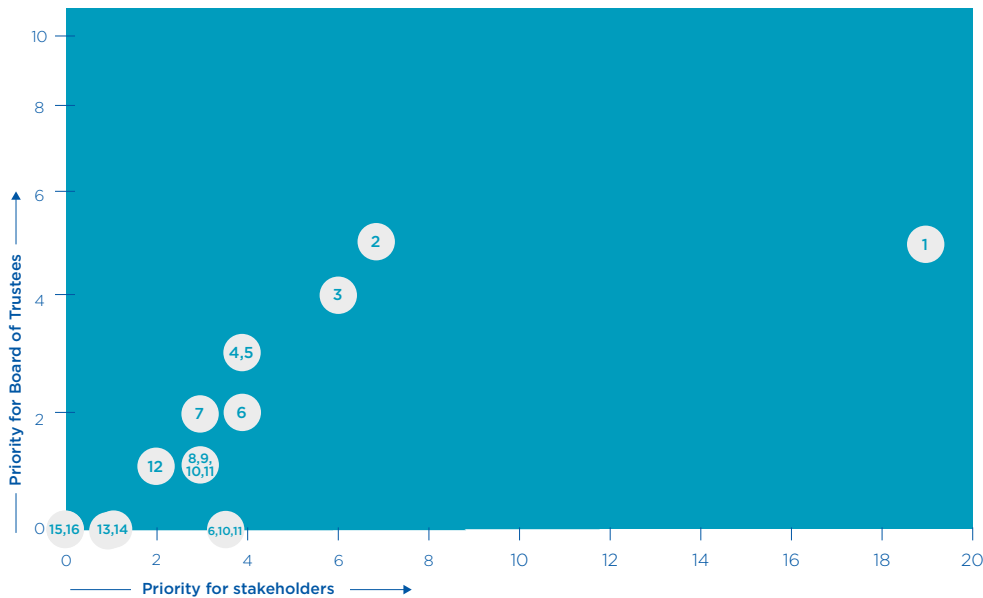
Figure 2 on page 64 contains the 16 issues with which ABP appeared most in the media in 2018, as presented to the stakeholders and board members. One point was given for each time the issue was selected. The figure shows which issues stakeholders (x axis) and board members (y axis) regarded as the most important.

Materiality analysis 1



1. Attention for sustainability and good governance in daily investment decisions
2. Sustainable and responsible investing in relation to returns
3. Investing in sustainable development
4. Dialogue with companies
5. Specific policy choices
6. Communication with participants
7. Monitoring the sustainability and governance performance of investments
8. Communication with NGOs
9. Collaborating with other investors
10. Exclusion of companies
11. Promoting attention for sustainability and good governance among business partners
12. Exerting influence via shareholders' meetings
13. Thematic investments
14. Implementation progress with Sustainable and Responsible Investment Policy 2015-2010
15. Dialogue with government and regulators
16. Exclusion of countries

Materiality analysis 2



1. UN Sustainable Development Goals
2. Climate change
3. Circular economy
4. Energy transition
5. Fossil fuels
6. Deforestation / palm oil
7. Labor rights
8. Remuneration of senior executives
9. Health and medicine
10. Climate Agreement
11. Tar sands
12. Exclusion of nuclear weapons and tobacco
13. Shell
14. Human rights
15. Investments in Israel
16. Green bonds

2. Addressing the risks and opportunities of climate change

Climate change has huge consequences for society and the economy, and thus also for investors. ABP takes the consequences of climate change for the investment portfolio seriously. In this annex, we describe which activities ABP is undertaking to identify and manage climate risks and opportunities. In this report, we follow the framework as developed by the *Task Force on Climate-related Financial Disclosures* (TCFD).

Climate change is not only discussed in this report in a separate chapter, but also in chapters in which other themes are central. This annex describes what ABP has done in 2018, but also what we have already started in earlier years. Information about our climate policy can also be found in our report to the Principles for Responsible Investment (PRI).

1. How have we structured our governance regarding climate-related risks and opportunities?

As part of its responsibilities, the ABP Board of Trustees oversees climate-related risks and opportunities. For instance, the Board of Trustees and various board committees discussed the consequences for ABP as an investor several times in 2018 and presentations were organized by our investment organization.

Our investment organization APG is responsible for integrating climate change into the investment process. APG's Global Responsible Investment & Governance team (GRIG) has a coordinating role in this.

The various investment teams are responsible for managing the risk exposure within their strategies. Fiduciary Management takes climate factors into account in their macroeconomic models and strategic portfolio advice to ABP.

The ABP board committee on Investment Policy decided in 2017 to add climate change to our risk framework as a separate category. ABP asked the investment organization in 2018 to further develop this with the aim of enabling us to systematically monitor the development of climate-related risks and opportunities in the portfolio.

A organization-wide steering group and working group were set up for this.

2. What are the actual and possible consequences of climate-related risks and opportunities for our business operations, strategy and financial planning?

We classify climate factors that could have an impact on our investments in the following manner:

How do climate changes impact our investments?

Climate factor	Description
Policy & Regulations	The consequences of a stricter climate policy for companies and investors, for example pricing CO ₂ emissions, stimulation measures for cleaner alternatives, or limitations for CO ₂ intensive industries.
Technology, Market & Reputation	The consequences of cleaner alternatives for CO ₂ intensive production methods and products becoming available (for example, electric cars or energy efficiency). Changes in the preferences of consumers, companies and investors with regard to the products that they buy or the companies in which they wish to invest.
Physical impact	The impact of changing weather patterns, including more frequent and more intense extreme weather (such as floods) and structural changes (for example long dry spells).

Within these three categories, we distinguish in total 44 types of climate risks and opportunities. These factors can have negative consequences for our investments, such as a decrease in the value of investments in fossil fuels. However, they can also provide new investment opportunities in industries such as renewable energy, electric transportation and water management.

In order to identify such climate risks and opportunities for our portfolio, we have made use of a scenario analysis. This technique is suitable because little historical information is available. Therefore, it is better to work with constructed future scenarios and to see what consequences it would have for the portfolio if such a scenario were to become reality.

We used two scenarios for the climate analysis. One scenario leads to a global warming of 3.7 degrees because governments take too little action and green technologies develop insufficiently fast (this is referred to as the 'business as usual' scenario). The second scenario describes a world in which governments seriously work on achieving the Paris climate goals and the markets respond to this (the '2-degrees scenario').

Based on these scenarios, we elaborated the climate risks and opportunities for 26 economic sectors. Together, these sectors represent over half of the value of our investment portfolio. In this case, we looked ahead to 2022, 2030 and 2040.

These scenarios show that the effects of climate change are huge and extensive in 2040. Towards 2040, the transition is gradual for a global and diversified portfolio as that of ABP. However, the transition can proceed with disruptive changes and unexpected tipping points which we must continue to monitor closely.

In the 2-degrees scenario, we already see major transitions occurring before 2030, with the accompanying risks and opportunities, in particular in the following sectors: electrical power plants, real estate, cement industry, oil and gas, aviation industry, food and consumer goods, automobile industry, semi-conductors and electrical goods, agriculture, chemicals, and the construction sector.

Sectors that are extra vulnerable, but also offer opportunities, to the physical consequences of climate change are in

particular: agriculture, forestry, real estate, hydro power stations, oil and gas, food processing, road and rail transport, mining, electrical power plants, health care, the construction sector, and hydro power stations.

Besides inventorying the effects on sectors, we also took climate factors into account in the macroeconomic models that we used for our strategic investment plan. Via two scenarios ('climate pit' and 'good globalization'), we have inventoried the possible consequences for growth, inflation and other economic variables.

3. Which processes do we use for the identification, assessment and management of risks in connection with climate change?

The results of our climate scenario analysis have been recorded in a traffic lights model, which provides insight into the most important climate opportunities and risks in 2022, 2030 and 2040. We will perform this analysis every two years in order to incorporate the most recent developments and insights in the scenarios. In addition, we have developed a dashboard with 25 indicators that together provide an impression of the speed at which the transition to a low-carbon economy is proceeding. The dashboard will be updated every six months and will be made widely available within ABP and the asset manager. This supports the assessment and management of climate-related risks.

The portfolio managers and sector specialists of the various investment categories are primarily responsible for managing climate-related risks and capitalizing on opportunities, as they have specific knowledge about how climate change can impact the investments. As part of their investment analysis and risk management, they pay attention to climate risks in the short, medium and long term. The insights from the climate scenarios can provide attention points and priorities for further research. The portfolio managers thus form the first-line function within the risk management framework.

A few examples of how our investors analyze and manage risks and opportunities:

- The portfolio managers actively monitor all relevant developments in the fields of regulations, technology and markets. For instance, a portfolio manager who is responsible for utilities paid a visit to Germany in 2018 and spoke to politicians about the developments of the

'coal committee', that advises the German government about the phasing out of the lignite sector.

- ABP has not been investing in new coal-fired power plants in its infrastructure portfolio for ten years and will not do so in the future. We ask coal companies in other portfolios to stop the expansion of coal-fired power plants and to develop a strategy for a transition to sustainable energy.
- We take financial risks into account in the calculation models, such as CO₂ prices and lower income from coal. For instance, our investors closely monitor the costs of battery technology and the relative costs of energy sources (i.e. the *Levelized Cost of Electricity*).
- ABP actively conducts a dialogue with companies to reduce their CO₂ emissions. We do this, for example, in the collective Climate Action 100+ initiative. We were able to achieve good results in the dialogue with Shell in 2018.

With the climate scenario analysis, our asset manager has taken steps to further integrate climate change into the second line function for risk management as well. The traffic lights model and the dashboard with indicators are available for management teams and the risk management department at the asset manager, as well as for the ABP Board of Trustees and the Executive Office. This second line function will be further elaborated in the coming years.

4. Which indicators and targets do we use to assess and manage climate-related risks and opportunities?

- We monitor a set of 25 indicators in order to obtain insight into the speed at which the transition is taking place. For example: demand for oil and gas, investments in renewable energy, consumption of animal products and the number of electric cars.
- We measure the CO₂ footprint of the equity portfolio and the real estate portfolio. For the listed equities portfolio, we have set as target a 25% reduction of our CO₂ footprint in 2020 (in relation to 2014).
- We measure how much we have invested in renewable energy. We have set the target for 2020 that we want to have at least € 5 billion invested in renewable energy.
- We measure which sources our energy-related investments use for generating energy (coal, oil, gas, nuclear or renewable).
- We measure how much we invest in companies that contribute to the UN Sustainable Development Goals (*Sustainable Development Investments – SDIs*). We have set the target that we want to have at least € 58 billion invested in SDIs by 2020.

3. Assurance report by the independent auditors

To the readers of the 'Sustainable and responsible Investment report 2018' of Stichting Pensioenfondsen ABP

Our conclusion

We have reviewed the 'Sustainable and responsible Investment report 2018' (hereafter: the Report) of Stichting Pensioenfondsen ABP (hereafter: ABP) based in Heerlen. A review is aimed at obtaining a limited level of assurance.

Based on our procedures performed, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the reporting criteria as included in the section: 'reporting guidelines'.

Basis for our conclusion

We have performed our review on the Report in accordance with Dutch law, including Dutch Standard 3000A 'Assurance-opdrachten anders dan opdrachten tot controle of beoordeling van historische financiële informatie (attest-opdrachten)' (Assurance engagements other than audits or reviews of historical financial information (attestation engagements)).

Our responsibilities under this standard are further described in the 'Our responsibilities for the review of the Report' section of our report. We are independent of Stichting Pensioenfondsen ABP in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Reporting criteria

The Report needs to be read and understood together with the reporting criteria. ABP is solely responsible for

selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the Report are disclosed in the section: 'reporting guidelines'.

Limitations to the scope of our review

The Report includes prospective information such as ambitions, strategy, plans, expectations, estimates and risk assessments. Inherently the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information.

The references to external sources or websites in the Report are not part of the Report itself as reviewed by us. We therefore do not provide assurance on this information.

Responsibilities of the Management for the Report

The Management of ABP is responsible for the preparation of the Report in accordance with the reporting criteria as included in the section 'reporting guidelines', including the identification of stakeholders and the definition of material matters. The choices made by the Management of ABP regarding the scope of the Report and the reporting policy are summarized in the section: 'about this report' of the Report.

The management of ABP is also responsible for such internal control as the Management determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Our responsibilities for the review of the Report

Our objective is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and vary in nature and timing from, and are less in

extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements with a limited level of assurance is therefore substantially less than the assurance obtained in audit engagements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the Report. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS, Regulations on quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3000A, ethical requirements and independence requirements.

Our review included amongst others, the following procedures:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the company;
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the Report. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the management board;

- Obtaining an understanding of the reporting processes for the Report, including obtaining a general understanding of internal control relevant to our review;
- Identifying areas of the Report with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or error. Designing and performing further assurance procedures aimed at determining the plausibility of the Report responsive to this risk analysis. These procedures included among others:
 - Interviewing relevant staff at corporate level responsible for the sustainability strategy, policy and results;
 - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the Report;
 - Obtaining assurance information that the Report reconciles with underlying records of the company;
 - Reviewing, on a limited test basis, relevant internal and external documentation;
- Evaluating the presentation, structure and content of the Report;
- To consider whether the Report as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the Board regarding, among other matters, the planned scope and timing of the review and significant findings that we identify during our review.

Amstelveen, April 24th 2019
KPMG Sustainability,
Part of KPMG Advisory N.V

W.J. Bartels RA
Partner

4. Where are our assets invested?

These pages contain an overview of our 25 largest investments worldwide (at the end of December 2018) and our 10 largest investments in the Netherlands (amounts in euros). An overview of our 100 largest investments can be

found on [abp.nl](https://www.abp.nl)⁴². On [abp.nl](https://www.abp.nl), you will also find overviews of all our listed investments and our corporate bond portfolio.



⁴² <https://www.abp.nl/english/investments/>



5. Abbreviations

ANET	ABP Netherlands Energy Transition fund; fund established in 2018 specifically intended for investments in relatively small projects and companies that are working on innovative solutions for the climate problem	IMVB	Internationaal Maatschappelijk Verantwoord Beleggen [International Responsible Investment]
AODP	Asset Owners Disclosure Project; an organization that determines how the world's largest institutional investors identify the consequences of climate change.	IMVO	Internationaal Maatschappelijk Verantwoord Ondernemen [International Corporate Social Responsibility]
APG AM	APG Asset Management; APG's asset management company	IPCC	Intergovernmental Panel on Climate Change of the United Nations
CHRB	Corporate Human Rights Benchmark; a benchmark set up in 2017 to compare about 100 companies on human rights performance	OECD	Organization for Economic Cooperation and Development
ESG	Environmental, Social and Governance; issues that are relevant to responsible investment	PRI	Principles for Responsible Investing; a global association of around 2,200 pension funds, asset managers and companies that seek to promote responsible investing
ETF	Exchange traded fund; basket of investments that are traded on a stock exchange just like stocks	SDG	Sustainable Development Goal; development goal that the United Nations wants to achieve by 2030 to make the world more sustainable
GRESB	Global Real Estate Sustainability Benchmark; organization jointly founded by ABP to measure the sustainability performance of real estate	SDI	Sustainable Development Investment; an investment that is both financially attractive and contributes to achieving the United Nations Sustainable Development Goals
GRIG	Global Responsible Investment and Governance Team; APG specialists in sustainability and governance	TCFD	Task Force on Climate-related Financial Disclosure; working group led by Michael Bloomberg that issued a report in 2017 on how companies and funds could best report on climate change
HLEG	High-Level Expert Group on Sustainable Finance; group of specialists who advised the European Commission in 2017 and 2018 on increasing sustainability in financial markets	UNGC	United Nations Global Compact; an initiative of the United Nations to encourage companies to adopt sustainable and socially responsible business practices

