

Climate policy ABP 2022 - 2030

Accelerating our efforts with investments
that make a difference



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Introduction

Climate change is one of the biggest problems of our time. ABP, like many of its participants, is concerned about the climate. For over 100 years, ABP has been the pension fund for people who work in government and education. It is ABP's mission to offer all participants a good pension now and in the future – one they can enjoy in a livable world. However, without change this future is looking increasingly uncertain, as the Earth is being depleted of all its resources. Earth Overshoot Day shows that the sum of what we want and need from the global economy is greater than what the Earth can supply. By continuing to emit greenhouse gasses at current levels, we are damaging the Earth and causing global warming.

To change this situation, climate agreements have been signed at national and international level. But despite promises and good intentions, too little is being done. At the current pace of change, we will not limit global warming to below 1.5 degrees or even 2 degrees Celsius from pre-industrial levels. In fact, it is worse than that: we are currently heading for a temperature increase of at least 2.5 degrees Celsius. This is a disastrous scenario. A lot will have to be done to avert this, and time is running out. Reports from the UN's Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) clearly show how serious the situation is.

Climate change is a social, political, and economic problem. And it requires commitment, courage, and perseverance from everyone if we are to find a solution. Politics, the business community, academia, and the financial sector have an important role to play. ABP is a societal financial institution. We therefore have a responsibility to act responsibly and to invest the pension contributions of current and future generations of participants in a sustainable and responsible manner.

ABP has taken steps in recent years. We have set and achieved goals, sometimes by a considerable margin. But we see that bigger steps and an acceleration of our efforts are necessary if we are going to be able to continue ensuring a good pension in a livable world for all our participants now and in the future. This climate policy describes our plans to take further steps to combat climate change and contribute to the climate transition. We first briefly describe what our beliefs are and the choices we have made. We then give some background information and explain what our basic principles are, before finally going into more detail about what we want to achieve and how we plan to do it.

The climate policy forms part of ABP's responsible investment policy and the principles on which it is based are the same, so it is logical that we strengthen both policies at the same time. These principles stem from:

- who we are: a societal financial institution, and
- what we stand for: a good pension in a livable world for current and future generations.

Climate policy ABP 2022-2030 at a glance

What we want to achieve:

- A portfolio in line with the goals of the Paris Agreement
- Net zero greenhouse gas emissions by 2050
- 50% less greenhouse gas emissions in 2030 than in 2019
 - For the entire investment portfolio
 - Absolute footprint
 - Throughout the supply chain, including emissions stemming from the purchase and use of products
- Invest €30 billion in the climate transition by 2030, €10 billion of which in impact investments
 - Through investments that demonstrably make a difference
 - By actively looking for opportunities in the Netherlands

What we are going to do:

- Only invest in companies that do not make products or provide services that are inextricably linked to climate damage
- Invest in sectors that offer long-term opportunities, in companies that can and want to make the climate transition
- Require companies with a large climate impact to provide a Paris-aligned climate plan:
 - Targets in line with net zero in 2050
 - Obligation to report on emissions
- Carry out intensive dialogue with utilities, the transport sector, the steel, cement and chemical industries, and the financial sector
- Make impact investments in green energy, smart grids, insulation, (green) hydrogen, clean mobility, energy storage and climate adaptation

Background

Climate policy has been part of ABP's sustainable and responsible investment policy since 2007. In 2015, we set concrete goals for 2020, such as investing more in sustainable energy and reducing our CO2 footprint. Although we have more than achieved these goals, it is clear that the bar has to be raised.

In 2020, we published "ABP's Sustainable and Responsible Investment Policy". In it, we described our sustainability goals from 2020 onwards. It included revised and stricter climate-related sustainability goals. At the same time, we also announced that in 2022, in line with the expectations in the Dutch Climate Agreement, we would publish climate goals for 2030. At the end of 2021, we were already well on track. With our investments, we contributed approximately €99 billion to the Sustainable Development Goals, including €18.5 billion to 'Affordable and Sustainable Energy' (SDG 7). In our equity portfolio, we achieved a CO2 reduction of 48% compared to 2015.¹

Since then, we have taken further steps. In October 2021, we announced that we would stop investing in fossil fuel producers. This affected invested capital of more than € 15 billion in total (as of 31 December 2020, approximately 3% of ABP's total invested capital). The reason for this decision was the reports published that year by the IEA and the IPCC. There was also broad support among groups of ABP participants and employers for this decision. Currently, we are carefully selling off these investments. The majority (of the so-called liquid investments) are expected to be sold by the end of the first quarter of 2023. We also reiterated that ABP would set a new CO2 reduction target in 2022.

At the beginning of 2022, war broke out in Ukraine, which affected the energy transition due to the loss of the natural gas supply from Russia. As a result, energy has become scarce, and prices have risen. The government is being forced to look for alternatives. This energy crisis underscores just how urgently we need to accelerate the transition from fossil to renewable energy.

¹ you can read more about our footprint here: [ABP-CO₂-methodology-2022.pdf](#)

Principles

- ABP invests the pension contributions of 3.1 million Dutch people. We do this to ensure a good pension in a livable world for our participants now and in the future, at the lowest possible premium. A sustainable economy is a prerequisite for a livable world. This is why a sustainable economy is the guiding principle in our sustainable and responsible investment policy.
- As a pension fund built on the foundations of solidarity and collectivity, we occupy a central position in society. These values make us who we are. They also help define our responsibility which is expressed in our sustainable and responsible investment policy and in this climate policy. In every investment decision, we not only pay attention to return, risk and costs, but also to sustainability performance.
- ABP is a long-term investor. This means that we only invest in activities which fit in with the concept of a long-term sustainable economy. We make conscious choices as to what we want to invest in. We do not have to invest in everything to make a good pension a reality.
- We are aware that our investments have an impact on the world and that the world has an impact on our investments. We want to make a positive impact with our investments and limit negative impact and risks.
- We phase out investments that do not align with a sustainable economy and accumulate investments in businesses that can and want to make the climate transition. We contribute to building future-proof and sustainable revenue models.
- We are convinced that we can invest sustainably and responsibly without compromising on return and risk. In other words: we expect to achieve at least the same return as we would if we did not invest sustainably and responsibly. We monitor whether this is the case and it is confirmed by the analyses we carry out.
- ABP uses an integrated approach based on a clear vision of a sustainable economy. Sustainability requires a firm stance, a vision of a sustainable world, and the translation of that vision into appropriate choices.
- It is not always easy to quantify climate effects and to give a concrete definition of what is sustainable. Pension fund investors do not yet have data on all the effects that the climate has on their investment portfolios. ABP is no different, but we will not be held back by this. We cannot afford to wait to take action.

- ABP wants to have a climate-neutral investment portfolio by 2050. It wants to comply with the agreements made in the financial sector's Climate Commitment. These agreements are about contributing to the financing of the energy transition in the Netherlands, measuring and reporting the CO2 footprint of investments and setting targets for CO2 reduction and other targets for 2030. When drawing up our climate policy, we have taken into account the expectations in the [guidance document](#).
- Where we say 'reduction' of CO2 (and other greenhouse gases), we mean real reduction, not CO2 compensation.
- ABP cannot achieve a sustainable and livable world on its own and values the knowledge and insights of others. This is why we discuss sustainability preferences with our participants and other stakeholders. Something we have also done for this climate policy. This enables us to expand our knowledge, retrieve information, and join forces to achieve more by working together.

A sustainable economy

ABP's investments have an impact on our society, on a world in transition. Simultaneously, the world has an impact on ABP's investments. This is why we want to increase the positive impact of our investments and limit the negative impact.

In a sustainable economy, companies cannot pass on the negative consequences or externalities of their business operations, such as greenhouse gas emissions, to the environment and society. Companies must take their responsibilities seriously. The principle of reaping the benefits without shouldering the burden is not viable in a sustainable economy. Considerable change will have to occur to achieve this as there are currently very few companies that would seamlessly fit into a sustainable economy.

A sustainable economy requires fair prices. The negative effects on people and the environment should be borne by the companies themselves. This stimulates innovation and ensures that costs end up where they belong. Companies that cannot survive unless they pass on these negative effects have no right to exist in a sustainable economy. In the context of climate change, this applies particularly to greenhouse gas emissions. We cannot invest in companies where damage to the environment is inextricably linked to their core business. This is because they do not belong in a sustainable economy and because there are major risks in terms of their right to exist in the long term.

There are many companies that still emit too much greenhouse gas but can and want to change.

We help companies that want to make the climate transition by engaging with them. This dialogue is not without obligation: we want companies to demonstrably set goals in line with those of the Paris Agreement and to act accordingly.

What we want to achieve

We base the goals for our climate policy on the principle of a sustainable economy. We want to act in line with the Paris Agreement, which means committing ourselves to limiting the global temperature rise to below 2 degrees Celsius, and preferably to 1.5 degree Celsius. In concrete terms this means that greenhouse gas emissions must be reduced rapidly. In order to do this, we need to reduce the footprint of our investment portfolio.

It is therefore our ambition to reduce absolute CO₂ emissions, related to all ABP investments, by 50% in 2030, calculated from 2019 onwards.² This is in line with what is needed, according to the IPCC report, to limit warming to 1.5 degree Celsius.³ This applies to all emissions: to direct emissions from companies (Scope 1) and the energy they use (Scope 2), but also to the emissions that companies are responsible for through the use of their products (Scope 3). And it applies to all asset classes, not just our equity portfolios. We do not want emissions to be reduced just before 2030, but to fall linearly over time. We cannot yet measure everything, but that should not stand in the way of our ambition. We are going to work on the measurability of what we cannot yet measure. In 2050, we want no net emissions from our portfolio.

Where possible, we want to contribute to accelerating the transition from fossil to renewable energy. This is why we want to invest at least €30 billion in the climate transition in 2030, at least €10 billion of which should be in impact investments where we can quantify the contribution made to the transition. These are investments in climate solutions in sustainable energy, such as solar panels, wind turbines and green hydrogen, but also investments in sustainable energy infrastructure, smart networks, clean mobility and energy storage. In addition, investments are also needed in climate adaptation. This means we invest in making social and physical structures resilient to a changing climate. For example, in infrastructure that helps prevent flooding and real estate that takes into account a changing climate and heat stress.

ABP is taking more measures to contribute to the Paris climate goals. For example, ABP will tighten the climate criteria in its inclusion policy. This means making choices: does every investment match the ideal of a sustainable economy and, therefore fulfil ABP's ambitions in this area? As a shareholder we also want to raise our expectations for the companies we invest in. We make choices in our climate policy when it comes to how we deal with the companies in our portfolio; in the dialogues we have with them, and how we vote at shareholder meetings.

² 2019 corresponds to: the starting point of the financial sector's Climate Commitment and the Paris Agreement. It is also the base year in the recent climate reports of the IPCC. https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SPM.pdf

³ According to the IPCC report "Climate Change 2022: Mitigation or Climate Change" (April 2022) a 48% reduction in CO₂ emissions is needed compared to 2019 levels for a 1.5-degree scenario with no or limited overshoot. Possibly with link: https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SPM.pdf

Next steps

To achieve our goals, we make choices. These choices are about what ABP invests in, how we, as an active shareholder, exert our influence and how we invest in the climate transition.

What we invest in

ABP is a long-term investor. This means that we want to invest in activities that contribute to a sustainable economy. In a sustainable economy, companies cannot pass on the negative consequences of their business operations, such as greenhouse gas emissions, to the environment and society. Sectors with business models based on passing on these negative effects cannot exist in a sustainable economy with fair pricing. These companies run a major transition risk: if legislation were to force them to operate sustainably, they would be hit hard. The risk of investing in such companies is therefore too great, especially in the long term.

Last year, ABP already made a decision to stop investing in companies with a business model based on the exploration and production of fossil fuels. Damage to the climate is inextricably linked to these companies and engagement proved to be insufficiently effective. If governments take their responsibility to work towards a sustainable economy and start regulating, pricing and ending subsidies to this end, companies with such business models will suffer major negative effects (transition risks).

In this step to strengthen our policy, we look at business activities using a critical assessment framework based on the following questions:

1. Is damage to the climate inextricably linked to an activity or sector?
2. Is there a realistic scenario for a more sustainable way of operating?
3. Is the sector or activity important for the climate transition or for solving other social problems? Or is it indispensable or irreplaceable in other ways?

Sectors or companies with business activities that are inextricably linked to climate damage do not belong in ABP's portfolio. These three questions, form part of this revised stronger inclusion policy and are leading criteria for assessing whether business activities are investable for ABP. In assessing sectors and companies, we base our judgement on facts and scientific research. We take the input of experts into account, and we weigh the preferences of our participants. We will communicate the effects of these efforts as soon as possible.

How we use our influence

We want to help and stimulate the companies in which we invest to make the climate transition. That is why we are going to conduct intensive dialogues with large-scale energy consumers and companies with a major impact:

- Utilities sector
- Transport sector
- Iron, steel, cement, and chemical industries
- Financial sector

We expect these companies to show on a regular basis that they are taking the necessary measures to achieve the Paris climate goals. That means:

- Reporting on emissions from production and in the supply chain
- Reporting on emissions from the use of the products where relevant
- Short-, medium- and long-term greenhouse gas emission reduction targets in line with the Paris Agreement targets
- Business investments that support the company in actually achieving these goals

We will evaluate this periodically. If companies are not taking sufficient action to make the transition, we will escalate our dialogue and use our vote at shareholders' meetings, support resolutions or (co-) submit resolutions. If these steps do not bring about change, we will eventually divest. We will set minimum requirements for companies in these areas and continue to tighten those requirements. Companies that fail to meet these increasingly stringent requirements will no longer be investable for ABP.

How we invest in the climate transition

ABP wants to invest in the climate transition. In making investments we also focus on generating the returns required to provide a good pension. As we also want to be proactive and boost the climate transition, we look for investments that enable us to make a demonstrable contribution. In this way, we can provide insight into the reduction of greenhouse gases to which our investments contribute.

To contribute to the climate transition, investments are needed in sustainable energy, but also in smart grids, sustainability options in insulation, (green) hydrogen and other energy carriers, clean mobility and energy storage. These are all investments that aim to prevent climate change as much as possible. In addition, investments are also needed in adaptation: making social and physical structures resilient to a changing climate. We also target these types of adaptation-related investments. In order to make a measurable impact, ABP will focus on illiquid asset classes such as infrastructure, real estate and private equity (unlisted companies). We invest in private equity because we also want to invest in new companies in the early stages of development as they can play a key role in driving the transition. This means that we incorporate sustainable investments into the strategies of those asset classes.

CO₂ footprint monitor to assess sustainability of all investments

Because we want to focus on reducing climate risks and contribute to the climate transition, we use our instruments for sustainable and responsible investment in a conscious manner. By measuring the CO₂ footprint of our portfolio and monitoring how this changes, we obtain a picture of the CO₂ emissions that are related to ABP's investments. This is a good indicator to evaluate the extent to which the measures

in our climate policy are having the right effect on the portfolio and whether we are achieving our CO₂ ambitions. To date, we have mainly targeted reducing the CO₂ footprint of the equity portfolio. For a number of other asset classes, we have a rougher idea of the CO₂ footprint, while for others, we will map this out as soon as possible. Until then, we will continue to work with the best possible available indicators that can serve as proxies. We are working toward mapping the footprint of all our investments. In this way, we can get a clearer picture of the greenhouse gas emissions throughout the portfolio and annually evaluate where we stand in terms of the journey towards achieving our ambitions.

Climate policy throughout the portfolio

The climate transition affects the entire economy and every part of our society. It therefore has an impact on all parts of our portfolio. The choices of instruments we use for sustainable and responsible investment are therefore also fully applicable to our entire portfolio. The goals, instruments and reporting must therefore cover all our asset classes. This means that ABP wants to provide insight into which instruments apply where, and where changes have been made across the full spectrum of asset classes. The table below shows which instruments apply to each asset class. In a previously published document, we describe the way we calculate our CO₂ footprint.⁴

Asset class (strategic/factual weight)	CO ₂ -footprint	Contributes to SDG7	Use influence	ESG-criteria
Equities (34%/24%)	Yearly reported for scope 1 and 3. Scope 3 reporting for energy and mining will be expanded	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Climate voting policy	Application of climate conditions for inclusion in the portfolio
Corporate bonds (11%/11%)	Is reported on a yearly basis for scope 1 and 2, we want to expand this to scope 3	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Investigate possibilities for impact objectives within mandates
Real estate (10%/11%)	Is reported on a yearly basis for scope 1, 2 and 3		<input checked="" type="checkbox"/>	100% AuM CO ₂ -data in 2030 100% assets CRREM pathway aligned OR have a plan to become more sustainable
Infrastructure (4%/5%)	Starting in 2023 we will be reporting for scope 1 and 2	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Impact objectives in mandates
Private equity (29%/29%)	Yearly reported based on estimates. Possibilities for more precise CO ₂ -reporting are being researched	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Requirements for portfolio managers (climate target in line with Paris) Impact objectives in mandate
Government bonds (29% / 29%)	From 2023 we want to report these	<input checked="" type="checkbox"/>		Investigate possibilities for impact objectives in mandates
Commodities (6%/6%)	For futures trading not applicable. For timber & land investments we will further investigate the possibilities			For timber & land: Impact objectives in mandates. ABP is reconsidering the role of commodities in the strategic investment plan
Other: mortgages (part of corporate bonds)	Currently reporting energy labels. Possibilities CO ₂ -reporting further investigated.			

September 30th 2022

⁴ You can read more about our footprint here: [ABP-CO₂-methodology-2022.pdf](#)

Dialogue and reporting

ABP conducts regular surveys among its participants and employers on the theme of sustainable and responsible investment and we also talk to them about their investment preferences. In the run-up to drafting this climate policy, we conducted surveys among participants to find out more about their preferences regarding sustainability. In addition, we have spoken with many other stakeholders. We have taken all these insights into account in the development of this climate policy. In the coming years, we will give our participants, employers and other stakeholders insight into how we make the goals set out in this policy more concrete and how we are committed to achieving them. ABP will annually monitor the result of these efforts and adjust these when necessary.

The climate policy, including goals and criteria, has been determined by the board of ABP. ABP's board monitors the progress of the policy and its implementation by our asset manager APG. We monitor the portfolio-wide goals and ambitions on a quarterly basis. We are working towards being able to determine the footprint of all our investments and annually evaluate where we stand on the road to achieving our ambition and whether further policy adjustments are needed.

In addition to this climate plan, ABP is working on further tightening its sustainable and responsible policy, including the inclusion policy. We will announce more about this early next year.

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