Responsible Investment Report 2012
Contents

Responsible Investment Report 2012

Foreword – Henk Brouwer 3

Key figures in 2012 5

ABP’s policy on responsible investment 6
Exclusions 6
Sources of information 7
The ESG team 8

An integrated approach for all investment strategies 9
Listed equities 9
Fixed-income securities 15
Other sustainable investments 17

Influence on quality of sustainability and corporate governance 24
Voting at shareholders’ meetings 25
Dialogue and engagement 26

Dialogue with the market, policy-makers and civil society 31
Rio+20 31
Strong climate laws 31
Integrated company reporting 32
OECD guidelines for multinational enterprises 32
EITI, Dodd-Frank Act and the SEC and EU proposals 33
Contributions to national and international consultations 33
Participation in study 33

Looking ahead to 2013 35
2012 proved to be another difficult year in, both politically and economically. The euro crisis, US elections, scandals at several major financial players and continuing political unrest in the Middle East led to turbulent financial markets and a further decrease in confidence in governments and the financial sector. ABP has taken all of these external developments into account in its investments.

During the past year, ABP was frequently held accountable directly or indirectly via the media for its social responsibility as a Dutch pension fund and its investment policy. Leading figures in society called on the large pension funds to help solve a number of social problems. As a pension fund, it is important that we assume our role in society and that we listen to the various stakeholders. Wherever necessary, we take time to set out in clear terms our investment policy and criteria.

This has resulted in us taking part in different discussions about how pension funds might assume their responsibility in society. ABP organised, for example, its own seminar on investing in the Netherlands at which several leading speakers gave their vision of investment opportunities in the Netherlands.

During the past year, ABP took part in a study conducted by Tilburg University, and commissioned by Eumedion, to examine the supposed propensity among institutional investors for a short-term horizon. Contrary to what is sometimes asserted in public debate, pension funds hold the majority of their equities in listed Dutch companies in the portfolio for a long period of time. More than 80 per cent of the equity portfolios are held for five years or more. Other large pension funds also took part in the study.

**Investing for the long term**

At the time of the United Nations Conference on Sustainable Development held in Rio de Janeiro, one of our vice-chairmen took part in the opening debate of a conference organised by the Principles for Responsible Investment (PRI) – an international network of investors whose goal is to promote responsible investment. During the discussion, he re-emphasised how important it is for pension funds to incorporate their vision of responsible investment in their investment principles, as ABP does. That complements the principle that it is worth investing for the long term and that ABP can leverage its size and long-term goals for that purpose. A long-term strategy is also consistent with greater shareholder engagement on our part. During 2012, discussions were held with many companies on behalf of ABP regarding their approach to sustainability and the remuneration and quality of their governance bodies.

Last year, Glencore International, the UK-based commodities trading and industrial company, merged with Swiss mining company Xstrata. ABP voted in favour of the merger because we believe that it will be beneficial to both companies. At the same time we had a number of reservations. Under the terms of the merger, 71 managers would have been eligible to receive a total amount of £144 million. We voted against the award of these packages. As nearly 80 per cent of the shareholders also considered the bonuses for the 71 managers exorbitant, the awards were not paid out. We expect companies to act in line with the UN Global Compact. The Global Compact comprises 10 principles in the areas of human rights, the environment and anti-corruption. Our discussions with the companies yielded concrete and positive results. For example, Mahindra Mahindra, the Indian conglomerate, promised, under pressure from us, to provide financial compensation for the employees who had been made redundant from their factory in South Korea.

South Korean electronics manufacturer Samsung presented an action plan to prevent child labour after we drew their attention to the fact that one of their suppliers was employing under-age workers.

**Sustainability assessment of private equity**

Private equity funds invest in non-listed companies. ABP holds stakes in these private equity funds. Due to the private nature and less stringent regulation of these funds and their investments, ABP believes that the ESG performance of its private equity investments must be assessed with additional rigour. ABP has worked actively with other institutional investors in developing a framework for transparency concerning the sustainability performance of private equity fund managers. We expect from the private equity parties with whom we do business that they conform to our responsible investment policy and that they undertake...
to comply with agreements on regular accountability and transparency. In this way, we can monitor these companies and funds effectively in terms of their ESG performance.

The efforts since 2007 to anchor responsible investing in all investment processes have led to deeper ESG integration across asset classes during 2012. You will find concrete examples of this in this report. ABP hopes that you will enjoy reading this report and we look forward to your reaction. Your comments can be sent to communicatie@abp.nl.

On behalf of the Board of Trustees of Stichting Pensioenfonds ABP

HJ Brouwer, chairman
2. Key figures in 2012

The percentage of equity and fixed-income investments that were assessed for breaches of the principles of the UN Global Compact: 100 per cent

The number of companies with whom there was contact during 2012 in relation to the UN Global Compact: 20. Two companies were excluded with effect from 1 January 2012 because they were found to be acting contrary to the principles of the UN Global Compact (see box).

The total number of companies with whom we had contact during 2012 with regard to environmental policy, social factors and good corporate governance is 351. These contacts were made as follows:
- In person: 101
- By telephone: 120
- By e-mail: 57
- By letter: 53

The Global Compact is an initiative of the United Nations (UN) which aims to bring together businesses, trade unions, social organisations and UN agencies. The Global Compact seeks to make a contribution to corporate social responsibility and helps businesses in achieving goals related to this objective. The Global Compact promotes the ten principles in the areas of human rights, labour conditions, environmental protection and combating corruption. 7000 businesses around the world have committed to the Global Compact and to complying with its objectives.

ABP does not wish to invest in companies with activities that are prohibited under Dutch legislation or international law. For this reason we do not invest in companies that are directly involved in the production of land mines, cluster weapons, chemical and biological weapons or nuclear weapons in contravention of the Nuclear Non-Proliferation Treaty. Under Dutch law, from 1 January 2013 Dutch financial institutions are prohibited from investing in companies that manufacture, sell and/or distribute cluster weapons. The ban applies to direct investments in businesses, also by ABP.

The number of excluded companies due to activities in relation to cluster weapons, chemical and/or biological weapons or nuclear weapons, and companies contravening the nuclear non-proliferation treaty: 14

The number of shareholders’ meetings in 2012 at which voting rights were exercised: 3,791
- Percentage of votes in favour of the (re)appointment of directors: 89 per cent
- Percentage of votes in favour of proposals regarding remuneration policy: 80 per cent
3. ABP’s policy on responsible investment

Responsible investment is important for ABP. By investing responsibly, we assume our social responsibility. We also know from experience that taking ESG factors (ESG: environmental, social & governance) into account benefits the long-term financial performance of companies. ABP therefore takes into account in its investment decisions not just financial criteria, but also ESG factors. ABP has an expert team of governance and sustainability specialists who focus on this. Taking account of ESG criteria in our investment decisions enables us to strike a better balance between return and risk. In this way we adopt a highly integrated approach toward our investments which allows us to properly safeguard the financial and social interests of our participants.

Our responsible investment policy hence contributes to our main objective; to ensure an attractive pension for a reasonable contribution. More specifically, our policy (see appendix) has three goals:
- To improve financial performance;
- To show that ABP assumes social responsibility;
- To contribute to the integrity of financial markets.

**Strengthening**

Our investment policy is constantly adjusted to take account of developments in the Dutch pensions sector as well as relevant global current affairs. For instance, ABP further strengthened the implementation of its responsible investment policy during 2012. Through various channels, pension participants and other stakeholders sought to consult with us about a variety of social topics during 2012, and we welcome their interest. Furthermore, ABP is also a frequent and active contributor to public debates. As such, we take our role as a responsible investor a step further than merely applying a responsible investment policy within our investment process.

**3.1 Exclusions**

We believe it is important as a large institutional investor to exert influence on companies in which we invest. As a shareholder, we are often in a position in which we can encourage companies to engage in socially responsible business practices. We expect from all the companies in which we invest, for example, that they act in accordance with the principles of the UN Global Compact. We actively engage with companies who still fall short in terms of their compliance. Through this so-called ‘engagement’ we seek to convince companies of the need for change. Should our efforts fail to have any effect, then we sometimes opt not to invest in such a company. We prefer not to do this, because we believe that we can exert greater influence through engagement. But if a company fails sufficiently to comply with our wishes, exclusion may be the only way to enforce our responsible investment policy.

As of 1 January 2012, we excluded two companies because we believe they contravene the UN Global Compact: PetroChina and Walmart Stores. Walmart Stores is an internationally operating supermarket chain employing 2.1 million people. The chain has had a reputation for some time due to its controversial labour policy and poor relations with its employees. While Walmart introduced certain improvements in its business practices under the influence of our dialogue, its actions nonetheless failed to satisfy our requirements. Walmart persisted in barring all trade union activities amongst its staff in its US stores and distribution centres. We believe this contravenes the international agreements laid down by the International Labor Organization (ILO) and in the UN Global Compact. We therefore decided, following a three-year period of intensive dialogue, to exclude Walmart from our investment portfolio with effect from 1 January 2012.

PetroChina is one of the largest oil companies in the world and was established as a joint stock company in 1999. CNPC, the Chinese state-owned oil company, still administers 86 per cent of the shares and, in our opinion, hence determines PetroChina’s policy. By excluding PetroChina, it is our intention to signal to CNPC that we do not agree with the manner in which it has developed its activities in Sudan and Burma. We spent three years conducting an intensive dialogue with PetroChina and its parent company CNPC, but the latter refuses to discuss the political and human rights risks associated with its activities. Furthermore, the company is implementing insufficient structural measures to identify the impact of its operations on the environment and local communities and to limit the damage caused by them. ABP therefore decided to exclude PetroChina with effect from 1 January 2012.
**Cluster weapons**

Since 1 January 2013, it is prohibited in the Netherlands to invest directly in manufacturers of cluster weapons. ABP contributed to the drafting of this regulatory measure. The Dutch government has not published a list of prohibited companies, but expects investors to carefully research companies themselves. Based on our own research, we have excluded the 14 stock-listed companies named below due to their involvement in the production of cluster weapons. We also take steps to ensure we avoid non-listed manufacturers of cluster weapons and indirect investments in cluster weapons. The supervisors of the portfolio and fund managers are contractually obliged to avoid such investments and consequently carefully research the activities of companies before we invest in them.

In 2012, it was decided not to invest in government bonds of a number of countries because they are subject to a UN Security Council arms embargo. Consequently, since 2012, we have not held government bonds issued by the Democratic Republic of Congo, Eritrea, Iraq, Iran, Ivory Coast, Liberia, Libya, North Korea, Sudan and Somalia.

The list of excluded companies, operative on 1 January 2013, is as follows:

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Country</th>
<th>Type of Weapon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aeroteh S.A.</td>
<td>Romania</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Alliant Techsystems Inc.</td>
<td>United States</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Aryt Industries Ltd.</td>
<td>Israel</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Asdot Ashkelon</td>
<td>Israel</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>China Aerospace International Holdings</td>
<td>China</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>China Spacesat</td>
<td>China</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Hanwha Corporation</td>
<td>South Korea</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Kaman Corporation</td>
<td>United States</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Lockheed Martin Corporation</td>
<td>United States</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Norinco International Cooperation Ltd.</td>
<td>China</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>PetroChina</td>
<td>China</td>
<td>UN Global Compact</td>
</tr>
<tr>
<td>Poongsan Corporation</td>
<td>South Korea</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Poongsan Holdings</td>
<td>South Korea</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Singapore Technologies Engineering</td>
<td>Singapore</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Textron</td>
<td>United States</td>
<td>cluster weapons</td>
</tr>
<tr>
<td>Walmart Stores</td>
<td>United States</td>
<td>UN Global Compact</td>
</tr>
</tbody>
</table>

### 3.2 Sources of information

The investment choices made by ABP are based on expert analyses by the investment experts as well as the ESG specialists. For these analyses, we use information provided by the companies, and also information from stockbrokers and agencies which are specialised in governance and sustainability research. Research is additionally purchased from specialised national and international agencies that can support our own analyses regarding responsible governance and our voting conduct at shareholders’ meetings.

For a large institutional investor such as ABP, it is important that we regularly consult with thematic
specialists, representatives of civil society organisations and other social institutions such as trade unions, politicians, academics, environmental and human rights organisations. From them we can glean relevant information for our responsible investment activities. In addition, we hold frequent discussions with other institutional investors and experts in the field of responsible and sustainable investing. These consultations keep us informed about what is expected from shareholders and companies. They also enable us to take better account of, and respond and contribute to wishes and expectations in society. Our goal in this regard is to ensure we safeguard social acceptance of our activities and those of the companies in which we invest.

3.3 The ESG team

The administrative organisation that invests on behalf of ABP has a team of nine people who are responsible for implementing our responsible investment policy. These team members have different backgrounds and areas of expertise that contribute to the effective integration of the policy in our diverse asset classes. This takes place in close cooperation with the portfolio managers. For example, the specialist in the field of sustainable real estate is part of the real estate investment team, and we have an ESG specialist at our Hong Kong office in order to ensure an integrated investment strategy for our investments in Asia and Oceania. Integration means that ESG aspects play a prominent role in investment analyses, enabling a better balance to be struck between return and risk. In this report, we give a number of examples demonstrating that ESG factors are an important part of our investment processes and decisions.
4. An integrated approach for all asset classes

ABP is an active investor. The influence of ESG factors is continuously analysed and assessed for our entire investment portfolio. We believe that these factors influence financial performance in the long term. This belief consequently helps to define the risk and return potential of the different asset classes. It is therefore important that we integrate sustainability increasingly further in our investment decisions. How this is implemented differs from one asset class to the next. As ABP manages 80 per cent of its assets in-house, the benefits of ESG integration are utilised to the full. This is discussed further below.

Investments with a high sustainability value

Through its investments, ABP aims to make a positive contribution to challenges facing society, such as climate change, scarcity of water and materials, health care and combating poverty. We are continuously looking for new opportunities to invest in sustainable energy, energy efficiency, public transport infrastructure, water purification and waste management, sustainably managed forests, microfinance and health and care infrastructure, for example. The main priority is that such investments must yield returns in line with the market and must satisfy our investment criteria. ABP holds a total of €8.5 billion in investments with a high sustainability value. These investments form part of different investment strategies. Roughly 20 per cent of our infrastructure investments, for example, have such a high sustainability value. We also believe there are attractive opportunities via inflation adjusted loans (see also 4.3.2). Finally, ABP has invested roughly €3.5 billion in real estate companies that have a ‘Green Star’ rating in the Global Real Estate Sustainability Benchmark (GRESB). This means that our real estate investments achieved 3.5 per cent energy savings compared to the 1 per cent average annual energy savings in the real estate sector. The figure below shows the distribution by categories of our investments, which we label ‘High Sustainability Investments’ (HSI) based on their ESG qualities and their strong contribution to our responsible investment policy.

4.1 Listed equities

ABP applies different strategies for its investments in listed equities. Each strategy has its own style and its own investment criteria and processes. The analysis of ESG factors is an important element in this regard. The ESG analyses are custom activities that rely on good internal collaboration for their execution. As in previous years, the value of the intensive collaboration between the ESG team and the portfolio managers for the portfolios managed by our administrative organisation was evident in 2012. We will illustrate this collaboration below with some investment decisions and engagement activities that were undertaken.

ABP applies the following strategies for listed equities:
- The European focus strategy: a strategy introduced in 2011 with the intention to invest, over time, in approximately 30 small to medium-sized European companies;
- The European fundamental strategies, whereby we currently invest in roughly 315 large European multinationals;
- The ‘global emerging market’ strategy, whereby we invest in roughly 385 large companies in emerging markets in Asia, Latin America and Africa;
- The global quantitative strategies, whereby we invest in roughly 2500 large companies on the basis of econometric models;
- Global investing via external managers: a strategy that involves us selecting the best fund managers in the sector on the basis of expert research and strict investment criteria.

Translation into High Sustainability Investment per asset class ABP

<table>
<thead>
<tr>
<th>High Sustainability Investments per asset class ABP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed equity 19%</td>
</tr>
</tbody>
</table>

Roughly 20 per cent of our infrastructure investments, for example, have such a high sustainability value. We also believe there are attractive opportunities via inflation adjusted loans (see also 4.3.2). Finally, ABP has invested roughly €3.5 billion in real estate companies that have a ‘Green Star’ rating in the Global Real Estate Sustainability Benchmark (GRESB). This means that our real estate investments achieved 3.5 per cent energy savings compared to the 1 per cent average annual energy savings in the real estate sector. The figure below shows the distribution by categories of our investments, which we label ‘High Sustainability Investments’ (HSI) based on their ESG qualities and their strong contribution to our responsible investment policy.
During 2012, the integration of ESG factors in the above investment strategies was embedded more deeply and implemented further. This was realised through an even more intensive involvement of ESG specialists in new investment proposals and in monitoring existing investments. In addition, our active shareownership and our engagement activities contributed to strengthening the integration of ESG factors in these asset classes. This affected specific investment decisions, a number of which are explained in this section.

4.1.1 European focus strategy

The European focus strategy concentrates on the group of medium-sized European listed companies. The intention is to invest in roughly 30 medium-sized companies, with detailed research being conducted into specific businesses with a focus on their financial performance and their governance and sustainability performance. At the end of 2012, the number of active investments stood at 16. ESG factors play a prominent role in the investment analyses. As this strategy involves relatively large financial interests with a long-term horizon, it is important to analyse thoroughly specific risks and opportunities with regard to ESG aspects prior to the investment decision. Among other things we examine the shareholder structure, the remuneration policy, the effectiveness and independence of the supervisory board, anti-takeover mechanisms and company-specific social and environmental matters. We furthermore examine whether companies can benefit from sustainability measures in society.

In 2012, 15 detailed ESG surveys were conducted for the European focus strategy. Several companies were contacted prior to the investment decision in order to discuss the ESG-related risks with their management. Such dialogues are maintained also after the initial investment so that we can continue to monitor developments.

Several examples of ESG factors that were taken into account in our investment decisions and which resulted in a positive or negative selection outcome:

- We decided not to invest in an energy company due to an elevated business risk in case tensions in the Middle East escalated. We subsequently invested in a company with a lower risk profile in the same sector.
- We devoted considerable attention to the risk of bribery and corruption, prompted in part by tougher legislation in the United States and the United Kingdom with an international scope. In the case of three companies, we delayed our investment until there was sufficient clarity regarding the internal systems at the companies to effectively combat bribery and fraud. We chose not to invest in another company due to a pending fraud investigation. We are currently monitoring the progress of this investigation.
- In the case of one company, we identified a number of administrative issues relating to operational management and control. We have pursued an intensive dialogue with the company on these matters.
- Three medium-sized listed companies were found not to have a solid plan in place to appoint a successor to the CEO. This had the highest priority during our dialogue with the company and was an important element in our monitoring of the improvements. The companies concerned have since presented an effective plan for succession.
- We became aware that a company in which we invest was facing the risk of a conflict with trade unions. We were concerned this would have a negative impact on the commitment and motivation of staff. On making detailed enquiries with the company, it turned out it was not beset by labour unrest. The company was able to demonstrate through the results of an employee satisfaction survey that motivation was actually high amongst them. We also found that the company followed the correct procedures and maintains good communication with employees.
- At the shareholders’ meetings of companies whom we believe have excessively broad powers to issue new shares, we voted against extending this power. We additionally took into account the risk of dilution in our estimation of the correct value of shares.
- We subjected the staff turnover rate and the safety performance of five companies to careful examination. In the case of certain companies, high turnover of staff could jeopardize their growth ambitions. On the other hand, above-average safety performance enhanced our confidence in some companies.
Voto di Lista
Voto di Lista is an Italian system that gives minority shareholders the opportunity to exert influence on a company in which they have a relatively small stake via a joint, independent supervisory director. The system was introduced in 2007 and requires Italian listed companies to allow minority shareholders to elect their ‘own’ nominee to the supervisory board. While the system is not optimal, since the majority shareholders are still able to appoint more supervisory board members, it nonetheless offers minority shareholders the opportunity to be better informed about the company. In 2012, this system proved useful to ABP when enquiring about the nature of the activities and involvement of Finmeccanica in Syria since ABP had nominated an independent member of the company’s supervisory board in 2011. We were able to approach this supervisory board member directly in order to discuss the company’s country risk policy and its activities in Syria. He raised our concerns about the country risk policy and Syria, prompting Finmeccanica to confirm to us that it does not supply Syria with military equipment and that it has amended its country risk policy.

4.1.2 European fundamental strategies
The European fundamental strategies focus on companies in the Morgan Stanley Capital International Index (MSCI Index) Europe. This share index is composed of 436 companies in Western Europe. ABP currently invests in roughly 315 companies from this group. Special instruments have been developed internally for the fundamental strategies in order to rate the ESG performance of companies: the ‘ESG Dashboard’, the ‘Bloomberg ESG Performance Monitor’ and the ‘ESG Country Risk Monitor’. These instruments allow the portfolio managers to gain easy insight into the ESG performance of the companies in their portfolio as well as relevant ESG issues in the sectors concerned. Several sustainability risks and themes in different sectors were carefully analysed in close consultation with the portfolio managers. These themes are an integral part of the ‘sector outlook’ that is prepared by the portfolio managers. In addition, the portfolio managers, where necessary in conjunction with the ESG team, document and define the material ESG risks for each investment decision.

Reviewing the more than one hundred largest positions, it was found that in 14 per cent (12 companies) of the cases the ESG risks are significant or large. In 47 per cent (40 companies) of the cases these risks are average and in 38 per cent (33 companies) of the cases the ESG risks are low.

Although ESG considerations are not always decisive, they do nevertheless influence the degree of confidence in investment proposals. This confidence has a strong impact on our investment decisions. Below we describe a number of relevant decisions and situations during 2012:

• In spite of good financial prospects, poor insight into the safety and environmental performance of an oil company led us to decide against further extending our equity position.
• Following a series of intensive discussions with a power company about our doubts concerning the quality of the management and limited possibilities for reducing CO2 emissions, we reduced our stake in the company.
• The ESG team prepared a wide-ranging and thorough analysis of the ESG strategy and performance of a company in the oil and gas industry. We discussed our findings with the company during a teleconference and later re-expressed our concerns about the ESG performance in a letter to the CEO. In spite of the company’s good financial outlook, we will not increase our stake in it until substantial improvements have been realised with regard to ESG aspects.
• An intensive period of engagement with an oil and gas company had the effect of boosting our confidence in the company’s safety measures and risk management. The enhanced confidence led to us increasing our shareholding in the company.
• A company providing services to the oil industry was faced with accusations of bribery and corruption. We reduced our investment in that company and increased our stake in a similar company with demonstrably better performance in terms of preventing bribery and corruption.

4.1.3 ‘Global emerging markets’ strategy
Within the ‘global emerging markets’ strategy, ABP invests in roughly 385 companies in the regions Eastern Europe, Africa, Latin America and Asia, with a simultaneous emphasis on a balanced selection of countries. We use a model with macro-economic and financial risks as well as ESG indicators in order to determine the weighting of each country in the
ABP Responsible Investment Report 2012

In this strategy, the analysis of ESG factors in relation to a country and/or a company constitutes a standard part of the investment process for large or strategic investments. The administrative organisation that manages the investments on behalf of ABP operates in Asia from the Hong Kong office. There, it employs a specialist who carries out ESG analyses and enters into dialogue with companies and policy-makers. An internal analysis of the ESG issues at listed companies in China, South Korea and Taiwan prompted us to commence a dialogue in order to realise an improvement in their corporate governance performance.

Consequently, during the past year, most attention was focused on realising improvements in the management of listed companies in Asia. Incidents related to human rights violations have received significant media attention during the past year, and this created additional sensitivity to our arguments and recommendations for improvement at companies with whom we were in dialogue. Below we give examples of companies in emerging economies that have required our additional attention during 2012:

• During the past year there was extensive dialogue with South Korean company Samsung Electronics regarding safe and healthy working conditions and child labour. A recurring topic on the agenda was ABP’s concern about the inadequate attention Samsung had paid to its (former) employees who had contracted leukaemia and the families of deceased employees who had worked on a production line which has since been closed down. We therefore welcome the gesture made by Samsung to the persons concerned during 2012 to enter into a dialogue with them. We also discussed working conditions in the production chain with Samsung. Samsung works with Taiwanese supplier Foxconn, which is regularly in the news due to poor working conditions. ABP also raised the issue of working conditions at all factories in China with Samsung. China Labor Watch, an independent not-for-profit organisation, for example, discovered that one of Samsung’s suppliers was using child labour. After ABP had contacted the company regarding control of the production chain, Samsung issued a press statement setting out its position with regard to child labour. Samsung also published an action plan for preventing child labour in its production chain.

• Last March, an ESG team member paid several visits to the Indian representative office of POSCO. POSCO is a South Korean steel-making company that planned to start construction of a steel plant in India seven years ago. The project, which has a value of $12 billion, has been delayed among other things due to protests by local people who are concerned about the environmental damage that the steel plant may possibly cause. In view of the protests and the withdrawal of planning permission by India’s National Green Tribunal, ABP has embarked on an intensive dialogue with POSCO concerning the company’s plans for constructing the steel plant in India. In this context, ABP is keen to stress the need for constructive dialogue with the local population. In light of this long-drawn-out matter, a group of non-governmental organisations (NGOs) has filed a complaint with the contact point of the OECD (Organisation for Economic Co-operation and Development) in three OECD member countries against POSCO and minority shareholders in the company: ABP and NBIM, the Norwegian state pension fund. We discuss this complaint in further detail in section 6.

• Mahindra Mahindra is an Indian conglomerate that operates for instance in the automotive industry. In 2011, the company took over ailing South Korean vehicle manufacturer Ssangyong and then implemented a radical overhaul of the business, which led to a wave of protests amongst the dismissed employees. The protests together with several suicides amongst the dismissed workers prompted ABP to enter into an intensive dialogue with the company. Mahindra Mahindra has promised financial compensation for the employees who have been dismissed.

4.1.4 Quantitative strategies

In the case of the quantitative investment strategies, we select companies in which to invest on the basis of statistical analyses using models based on financial and statistical indicators. This has the advantage of enabling the portfolio managers to invest in a large number of companies in an efficient manner. Although these companies number more than 2,500, ABP is nonetheless aware of the need for active and committed shareownership. An important part of this is exercising voting rights. Where there is reason to do so, we also enter into dialogue with the companies.

At the same time, the quantitative investment experts examine how they can identify ESG indicators that have a direct relationship with the financial performance of listed companies. The initial results appear promising, although further research is necessary. Detailed data are needed and these will have to be obtained from follow-
In 2016, important political developments took place in Myanmar, such as the release from house arrest of opposition leader Aung San Suu Kyi and her subsequent election to the parliament of Myanmar and ongoing progress towards democratisation. ABP therefore considered it important to make contact with various relevant parties in the country. During a visit discussions were held with experts, human rights supporters and national and international companies operating in the country.

The increasing openness of the country to the outside world is bringing about changes that can influence how investment risks in Myanmar are assessed. To date, investments in Myanmar were generally labelled extremely high risk with regard to potential ESG incidents. Such incidents might damage ABP's reputation. ABP believes that the reputation risk associated with investments in Myanmar has declined compared with three years ago, for example, and that the outlook appears positive. We are therefore cautiously optimistic about opportunities for businesses and the people of Myanmar.

We closely monitor the companies in which we invest and who are engaged in activities in Myanmar. We do this not just due to the political risks, but also because we expect companies to comply with the UN Global Compact Principles.

Read more on page five (section four).
In 2012, important political developments took place in Myanmar, such as the release from house arrest of opposition leader Aung San Suu Kyi and her subsequent election to the parliament of Myanmar and ongoing progress towards democratisation. ABP therefore considered it important to make contact with various relevant parties in the country. During a visit discussions were held with experts, human rights supporters and national and international companies operating in the country.

The increasing openness of the country to the outside world is bringing about changes that can influence how investment risks in Myanmar are assessed. To date, investments in Myanmar were generally labelled extremely high risk with regard to potential ESG incidents. Such incidents might damage ABP’s reputation. ABP believes that the reputation risk associated with investments in Myanmar has declined compared with three years ago, for example, and that the outlook appears positive. We are therefore cautiously optimistic about opportunities for businesses and the people of Myanmar.

We closely monitor the companies in which we invest and who are engaged in activities in Myanmar. We do this not just due to the political risks, but also because we expect companies to comply with the UN Global Compact Principles. Read more on page 15 (section 4.2.2 corporate bonds)
Respecting the UN Global Compact Principles

ABP expects companies to conduct their business with respect for the UN Global Compact Principles and may divest its interests if dialogue does not lead to improvement. The UN Global Compact sets out the minimum standards companies are expected to adhere to in the areas of human rights, labour rights, the environment and anti-corruption.
up research. For this reason we entered into an exclusive strategic alliance with an external research agency last year.

The purpose of this research is to identify so-called hidden risks, which have not yet been factored into the share price by the market and which ABP may be able to leverage to obtain financial benefit. ESG risks in particular still represent an unexplored area, which is not always correctly valued by the market and therefore not factored into share prices. Moreover, ESG risks are generally not recognised until an incident is reported in the media, and this can have implications for share prices. The reactions of the general public and the reactions in the financial markets to such incidents also vary from one incident to the next. The reputational damage companies sustain due to ESG-related incidents is difficult to measure and to quantify. This area therefore represents a relevant challenge for both the market and for ABP. Our quantitative investment team will consequently continue with this research in 2013.

4.2 Fixed-income securities
ABP provides loans to governments, public authorities and companies in the form of government bonds and corporate bonds. Portfolio managers and the ESG team assess the financial and ESG risks of these fixed-income securities. Below we explain for each asset class within the fixed-income securities how we integrate our responsible investment policy into the investment processes.

4.2.1 Government bonds
ABP does not invest in government bonds of ten named countries. These are the countries that are subject to a UN Security Council arms embargo (see 3.1). A special instrument has been developed with Sustainalytics, a sustainability research and analysis agency, which gives ABP a good insight into ESG-related risks of virtually all the countries in the world. This instrument supports country/region-specific analyses, which enable us to make better-informed investments in government bonds.

The instrument offers insight at a glance into the ESG profile of a country based on macro-economic information and 33 specific ESG factors, thereby enabling a comparison to be made with other countries in the region. The instrument is helpful for government bonds and also other investment strategies where country risk is relevant.

4.2.2 Corporate bonds
Within the corporate bond portfolios, ABP makes analyses of several sectors in many different regions. In this context, relevant ESG issues and the sustainability performance of companies are surveyed and taken into account when making investment decisions. We concluded from joint consultations with portfolio managers for equities, in which the main sector developments were discussed, that the relevance of ESG factors can vary considerably from one asset class to the next. An ESG factor can, for example, influence the movements in the price of stock while at the same time having hardly any effect on the creditworthiness of the company. Nevertheless, ESG factors can also have specific relevance for corporate bonds.

In 2011, we announced that the integration of ESG analyses in the investment process of corporate bonds would be further improved, and that goal has been achieved. For instance, the energy sector credit analysts took part in regular meetings of the ESG team and of the managers of the equity portfolios in order to draw attention to the most important developments and to determine jointly the priorities for further ESG research and engagement. In addition, two instruments were developed that enable portfolio managers and analysts to obtain easy insight into the ESG performance of companies. One of these instruments is the ESG Dashboard referred to previously.

ESG Dashboard
The ESG Dashboard is a new instrument that has been developed by the ESG team in collaboration with the portfolio managers. It offers the portfolio managers, in the case of equities and fixed-income securities, the possibility to obtain at a glance a broad view of a specific listed company and its ESG performance. The instrument brings together information from five different internal and external sources. The ESG Dashboard provides insight into how ABP voted at a company, the engagement activities undertaken by ABP with a company and an analysis of three independent research agencies specialised in the ESG strategy, policy and performance of businesses. Portfolio managers can utilise this instrument to make their own assessment of ESG risks.
The other instrument is the ‘ESG Company Risk Comparison Profile’ that was developed during the past year together with Bloomberg, a data supplier. This instrument offers insight into development trends, such as power consumption and CO2 emissions during five successive years and, for example, the number of (fatal) accidents in particular sectors. This allows us to review specific companies in relation to relevant trends and draw conclusions from this about their ESG performance. At the same time, this instrument enables us to compare this performance with other companies in the same sector or line of business.

4.2.3 Inflation-adjusted loans

ESG risks and opportunities are also taken into account in our inflation-adjusted loans to companies. ABP keeps such loans in portfolio for a long period in order to protect the assets against inflation. It is therefore important that we clearly identify the potential ESG risks in the long term before entering into such loans. As a Dutch pension fund, we listen carefully to our local stakeholders and we maintain a constant dialogue with civil society in the Netherlands. Wherever possible we are keen to contribute to the specific interests of our stakeholders at home. For this reason, we are pleased to take advantage of the investment opportunities in the Netherlands, provided they meet our ESG criteria as well as our risk-return requirements.

Myanmar

In 2012, a member of the ESG team visited Myanmar (Burma). Important political developments had taken place, such as the release from house arrest of opposition leader Aung San Suu Kyi and her subsequent election to the parliament of Myanmar and ongoing progress towards democratisation. ABP therefore considered it important to make contact with various relevant parties in the country. During the visit discussions were held with experts, human rights supporters and national and international companies operating in the country.

The increasing openness of the country to the outside world is bringing about changes that can influence how investment risks in Myanmar are assessed. To date, investments in Myanmar were generally labelled extremely high risk with regard to potential ESG incidents. Such incidents might damage ABP’s reputation. ABP believes that the reputation risk associated with investments in Myanmar has declined compared with three years ago, for example, and that the outlook appears positive. We are therefore cautiously optimistic about opportunities for businesses and the people of Myanmar.

While the political situation has changed, economic and social conditions remain troublesome. The conflicts in the border regions and the widespread poverty and poor labour conditions, inadequate safety on the shop floor, corruption and bribery are a source of concern. Moreover, it is debatable whether it is wise to invest in the country at this stage since social legislation and enforcement are still under-developed. Aung San Suu Kyi also has advised foreign investors against investing in the energy sector since this would require investors to enter into a joint venture with state-owned oil company MOGE.

We closely monitor the companies in which we invest and who are engaged in activities in Myanmar. We do this not just due to the political risks, but also because we expect companies to comply with the UN Global Compact Principles.
N33
Last year, ABP took the initiative for a unique investment project: funding the widening and maintenance of the N33 national trunk road between Assen and Zuidbroek. This is the first time that a Dutch pension fund has provided a loan for an infrastructure project in the Netherlands. The N33 project is a typical example of a public-private partnership (PPP). The government awarded the contract for widening and maintaining the road to a construction company (Royal BAM Group). The project is funded through a loan of approximately €80 million provided by ABP, and in return ABP receives payment of interest, adjusted for inflation. The benefit for ABP is that the funding of the N33 constitutes a long-term, low-risk investment. This is an attractive option for a pension fund, which seeks to protect the pension assets against inflation and wishes to maintain the purchasing power of retired employees. Inflation-linked loans are currently issued mainly to selected businesses, infrastructure projects and/or real estate. Good internal coordination of the various investment portfolios prevents a concentration of risks or counterproductive competition.

Investing in the Netherlands
During 2012, there was much public debate once again about such things as the role of Dutch pension funds in relation to solving financial problems affecting mortgages, small and medium-sized enterprises and investments in infrastructure. ABP made a contribution to the debate holding a seminar about investing in the Netherlands. ABP additionally takes part in discussions with the various ministries involved with the necessary investments in the Netherlands. During these discussions we regularly explain that pension funds cannot simply commit their assets to investment whenever called on to do so by the government or society at large. After all, the money does not belong to ABP but to all the pension beneficiaries and future beneficiaries who save for their pensions each month. They are entitled to expect ABP (indeed we are required by law) to handle their money in a responsible and prudent manner. This does not mean that ABP will shun the chances and opportunities for investing in the Netherlands. On the contrary, ABP is keen to invest in the Netherlands. However, we only invest under the same conditions as those on which all more illiquid investments are assessed: a low credit risk and an acceptable return. At the same time we invest in projects with proven technologies, such as wind farms, and the investments must be of a certain scale. Additionally, it is important to stress that a good investment policy is based on diversification. This means that ABP’s assets are spread as far as possible across investments in many different countries and markets around the world. This also ensures that financial concentration risks are limited. Diversification is an essential element of prudent investing and is the main reason why we cannot invest in one country alone.

In view of our long-term objectives, ABP willingly invests in projects with a return that is linked to the Dutch rate of inflation. In the Netherlands, the parties seeking to raise credit are generally cautious to offer such inflation-linked products. That is a shame, since it would make investing in Dutch loans more attractive. In other countries, such as the United Kingdom, Italy and Germany, governments, businesses and other investors already have experience with this, and it works well. ABP hopes that the experience with the N33 will lead to more inflation-linked loans for infrastructure projects, and possibly other projects too, in the Netherlands.

4.3 Other sustainable investments
ABP is continually looking for investment opportunities that can support and accelerate sustainable social development. We are driven to do this by our desire to contribute to a better world that can offer a good quality of life for today’s and future generations. In addition to offering social gain, these investments must also be in line with our financial return expectations. We invest in activities that offer solutions for climate change, water shortage and water over-abundance, pollution and loss of habitats and species, for example. We are also interested in investments that contribute to the development of people and countries in poverty, facing poor economic and social conditions. While we always endeavour to attain an attractive financial return, we value an investment’s the capacity...
and effectiveness in making a clear contribution to solving a social and/or environmental problem. This means that we subject companies and sectors and their sustainability performance to critical analysis.

In terms of ABP’s total investment portfolio, 23% of the assets are invested in illiquid asset classes. These investments are qualified as illiquid because they are not traded on the stock exchange. In addition, these investments are often held for a longer period and have higher one-off investment values. It is important that significant financial risks are avoided or limited for this category of investments. Moreover, risks in relation to the environment, climate change and social conditions weigh heavily with these types of investment. For this reason, an ESG analysis and approval by the ESG team are a standard part of the investment process. The ESG assessment is a very important element of new investment proposals. It is not unheard of for a proposed investment to be called off due to ESG issues, for example, or for investments only to be approved by the ESG team under specific sustainability conditions.

4.3.1 Real Estate
ABP is a major investor in real estate. Our portfolio of listed and unlisted real estate comprises approximately 10 per cent of the total investment portfolio. This translates into roughly €28 billion (at year-end 2012) of real estate investments. These investments often comprise large shareholdings of generally more than 5 per cent, and sometimes as much as 50 per cent, of the fund or the company in which we invest. As the real estate sector is a major consumer of natural resources, we have invested heavily in analysing and improving the environmental performance of the real estate investments in our portfolio. Studies have shown that more sustainable real estate and improved environmental performance (for example in the form of lower power consumption and reduced CO₂ emissions) in the real estate sector can lead to enhanced returns and lower risk profiles of the investments.

The Global Real Estate Sustainability Benchmark (GRESB), which was launched on our initiative in 2009, among others, has now become the leading global sustainability benchmark for real estate investments. The annual survey is used to measure, to monitor and, where necessary, to improve the sustainability performance of real estate investments by conducting an active dialogue with management.

All new real estate investments in the strategic real estate portfolio must attain a better rating than the average of their GRESB peer group within a period of two years. The peer group is formed in such a way that a real estate fund or listed real estate company is only compared with other real estate funds and listed real estate companies operating in the same region and in the same real estate sectors (retail, commercial and logistical real estate, for example). During 2012, we corresponded under the GRESB banner with 241 managers of listed real estate companies and unlisted real estate funds regarding their performance. By comparison, we corresponded with 171 companies during 2011. This provides the funds and companies with insight into their ratings in relation to various peer groups.

Furthermore, the number of private real estate funds and listed real estate companies taking part in the annual survey is increasing. In 2012, 443 respondents took part in the GRESB survey, compared with 340 in 2011.

Using the GRESB benchmark, ABP’s existing real estate investments are screened annually for their environmental performance in terms of power consumption, water consumption, levels of waste and CO₂ emissions. Based on the results of this screening, we enter into a dialogue with the parties concerned with the aim of improving the sustainability performance of the portfolio. In terms of sustainability, expressed in a ‘GRESB rating’, our real estate portfolio (of almost 200 real estate investments) outperforms the benchmark (of 443 real estate investments). In short, our real estate portfolio includes real estate funds and listed real estate companies that have a better relative performance than the average in the GRESB benchmark.

The assessment against GRESB is a mandatory element of the so-called ‘due diligence process’ of the investments in the strategic real estate portfolio. Within that process, external real estate (fund) managers and real estate companies are required to complete the online GRESB survey. The annual GRESB survey is used to measure, to monitor and, where necessary, to improve the sustainability performance of real estate investments by conducting an active dialogue with management.

More information on GRESB and other participating organisations is available at [www.gresb.com](http://www.gresb.com).
They are also given advice on a step-by-step approach for improving their sustainability performance.

### 4.3.2 Infrastructure

The infrastructure portfolio has grown substantially since it was first formed in 2004. Almost 2 per cent of ABP’s investments are currently held in infrastructure. We invest in roads, (public) transport networks, water, power generation, transmission and distribution networks, communication and ports. Several infrastructure investments that contribute to our risk-return objectives also assist in tackling important social or environmental challenges, such as combating climate change. These include investments in sustainable energy, drinking water and waste water purification, waste disposal, schools and hospitals. Directly and indirectly via our external fund managers, we invest in projects that add value in both respects.

Of the many investment proposals that are screened, only a select few result in a positive investment decision. This is because we set strict conditions for the risk, return and sustainability profile of each investment. The portfolio of sustainable investments is steadily growing. Below we describe a few examples from this portfolio.

#### Sustainable energy

Investments in sustainable and renewable energy (wind, solar, hydropower and bio-energy) are generally ideally suited to our infrastructure portfolio, mainly due to their positive environmental impact. However, the regulations and policy governing sustainable and renewable energy are continually changing at both national and international level. We therefore pay specific attention to so-called regulatory risks that may have an impact on our investments in relation to sustainable and renewable energy projects. In addition, we analyse technology risks in view of the rapid development of the techniques used for sustainable and renewable energy generation. We recently committed ourselves to an investment of €100 million in HgCapital Renewable Power Partners 2. This is an infrastructure fund with assets of €500 million, which invests in projects to generate renewable energy in Western Europe. The fund invests in renewable energy projects that deploy proven technologies, such as land-based wind farms and small hydropower stations. During 2012, investments in three wind farms and 14 operational hydropower projects were made.

#### Waste

ABP holds a relatively large interest in Herambiente, an Italian waste company. It is part of the Hera Group, whose shares ABP also has in its portfolio. Herambiente is one of Italy’s leading waste companies, with activities encompassing the entire waste processing chain in the north of the country. Of the 80 waste processing plants it operates, seven are managed by the company as so-called ‘waste-to-energy plants’. The aim is to recycle as much waste as possible and to process it into renewable energy. The company has eleven landfill sites for the waste that cannot be recycled or that is too hazardous. Through its investments, ABP seeks to contribute to the development of renewable energy sources and the reduction of global waste volumes.

#### Schools

School buildings also represent an attractive investment opportunity through a public-private partnership (PPP) construction. While this form of partnership is not very customary in the Netherlands yet, it is quite common in the United Kingdom and France, for example. Investments in school buildings represent limited risk and generally yield a reasonable return. Moreover, it goes without saying that providing a financial contribution to public schooling fulfils a social role that fits in perfectly with our responsible investment policy. ABP has various investments in schools and hospitals in the form of a public-private partnerships (PPP).

### 4.3.3 Hedge funds

ABP invests indirectly in various hedge funds. These investments represent 4.5% of ABP’s invested capital. Hedge funds are investment funds that apply a wide variety of strategies in order to achieve returns on the financial markets. In the aftermath of the financial crisis, there has been regular criticism from society concerning the way in which hedge funds operate. Such criticism frequently centres on the lack of transparency surrounding these funds, together with a large appetite for risk and the absence of effective supervision in relation to it. ABP believes that not all hedge funds should be tarred with the same brush, and that investments in hedge funds can indeed make a constructive contribution to a well diversified investment portfolio.

ABP screens all investments in hedge funds in terms of ESG factors, with the ESG team having an important say in the assessment of the funds. The ESG team is consequently closely involved with the assessment of
all new investment proposals. The analysis by the ESG team is moreover evaluated by an internal investment committee comprising senior managers.

ABP is working hard together with the hedge fund sector in order to improve the conduct of hedge funds and perception of that conduct. One example of this endeavour is the establishment as early as 2007 of the Hedge Fund Standards Board (HFSB). More than 75 hedge funds have meanwhile signed up to the principles of the HFSB, which require them to adhere to high standards with regard to transparency, impact on social factors and responsible governance, among other things. Sixty large international investors have undertaken to ensure that the parties who have signed up to these principles actually comply with them and that more hedge funds commit to endorsing the principles.

ABP also has its own guidelines for the hedge funds with whom we do business. Our exclusion policy, for example, which is outlined in section 3, is also applicable to hedge funds.

4.3.4 Private Equity
Private equity is an asset class that is not as strictly regulated as investments on the public capital market. Private equity funds invest in unlisted companies. ABP holds stakes in these specialised funds. Due to the private nature and less stringent regulation of these funds and their investments, ABP believes that the ESG performance of its private equity investments must be assessed with additional rigour.

We expect from the private equity managers with whom we do business that they conform to our responsible investment policy and that they undertake to report to us on a regular basis. In this way, we can monitor these investments effectively in terms of their ESG performance.

The credit crisis has led to a number of initiatives for local guidelines for private equity funds aimed at promoting transparency and responsible governance, among other things. This has happened in France, the United Kingdom and Australia. ABP has worked actively with other institutional investors in developing an ESG disclosure framework for private equity fund managers. We will develop this further in 2013 in order to encourage private equity fund managers to use these principles to be more transparent about their ESG activities.

Health care in Africa
One of the private equity funds in which ABP has invested is the Investment Fund for Health in Africa (IFHA). This fund undertakes commercial investments in companies that operate in the health care sector in Africa. IFHA is unique in striving to attain social and economic development and upholding the aim of contributing to a better environment. Among other things, this has led the fund to invest in health insurers in various African countries, for example.

The IFHA meets international standards drawn up by the World Bank with regard to the environment, labour and corporate governance. The fund has additionally developed a method with which it attempts to measure environmental and social progress. The method is based on the so-called Millennium Development Goals drawn up by the United Nations. The Dutch fund manager of the IFHA regularly reports on the fund’s financial and ESG performance.

4.3.5 Commodities
The commodities portfolio accounts for 3.6 per cent of ABP’s total assets and is partly made up of the natural resources portfolio. In this portfolio, investments are made directly or indirectly via funds in unlisted companies with operations in the fields of forestry, agriculture, mining and oil and gas exploration and production. We set high demands on the ESG performance of these companies as well the supervision of that performance by the funds in which we invest. We require all the funds investing in mining and oil and gas production in emerging markets to agree contractually to adhere to working procedures in accordance with internationally accepted guidelines. Specifically, this concerns the IFC (International Finance Corporation) Performance Standards on Environmental and Social Sustainability as well as, for example, the World Bank Group’s environmental, health and safety guidelines for mining and oil and gas production (the so-called EHS guidelines).

Moreover, each investment in this portfolio is dependent on approval by the ESG team, which bases its decision on thorough analyses. The portfolio managers furthermore regularly visit the investment projects in the commodities portfolio. These visits serve to ensure that, among other things, the ESG performance of the investments can be properly assessed. The ESG analyses of these investments are generally based on high international standards, such as the IFC Performance
Standards and, for example, the Sustainable Development Framework of the International Council on Mining and Metals (ICMM)\(^2\) in the case of mining operations.

In the field of agriculture, we not only analyse and judge our investments on ESG factors, but we also make a contribution to the development of the standards for investing in agricultural land. Working together with other institutional investors we have been instrumental in drawing up the Principles for Responsible Investment in Farmland, with the aim of improving sustainability, transparency and accountability in this area.

The remainder of the commodities portfolio consists of investments in the derivatives futures market. The commodity derivatives market is a liquid trading market in which we invest in order to benefit from commodity price changes and to hedge the price risks of commodities. ABP has been active on the commodity derivatives market since 2001.

In recent years there has been much discussion about the influence of large investors on commodities prices. They have been accused of driving up raw material prices through their investment activities. ABP has carried out its own research and has found no indications that our investments in these products contribute to the increase in raw material prices. This view is supported by Profundo, an economic research consultancy, which examined this matter in collaboration with the Agricultural Economics Research Institute in Wageningen, the Netherlands. The results of this study were published (in Dutch) on 1 February 2012 under the title ‘Voedselprijzen en speculatie op agrarische termijnmarkten’ (food prices and speculation on agricultural futures markets).\(^3\) It is worth noting that our investments in commodities have made up a stable share of the portfolio for several years. In order to maintain this, our asset manager sells when prices rise and buys when prices fall. As a result, our investment activities would, should there be any effect on the volatility in the futures markets, have a dampening effect.\(^4\) Regardless of our findings, we wish to continue to take part in the debate about the influence of commodity and agricultural investments on the pricing of natural resources.

**Farmland Principles**

These guiding principles express the intention of the signatories to commit themselves to and to comply with:

- promoting environmental sustainability
- respecting labour and human rights
- respecting existing land and resource rights
- upholding high business and ethical standards
- reporting on activities and progress towards implementing and promoting the Principles

During 2012, and for the second year in a row, we applied the Farmland Principles to our agricultural investments. The managers of the agricultural funds were again questioned by ABP about the implementation of the Principles, and we were able to conclude that the managers who administer our farmland investments have integrated the principles in their business practice.

The Farmland Principles offer us, as an investor, an effective framework on which we can base our assessment of investments. The Principles additionally offer guidelines for reporting on the important aspects in relation to agricultural investments. One of the managers, for instance, reported to us on the progress that was made in relation to a reallocation process and the dilemmas the manager faced during that process. The manager successfully created an overview of the fragmented land rights and was able to reach agreement with the small local farmers on a good distribution of land rights to the benefit of both parties.

**Investments in agricultural activities**

Since 2008, ABP has invested approximately 0.25 per cent of its capital in agricultural activities.

---


\(^3\) [http://www.profundo.nl/page/show/thema-s/p515](http://www.profundo.nl/page/show/thema-s/p515)

Grains and oilseeds
We participate in two funds that invest in agricultural land. One fund focuses on the eastern areas of the European Union; the other invests in Latin America. The first fund owns land that is leased to local farmers. This means that the land is not farmed at the investors’ expense and that the yield from the grains and oilseeds accrues to the farmers. The aim of the fund is to increase effectiveness, to reduce production losses and to monitor the performance of the agricultural land. In addition, responsibility is taken for improving the farmland through more efficient water management and by applying sustainable agricultural methods. The fund managers also examine whether the sites of the farms concerned are contaminated with oil or asbestos. If this is found to be the case, they are cleaned up and restructured.

In Latin America, by contrast, grains and oilseeds are cultivated at the investors’ expense. The various farms are regularly visited and assessed for environmental and social risks. The principle of ‘no-till farming’ the parties seek to uphold is intended to ensure more efficient use of water and the protection of soils against exhaustion and erosion.

Forestry
ABP believes that investments in forestry are a suitable way of generating long-term returns while at the same time contributing to sustainability. We are convinced that forestry, provided it is well managed, is a valuable supplement to our investment portfolio. We also consider forestry sustainability certifications at the highest level to be important and make them a condition for our forestry investments. We have invested in forestry projects on different continents. Since 2007, ABP has invested in a fund focusing on forestry in Mozambique that is managed by Global Solidarity Fund International (GSFI), an international asset manager owned by Swedish and Norwegian churches. In order to ensure that these forestry investments satisfy our requirements with regard to responsible investment, it was contractually agreed at the time we started doing business with the fund that a process would be commenced that would lead to the forestry projects achieving Forest Stewardship Council (FSC) certification. This certification is an important measure for the quality and sustainability of the forests that are invested in. All our forestry investments must meet the FSC standard or, in the case of forestry investments in North America, that of the Sustainable Forest Initiative (SFI). They must also comply with the UN Global Compact principles, the principles in the areas of human rights, labour, the environment and anti-corruption referred to previously. It gradually became clear to us that the projects in Mozambique were not meeting the aforementioned requirements. This was revealed, among other things, following an independent assessment in the context of FSC certification. At the same time, the projects were accused by civil society organisations of having unlawfully acquired land rights from the local population. This so-called land grabbing became the subject of public discussion.

In recent years, we and the other investors in this project have strongly urged improvements with regard to the ESG performance. This resulted, among other things, in the appointment of a new management team that now comprises a healthy mix of local, talented professionals and internationally oriented managers with substantial forestry experience.

In April 2012, a member of the ESG team visited the projects in order to see whether our wishes had been met and to investigate the accusations levelled by NGOs. From the many discussions held with local organisations, employees and villagers, we found no indications for land grabbing. The correct permits are available for all planted hectares. We were nonetheless able to conclude that the previous management had not kept careful records and that expectations had been raised amongst the local population that could not be met.

We are positive about how the current management deals with the local population and remains in dialogue with them. Should the inhabitants not give consent for the use of the land where they live and/or which they farm, it has been agreed that the management will look for other suitable land.

During 2013, a so-called ‘baseline study’, a study into the social and environmental effects, will be held for the purpose of obtaining FSC certification, to which we attach great value. Such a study takes one year, meaning that FSC certification should be realised in the course of 2014.

Mining
ABP has also invested in a number of mines in Africa via the natural resources portfolio. The unrest in South African mines in September 2012 demonstrated once
again how important it is for investors to keep a close watch on human rights and labour rights in the mining sector. At the same time, during 2012 we questioned our external managers who invest in mining companies on our behalf in detail about how they implement our criteria for responsible investment in the mining industry.

We make an annual visit to the mines in order to obtain information about the situation. Partly in light of the miners’ strikes in South Africa, we expressed once again to the joint owners and management how important we, as investors, consider it that miners are able to earn a living wage, that the working conditions are safe and healthy and that the miners are able to exercise their free right of association. We also insisted that the management of the mines must be available for consultations with the trade unions, the local population and the employees.

Proof that our investment criteria do not jeopardize the viability of the mines is provided by the fact that the mines in which we have invested are still taking on new workers.

Palm Oil

The producers and customers of palm oil are under growing pressure to use their best endeavours to ensure the sustainable production of palm oil. Growing demand for palm oil is threatening tropical rainforests. In 2012 too, tropical rainforests were cleared to make way for palm oil plantations. The return on the crop on the world market is high due to its use in many consumer products, such as body care products, as well as for bio fuel. This makes palm oil a financially attractive investment.

During the past year, ABP commenced an intensive dialogue with the palm oil sector and we entered into discussions with producers in Malaysia and Indonesia. We developed an investment strategy for sustainable palm oil for our palm oil-related investments in Asia. Under this strategy, ABP assesses the policy for palm oil activities conducted by listed companies against the ‘best practice’ in the sector and also maintains an active dialogue with listed companies that operate in the palm oil sector.

Through our indirect investments in natural resources, we also set the condition that the funds in which we invest must be members of the international Round Table on Sustainable Palm Oil. In addition, the funds concerned must indicate when they achieve the targets for certified palm oil and they must have a policy with regard to land purchases, waste and water management, use of pesticides, labour conditions, corruption and bribery and investments in the local economy. These funds must also be able to show that the land they own was legitimately acquired. The ESG team is closely involved with the monitoring role of the managers of the commodities portfolio to which these funds belong. Via our administrative organisation we participate in an international forum of institutional investors which encourages companies around the world only to use sustainably produced palm oil and to become members of the Round Table on Sustainable Palm Oil.
5. Influence on quality of sustainability and corporate governance

ABP invests worldwide in over 4,000 listed companies. As an engaged shareholder with a long-term investment horizon, it is important for us to (get to) know these companies well, even if they are part of an externally-managed fund. ABP does this because it wants to form a clear picture of the governance and the strategy of the companies in which it invests. Naturally, ABP is also interested in information about the operating performance with regard to financial, environmental and social aspects. Where there are indications that a company is not conducting its business in line with what we consider desirable, we bring this to the attention of the management and other representatives. There are various ways in which we can exert our influence amongst companies: by our voting conduct at shareholders’ meetings, via dialogue and engagement (individually or jointly), and through legal measures.

Subject

Companies with whom we have spoken

Climate change
BASF, BP, BT, Deutsche Telekom, Drax, EDP, En, Gas Natural Fenosa, Iberdrola, National Grid, Posco, Rautaruukki, Renault, RWE, Shell, Sime Darby, SSAB, Telefonica, Telecom Italia, Vodafone

Corporate Governance

Environmental management
Aegon, Allianz RE, Anglo American, Arcelor Mittal, AvalonBay Communities, BAA, Bumitama Agri, Casino Guichard Perrachon, Colruyt, Delhaize, Derwent London, Goodman Group, Grainger, ICADE, Hammerson, Holcin, KanAM, Kerry Group, Land Securities, LaSalle, MahindraMahindra, Metcash, Metro, Norlisk Nickel, Norwegian Property (NPRO), Nutreco, Reiktt Benckiser, Sainsbury Group, Shiseido, Shell, Siemens, Suez Environment, Syntega, Tesco, Total, Unibail-Rodamco, Woolworths, Rio Tinto

Health & safety
Apple, BASF, BP, Carnival, Deutsche Bank, Iberdrola, Impala, Petrobas, Petrofac, SBM Offshore, Shell, SSAB, Total, Transocean.

Human rights

Labour standards and conditions
Ahold, Amer Sports, Anglo Platinum, Apple, DE Masterblenders, Faurecia, Impala, Lonmin, MahindraMahindra, Philips, Renault, Samsung

Transparency & accountability
Aegon, Apache, Arcelor Mittal, Barclays, BP, Danone, DE Masterblenders, EDP, Glencore, HSBC, KKR, Orpea, Pirelli, Reed Elsevier, RWE, Shell, Standard Chartered, Syntega, Transocean, Vale
Voting at shareholders’ meetings
Exercising our voting rights at shareholders’ meetings is one important way of making our views on certain matters clear to the management of a company. Our website contains information on how we voted at the shareholders’ meetings. We consider it important to be transparent about our voting policy and the practical effect of how we exercise our voting rights.
Below, we explain our voting policy during the past year and we show in a diagram how we exercised our voting rights at shareholders’ meetings around the world.

Global distribution of votes

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia &amp; Oceania (Japan and Australia excluded)</td>
<td>23%</td>
</tr>
<tr>
<td>Brazil</td>
<td>4%</td>
</tr>
<tr>
<td>Central &amp; South-Africa</td>
<td>5%</td>
</tr>
<tr>
<td>Canada</td>
<td>5%</td>
</tr>
<tr>
<td>Japan</td>
<td>11%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6%</td>
</tr>
<tr>
<td>United States</td>
<td>21%</td>
</tr>
<tr>
<td>Europe (UK excluded)</td>
<td>19%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>2%</td>
</tr>
</tbody>
</table>

Shareholders’ meetings
During 2012, ABP expressed an opinion on various matters of importance to ABP at several shareholders’ meetings. Remuneration policy is a recurring topic, as is the independence of supervisory board members. These were joined by a new development last year: the sign-on bonus. This is a one-off payment made to a new management board member in order to sweeten his or her arrival at the company. ABP views this as a worrisome development and raised its concerns in this regard with the companies who have embraced it (Reed Elsevier en Van Lanschot).
In France, several listed companies see no issue with combining the position of supervisory board chairman (or president) with that of CEO. ABP takes a negative view of this and voiced its opinion in this regard in a variety of ways during 2012.

Voting policy
ABP invests worldwide in a large number of listed companies. This does not prevent us from making our voice heard by voting at annual and/or extraordinary shareholders’ meetings.
During 2012, we exercised our voting rights at 3,791 shareholders’ meetings. When exercising our voting rights at the shareholders’ meetings of most companies we use a system that enables us to cast our votes remotely. As ABP’s voting policy is integrated in this system, this enables us to also vote in line with our internal policy at the shareholders’ meetings of those companies requiring less attention from us. We use a voting advisory firm to obtain additional information about the companies in which we invest. This firm maintains a database containing information about listed companies in developed countries and in emerging economies, which is available to us. This information is utilised in order to determine how ABP applies its voting policy. ABP of course also carries out its own research in relation to the different investment strategies that are discussed in section 4. This research also determines our voting policy. Our responsible investment criteria and our view of the company guide us in determining our voting position. We also join the portfolio managers in examining the different agenda items and collectively determining our voting position as well as the priorities for a dialogue.

Below, we highlight several companies with whom we had a dialogue during the past year and in relation to whom we nevertheless found it necessary to focus attention on a number of sensitive issues during the shareholders’ meetings.
• At the Annual General Meeting of Stockholders (AGM) of Total, the French oil and gas company, our concerns about the combined roles of chairman and CEO were expressed through our voting position. All the management board members additionally occupy a large number of other management and board positions, giving rise to doubts as to whether the management board members actually have enough time to spend on the business of running an oil and gas company. Furthermore, one management board member had a very low attendance record at board meetings.
• At the AGM of Ahold, the retail company, we once again voiced our concerns about the stance of the
management of Giant-Carlisle, the US supermarket chain, towards trade unions. This chain has actively discouraged employees from joining a trade union. We also asked Ahold to conduct an employee satisfaction survey amongst all staff members worldwide. ABP additionally voiced its concerns about remuneration policy.

• News Corp, the US media group owned by Rupert Murdoch, was itself in the news last year because journalists working for one of its UK titles were found to have hacked into the voicemail of various people. ABP is concerned about the lack of supervision and accountability by managers in the company. We therefore voted against extending the appointment of the non-independent directors at the shareholders’ meeting.

• D.E. Masterblenders 1753, a newly listed company, was forced to report major accounting irregularities in Brazil in early August 2012. The incidents of fraud were committed before the new company was floated and fell under the responsibility of the former board of Sara Lee. We voted in favour of discharging the management board from liability because the incidents of fraud did not take place under its responsibility and because we have confidence that the management board has taken sufficient measures to avoid any recurrence of abuses of this nature in the future.

Dialogue and engagement
During the past year, we conducted an extensive dialogue with several listed companies for a variety of different reasons.

Xstrata and Glencore
In February 2012, it was announced that Glencore International, the UK-based commodities trading and industrial company, had approached Swiss mining company Xstrata with a view to a merger. Following a long series of negotiations and consultations with regulators around the world, the shareholders voted in favour of the merger in November 2012. ABP voted in favour of the merger because we believe that it will be beneficial to both companies. At the same time we had a number of reservations. Under the terms of the merger, 71 managers might have been eligible to receive a total amount of £144 million. We voted against the award of these packages. As nearly 80 per cent of the shareholders also considered the bonuses for the 71 managers exorbitant, the awards were not paid out. We voiced our concerns during talks with the two companies about the future management structure, compliance with rules concerning responsible governance and sustainability, as well as risk management in relation to the then imminent merger.

Olympus
In late November 2011, it was discovered that Olympus, the Japanese camera manufacturer, had been hiding huge losses since the 1990s. The company lost nearly 70 per cent of its market value due to the disclosure. Together with other shareholders, ABP rebuked the company for this scandal and called for a radical overhaul of the management of the company, including the appointment of independent supervisory board members. Only in this way can investors’ confidence in the company be restored. During the shareholders’ meeting, ABP voted against an anti-takeover construction that it was felt would not be in the interest of the minority shareholders.

The scandal affecting Olympus has prompted Japan’s stock exchange authorities to draw up more stringent corporate governance rules. We continue to closely monitor the developments in Japan and at Olympus.

Reed Elsevier
During the past year, the ESG team discussed the remuneration structure of the board of directors of Reed Elsevier with that company. We also discussed the change of the business model in the face of far-reaching digitisation and its consequences for the sustainability profile and management of the chain. ABP voiced its concerns to the company about the generous remuneration awarded to the new CFO and the one-off payment offered to him to entice him to join the company. Reed Elsevier indicated that it understood the concerns of the institutional investors, but it has not altered the financial compensation of its directors.

Apple
US electronics manufacturer Apple was once again the focus of investors’ attention during 2012, due to poor labour conditions at its suppliers in China. Foxconn in particular attracted attention in this regard. During 2012, ABP corresponded with Apple about the need for good labour conditions and good supervision by the company itself of the entire production chain. In this context, we asked Apple to create a broader base of manufacturers and other suppliers so as to make it easier to switch should abuses come to light at one of them. We also asked Apple to do even more to reduce long working hours including overtime for factory workers.
Apple itself has engaged the Fair Labor Association (FLA) to investigate the working conditions in the factories that manufacture parts and products on behalf of Apple in, for example, China. The FLA’s findings on labour conditions in the factories have been published and show that improvements are being implemented and progress is being made.

While there is still some way to go, we see signs that the improvements that have been made are indeed leading to better working conditions on the factory floor. We will continue to closely monitor developments during 2013 and will remain in dialogue with Apple.

**MTN**

MTN is one of South Africa’s largest telecommunications providers and also operates in Syria. Although these operations do not constitute military activities and hence do not fall under the United Nations embargo, ABP is nonetheless concerned about how MTN may be involved in the civil war raging in Syria. Various civil society organisations have said, for example, that the services provided by MTN in Syria are being used by the regime which is committing violations of civilians’ human rights. We have therefore asked this listed company to provide clarification and are currently engaged in dialogue about its activities and policy. MTN recently provided a detailed explanation of its activities and the review of its current policy. We will continue to further the dialogue about the company’s human rights policy and its activities in Syria.

**Shell**

ABP has been engaged in active dialogue with Shell for some time about the worrisome oil pollution in Nigeria. This year we once again held consultations with the CEO of Shell, the managing director responsible for the activities in Nigeria and the chairman of the supervisory board. In October 2012, a member of the ESG team visited Nigeria and established contact on behalf of ABP with the local management of Shell Nigeria. During this contact, we became aware of the scale of the pollution and the problem of illegal refineries and illegal oil storage activities.

Spurred on by the continuous focus on the issue by ourselves and other institutional investors, Shell has made progress in recent years. There is now better insight into the progress being made to clean up existing and new spills, for example. Shell is now more receptive to independent audits and advice.

The oil company’s contacts with local organisations have also improved.

Nevertheless, there is still a tremendous amount of work to be done on achieving a sustainable solution for the entire Niger Delta. In spite of the improved relationships, there is still considerable distrust amongst local communities and non-governmental organisations (NGOs). They raise questions about the method used by Shell to clean up the oil pollution, for example, and they are supported in this by critical remarks from the United Nations Environment Programme (UNEP), which conducted a study in that regard and published a report on this matter in 2011.

Following publication of the UNEP report, ABP asked Shell to commission an externally verified study to determine the effectiveness and applicability of the method and, where necessary, to improve that method. Shell has engaged Bureau Veritas for this purpose and has also involved several NGOs in the study. We consider this a positive development. It is essential that the outcomes and recommendations in the final report issued by Bureau Veritas increase support for the manner in which Shell assumes its responsibility for the oil pollution in Nigeria.

**Financial sector**

In 2012, the banking sector once again received negative press and financial institutions were accused of not handling their clients’ money with due care. Even banks with a previously solid reputation such as HSBC and Standard Chartered were investigated for breaching banking rules and were ordered to pay heavy fines. ABP is in constructive dialogue with representatives of both banks about how to tackle the lack of supervision of this type of behaviour.

Barclays agreed a settlement with the U.S. Commodity Futures Trading Commission (CFTC), the U.S. Justice Department and the U.K. Financial Services Authority (FSA) for manipulation of the Libor rate. That was the prelude to a chaotic period of changes in the board of directors of Barclays and eventually resulted in the exit of the CEO. It is essential that fundamental changes are made to the culture and remuneration structure at Barclays.

In 2013, we will continue to engage with financial institutions in order to reinforce changes in the culture of and responsible behaviour in the financial sector.
Last year, ABP took the initiative for a unique investment project: funding the widening and maintenance of the N33 national trunk road between Assen and Zuidbroek. This is the first time that a Dutch pension fund has provided a loan for an infrastructure project in the Netherlands.

The N33 project is a typical example of a public-private partnership (PPP). The government awarded the contract for widening and maintaining the road to a construction company (Royal BAM Group). The project is funded through a loan of approximately €80 million provided by ABP, and in return ABP receives payment of interest, adjusted for inflation.

The benefit for ABP is that the funding of the N33 constitutes a long-term, low-risk investment. This is an attractive option for a pension fund, which seeks to protect the pension assets against inflation and wishes to maintain the purchasing power of retired employees.

Inflation-linked loans are currently issued mainly to selected businesses, infrastructure projects and/or real estate. Good internal coordination of the various investment portfolios ensures a concentration of risks or mutual competition in the portfolio is avoided.

Read more on page 9 (part of paragraph 3.2.4. in inflation adjusted loans).
Last year, ABP took the initiative for a unique investment project: funding the widening and maintenance of the N33 national trunk road between Assen and Zuidbroek. This is the first time that a Dutch pension fund has provided a loan for an infrastructure project in the Netherlands.

The N33 project is a typical example of a public-private partnership (PPP). The government awarded the contract for widening and maintaining the road to a construction company (Royal BAM Group). The project is funded through a loan of approximately €80 million provided by ABP, and in return ABP receives payment of interest, adjusted for inflation.

The benefit for ABP is that the funding of the N33 constitutes a long-term, low-risk investment. This is an attractive option for a pension fund, which seeks to protect the pension assets against inflation and wishes to maintain the purchasing power of retired employees.

Inflation-linked loans are currently issued mainly to selected businesses, infrastructure projects and/or real estate. Good internal coordination of the various investment portfolios ensures a concentration of risks or mutual competition in the portfolio is avoided. Read more on page 9 (part of paragraph 3.2.4. inflation adjusted loans)
Investments with a high sustainability value

Through its investments, ABP aims to make a positive contribution to challenges facing society, such as climate change, scarcity of water and materials, health care and combating poverty. We are continuously looking for new opportunities to invest in sustainable energy, energy efficiency, public transport infrastructure, water purification and waste management, sustainably managed forests, microfinance and health and care infrastructure, for example. The main priority is that such investments must yield returns in line with the market and must satisfy our investment criteria.
6. Dialogue with the market, policy-makers and civil society

As the largest pension fund in the Netherlands, it is extremely important for ABP that we remain in continuous dialogue with other financial parties, policy-makers and civil society organisations in the Netherlands as well as other countries. This dialogue is important for promoting sustainable business practices and good corporate governance worldwide. At the same time, the discussions with our colleagues and stakeholders keep us focused on the themes and developments that can have an impact on our organisation and reputation. This ensures that we can respond more effectively to them. During the past year, we were regularly asked about our role in and our position with regard to matters as human rights, investing in fossil fuels and investing in the Netherlands. This was prompted by the publication of several different reports concerning the investment policy of institutional investors.

ABP wishes to make an active contribution to the development of policy, standards and codes of conduct for a reliable and robust policy framework and financial markets that operate with integrity. We believe these to be important for safeguarding the pension interests of our participants into the future. A focus on and commitment to engaged shareownership and the restoration of confidence in the financial sector are essential elements in this endeavour.

6.1. Rio+20

In 2012, Rio de Janeiro once again hosted the United Nations Conference on Sustainable Development, having previously hosted the Conference in 1992. In Rio, the Principles for Responsible Investment (PRI) - an international network of investors whose goal is to promote responsible investment - organised a conference on sustainable investment and one of our vice-chairmen took part in the opening debate. During the discussion, he re-emphasized how important it is for pension funds to incorporate their vision of responsible investment in their investment principles, as ABP does. That complements the principle that it is worth investing for the long term and that ABP can leverage its size and long-term goals for that purpose.

One of the outcomes of the international conference in Rio was the recommendation that publicly listed and large unlisted companies should integrate their sustainability strategy, policy and performance reporting into their usual reporting cycle. This call was made under the ‘Framework for Action’ that appears in the ‘Rio+20 declaration’.

Our administrative organisation on behalf of the International Corporate Governance Network (ICGN), had urged the politicians who were present to support the call for improved integrated reporting. Furthermore, ABP actively supports the initiatives of the UN PRI and the UN Global Compact to devote greater attention to linking the variable remuneration of boards of directors to the ESG performance of their companies. During the conference in Rio, this was discussed. We have maintained a longstanding dialogue on these themes with companies.

6.2. Strong climate laws

During 2012, extreme weather once again caused widespread damage: large forest fires in Russia at the end of July and in Australia in December, floods in the United Kingdom and Hurricane Sandy on the eastern seaboard of the United States. The debate as to whether or not extreme weather is caused by climate change continues to rage around the world. At the same time, investments are being made worldwide in energy efficiency, reducing greenhouse gases and limiting, and even preventing, damage due to extreme weather leading to drought or floods. As we reported in chapter 4, ABP invests part of its portfolio directly in sustainability investments. In this way, we contribute to a healthier environment and a better world to live in.

Climate negotiations

Greenhouse gases have more than doubled since 1990. Under the Kyoto Protocol (1997), it was agreed at international level that emissions of greenhouse gases would be reduced by 5% by the end of 2012. This goal has therefore not been met. If we want to limit the rise in temperatures at the Earth’s surface to no more than 2 degrees Celsius, as agreed in Cancun, Mexico, in 2011, then global CO2 emissions will have to be reduced by 80% in 2050. The annual climate negotiations took place in Doha (Qatar) in early December last year. The meeting failed to produce any noticeable changes in international agreements and legislation and regulations with regard to energy and greenhouse gases. One of the reasons for this may be that parties are working on a climate agreement in 2015.
Institutional investors around the world are concerned about the implications of climate change due to their interests with regard to the long term. For this reason ABP is a member, through our administrative organisation, of the European Institutional Investors Group on Climate Change (IIGCC). Together with other regional investors’ groups (North America, Asia and Australia/New Zealand), prior to the climate summit in Doha we pressed for firmer government policy, improved cooperation between governments and tougher international agreements.

The IIGCC also supports the efforts of various political parties in the European Parliament to save the European Emissions Trading System from collapse. As the European Commission itself concludes: this trade in emissions has led to an enormous surplus of allowances. As a result, the price of CO2 has dropped to barely €7 per ton, while a price of €25 per ton would be needed to make it attractive to invest in cleaner energy technologies. The drop is admittedly due to a combination of positive factors, such as increased energy efficiency, and negative factors, such as the economic crisis and an oversupply of free rights. It nevertheless remains important for us to be able to offset the costs of climate change in a responsible manner.

In November 2012, the European Commission wrote a report for the European Parliament and the European Council containing six recommendations for making the ETS and the price of CO2 valuable again. We look forward to a good solution.

6.3 Integrated company reporting

ABP actively engages with the debate surrounding and the development of integrated company reporting. This reporting method is intended to promote transparency by companies concerning their strategy, policy and (ESG) performance. Our administrative organisation is active at the highest level of the International Integrated Reporting Council (IIRC). Within this Council it is a member of the Working Group and the Investors Testing Group. The IIRC is an interdisciplinary initiative by leading figures from the business community, the financial sector, legislators and regulators, accountants, academics and civil society organisations. In 2012, the IIRC published the first draft of its framework and this is now being further developed with the stakeholders. Version 1.0 of the IR Framework is expected to be published during 2013, following an extensive period of consultation. Dozens of companies are taking part in a pilot programme that enables them to gain practical experience of preparing integrated annual reports, thereby allowing them to share their experiences for further development of the framework. ABP aims to ensure that the IR Framework meets investors’ needs. Integrated reporting is a work in progress. It is a next step in a process of increasing transparency by listed companies concerning their strategy, policy and performance in the broadest sense. Views on what it is and how it should be approached still vary. For ABP, integrated reporting means that a clear link is established between a company’s strategy and its ESG performance. This requires companies to embrace a different way of providing information and conducting their business operations.

As ABP aims to integrate financial analyses and ESG analyses for its own investment policy, so too should listed companies be driven far more by integrated thinking. An example in this regard is the goal of telecom companies to operate in a more energy efficient manner. Data centres and telephone networks are heavy energy users. The exponential growth of data traffic by businesses and consumers and the sizeable competition in the market have made savings in energy costs an important focal point for telecom companies. That is why energy and climate policy should not be confined to the sustainability department, but must become an integral part of the company’s overall policy. A comparison between various large telecom companies and operators reveals there are still considerable differences in the way in which energy management is anchored in the organisation and the way in which the companies concerned communicate about it. We believe there is still scope for improvement in this regard.

6.4 OECD guidelines for multinational enterprises

In 2012, the Dutch, Norwegian and South Korean National Contact Points (NCPs) of the Organisation for Economic Co-Operation and Development (OECD) received a complaint about POSCO, a South Korean steel-making company. The complaint related to the company’s plans to set up a steel plant in India. ABP and the Norwegian state pension fund are both shareholders of POSCO and were referenced in the complaint through the new OECD guidelines for multinational enterprises. ABP supports the OECD guidelines for multinational enterprises. They form part of the criteria of our responsible investment policy. The implementation of the guidelines by the financial organisations is still
subject of discussion since the scope of the guidelines for the financial sector is (still) unclear. ABP is taking part in the consultation process that the OECD working group has initiated for the financial sector.

6.5 EITI, Dodd-Frank Act and the SEC and EU proposals
ABP is a signatory to the Extractive Industries Transparency Initiative (EITI). This initiative calls on governments to publish audited financial statements disclosing the payments received by them through taxes, royalties and other charges and payments from mining companies and other enterprises in the oil and gas industries. For their part, the companies are expected to disclose the payments made by them to governments. The United States became a signatory to the EITI in 2011, and through the Dodd-Frank Act has now imposed an obligation on mining and energy companies to be transparent about their payments. The Securities and Exchange Commission (SEC), the US stock exchange regulatory authority, has transformed the statutory obligation into a set of rules for corporations that are publicly listed in the United States. The practical impact and implementation of these rules will become evident during 2013. For the moment, several companies affected by these regulations are seeking to have the legislation overturned through the courts.

In 2012, the European Commission made an initial proposal for this so-called country-by-country reporting and intended its scope to cover not just the mining and oil and gas sectors but also the forestry sector. The EU’s proposals will be discussed further in the first quarter of 2013 in the context of the EU’s Transparency Directive. Many companies are against reporting at project level, but on the other hand enterprises, governments and investors will benefit from the efficiency that ensues from EU legislation seeking harmonisation with the reporting system adopted by the United States. This will ensure a reporting process that is mutually recognised worldwide and which will be applicable in all jurisdictions. It is important that the proposal is elaborated with due care.

6.6 Contributions to national and international consultations
Through our membership of various organisations and initiatives in the field of responsible shareownership, corporate governance, reporting and sustainability we aim to influence the contents of laws and regulations that can have an impact on our position and our rights as an investor. As an investor and shareholder, it is very important for ABP to be able to exert some influence on national and international rules that can have implications for our activities and objectives. We seek out allies and like-minded organisations to assist us in reinforcing that influence. During the past year, we responded to various legislative proposals in the Netherlands through several channels, including Eumedion, the Dutch corporate governance platform, and we also took part in a series of European consultations. One of these European consultations concerned possible measures to increase the number of female executive and non-executive directors. Consultation also took place about amendments to the Transparency Directive as well as the amendment of the Market Abuse Directive.

We also took part in the consultation process of the Dutch Ministry of Finance concerning the proposed legislation to ban all investments in cluster munitions. This ban is enshrined in regulation, although the legislature has not published an official exclusion list. We have made our own selection of excluded companies as appears from our exclusion list given on page 6. Eumedion, of which ABP is a member, requested from the Dutch government a list of prohibited cluster munitions manufacturers as. ABP would additionally appreciate greater clarity from the authorities concerning the new measure, its implementation and compliance with it.

6.7 Participation in study
In 2012, ABP took part in a study conducted by Tilburg University, and commissioned by Eumedion, to examine the supposed inclination of institutional investors towards short-termism. In light of the credit crisis, among other things, pension funds and asset managers were accused of being too focused on the short term. According to the researchers at Tilburg University, institutional investors are not the short-term investors they are sometimes made out to be during public debate. The study conducted by Tilburg University found that Dutch institutional investors keep the majority of their shares in listed Dutch companies in
the portfolio for a long period of time. More than 80% of the equity portfolios are held for five years or more, and no less than 55% for a duration of at least ten years. In addition to ABP, Pensioenfonds Zorg en Welzijn, PME and Spoorwegpensioenfonds (Railway Pension Fund) also took part in the study, as did Robeco (Hollands Bezit investment fund) and Teslin Capital Management, both of whom are Dutch asset managers.
7. Looking ahead to 2013

The first few months of 2013 have shown how important it is for pension funds such as ABP to also take ESG risks and opportunities into account in their investment policy. On 1 January 2013, for example, the regulation prescribing a ban on investment in cluster munitions came into effect. As it was already our policy for some time not to invest pension assets in such weapons, we had already excluded the producers of cluster munitions and weapons from our portfolio.

During 2013, we will continue to engage in dialogue with society about social issues we, as a pension investor can exert influence on. The information we glean from participants and civil society organisations as well as their considerations are extremely relevant to our role and our duty to safeguard the pension assets of our participants for the future.

The dialogue with publicly listed and unlisted companies will naturally be continued during 2013 on behalf of ABP by our administrative organisation. Important subjects we will continue to discuss with companies include good personnel policy, efficient water management and the implications of climate change. Governance-related themes such as remuneration policy, directors’ independence and succession planning will once again be items for discussion. In addition, there are certain topics about which we were already engaged in dialogue but which now assume a more prominent place on the agenda due to various incidents and legislation. Examples are fraud and corruption and the true insight directors have into the activities of subsidiaries. The quality of directors and their capacity to uphold a company culture marked by integrity play an important role in this regard.

Last year, ABP experienced for itself the value of having ESG factors extensively integrated in the investment process. With the support of the instruments developed in 2012, such as the ESG Dashboard and the ESG Country Risk Monitor, the portfolio managers now have the means to take even better account of ESG risks in their valuation of companies.

The quantitative equities strategies still constitute a relatively new area where there is a need for ESG factors to be taken into account. This prompted the portfolio managers to commence a study into the so-called hidden risks, which have not yet been factored into the share price by the market and which a quantitative investment strategy may therefore be able to leverage to obtain benefit. This study will take further shape during 2013.

At the end of 2012, ABP took an important step in further improving the voting process. With the introduction of a new instrument from our voting advisory firm, it is now easier for all the employees involved in an investment process to contribute at an early stage to forming a voting decision.

In 2013, we will further deepen the integration of ESG factors in all asset classes. We aim to apply the knowledge and experience we have gained in recent years in the individual classes more widely across the entire portfolio.

Furthermore, this year, the asset classes infrastructure and private equity are the primary focus in a further deepening of ESG integration.

ABP plays a prominent role in improving the sustainability of real estate through the Global Real Estate Sustainability Benchmark. In 2013, ABP will continue to leverage the so-called GRESB survey to encourage listed and unlisted real estate companies to be more transparent about their ESG performance.

2013 will see the further development of integrated reporting. As an institutional investor, ABP is involved, through its administrative organisation, with the International Integrated Reporting Council via the board and a number of committees. The first experiences of companies with the so-called integrated reporting framework are expected during the course of 2013. It is important to investors that integrated reporting provides better insight into the value and the value creation of companies.

During 2013, ABP will also continue to promote a genuine debate about the role that pension funds envisage for themselves in the development of the Netherlands. Through our administrative organisation, we are involved in the discussions at the Catshuis, the official residence of the Dutch prime minister, with employers’ and employees’ organisations concerning investments by Dutch pension funds in the Netherlands. We are willing to invest in the Netherlands, but only in conformity with our statutory fiduciary obligations.
ABP actively engages with the debate surrounding and the development of integrated company reporting. This reporting method is intended to promote transparency by companies concerning their strategy, policy and (ESG) performance. Our administrative organisation is active at the highest level of the International Integrated Reporting Council (IIRC). Within this Council it is a member of the so-called Working Group and the Investors Testing Group. The IIRC is an interdisciplinary initiative by leading figures from the business community, the financial sector, legislators and regulators, accountants, academics and civil society organisations.

In 2012, the IIRC published the first draft of its framework and this is now being further developed with the stakeholders. Version 1.0 of the IR Framework is expected to be published during 2013, following an extensive period of consultation. For ABP, integrated reporting means that a clear link is established between a company’s strategy and its ESG performance. This requires companies to embrace a different way of providing information and conducting their business operations. As ABP aims to integrate financial analyses and ESG analyses for its own investment policy, so too should listed companies be driven far more by integrated thinking. Read more on page 3.
ABP actively engages with the debate surrounding and the development of integrated company reporting. This reporting method is intended to promote transparency by companies concerning their strategy, policy and (ESG) performance. Our administrative organisation is active at the highest level of the International Integrated Reporting Council (IIRC). Within this Council it is a member of the so-called Working Group and the Investors Testing Group. The IIRC is an interdisciplinary initiative by leading figures from the business community, the financial sector, legislators and regulators, accountants, academics and civil society organisations.

In 2012, the IIRC published the first draft of its framework and this is now being further developed with the stakeholders. Version 1.0 of the IR Framework is expected to be published during 2013, following an extensive period of consultation. For ABP, integrated reporting means that a clear link is established between a company’s strategy and its ESG performance. This requires companies to embrace a different way of providing information and conducting their business operations. As ABP aims to integrate financial analyses and ESG analyses for its own investment policy, so too should listed companies be driven far more by integrated thinking. Read more on page 32. (part of 6.3 Integrated company reporting)
Reliable regulations

ABP is a strong advocate nationally and internationally of reliable regulations so as to embed sustainability and good corporate governance in business practice. We hold regular dialogues with legislators and regulatory authorities on sustainability and shareholders’ rights. We also contribute to the development of standards with the aim of enhancing the integrity of financial markets in the long term.
and provided the investment proposals meet our requirements in terms of financial return with a corresponding risk and sustainability profile. We have a responsibility towards the participants whose pensions we provide. They expect us to act prudently with their pensions. That is why ABP expects the parties who want us to commit to certain investments to be receptive to financial solutions that are in keeping with our profile and goals and that are quite common in several European countries, such as inflation-related loans.
Appendix:

ABP’s responsible investment policy

1. Integrating environmental, social and governance (ESG) factors into the investment process
We will analyse the effects of ESG factors wherever this is practically possible, and take these factors into account in our investment decisions.

2. Engaging with companies that ABP invests in with a view to improving their sustainability performance and corporate governance
ABP expects companies to comply with the standards stated in the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the OECD Principles of Corporate Governance and the International Corporate Governance Network Statement on Global Corporate Governance Principles. We will use our position as a shareholder to exert influence on companies that do not sufficiently comply with these standards. We will dispose of our investments in companies that persistently fail to improve their compliance.

3. Implementing the corporate governance policy actively and responsibly
Wherever possible, we will exercise the voting rights linked to our shareholdings. When necessary, we will actively engage company boards in dialogue about their strategy and corporate governance.

4. Making the most of opportunities to invest in sustainability solutions
We will investigate opportunities for investing directly or indirectly in companies explicitly and principally engaged in activities that promote sustainability, provided these companies also meet the risk and return criteria that we apply in the interests of our current and former members.

5. Engaging policy makers to promote sustainability and raise corporate governance standards in the market as a whole
As a large institutional investor, we will engage policy makers and regulators in the Netherlands and elsewhere to promote policy and standards that can contribute to corporate sustainability and better corporate governance in the interests of our current and former members.

6. Not investing in companies that are directly involved in the production of goods that are prohibited by primary or secondary Dutch or international legislation or are widely regarded as objectionable in the Netherlands
ABP does not invest in companies that are involved in the production of goods that are prohibited (or likely to be prohibited in the near future) by national or international legislation recognised by the Dutch government, nor in companies that are principally engaged in the production of goods that are widely regarded as objectionable in the Netherlands.

7. Not investing in sovereign bonds of countries that are subject to an UN Security Council arms embargo
ABP does not invest in bonds issued by countries facing an UN Security Council arms embargo. These embargoes are enforcement measures to condemn violations of international law or human rights.

8. Collaborating with other institutional investors and participants in the investment market to implement this policy
We work with pension funds and other long-term investors, financial service providers, analysts and other participants in the investment market to promote sustainable business practices and strong corporate governance.

9. Rendering account for our responsible investment policy
We will listen to our stakeholders’ views, in particular those of the members, regarding our policy on sustainability and corporate governance and will report to them on its implementation.
Acknowledgements

Published by ABP
PO Box 4874, 6401 JP Heerlen, Netherlands
Oude Lindestraat 70, 6411 EJ Heerlen, Netherlands

Telephone +31 45 579 29 11

communicatie@abp.nl
www.abp.nl

Photography
Hollandse Hoogte en ANP

Heerlen, 2013 ABP