Building a good pension together in a livable world

Impact Investing Policy

January 1, 2024

Contents

Introduction

ABP's mission is to build a good pension together in a livable world. ABP's Sustainable and Responsible Investing Policy explains how ABP addresses sustainability in the investment portfolio. It describes various instruments for responsible investment, such as the composition of ABP's equity portfolio, engagement, voting at shareholder meetings, exclusion and Sustainable Development Investments.

Impact investing is a new instrument which ABP is adding to its toolbox to contribute positively to solutions that address social problems without compromising the portfolio's risk/return profile.

1. Definition of impact investing

ABP subscribes to the definition of impact investing of the Global Impact Investing Network (GIIN): “Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.”[1] this definition contains a number of elements[2] that are also important for ABP:

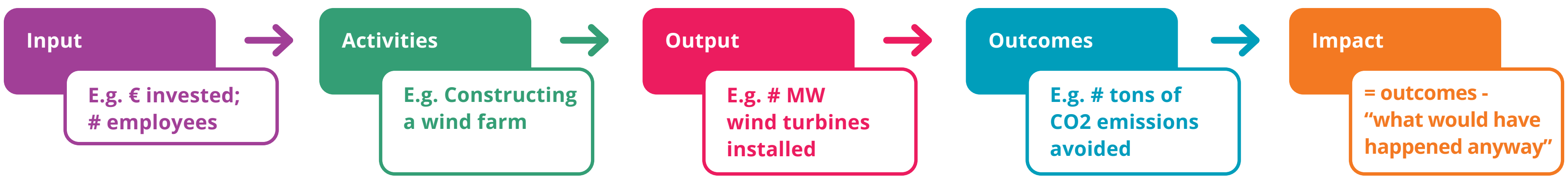
- **Intentionality:** to make a conscious contribution to positive social and environmental impact. For ABP the UN Sustainable Development Goals form the basis for determining the areas in which businesses have positive social or environmental impact.
- **Financial return:** impact investments aim to deliver a return. In this sense, impact investments are different from philanthropy. ABP strives to obtain a return on its impact investments that is appropriate to the asset classes in which those investments are made.
- **Different asset classes:** impact investments can be made in various different asset classes. ABP expects to be able to make the greatest impact in private markets and therefore looks in the first instance at Infrastructure, Real Assets, Private Equity, Alternative Credits and Real Estate.
- **Impact measurement:** the social and environmental performance of investments must be measured and reported.

All companies have a positive and/or negative impact on social and environmental factors. In seeking impact investments, ABP focuses on entities that have substantial positive impact on social and environmental factors, preferably in the Netherlands.

In the context of its impact investments, it is important to ABP that it also contributes itself to the positive impact. This can be achieved for example by actively engaging with businesses in order to improve the social and environmental impact or by investing in asset classes or sectors in which capital is scarce.[3] It is also important for ABP that a credible Theory of Change (ToC) underpins its impact investments. This means it must be made clear how the capital invested by ABP (input) will ultimately lead to sustainability outcomes. The ToC describes both how businesses create positive impact by means of their activities and how ABP can contribute to this.

1 See: https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing
2 See: https://thegiin.org/assets/Core%20Characteristics_webfile.pdf
3 See for example the Impact Management Project on the impact of investments and how investors can contribute to it.

Figure 1: Theory of Change, based inter alia on: Erasmus University Rotterdam

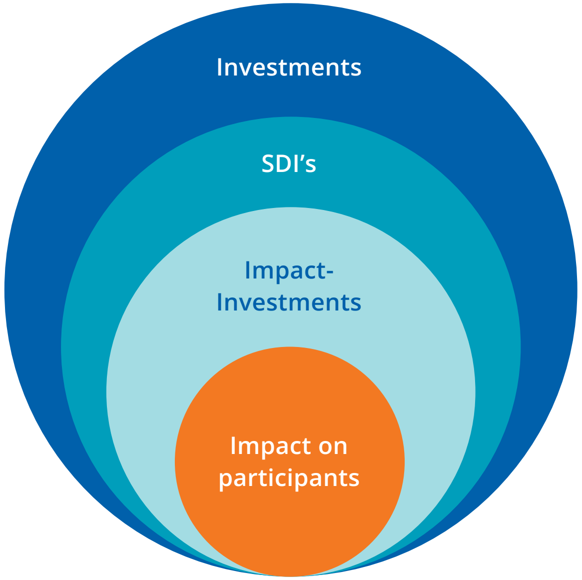


2. Impact investing as it relates to Sustainable Development Investing (SDI)

In 2015 the United Nations drew up the 17 Sustainable Development Goals (SDGs). Since 2016 ABP has set targets to invest more in businesses that make a positive contribution to those goals. To this end ABP, in collaboration with other financial institutions[4], has developed a method for determining which investments contribute to the SDGs: Sustainable Development Investments (SDI). SDI is a way of determining whether businesses contribute to a positive social or environmental impact. At the same time SDIs must deliver a financial return. But SDIs are not automatically impact investments. In order to qualify as impact investments there must be a prior intention to generate a sustainability impact and that impact must be measured. And for impact investments it must also be made clear how ABP itself has contributed to the positive social and/or environmental impact by means of a ToC. So some SDIs may be impact investments. And then there is another group of impact investments that can have a positive impact on ABP participants.

Figure 2: UN Sustainable Development Goals

Figure 3: Relation between SDIs and impact investments



In addition to SDI there are other frameworks for determining whether a particular investment has a positive social and environmental impact. For example in its Sustainable Finance Disclosure Regulation (SFDR) the European Commission has established a definition and criteria for “sustainable investments”. ABP expects all impact investments eventually to meet the definition of sustainable investments given in the SFDR.

4 See: https://www.sdi-aop.org/about/

3. Objectives for impact investing

By 2030 at the latest ABP aims to achieve the following objectives with impact investing:

1. €30 billion invested in impact investments;
2. €11 billion of which in impact investments that contribute to the transition themes on which ABP is focused, namely:
   a. €10 billion in the climate transition;
   b. €1 billion in the conservation of nature and biodiversity;
3. and €10 billion in investments in the Netherlands, with a positive impact on ABP participants.

All impact investments must meet the definitions outlined above, including the measuring of social and environmental performance. By 2025 at the latest ABP aims to have a clear picture of the positive effect of its impact investments in terms of social and environmental performance. In 2025 ABP will establish further complementary objectives as required for social and environmental performance up to 2030. Possible examples include CO2 emissions avoided, hectares of nature reserve protected or the number of people gaining access to affordable housing.

€30 billion impact Investments

€10 billion climate transition

€1 billion Nature and biodiversity

€10 billion The Netherlands

4. Implementation

In implementing the impact investing policy, ABP directs its activity primarily to private markets, with a focus on the following asset classes:

- Infrastructure
- Real Assets
- Private Equity
- Alternative Credits
- Real Estate

The impact investing policy will be mainly incorporated in the existing mandates to our administrator. Where implementation within the existing mandates is not possible, we will amend these mandates or draw up new ones. In these new mandates too the balance between risk, return, sustainability and costs will remain key. Since the market for impact investments is still relatively new, ABP expects impact investments to be associated with additional financial and operational risk and/or costs. These risks and costs will be specified in more detail in the mandating process for each asset class. As part of this process ABP strives for risks and costs that are appropriate to the asset class in question.

Alongside ABP's focus themes (climate transition and conservation of nature and biodiversity), ABP expects to be able to make a contribution to the following themes in particular with impact investing:

- Circular economy;
- Sustainable food and agriculture;
- Affordable housing;
- Health care;
- Education.

5. Governance of impact investing

The following governance agreements enable ABP to be in control of the implementation of the impact investing policy:

- √ ABP establishes the definition of impact investments (in the impact investing policy), see above definition, based on that of the GIIN;
- √ ABP establishes the criteria for impact investments (in the impact investing policy):
  - Criteria from the GIIN definition:
    - √ Intentionality;
    - √ Financial returns;
    - √ Range of asset classes;
    - √ Impact measurement.
  - For every impact investment a credible ToC must be drawn up. A part of this relates to how ABP can contribute to the positive social and/or environmental impact.
- √ ABP establishes the priority themes for impact investments. In doing so ABP also takes into account the priorities that emerge from its survey of participants;
- √ ABP establishes the objectives for impact investments;
- √ ABP establishes the indicators for impact measurement;
- √ ABP sees to it that the impact objectives are included in the incentives for the administrator.

ABP requires of its administrator that it:

- √ Draws up a credible ToC for each potential impact investment, including:
- the positive social and/or environmental impact generated by the investment;
- the contribution that ABP can make to that social and/or environmental impact;
- √ Identifies the possible risks of not achieving the target impact and proposes measures to mitigate these risks for each potential impact investment;
- √ Must establish which of ABP’s investments are impact investments on the basis of the definition and criteria established by ABP. Here Risk Management has an independent role as challenger. The Fiduciary Manager must evaluate whether the impact investments conform to ABP’s policy, and in case of doubt must check with ABP;
- √ Selects relevant impact indicators for each impact investment based on the indicators established by ABP, performs a zero measurement on these indicators and at least annually measures the social and/or environmental impact using the selected indicators;
- √ Includes impact targets in the performance remuneration of (external) asset managers;
- √ Reports to ABP on the progress of the implementation of the impact investment policy, including at least:
  - quarterly reporting on the allocation to impact investments and progress towards achieving the impact investing goals;
  - annual reporting on the measured social and/or environmental impact of impact investments.

ABP’s Fiduciary Manager will incorporate the impact investing policy into relevant investment mandates and annually evaluate the execution of these mandates, including the agreements on impact investing.

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