

## ANNEX B

Pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and in Article 6, first paragraph, of Regulation (EU) 2020/852

Product name: Average Pay (CDC) Pension Scheme of Stichting Pensioenfonds APF Legal entity identifier (LEI):

### Environmental and/or social characteristics (E/S characteristics)

**Sustainable investment:** an investment in an economic activity that contributes to achieving an environmental or social objective, provided that this investment does not seriously compromise environmental or social objectives and the investee companies apply good governance practices.

The **EU taxonomy** is a classification system established by Regulation (EU) 2020/852. This is a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective may or may not be taxonomy-aligned.

#### Does this financial product have a sustainable investment objective?

<input checked="" type="radio"/> <input checked="" type="radio"/> <input type="checkbox"/> <b>Yes</b>	<input checked="" type="radio"/> <input type="radio"/> <input checked="" type="checkbox"/> <b>No</b>
<input type="checkbox"/> This product will at least make the following <b>sustainable investments with an environmental objective:</b> %	<input type="checkbox"/> This product <b>promotes environmental/social (E/S) characteristics</b> . While sustainable investment is not its goal, it will have a minimum of % of sustainable investments
<input type="checkbox"/> in economic activities that qualify as environmentally sustainable according to the EU taxonomy	<input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable according to the EU taxonomy
<input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable according to the EU taxonomy	<input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable according to the EU taxonomy
<input type="checkbox"/> This product will at least make the following <b>sustainable investments with a social objective:</b> %	<input type="checkbox"/> with a social objective
<input type="checkbox"/>	<input checked="" type="checkbox"/> This product promotes E/S characteristics but <b>will not make sustainable investments</b> .

#### Preliminary remarks:

- Pension Fund APF aims to achieve value-based pensions for all members. We define sustainable investing as an investment approach that delivers a better risk-return profile and/or creates a more sustainable world. As such, we generate broad value creation, both financially and in terms of a better – more sustainable – world. All investment mandates are assessed within the quadrangle of return, risk, sustainability and cost. We select investment funds and mandates that fit the long-term principles of our investment policy, Asset Liability and Strategic Asset Allocation studies.
- The pension fund must complete this template in connection with the Sustainable Finance Disclosure Regulation (SFDR) of the EU.
- Information included in this template relates to binding elements on socially responsible investing. These are elements of our sustainability policy that limit our investment universe, such as exclusion and ESG integration. This concerns part of our sustainability policy. One component is initiating engagement and voting at shareholder meetings in order to push companies to become more sustainable. This is not included in this template.
- In this template, we describe what we do at pension scheme level. We don't always make this specific by investment category.

Would you like more information? Please refer to the sustainability policy on our website



## What environmental and/or social characteristics does this financial product promote?

This financial product (hereinafter 'the pension scheme') promotes the following environmental and social characteristics:

- **ESG profile:** The pension scheme structurally integrates Environmental, Social and Governance (ESG) risks and ESG factors into the investment process. The scheme aims for a portfolio with a better ESG profile than that of the market benchmark. This is done using a best-in-class policy applied to customised ESG benchmarks. As a result, investments are made only in the best-performing companies based on their ESG ratings. The ESG score must be at least 15% higher than the benchmark ESG score. This target has been implemented for world equity (developed markets), and since 1 March 2023 in US corporate bonds. The Global High Yield portfolio will follow in 2023.

- **Carbon reduction target:** Pension Fund APF stands by the Paris Climate Agreement. The goal of this agreement is to reduce carbon emissions by 49% by 2030 compared to 1990. By 2050, greenhouse gas emissions must be reduced by 95% (this is necessary to limit global warming to no more than 1.5°C). APF wants to contribute to this goal within its capabilities as a pension fund. To that end, the portfolio aims to reduce its carbon footprint in line with the Paris Climate Agreement. The carbon footprint of the portfolio is compared with that of the benchmark. A carbon reduction target has been implemented for the following investment categories: developed country shares, corporate bonds, real estate and high yield. From 1 January 2023, this target will also be implemented in the US corporate bond category. In 2023-2024, we will explore implementation for other asset classes.

- **Exclusion policy** The following investments are excluded. For more details, see the pension fund's sustainability policy on our website: <https://www.pensioenfondsapf.nl/het-pensioenfonds-over-af-beleggingsbeleid/2-duurzaam-beleggen>; companies producing controversial weapons;

- o producers of tobacco products;
- o companies generating revenue from extraction and/or electricity generation of fossil fuel;
- o specific countries that violate UN and/or EU sanctions.

*Other comments on the environmental and social characteristics of the pension scheme:*

Specifically within the equity and developed country and corporate loan categories, investments are made in those companies that score higher on Environmental (E), Social (S) and Governance (G) indicators. The ESG score must be at least 15% higher than the benchmark ESG score.

## What sustainability indicators measure the achievement of each of the environmental or social characteristics promoted by this financial product?

To determine whether the pension scheme meets environmental or social characteristics, the following sustainability indicators are considered:

- **ESG profile:** This shows how companies score on various Environmental, Social and Governance aspects. ESG ratings at company level are used to select the companies that go into the customised equity and corporate bond benchmarks. As the asset management companies make passive investments against these customised benchmarks, the portfolio will have a better ESG score than the market benchmark

- **Carbon footprint.** The carbon footprint shows the greenhouse gas emissions financed by the portfolio. To determine this carbon footprint, we first calculate the total annual greenhouse gas emissions of each company in the portfolio. We look at the company's own emissions from business activities (scope 1 according to the Greenhouse Gas Protocol). In addition, we calculate emissions associated with the production of energy purchased by the company (scope 2 according to the Greenhouse Gas Protocol). This is divided by the enterprise value including cash (EVIC). The result shows how many greenhouse gases a company emits for every euro of funding. To arrive at the carbon footprint of the whole portfolio, the weighted average of the carbon footprints of all investee companies is calculated. Companies in which investments are high thus carry more weight.

**Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are achieved.

- ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***

The pension scheme does not contain sustainable investments within the meaning of the EU taxonomy.

- ***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

The pension scheme does not contain sustainable investments within the meaning of the EU taxonomy.

**In what way or ways have indicators of adverse impacts on sustainability factors been taken into account?**

The pension scheme does not contain sustainable investments within the meaning of the EU taxonomy.

**How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:**

The pension scheme does not contain sustainable investments within the meaning of the EU taxonomy.

The EU taxonomy establishes the principle of 'no significant harm'. This implies that taxonomy-aligned investments should cause no significant harm to the objectives of the EU taxonomy, accompanied by specific EU criteria.

The 'no significant harm' principle applies only to the underlying investments of the financial product that take into account the EU criteria for environmentally sustainable economic activities. The underlying investments of the remaining part of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Other sustainable investments should also not cause significant harm to environmental or social objectives.



**Does this financial product take into account the principal adverse impacts on sustainability factors?**

Yes, the pension scheme takes the principal adverse impacts on sustainability factors into account, as defined by EU regulations. These adverse impacts and the actions taken are explained in the table below. For more information, you can also refer to the pension fund's sustainability policy. Our engagement policy focuses on mitigating actual negative impacts of companies on society and the environment. Every quarter, our executor assesses violations by

companies of the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact. They are prioritised by severity of the violation (which is determined by ferocity, scale and irreversibility of the impact) and the company's response to that violation.

The effects of the choices made by APF Pension Fund extend beyond the financial markets. We see human, social and environmental developments that have an impact *on* our investment portfolio. In addition, we are conscious of and feel a responsibility for the impact *of* our investment portfolio on people, society and the environment. We have the following investment belief: we want to contribute to a better -more sustainable- world through sustainable investment.

The Socially Responsible Investment (SRI) policy thus has two central objectives:

- 1) Generating a better investment result (better risk-return profile)
- 2) Contributing to a better – more sustainable – world by:
  - a) preventing and mitigating the negative impact of the investments on the world.
  - b) stimulating and investing with a positive sustainable impact on the world.

APF Pension Fund gives shape to this through various instruments<sup>1</sup>:

- objective 1: by integrating so-called ESG factors (environmental, social and corporate governance) within all investment categories.
- objective 2a: through proactive share ownership (voting and engagement), exclusions from certain investments within all investment categories, and through reactive engagement with listed companies

We will report on the main adverse effects on sustainability factors on the website and in the annual report.

No

The principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

Principal adverse impacts (PAI indicators)	Explanation	Measures taken
Carbon footprint	CO2/EVIC	ESG integration
Exposure to companies active in the fossil fuel industry	Participation in coal and tar sands, shale oil and gas, arctic oil and gas with a turnover limit of >5%	Exclusion
Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Exclusion of producers of controversial weapons	Exclusion (Identifying in advance certain sectors and products or specific countries that the Fund Manager does not want to invest in.)

<sup>1</sup> Sustainability in a broad sense and SRI have different perspectives, and different terms are used in practice. We also make that distinction in the implementation of our policies. Although all these factors may overlap in theme, the perspective is different.

- Where it concerns the effect of sustainability in a broad sense on the investment portfolio, whether as an investment risk or opportunity, we speak of ESG factors (Environmental, Social, Governance).
- Where it concerns the (potential) negative impact of the investment portfolio on the world, we speak of ICSR factors (International Corporate Social Responsibility).
- Where it concerns the positive impact of the investment portfolio on the world, we talk about SDG factors (Sustainable Development Goals).

Countries invested in with social rights violations

Involvement with countries where human rights violations take place

Exclusion



## What investment strategy does this financial product employ?

- ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

The portfolio management is outsourced to different asset managers worldwide. The investment portfolio makes use of quantitative analysis to gain insight into ESG trends and risks. This data is analysed periodically with the aim of identifying effective adjustment opportunities. Managers must have demonstrable and concrete insight into ESG performance in the portfolio and factor it in to their investment decisions. In addition, ESG should be embedded in the corporate strategy, in their systems, processes, risk management and reporting.

In selecting investments, the following binding elements were used to meet all environmental and social characteristics:

- **ESG profile objective:** The ESG profile of the portfolio is better than that of the market benchmark.
- **Carbon reduction target:** A reduction in carbon emissions compared to the benchmark according to the chosen transition path.
- **Exclusion policy:** The percentage of investments on the list of companies and/or countries to be excluded is based on APF Pension Fund's exclusion policy.

- ***By what committed minimum percentage is the scope for investments to be considered limited before the application of that investment strategy?***

There is no committed minimum reduction of the investment universe for this investment strategy. The limitation of the investment universe, but this limitation is not set in advance.

- ***What is the assessment policy for good governance practices of investee companies?***

The pension scheme has investments in companies that comply with good governance practices. Dialogue is initiated with companies that perform very poorly on good governance. In doing so, the talks at least consider legal requirements in the areas of:

- sound management structures;
- employee relations;
- remuneration of staff;
- tax compliance.

Should an investee company not show any improvement for consecutive years, it may still be excluded in accordance with the standardised exclusion process.

**The investment strategy** guides investment decisions based on factors such as investment objectives and risk tolerance.

**Good governance practices** include good management structures, employee relations, employee benefits and tax compliance.



## What asset allocation is planned for this financial product?

The percentages below are based on the portfolio as at 01 April 2023.

#1 – 73.5% comprise investments that are in line with environmental or social (e/s) characteristics based on application of exclusions and carbon reduction strategy where relevant. This concerns the investment categories: Shares in developed countries, European non-government bonds, US corporate bonds, high-yield loans, listed real estate\* and European government bonds\*.

*\*The Pension Fund includes listed real estate and the European government bond portfolio in the % of investments with e/s characteristics. The exclusion policy also applies here, although this does not lead to additional exclusions.*

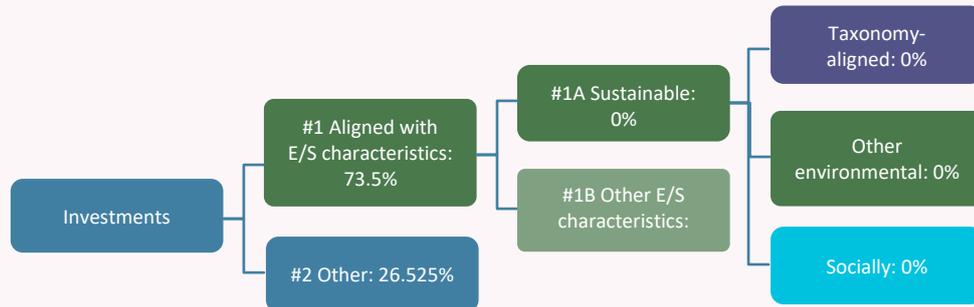
#2 – 26.5% falls into the other category. Exclusion or ESG integration is not applied to all investments in line with the pension fund's policy. These include our investments in emerging market equities (investment funds)\*\*, mortgage funds\*\*, unlisted real estate funds\*\*, hedge funds and liquidity funds.

*\*\*Sustainability criteria are included within these categories. However, we do not (yet) count them as investments with an environmental or social characteristic. The policy deviates from the pension fund's sustainability policy or we cannot yet measure these characteristics as such and report on them at pension scheme level.*

**Asset allocation** describes the proportion of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** that reflects the share of revenues from green activities of investee companies;
- **capital expenditure** (CapEx) showing what the green investments of the investee companies are, e.g. for a transition to a green economy;
- **operating expenses** (OpEx) that reflect green operating activities of investee companies.



**#1 Aligned with E/S characteristics** comprises the investments of the financial product used to meet the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

Category **#1 Aligned with E/S characteristics** includes:

- Sub-category **#1A Sustainable** comprises sustainable investments with environmental or social objectives.
- Sub-category **#1B Other E/S characteristics** comprises investments that are aligned with environmental or social characteristics, but that do not qualify as sustainable investments.

### ● **How does the use of derivatives meet the environmental or social characteristics promoted by the financial product?**

The use of derivatives does not contribute to achieving the environmental or social characteristics of this financial product. Derivatives support investment policy and ensure efficient and effective portfolio management.



## To what extent are sustainable investments with an environmental objective minimally aligned with EU taxonomy?

The pension scheme does not pursue an environmental objective as defined in the EU taxonomy. Therefore, 0% of the underlying investments of this pension scheme take the EU taxonomy criteria for environmentally sustainable investments into account.

To determine compliance with EU taxonomy, the **fossil gas** criteria include emission limits and conversion to renewable energy or low-carbon fuels by the end of 2035. For **nuclear power**, the criteria include extensive rules on safety and waste management.

### ● Does the financial product invest in activities in the fossil gas and/or nuclear power sectors that comply EU taxonomy<sup>2</sup>?

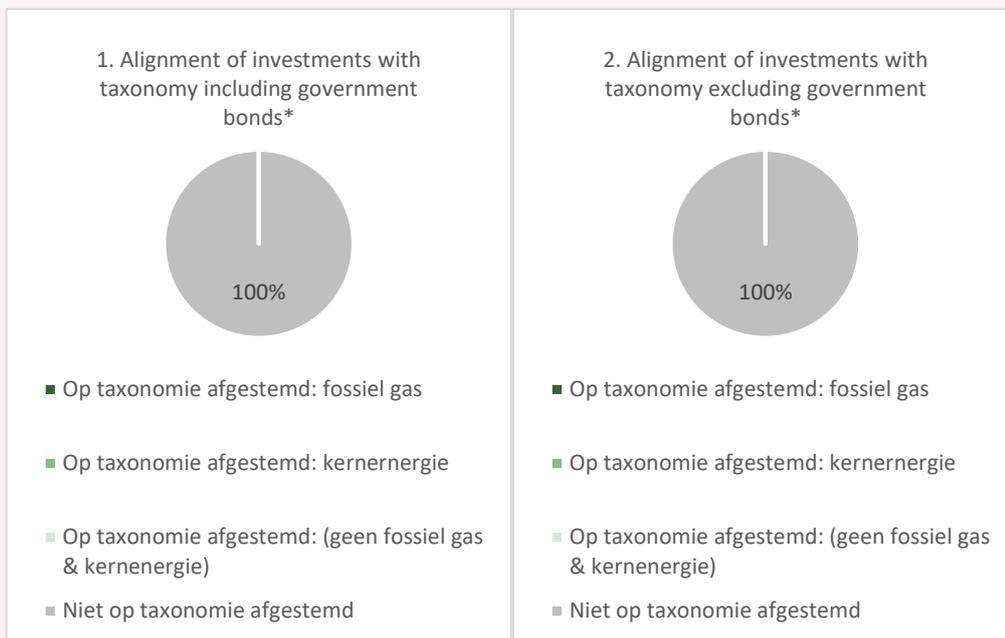
Yes:

in fossil gas

in nuclear power

No

**The two charts below show in green the minimum percentage of investments aligned with the EU taxonomy. There is no suitable method to determine the extent to which government bonds\* are aligned with the taxonomy. Therefore, the first chart shows the degree of alignment for all investments of the financial product including government bonds, while the second chart shows the degree of alignment with the taxonomy only for the investments of the financial product in products other than government bonds.**



\*In these charts, 'government bonds' include all sovereign exposures.

### ● What is the minimum share of investments in transition and facilitating activities?

<sup>2</sup> Activities in the fossil gas and/or nuclear power sectors will only comply with the EU taxonomy if they contribute to climate change mitigation ("climate mitigation") and cause no significant harm to the objectives of the EU taxonomy -see the note in the left margin. The comprehensive criteria for economic activities in the fossil gas and nuclear power sectors that comply with the EU taxonomy are set out in Commission Delegated Regulation (EU) 2022/1214.

The minimum proportion of investments in transition and facilitating activities is 0%.



**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.  
**Transition activities** are activities for which low-carbon alternatives are not yet available and include greenhouse gas emission levels that correspond to best performance.

### What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

The minimum share of sustainable investments with an environmental objective not aligned with the EU Taxonomy is 0%.



are sustainable investments with an environmental objective that do **not take into account the criteria** for environmentally sustainable economic activities under the EU taxonomy.



### What is the minimum share of socially sustainable investments?

The minimum share of socially sustainable investments is 0%.



### Which investments are included in '#2 Other'? What is their purpose and are there any minimum environmental or social safeguards?

No (measurable) environmental or social characteristics are applied to the investments belonging to '#2 pension fund's policy, or these consist of a percentage invested in investment funds where the asset manager consists of categories in which no SRI policy can be implemented. When selecting asset managers for funds, the minimum criterion is that asset managers must be signatories to the UN Principles for Responsible Investment. Preference is given to asset managers who have a sustainable investment policy that is, as far as possible, aligned with the pension scheme's sustainability policy (see our website).



### Has a specific index been identified as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics promoted by it?

Not applicable. This financial product refers to the pension scheme as a whole. There is no comprehensive reference benchmark at pension scheme level to determine whether the pension scheme is aligned with the environmental and/or social characteristics it promotes.

**Reference benchmarks** are indices that measure whether the financial

product meets the environmental or social characteristics that the product promotes.

- ***How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by this financial product?***

Not applicable.

- ***How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?***

Not applicable.

- ***How does the designated index differ from a relevant broad market index?***

Not applicable.

- ***Where can the methodology used for the calculation of the designated index be found?***

Not applicable.



### **Where can I find more specific information about this product online?**

More information, such as our sustainability policy and its elaboration, is available on our website: <https://www.pensioenfondsapf.nl/het-pensioenfonds-over-apf/beleggingsbeleid/2-duurzaam-beleggen>