

# Stewardship policy



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## Introduction

Stichting Pensioenfond ABP<sup>1</sup> (ABP) is the sector wide pension fund for employers and employees of government and educational institutions in the Netherlands. ABP has a total of approximately 2.9 million beneficiaries, former beneficiaries and pensioners. Our aim is to provide a good pension in exchange for an affordable contribution. ABP invests globally with the aim to achieve the highest net return for our beneficiaries while ensuring our pension fund remains strong and future-proof.

We want to enable our beneficiaries to rely on a good income upon retirement and enjoy that income in a sustainable world. All investment policies, including our sustainable and responsible investment policy, are geared towards achieving this dual objective. An important part of the implementation of our sustainable and responsible investment policy is to understand and influence the entities we invest in as well as engaging with policy makers and other stakeholders to help build a sustainable financial system and future. Voting, monitoring, dialogue and engagement with the entities we invest in are key features of our stewardship activities, which allow us to make informed investment decisions. In this Stewardship Policy we explain how we fulfill our role as steward of the capital entrusted to us by our beneficiaries. While the primary focus of this policy is our stewardship approach in listed equity, stewardship is also an important part of our sustainable and responsible investment policy for our illiquid investments.

We believe this policy fulfills the current requirements of the Dutch Stewardship Code. Additional information on ABP's approach to sustainable and responsible investment can be found in our sustainable and responsible investment reports, our Corporate Governance Framework and on our website.

## Sustainable and Responsible Investment

We are convinced that investors make better investment decisions if they look structurally at sustainability factors and responsible business practices, as this provides them a more comprehensive picture of the opportunities and risks in an investment. Responsible investing is therefore an integral part of our investment beliefs, our strategic investment plan and our asset liability management.

The integration of governance and sustainability factors in all asset classes is an important feature of our responsible investment approach, which is designed to:

- contribute to risk-adjusted financial returns;
- demonstrate social responsibility and;
- contribute to the integrity of financial markets.

Our approach to responsible investing is rooted in national and international regulations. These are, in the first instance, Dutch law and international treaties and conventions to which the Netherlands are party. ABP's responsible investment approach is aligned with the OECD Guidelines for Multinational Enterprises and the ICGN Global Corporate Governance Principles (revised 2017). In addition, we expect companies and funds we invest in to act in line with the United Nations principles for responsible business practice (UN Global Compact) which requires companies to align their business practices with universal principles on human rights, labor rights, corruption and the environment. We employ a variety of means to assess whether companies operate in line with these principles.

<sup>1</sup> <https://www.abp.nl/english/about-us.aspx>

Just over ten years ago, our investments were selected merely on the basis of risk, return and cost. As of 2007 - when ABP published its first responsible investment policy - we paid greater attention to the way companies treat people and the environment, and whether ESG (environment, social and governance) risks were properly managed. At the end of 2015 we adopted a new

responsible investment policy to integrate sustainability factors and criteria for responsible business targets fully in our investment process. Since then, every investment is assessed on expected returns, risk, cost, and on sustainability and responsible business criteria (Figure 1).



Figure 1: Responsible and sustainable investing plays an ever greater role in our investment practices

### Governance structure ABP-APG

ABP's investment policy is set by the Board of Trustees of ABP. Decisions of a more operational nature are mandated to ABP's Investment Committee, which consists of members of the Board of Trustees and external specialists. The Board of Trustees and the Investment Committee are supported by the ABP Executive Office (Figure 2).

The Board of Trustees has outsourced its fiduciary advice function and asset management activities to APG Asset Management. These are laid out contractually in a service level agreement with accompanying key performance indicators.

APG Asset Management has a dedicated team of stewardship and responsible investment professionals, the Global Responsible Investment and Governance (GRIG) team, which together with the portfolio managers ensures sustainable returns and create, protect and enhance the long-term economic value of ABP's assets.

APG Asset Management has outsourced some asset management (year-end 2017: 29% of our AUM) to external managers. These external mandates are managed in line with ABP's requirements of Sustainable and Responsible Investment.



Figure 2: Governance of the investment process ABP-APG

# Stewardship

ABP recognizes that the responsible use of investor rights and our role as a steward of capital entrusted to us involves the monitoring of and engagement with the companies in our portfolio as well the exercise of our voting rights at shareholder meetings.<sup>2</sup>

We strongly believe that effective stewardship benefits companies, investors and the economy as a whole. Therefore our asset manager actively engages with our investments on issues which in our view contribute to their ability to create and sustain long-term value. This allows us to better understand the business challenges they are facing and ensures that sustainability risks and opportunities are adequately addressed.

## Voting

Exercising our voting rights is a key element of our stewardship activities and an important link in the chain of accountability between a company and its shareholders. The right to vote at company shareholders' meetings is a fundamental part of a well-functioning corporate governance system. ABP therefore exercises this right, wherever possible, at all companies in which it invests. However, share blocking may prevent us from voting in certain markets. The stewardship and governance experts of our asset manager APG oversee and coordinate the exercise of all equity voting rights globally with input from portfolio managers.

ABP's voting decisions are based on expectations set out in the ABP Global Corporate Governance Framework<sup>3</sup> in which we explain our underlying corporate governance principles, how we meet our responsibilities as an investor, and how we vote on main agenda items at companies' annual general shareholders' meetings. In making voting decisions ABP takes into account the specific context and market in which the company operates, such as the provisions set out in national corporate governance codes as well as local laws and regulations, while encouraging the implementation of global best practice corporate governance standards.

Our asset manager uses an electronic proxy voting platform, which enables the monitoring of upcoming annual and extraordinary shareholders' meetings, assessing the agendas and making timely and well-considered voting decisions. Voting instructions are submitted in line with the ABP Corporate Governance Framework and detailed voting policy. Combined with research from a proxy voting service provider, custom voting instructions are generated on the platform. A voting decision applies to all holdings in a company throughout the entire portfolio, including those held by external managers on our behalf. For companies in which we hold large stakes or that require special attention we may consult with the company, investors and other stakeholders as appropriate. This also applies in cases which involve significant allocation of capital. Our asset manager may seek input from external managers when voting in markets where those managers have specialist expertise. Voting decisions reflect our engagement activities with companies.

All votes are disclosed in detail on our website shortly after the shareholders' meetings. We continuously review our voting policy in light of regulatory and market developments.

ABP does not lend shares and will not borrow shares for the sole purpose of exercising voting rights on these shares.

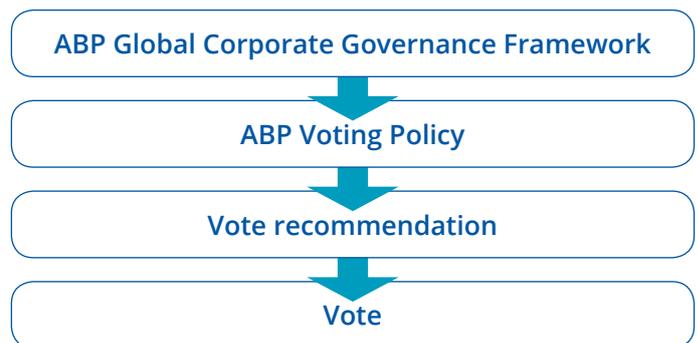


Figure 3: Voting process

<sup>2</sup> ABP's policy on conflicts of interest in relation to our stewardship activities is published on our website:

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

<sup>3</sup> <https://www.abp.nl/english/investments/>

## Monitoring

We are convinced that investors make better investment decisions if they look structurally at sustainability factors and responsible business practices, as this gives them a more comprehensive picture of investment risks and opportunities. Based on that belief, ABP has developed an industry-leading inclusion policy whereby the investment universe for capital market investments are based on a proprietary methodology and categorized into leaders and laggards. Investments in laggards require engagement in order to improve their sustainability performance. Engagement is therefore one of the cornerstones of the inclusion policy. We aim to invest only in companies that either perform adequately on our chosen sustainability indicators or in those that we expect can make progress in these areas. ABP expects that the composition of the portfolio will

gradually change over time as a result of the inclusion policy (Figure 4).

The inclusion policy requires that investment teams actively consider relevant environmental, social and governance factors alongside considerations of return, risk and cost in a portfolio context, leading to informed and well-considered investment decisions for every industry and company we are invested in. Since it is the portfolio manager's responsibility to invest in line with these requirements, he or she has to fully understand the investable entities and is accountable for engagement progress. As a result responsible and sustainable investing is fully embedded in the way we invest and in our and our asset manager's culture.

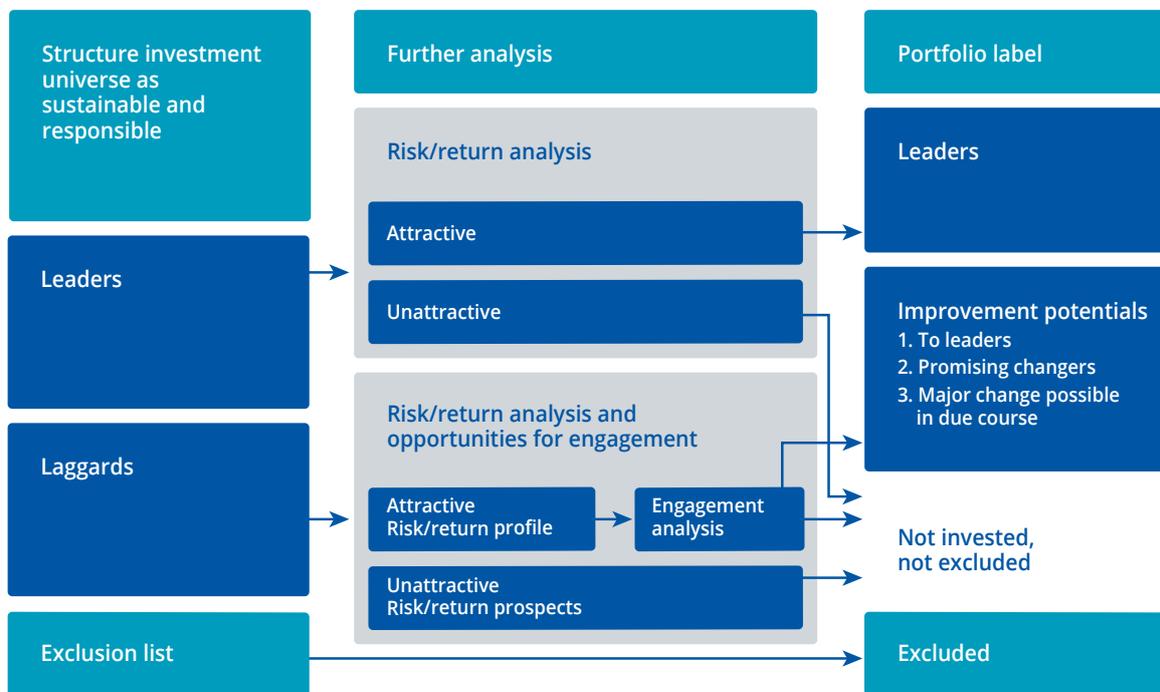


Figure 4: Inclusion Policy

## Engagement

Monitoring of investments is part of our role as a good steward of capital and helps to obtain a well-rounded view of how companies are run. In the most basic terms, monitoring comprises all aspects which, in our view, could impact a company's ability to create long-term value including (but not limited to): strategy, (financial) performance, capital structure, corporate governance, and sustainability risks and opportunities. First, we will use company filings and publicly available information to gain an understanding of the company. If we have insufficient information or if we have questions or concerns, we will enter into dialogue with the company and seek clarification or information and exchange views. This dialogue can help build trust and mutual understanding, which supports the objective of long-term value creation by companies.

Engaging with our portfolio companies is a central element of our responsible investment approach. Engagement is the process of entering into a dialogue with companies and managers of assets or funds in order to better understand our investments, to ascertain their ESG risk profile, and to influence their performance and practices where appropriate. It helps us to improve our knowledge of portfolio investments, to make better investment decisions, and to improve the financial and investment performance of our investees. The essence of our engagement activities is to encourage portfolio investments to uphold certain standards of governance and sustainability. We believe this reduces the risk of sub-optimal capital allocations and creates long-term value, within the investments and across markets. ABP expects its investments to demonstrate responsible business practices and to respond in a timely and appropriate manner when a particular behavior falls short of those standards.

There are multiple triggers for us to initiate an engagement. Primarily, we are guided by investment, market and social responsibility rationales. Our engagement activities are a joint effort of the investment teams and the stewardship and responsible investment professionals. This enables ABP to speak with one voice and leverage our collective expertise. In the course of an engagement, we make use of in-house expertise, corporate disclosures, company-specific data provided by our research providers and other external sources such as brokers, NGOs or investor networks. We communicate with other stakeholders relevant to our portfolio companies as needed.

In certain markets our asset manager, on behalf of ABP, becomes actively involved in the nomination of directors, e.g. by supporting slates of independent board - and statutory auditor board - members at Italian listed companies, and by membership of nomination committees of Swedish listed companies. If we consider using our shareholder's rights e.g. to convene an extraordinary general meeting or to submit a shareholder resolution at a general meeting, we will convey our considerations to the company and attend the respective general meeting to explain our intentions.

APG has an in-house, centralized knowledge management system (KMS) to track our engagement with companies as well as other relevant research, financial information and ESG information. The stewardship and responsible investment professionals and all teams managing capital market investments have access to this system which ensures effective sharing of information. For each engagement the issues and objectives are clearly defined and information is available on the progress that has been made. It is also documented if we work collaboratively with other investors. Finally, all dialogues, meetings, written exchanges and follow-up actions with the company or its stakeholders are recorded.

## Collaboration and market engagement

We are actively involved in multiple investor organizations, networks and initiatives aimed at contributing to good corporate governance standards, long-term investing, and creating a more sustainable world. Such collaborative engagements by our asset manager are one of the most effective means to achieve our objective to advance good governance and sustainability at companies and other entities in our portfolio. Working within these organizations and in collaboration with other investors, our asset manager advocates for standards and principles that support long-term investing, and engages with investments to protect and enhance long-term value. To exchange views on responsible investing and contribute to good corporate governance and sustainability, ABP takes an active role in working groups and steering committees of certain platforms and investor groups. Also, we are in active dialogue with other societal stakeholders such as NGOs.

ABP cooperates with a broad coalition of pension funds, trade unions, social organizations and the government to realize the goals which were set in the Covenant for International Corporate Social Responsibility (IMVO). The OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights are the basis for identifying, prioritizing and addressing ESG risks. In addition, ABP has committed itself to add further substance to the agreements from the Covenant with the parties involved.

We regularly engage with regulators and policy makers in various markets on corporate governance standards, corporate disclosures and other topics relevant to our role as global long-term responsible investor.

More information? Visit [abp.nl/english/investments/](https://abp.nl/english/investments/)

