

How does ABP deal with... ...the energy transition

SUSTAINABLE AND
RESPONSIBLE INVESTING



ABP

Building a good
pension together

Preface

Engaging with participants and civil society organizations is an important part of our sustainable and responsible investing policy. ABP wants to be transparent about its policy and how it is implemented. This is why we share our views on relevant ecological, social and governance (ESG) topics in position papers.

In this position paper we give ABP's view on the energy transition and show how this is reflected in our investments. This paper focuses on our investments in primary energy producers* and energy suppliers in the utilities sector. We frequently receive questions on our approach to energy companies from participants and civil society organizations. On our website you can find extensive information about our comprehensive approach to mitigating global warming.

This paper and other information on our Sustainable and Responsible Investment policy can be found on our [website](#).

An * indicates that the term is included in the glossary on page 13.

Why a position paper on the energy transition?

The effects of global warming are already visible and will increase further in the future. Emissions of carbon dioxide* (CO₂) are a major cause. This greenhouse gas is released, for example, when fossil fuels such as oil, gas and coal are burned. A global shift towards renewable energy*, such as solar and wind energy, is therefore imperative. This is referred to as the energy transition.

Global warming and the energy transition will affect the future of our participants, but also create risks and opportunities for our investments. ABP regularly receives questions from participants and civil society organizations on these issues. In this position paper we answer these questions.

Most questions concern our investments in the energy sector and in companies that produce or use fossil fuels (oil, gas and coal*) for energy generation. That is why this position paper focuses on coal, oil and gas companies and energy suppliers in the utilities sector.

Our view on the energy transition

ABP wants to ensure its participants receive a good pension. And can live in a sustainable world to enjoy that pension. That is why we invest sustainably and responsibly. Most participants indicate they think this is important.

For a sustainable future, global warming must remain well below 2 degrees Celsius (compared to pre-industrial levels), but ideally below 1.5 degrees. In 2015, 195 countries made a commitment to this by signing the Paris Agreement*. The objectives of the Paris Agreement have been further fleshed out in the Dutch Climate Agreement*.

ABP has voluntarily committed itself to the Paris Agreement and Dutch Climate Agreement through the Climate Commitment of the financial sector*. This means that we align our investment portfolio with these agreements and that in 2050 it will be climate neutral. All our investments must meet our return, risk, cost and ESG requirements. You can find more information in the factsheet on our [policy for sustainable and responsible investing](#).



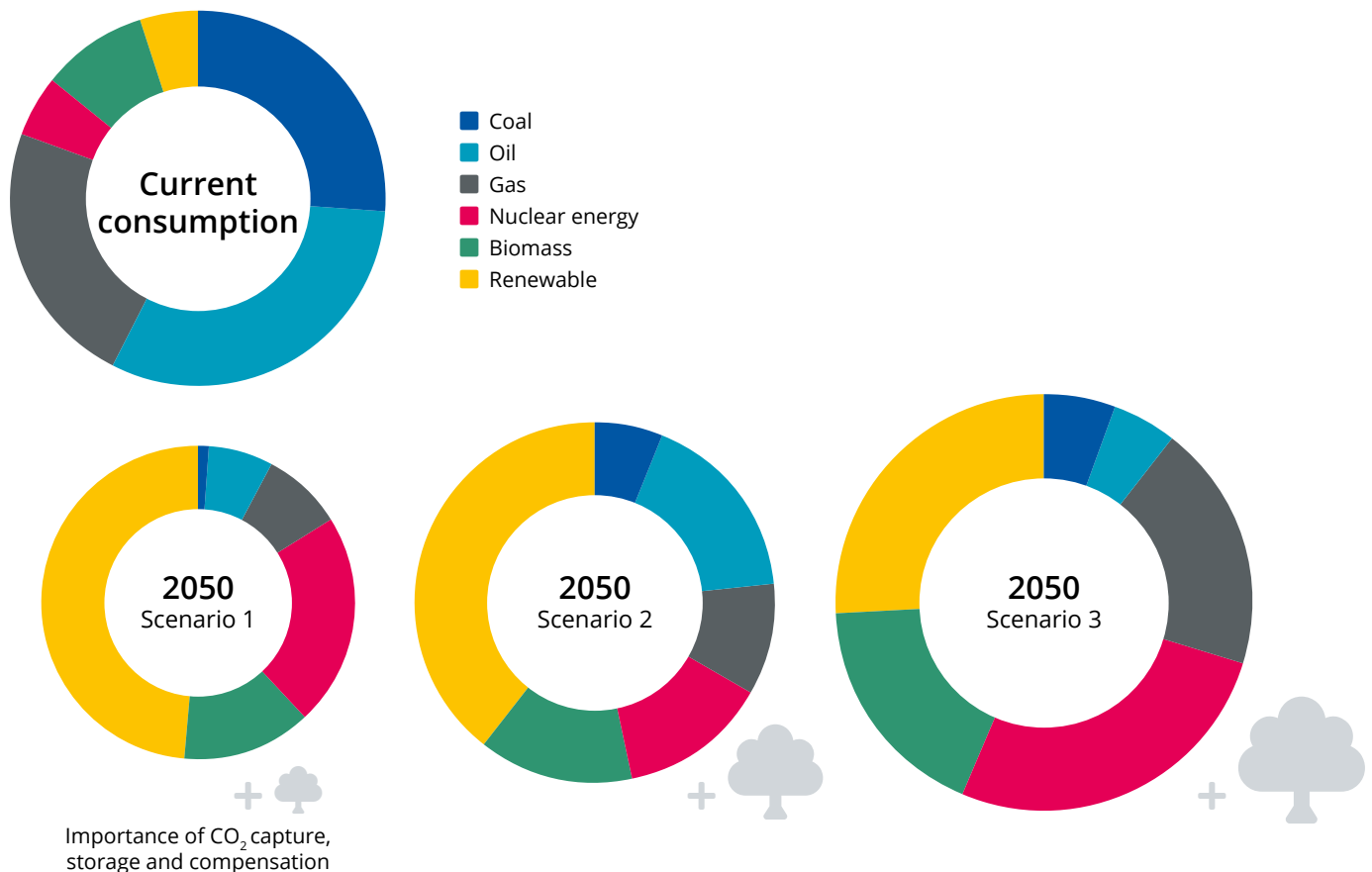
Our vision for 2050

The global economy is climate-neutral. Energy is affordable for everyone. Our portfolio is in line with the Paris Agreement and the Dutch Climate Agreement.

ABP uses the climate scenarios of the UN Intergovernmental Panel on Climate Change (IPCC*) as a reference. The end point of these scenarios is clear: global warming is limited to 1.5 degrees Celsius, as agreed in Paris. But the path to be followed is less clear. In the IPCC scenarios, uncertainties about future population trends, economic growth,

technological developments, cooperation between countries and societal acceptance all have a major impact on how a climate-neutral economy can be achieved by 2050. The figure below shows the use of different energy sources in three 1.5-degree scenarios.

1.5° scenarios from the International Climate Panel (IPCC)



Explanation: in these scenarios there is no or limited 'overshoot', i.e. global warming is limited to 1.5 degrees (or just above) during the entire period. The scenarios differ in 1) total demand for energy 2) importance of 'green' innovations 3) share of fossil and renewable energy in the total energy supply 4) degree of reliance on capture, storage and compensation of CO₂. For nuclear energy, a correction has been made to figures from the International Energy Agency (IEA) to make them comparable with the figures from the IPCC.

All three scenarios have several aspects in common:

- the role of renewable energy becomes increasingly important and the importance of fossil energy* diminishes rapidly;
- the proportion of the most CO₂ intensive forms of fossil energy, such as coal, is the first to decrease;
- fossil energy, especially natural gas, will continue to play a role in 2050. Residue emissions will be captured or offset, for example, by planting trees.

Due to the increase in the world's population and rising prosperity, the energy consumption per person will need to decrease in all scenarios. This reduction is greatest in Scenario 1, in which a relatively large part of energy

consumption also comes from non-fossil sources. But the energy transition will involve major changes for companies and consumers in all three scenarios.

Since in all scenarios the share of coal decreases most, we are reducing our investments in coal. At the same time, we are investing more in renewable energy and 'smart' solutions for the energy transition.

The energy transition requires efforts from all of us. From the fossil energy sector, agriculture and airlines, for example. From large investors, such as ABP, who can move companies in the right direction. From governments, which can set clear rules for companies and accelerate the energy transition with targeted measures. And from us as individuals; as consumers

of products. The complexity and level of cooperation required between so many parties with sometimes conflicting interests, means that the energy transition can only succeed if there is broad societal support for it. That is why ABP is committed to a responsible, just transition. A transition that everyone can participate in.

We can compare it to a team time trial in cycling. It's about the whole team crossing the finish line at the same time. We want to get there as soon as possible, but there is no point if a few cyclists go very fast and the rest of the team can't keep up and do not complete the race. The energy transition is very similar; it is a change that has a major impact on society and one in which everyone must be able to participate.

Committed to a just transition

The energy transition has major consequences for everyone. Hundreds of thousands of jobs in the fossil energy sector and the automotive industry, among others, will disappear. In other sectors, a lot of new jobs are being created. The demand for certain raw materials that support the energy transition will increase considerably. And the most vulnerable people need to be protected from the negative effects of climate change and the energy transition.

ABP is therefore committed to a just transition. We want our investee companies to ensure the future employability of their workforce. Through investments in social bonds, we help increase the resilience of people and communities who are adversely affected by the energy transition. For example, we invest in bonds issued by the German state of North Rhine-Westphalia. The proceeds of which are being used to create new employment opportunities in a region where many jobs are being lost in the mining and steel industries.

It is precisely those people who are already in a vulnerable position that are most affected by global warming. That is why we also invest in projects that help them and their communities to cope with the effects of climate change. For example, we have invested in a sustainable bond issued by the Asian Development Bank to finance climate-resilient irrigation, water supply and sewerage.

We also engage with companies on preventing and tackling abuse in those raw material supply chains that are important for the energy transition. An example of such a material is cobalt, which is needed for the production of rechargeable batteries. There are many human rights abuses related to the extraction of cobalt.

What are our climate goals?

In 2050, the global economy must be climate neutral. This is why ABP is bringing its investment portfolio in line with the Paris Agreement and the Dutch Climate Agreement. It is important that energy remains accessible and affordable for everyone. ABP is committed to accelerating the transition, without losing sight of the interests of everyone concerned.

For 2025 we have the following goals:

- A. The carbon footprint* of our equity investments is 40% lower than in March 2015.
- B. Together with other large investors, we maintain and where possible increase our efforts to encourage companies to accelerate the energy transition.
- C. We have incorporated additional and stricter standards in our inclusion policy to better assess companies on their climate efforts.
- D. We have terminated our investments in companies that derive more than 30% of their revenue from coal mines or more than 20% of their revenue from tar sands*.
- E. We have invested €15 billion in the Sustainable Development Goal 'Affordable and sustainable energy' (SDG 7).

In 2022, we will announce climate targets for 2030, in line with the Dutch Climate Agreement.

A. How do we manage carbon reduction?

In 2025, the carbon footprint of our equity investments should be 40% lower than it was in March 2015. The carbon footprint shows how the proportion of the emissions from our investments can be attributed to our portfolio. The calculation includes the emissions of the company itself (scope 1*) and to the emissions that are released during the production of energy that companies purchase (scope 2*).

In 2020, the carbon footprint of our equity portfolio was 40% lower than it was in March 2015. This is because:

- For each industry, we focus on companies that emit less carbon than their sector peers;
- companies in which we invest have reduced their carbon emissions.

As of 2020, we also measure and disclose the carbon footprint of our corporate bond, real estate and private equity investments. In 2022, we will announce climate-related goals for 2030, including new carbon reduction targets.

When measuring portfolio carbon emissions, we do not yet take into account the emissions resulting from the use of products that the company sells (scope 3*). For example, the supply of kerosene for aircraft. In the case of fossil energy companies, these scope 3 emissions are relatively large. But in a diversified portfolio such as ours, including scope 3 emissions leads to a lot of double counting. For example, in the case of kerosene for aircraft, we end up counting both the scope 3 emissions of the energy producers and the scope 2 emissions of the airlines in which we are invested. However, scope 3 emissions are important for us to assess the climate goals of individual companies in which we invest.

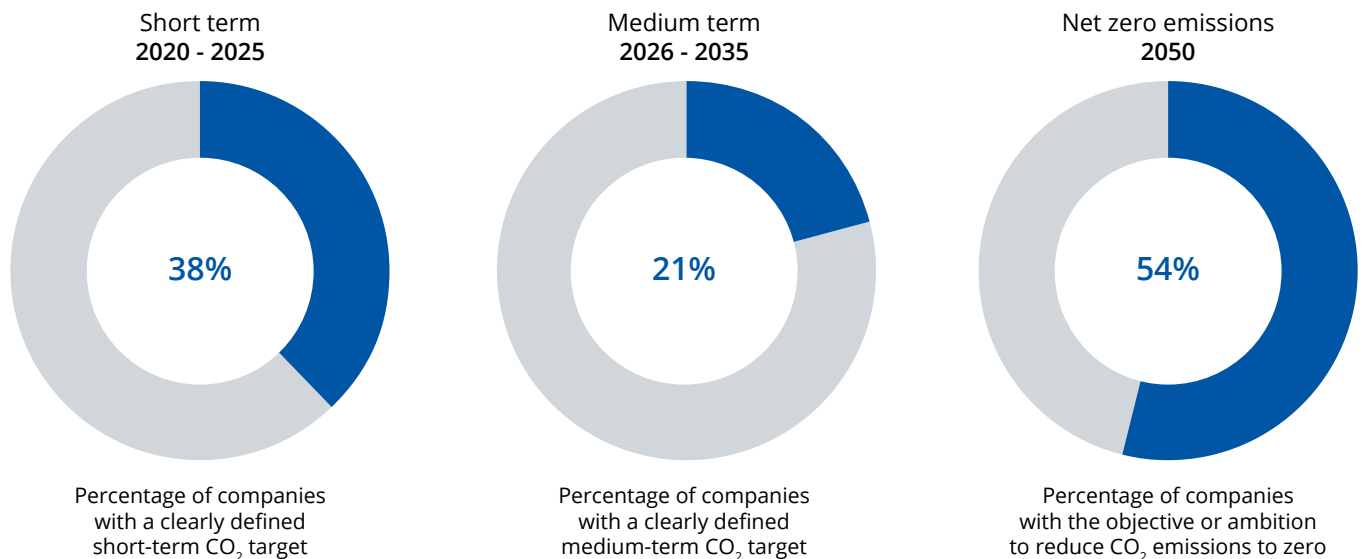
On our [website](#) we explain (in Dutch) in more detail how we measure and steer on the carbon footprint of our investments.

B. How do we encourage companies to accelerate the energy transition?

As a large long-term responsible investor, ABP can exert influence over the companies in which we invest. We vote at shareholder meetings, but also talk to companies about what we expect from them. We do this alone as well as together with other large investors.

ABP is a member of [Climate Action 100+*](#). This collaboration of 575 large investors collectively puts pressure on the world's largest corporate carbon emitters. Within Climate Action 100+, ABP is part of the core group of investors that focus on 39 large oil and gas companies. This engagement yields results, as shown in the image below. Although there is clearly still a long way to go.

Climate targets oil and gas companies



Source: [Climate Action 100+ Progress report 2020](#)

Progress at energy companies

- Spanish oil and gas company Repsol has announced that it will reduce net carbon emissions to zero by 2050. This includes its own emissions and those of its customers (scope 3), such as motorists and power plants. Remaining carbon emissions will be stored or compensated for by planting of trees, for example.
- BP and Shell have announced that their supply chain is to be climate neutral by 2050. This means that, on balance, no more greenhouse gases will be emitted. BP has also announced a 40% reduction in fossil fuel production by 2030.
- Philippine company Ayala Corp. announced in 2020 that it will have sold all interests in coal-fired power generation by 2030. The company is committed to reducing carbon emissions and expanding its investments in renewable energy. In the run-up to the announcement, we spoke several times with the company, which at the time even had plans for new coal-fired power plants. Ayala Corp. is a well-respected company in the region and this gives an important signal to other companies in Southeast Asia.
- KB Financial Group has promised to stop funding new coal-fired power plants by 2020. The company is South Korea's largest financial services company. Soon after, other Korean financiers announced similar steps. Shinhan Financial Group said it is aiming for net zero carbon emissions by 2050. The company will increase investment in and lending to companies that produce renewable energy while reducing financing for large carbon emitters. Samsung's finance division has stopped funding new coal-fired power plants. We have engaged intensively with these companies and also made use of the media to get our point across.

C. What do we expect from the energy companies in which we invest?

We expect companies that are among the largest carbon emitters worldwide – such as companies in the fossil energy sector – to:

- provide insight into the climate risks that they face and how these are managed;
- take measures to reduce greenhouse gas emissions;
- align their climate ambitions with the Paris Agreement, and translate these into measurable short- and medium-term goals;

- link their climate goals to executive pay;
- report in line with the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD*).

In order to assess companies on these requirements, we will include additional criteria for classifying companies in our inclusion policy. We have already introduced the requirement that companies do not build new coal-fired power stations. We will only invest in companies that do not (yet) meet our climate requirements if we expect engagement to lead to improvements. If there is not enough improvement, we will sell our stake in the company.

Exit due to coal expansion

In 2020 we sold our stake in the South Korean utility company KEPCO. Despite our major objections, the company continued plans for new coal-fired power stations in Indonesia and Vietnam. From the beginning, we opposed this plan and pulled out all the stops to change the company's mind. We wrote letters to management, increased the pressure via the media and joined forces with social and environmental organizations. Together with other investors, we also spoke with the Korean government, because 51% of KEPCO is state-owned. For us, KEPCO's decision on the new coal-fired power stations was a litmus test; does the company really want to comply with the Paris Agreement and contribute to the fight against climate change? Unfortunately, that turned out not to be the case and we sold our stake. Since 2019, we have sold our stake in eight companies due to their plans for new or larger coal-fired power plants.

D. What is our stance on coal and tar sands?

The burning of coal and the extraction of oil from tar sands leads to large greenhouse gas emissions compared to other fossil fuels. As of 2025, ABP will no longer invest in companies that generate more than 30% of their revenue from coal mines or more than 20% of their revenue from tar sands. After 2025, this threshold will be gradually lowered.

In 2030, we will no longer invest directly in coal without carbon capture* for generating electricity in OECD* countries. In other countries, we are significantly reducing such investments. We think it is fair to give developing countries a little more time to make the switch to renewable energy. We expect electricity companies to have a plan for their transition to renewables. If a company in which we invest wants to build new coal-fired power stations, we either engage with them to prevent this or sell our stake in the company.

Terminating tar sands project

Canadian mining company Teck Resources shelved its Frontier tar sands project in 2020. With production of 260,000 barrels per day, it would have become one of the largest tar sands projects in the world. ABP had asked the company to halt the project due to concerns about greenhouse gas emissions and the impact on local communities.

Exit coal for electricity production

In 2020, BHP announced it will sell its thermal coal mines within two years. Thermal coal is used for electricity generation. The announcement followed pressure from a number of major investors, including ABP. The company has also increased the importance of its climate goals in the performance criteria for executive remuneration. BHP remains active in high-quality coal for the steel industry (metallurgical coal).

E. How does ABP invest in the energy transition?

By 2025, we want to have invested €15 billion in the Sustainable Development Goal 'Affordable and Sustainable Energy' (SDG 7*). At the end of 2020, we had invested €13.8 billion in SDG 7. An example is an SDG-linked bond issued by Enel. The Italian energy company has promised that by the end of 2021 at least 55% of its power generation capacity will come from renewable energy sources. Investors will get a premium on their bond if the company doesn't deliver on that promise.

ABP also invests in sustainable energy infrastructure, in the Netherlands and abroad, such as solar and wind farms. At the end of 2020, our infrastructure investments generated

5.7 TWh of sustainable power. This is enough to provide more than two million Dutch households with green electricity for a year.

ABP contributes to the financing of the energy transition in the Netherlands. One initiative is the ABP Dutch Energy Transition Fund (ANET*). By investing in new, fast-growing companies with solutions for the Dutch energy transition at an early stage, we help them to move from technological solution to commercial application or to scale up an already commercial application. ANET acts as a long-term investment partner for growth for these companies and has €250 million available for investment.

Dutch wind energy

Wind never runs out and it provides clean energy. In 2021, ABP took a 25% stake in Windpark Krammer, near Rotterdam. This windfarm consists of 34 turbines. During its life cycle, it saves about four million tonnes of carbon emissions. The other owners are two cooperatives with more than 5000 members, making it one of the largest citizen initiatives in the Netherlands.

ABP also has a majority stake in Merkur Offshore, a large wind farm in the German part of the North Sea.

Investing in start-ups and heating networks

ABP invests in fifty Dutch start-ups with innovative solutions for the energy transition through Rockstart. These companies have developed promising technology that now needs to be scaled up. An example is Starke Energy, which has developed a battery that 'knows' how much sustainably generated energy needs to be stored for its own use and how much is surplus and can be delivered back to the grid. This can, for example, play a role in reducing the carbon footprint of the large Dutch social housing stock.

ANET also invests in smart heating networks in four Dutch municipalities. A smart heating grid combines various sustainable heat sources for heating homes, offices and factories.

All our investments must meet our return, risk, cost and ESG requirements.

You can find more information in the factsheet on our [policy for sustainable and responsible investing](#).

Questions from participants

Participants and civil society organizations ask questions about the way ABP deals with the energy transition. Here are answers to the most frequently asked questions.

1. ABP is moving towards a climate-neutral portfolio by 2050. What does that mean?

We are aligning our investment portfolio with the goals of the Paris Agreement. This means that carbon emissions from our investments must be reduced to net zero by 2050. We use the climate scenarios of the UN Intergovernmental Panel on Climate Change (IPCC) as a guideline in this process.

Together with other investors, our asset manager has launched the Net Zero Investment Framework (NZIF*). This framework allows investors to align their portfolios with the Paris climate goals. This means the investment portfolio contributes to limiting global warming to 1.5 to 2 degrees Celsius. The NZIF contains principles and minimum requirements for investing in climate solutions, such as renewable energy, and for engagement with investee companies.

In 2022, ABP will announce new climate targets for 2030, in line with the Dutch Climate Agreement.

2. Why does ABP not stop investing in fossil energy companies?

The scenarios of the UN Intergovernmental Panel on Climate Change (IPCC) show that it is simply not feasible for the world to make the switch from fossil to renewable energy overnight. This panel of renowned climate scientists has drawn up scenarios for limiting global warming to 1.5 degrees, as agreed in Paris. In these scenarios, although there is a significant transition from fossil to renewable energy, fossil energy will still play a role, albeit smaller, in 2050. ABP, like governments and many companies, relies on the insights of the IPCC.

Currently, 80% of global energy consumption comes from fossil sources. There is not yet enough renewable energy supply to meet demand. A world without fossil energy

therefore also means that production that depends on it will come to a standstill. This could mean, for example, food production, but also the production of wind turbines and solar panels.

It is also important to establish whether selling fossil investments will help bring the energy transition closer. For the time being, there is insufficient scientific evidence to support the claim that it will. If we sell our fossil investments, we give a one-off signal but then we lose our leverage. Another investor will probably buy our stake and nothing will change at the company in question. We think it is better to use our influence as an investor and encourage companies to accelerate the transition to renewable energy. This approach can really contribute to lower global carbon emissions.

ABP wants the world economy to switch to a low-carbon energy supply, as agreed in Paris and the Dutch Climate Agreement. To do this, we use our leverage to influence the companies in which we invest and ensure we make investment choices that fit the goal of a climate-neutral world in 2050.

Since 2015, the share of coal in our total energy investments has decreased from 8% to 4%. Over the same period, the share of renewable energy has increased from 10% to 16%.

Most fossil energy companies may need some time to make the turnaround. But there are some companies we do not expect to be able to make the transition at all, or only to do so much later. This is especially true for companies that derive a large part of their earnings from relatively carbon-intensive forms of fossil energy. We see little point in engaging with these companies. That is why we will no longer invest in companies that derive a large part of their revenue from coal mines or tar sands by 2025.

Successful transition

Ørsted (formerly DONG) is the former Danish state oil company. In 2005, the company acquired several Danish utilities. The newly expanded company mainly had coal- and gas-fired power plants and a small division focused on wind energy. In the following years, Ørsted successfully built up its position in offshore wind energy. In 2016, the company went public. Ørsted has since divested its entire oil and gas business. The last coal-fired power stations have been converted into bio-plants. At the same time, offshore wind energy has grown significantly. The company's share price has increased fivefold since 2016.

3. What does ABP expect from energy companies?

We expect energy companies to announce climate ambitions in line with the Paris Agreement. We also want them to translate these ambitions into measurable short- and medium-term goals. And we expect companies to link executive pay to their climate goals.

By 2022 at the latest, we will incorporate additional and stricter standards in our inclusion policy to better assess companies' climate plans and efforts. For example, we do not want companies in which we invest to build new coal-fired power stations. If they have plans to do so, we will either engage with them to discourage such expansion or sell our shares and bonds in the company. In 2019 and 2020, we sold our holdings in a total of eight companies with over 90 gigawatts of coal-fired capacity.

Our asset manager also carefully monitors the strategy oil companies pursue. We discourage any plans to invest in new projects that assume a high oil price, that have a long payback period or involve a high carbon footprint. Due to low oil prices in recent years, oil companies have generally invested little in new projects. However, this will remain an important area of focus, if, for example, the oil price picks up again.

4. According to academic research by Groningen University, pension funds can stop investing in fossil energy without affecting returns. If this is the case, why doesn't ABP do this?

ABP welcomes scientific research into the relationship between investing in fossil energy companies and risk and return. This is because our investment decisions are partly based on thorough scientific research. In late 2019, Professor Kees Koedijk carried out a survey of more than 2,000 scientific publications on the impact of sustainable and responsible investing on risk/return metrics. He concludes that at present there is only limited academic evidence to suggest that divesting from fossil fuels does not negatively impact returns. The question of whether excluding fossil investments will bring the energy transition and the Paris climate goals closer is also important. On this topic, the Groningen study says: 'Selling fossil investments does not guarantee that global warming will be limited to the threshold of 2 degrees Celsius'. We therefore think it is better to use our influence to encourage companies to accelerate the transition towards renewable energy, so that we come closer to achieving the Paris climate goals.

5. Why does ABP not stop investing in all coal mines and tar sands companies?

ABP invests in energy companies that are in the process of transitioning to renewable energy. But also in companies that have yet to make this change. For example, a company can have coal-fired power plants and still be well on its way to making the energy transition by investing in clean energy and generating a growing share of its revenue from renewable sources. With our investments, we can accelerate change at

such companies. For example, by investing in green bonds*, the proceeds of which a company can use to finance the transition to renewable energy sources.

Companies that rely almost entirely on coal for their income have little opportunity to make their business more sustainable. Therefore, we see little point in engaging with these companies. That is why in 2025 we will no longer invest in companies that derive more than 30% of their revenue from coal. The same applies to companies that derive more than 20% of their revenue from tar sands.

Diversified mining and energy companies do have the opportunity to make business operations more sustainable and to reduce their exposure to coal mines and tar sands. We engage with these companies in order to accelerate the transition to renewable energy.

6. What else is ABP doing to accelerate the energy transition?

ABP contributes to the energy transition. But we can't do it alone. That is why we advocate that governments proceed with carbon pricing as soon as possible. This makes 'green' investment more attractive and accelerates the energy transition. Together with our asset manager, we have lobbied the Dutch government on this topic.

7. How does ABP prevent poor returns due to stranded assets*?

Stranded assets occur when companies are unable to extract all their oil and gas reserves as a result of the energy transition. This means in the future, they may have to write off more than expected against their reserves. Therefore, investing in these companies entails excessive risks.

Most oil and gas companies have reserves for about a decade. There is little chance that these reserves will not be (fully) extracted. After all, fossil fuels still have a role to play to meet energy demand in the IPCC's scenarios for achieving the Paris climate goals – although a smaller role than they have now. Experience shows that falling commodity prices have more influence on the share prices of oil and gas companies. If a company has to write off assets against reserves, this generally has no or only limited consequences for the share price.

However, investing always carries the risk of 'bad' investments and write-offs. Especially in sectors that are going through a transformation – such as the energy sector – it is especially important to monitor the situation closely and to keep a close eye on risks.

That is why our asset manager expects most companies to invest only in oil and gas projects based on low oil prices that have a low carbon footprint. In this way, the risk of loss-making investments remains low.

8. What does ABP think about drilling for oil and gas in the Arctic?

We know that there are risks associated with oil and gas extraction in the Arctic. This applies mainly to offshore (at sea) extraction and less to onshore (on land) extraction. There are risks to the environment and the company concerned if things go wrong. Extracting oil and gas in the Arctic is also expensive. That is why we expect companies to be very reluctant to drill for oil and gas in this area, especially offshore.

9. What does ABP think about fracking?

Fracking is a technique used in the extraction of oil and gas from rock known as 'shale'. Shale gas or oil is contained in tiny bubbles in layers of rock deep underground. In fracking, water, sand and chemicals are sprayed under high pressure into an underground reservoir. This causes small cracks in the stone layer enabling the oil or gas to be extracted. Research by the Dutch State Supervision of Mining and technical institute TNO shows that fracking can be done safely and without adverse effects on the environment.

Nevertheless, there are risks that companies engaged in fracking must properly manage. ABP expects them to inform and consult local communities and minimize adverse effects. In addition, companies must take measures to prevent chemicals from leaking above ground. The rock that contains shale gas or oil is usually far below groundwater level. However, companies must ensure that the reservoir is carefully sealed so that under no circumstances contact with groundwater is possible. They also need to carefully process and dispose of wastewater, as this contains chemicals that can be harmful to local communities and water supplies. Sometimes water produced from the reservoir is injected into another reservoir to store it. This must be done in a safe manner in order to minimize the risk of earthquakes and subsidence.

10. Why does ABP not support all climate resolutions at fossil fuel companies?

ABP makes a thorough assessment when voting on shareholder resolutions. We look at the content; what does the proposal require the company to do? Is that reasonable? And does it add anything to commitments the company has already made? Participants regularly ask us questions about how we voted on climate resolutions at energy companies, such as those put forward by activist shareholder Follow This*.

According to ShareAction's analysis of investor voting at 102 climate resolutions (at energy and other companies), in 2020 we supported 80% of all climate proposals. But sometimes we do vote against a climate proposal. Often, we agree with the 'ultimate goal' of the proposal but not always with the way these goals are to be achieved. For example, because the proposal is insufficiently clear or does not offer the company enough scope to make its own choices. In such cases, we vote against a proposal or abstain. We always disclose how we have voted on our [website](#).

ABP always takes climate factors into account when voting on board appointments and executive pay at companies that are the largest global carbon emitters. We expect them to have a carbon reduction target and to link their climate objectives to executive remuneration, for example. If this is not the case, depending on the agenda at the shareholders' meeting, we will vote against the directors' pay, directors' appointment or the annual report. In 2020 we did this at a number of companies, including Vistra Cooperation, Philips 66 and Devon Energy.

Experience shows that change in companies is mainly achieved through continuous engagement – by exercising our influence as an investor. In addition to voting at shareholder meetings, maintaining a critical dialogue with the company is also an important part of this.

11. ABP has a carbon reduction target for the equity portfolio. How does this relate to the reduction targets of other Dutch pension funds?

Our target is for the carbon footprint of our equity portfolio in 2025 to be 40% lower than it was in March 2015. Many other Dutch pension funds also have a carbon reduction target. But these cannot be easily compared with each other because:

- pension funds calculate their carbon footprint in different ways;
- there are large differences between the investment portfolios of pension funds.

The Dutch financial sector has agreed to annually publish the carbon footprint of their major investments; we expect carbon reduction targets to become more comparable as a result. ABP is one of the launching partners of the Partnership for Carbon Accounting Financials (PCAF*). The institutions that participate in PCAF use a standardized method to provide insight into the carbon footprint of their loans and investments.

Voting at Equinor and ExxonMobil

At oil and gas company Equinor, we voted against a climate resolution that 'instructed' the company to cease certain operations. We believe that such proposals imply that shareholders take over the role of management. We want companies to take action themselves to bring their business operations in line with the Paris Agreement and to have short- and medium-term objectives to achieve this. Measures like closing business units are not in the interests of employees and shareholders. We also abstained on a proposal calling on the company to publish Paris-aligned climate targets. Although we do think that companies should have such goals, at the time, Equinor had just tightened its climate objectives.

At US oil and gas company ExxonMobil we voted against the remuneration proposal for the Board of Directors (say on pay) because executive pay is not tied to the company's climate goals. We voted in favor of a resolution calling on the company to provide insight into its lobbying activities, including the sums of money involved. We expect companies to be open about their lobbying and show how it fits within the Paris Agreement. We also voted in favor of a resolution asking the company to report on the risks of its petrochemical activities. At ExxonMobil, we voted in favor of four of the five climate resolutions that were put to the vote.

12. What is ABP's view on carbon capture, utilization and storage (CCUS).

CCUS* relates to the capturing, reusing and storing of carbon emissions. At present, CCUS technology is still insufficiently developed, quite expensive and there is limited societal support for its widespread application.

Greenhouse gasses can also be sequestered in forests or agricultural lands. Enhancing the carbon storage capacity of natural ecosystems is referred to as a Nature-based Solution (NBS*). Natural ecosystems can sequester up to 30% of global carbon emissions.

CCUS and NBS can play a role in the initial stages of the energy transition when there is not yet enough renewable energy available. In all IPCC 1.5-degree scenarios there will be residual carbon emissions, which will need to be captured, stored or compensated.

13. What is ABP's approach to fossil fuel companies that lobby against tackling climate change?

ABP believes that fossil energy companies should contribute to tackling global warming. We expect companies we invest in to be open about their lobbying activities and show how these align with the Paris Agreement. We also assess how companies deal with (industry) organizations that lobby against climate measures.

14. What does ABP think about investing in nuclear energy?

Nuclear energy is a climate-neutral energy source because no greenhouse gasses are emitted during its production. According to the International Energy Agency (IEA) and the IPCC scenarios, nuclear energy is needed to meet the goals of the Paris Agreement. However, we are aware of the risks related to safety and the storage of nuclear waste. Due to the very strict safety requirements, nuclear energy is also expensive. ABP mainly focuses on renewable energy, such as solar and wind energy. In 2020, 5% of our energy investments were in nuclear energy.

15. What does ABP think of biofuels as an energy source?

Under certain conditions, biofuels* can play a role in the energy transition. In the early stages of the transition, biofuels can be a complementary energy source to solar and wind, for example, contributing to the affordability and reliability of the energy supply.

As with fossil fuels, CO₂ is released when biofuels are burned. However, over the entire production cycle, carbon emissions are lower than they are for, say, natural gas. We prefer natural materials like wood to be used for high-end applications (such as construction) rather than for energy-generating purposes. If natural materials are used, these should only be sustainably certified biofuels (e.g. pruning wood, wood chips, trees that have been harvested to give other trees more space to grow and for which there are no other uses). Biofuels also need to be sourced from countries where this can be effectively monitored.

More information

[Summary Sustainable and Responsible Investment Policy \(2020-2025\)](#)

[Factsheet Sustainable and responsible investing](#)

Glossary

Biofuels

Natural materials that are used in the production process. Usually, this refers to the use of natural raw materials, such as (residual) wood or pruning waste, for the generation of energy.

Carbon capture

Capturing and (underground) storing of CO₂ released by burning fossil fuels.

Carbon dioxide

The full name for CO₂, the main greenhouse gas.

Carbon footprint

ABP's share of carbon emissions emitted by the companies in which we invest.

CCUS

Carbon Capture, Utilization and Storage; capture, reuse and/or storage of CO₂. An example of CCUS is sequestering CO₂ in forests and other natural ecosystems.

Climate Action 100+

Partnership of 575 major investors, including ABP, which puts pressure on companies that are the world's largest carbon emitters.

Climate Commitment of the financial sector

Agreement by a large number of Dutch financial institutions, including ABP, to voluntarily join the Dutch Climate Agreement.

Coal

Collective term for coal and lignite. The combustion of coal for energy generation involves relatively high carbon emissions. A distinction is made between coal used for generating electricity (thermal coal) and coal used in the production of steel (metallurgical coal).

Dutch Climate Agreement

Agreement concluded in 2018 in which government, business and civil society organizations have specified how the Netherlands are to meet the Paris climate goals. The Dutch financial sector, including ABP, has voluntarily joined.

Follow This

Activist platform that aims to push publicly traded oil and gas companies to become more sustainable through shareholder action.

Fossil energy

Energy generated by burning fossilized plants or animal residues, such as coal, petroleum and natural gas. A typical characteristic of fossil energy is that the source can in principle only be used once. Also called 'grey' energy.

Green bonds

Bonds issued by a company, institution or government to finance sustainability projects.

IPCC

Intergovernmental Panel on Climate Change; International group of climate experts commissioned by the United Nations to conduct research and advise on climate change, consequences and approach.

NBS

Nature-Based Solutions. Collective name for methods to enhance ecosystems' natural capacity to sequester CO₂, for instance by planting trees.

Net zero emissions

Situation in which a company does not emit any CO₂ or fully captures, stores, reuses and/or compensates for any remaining emissions.

NZIF

Net Zero Investment Framework. Cooperation between Dutch and international investors, including ABP, to tackle climate change and achieve a carbon –neutral investment portfolio in 2050.

OECD

Organization for Economic Cooperation and Development. Cooperation between economically highly developed countries, including the Netherlands, on social and economic issues.

Paris Agreement

Treaty (2015) in which 195 countries have pledged to limit global warming to a maximum of 2 degrees Celsius, but ideally 1.5 degrees Celsius above pre-industrial levels.

PCAF

Partnership for Carbon Accounting Financials. Collaboration of 111 Dutch and international investors, including our asset manager APG, which have developed a measurement method for determining the carbon impact of their investments and loans.

Primary energy

Energy from sources found in nature and available for extraction, such as coal, oil, natural gas, biomass and solar and wind energy. Electricity is an example of secondary energy; a primary energy source is needed to produce electricity.

Renewable energy

Energy generated by sources that are in principle inexhaustible, such as solar, wind and hydropower energy.

Scope 1

Carbon emissions directly caused by a company's operations, such as buildings, machinery and means of transport.

Scope 2

Carbon emissions related to the energy that a company purchases.

Scope 3

Carbon emissions associated with the use of products by the company's customers.

SDG 7

The goal to give everyone in the world access to affordable and clean energy. This is one of the 17 Sustainable Development Goals (SDGs) for a better world set by the United Nations in 2015.

Stranded assets

Typically, stranded assets refer to the possibility that due to climate change and the energy transition some coal, gas or oil reserves cannot be extracted, or will generate lower economic return than expected.

Tar sands

A sticky mixture of sand, water and thick oil from which usable oil can be extracted. Compared to 'regular' oil, extraction involves relatively high carbon emissions.

TCFD

Task Force on Climate-related Financial Disclosures.

An organization that advises on how companies and investors can best report on climate change and what they do to combat global warming.

More information? Go to abp.nl/english/investments



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