

Investing in sustainability

NEWSLETTER ON RESPONSIBLE OWNERSHIP

No. 3 | June 2010

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Standing up for workers' rights: from Korea to the US

Around the globe, safe and healthy working conditions are key

A company's success depends in no small measure on its people. Healthy, satisfied and motivated employees are generally more productive, friendlier to customers and likelier to come up with welcome ideas to improve processes or products. As international investors, however, we still come across stories of exploitation,

discrimination, child labour, hazardous working conditions and intimidation of those who speak out against these wrongs. In our engagement of companies that we invest in on behalf of our clients, working conditions are therefore a frequent point of discussion. A few examples:

Hankook Tire takes a first step...

Hankook Tire in Korea is a key automotive industry player. It is the seventh largest tire manufacturer in the world, supplying car manufacturers in Korea but also beyond: about 70% of its sales are generated in the US and Europe. Recently a group of Hankook employees who had fallen ill and relatives of others who had died accused the company of gross negligence. They suspect a link between the employees' illness and the factory's use of solvents in tire production. At first, Hankook's management refused to discuss the matter.



In June 2009, APG's Hong Kong office started engaging the company about employee health and safety. We voiced our worry that Hankook's customers might no longer want to do business with a supplier that treats its own employees badly. This message hit home. Hankook decided to open its own hospital for staff. Construction is now almost complete, and doctors have already started work in the new facilities. We see this modest success as the first step in a longer trajectory. We are trying to convince management that there are fundamental issues that need addressing when it comes to employee health and safety. At the same time, we are counting our blessings. Management has taken a first step forward after years of simply denying the problems.

...but others not ready yet

Samsung Electronics, the world's biggest chip manufacturer, is facing accusations from at least 23 former employees who have become seriously ill as a consequence of their work. Most of them have leukaemia. Nine have already died. A connection is suspected between their illness and working with hazardous substances, but Samsung Electronics denies all responsibility. APG, however, believes the accusations are serious enough to warrant action, and we have called upon other investors to join us. In a recent letter, we asked Samsung to hold an

independent inquiry into the matter and take any measures needed to guarantee the safety of its employees. We will keep you posted on further developments.

Not only in Asia

The issues facing employees of large Western companies are of a different order, but these, too, have our full attention. For instance, we observed that US supermarket chain Wal-Mart, the world's largest, is a frequent target of employee lawsuits. In the past decade, the company has faced at least 70 class actions for underpaying employees, making them work through breaks, refusing to pay overtime and ignoring equal rights. Another worrying sign is that the National Labor Commission, which monitors labour legislation compliance in the US, receives more complaints about Wal-Mart than about its peers.

Bad policy, bad reputation

Late in 2008, APG first brought the matter up with Wal-Mart's management. The company has long had a reputation for being insular, refusing to speak to critics and providing little internal policy transparency. We explained that we, representing their shareholder, have reason to table this issue. The perception of large numbers of dissatisfied Wal-Mart employees confronting a management that seems unwilling to



address their complaints is not good for the company's reputation. It is clear to us that this affects corporate results. A bad reputation could lead to local governments turning down licensing applications for new stores. Besides, satisfied employees are more productive and friendlier to customers, which can give a supermarket an edge over the competition.

Survey employee satisfaction

Therefore, one of the things we asked management to do is to survey employee satisfaction and repeat the exercise regularly. This way, underperforming stores are identified and can take measures. It is better to spot employees' problems in an early stage, so they can be solved and legal action can be avoided. Recently the company does seem to be paying better attention to respecting workers' rights, and it has made a start putting its past behind it. In November and December 2009, Wal-Mart paid 100 million dollars in damages to settle the many working conditions claims. It also seems to have taken measures to address discrimination and illegal overtime.

An issue that Wal-Mart is visibly committed to is sustainability. The company has taken measures and changed its organisation to improve its environmental performance. It has also tightened up the standards applied to its supply chain to guarantee workers' rights are respected. The company's website furthermore reveals that Wal-Mart has adopted a new approach and is now more communicative to the outside world.

Still a long way to go

That doesn't mean, however, that all is now well. Right now, an appeals court is reviewing a class action in which Wal-Mart is accused of gender-based discrimination. The plaintiffs argue that women in Wal-Mart were paid less and stood a poorer chance of being promoted than their male colleagues. They demand payment of damages and lost income. These claims, too, relate to past shortcomings. The case was first heard in 2001 in California.

All the same, ghosts from the past can cast a gloom over the present. And despite improvements made, relations between management and staff still seem fragile. The company remains intent on keeping the unions out. Although US law does not recognise freedom of association, we must take seriously the allegations that Wal-Mart systematically intimidates employees who are interested in getting organised.

Hands-on investor

On behalf of our clients, we will continue to monitor developments closely. This summer, a follow-up visit is planned. We will ask the company to publish the results of the employee satisfaction survey, which will by then have taken place. And depending on what these results are, we will engage the company on ways to improve working conditions, and thus Wal-Mart's overall performance.



Shell in Nigeria

The newsflow about heavy pollution in the Niger Delta, due to oil pipeline leaks and gas flaring, is deeply concerning to us. Shell is one of the companies active in Nigeria. Shell itself reports that last year alone, 14,000 tonnes of oil was lost through leakage there. Amnesty International refers in its report of last summer to data obtained from the Nigerian National Oil Spill Detection and Response agency, which identifies 2000 polluted sites. The Amnesty International report provides insight into the human cost of pollution. People are falling ill and their very existence is threatened as oil contaminates their fishing grounds and farmland. Though we cannot assess the exact nature and scale of the problems, it is clear that large-scale oil pollution in Nigeria has a dramatic impact on the delta's ecosystem and the health of the people who live there.

Difficult conditions

We acknowledge that Shell's working conditions in the area are difficult. Sabotage and kidnappings are common. We appreciate that security issues make it difficult for Shell to repair leaks in the pipeline promptly and adequately. As shareholders, we also fully appreciate that Shell's joint venture partner ought to contribute – financially and in practical ways – to a solution. Still, we are dissatisfied with the pace of cleanup operations. The devastating effect of the spills on communities and the environment calls for a more active approach from the oil companies.

The at times fragile relations between Shell and the local communities come under pressure when people's existence is under threat. Even if Shell is not always to blame for the pollution, people take their anger out on the big multinational.

A more active approach

We are also disappointed to still see gas being flared in Nigeria. We value Shell's efforts to ban this practice and understand that the joint venture partner needs to

contribute to a solution for the problem. Here, too, however, it is our opinion that Shell must take a more active stance and set concrete targets for an end to gas flaring. At the shareholders' meetings in 2008 and 2009, we appealed for such clear-cut targets. In December 2009, Shell announced that it had stepped up its efforts by giving up flaring at seven locations. In response to our questions about potential negative health effects of gas flaring, Shell referred us to a World Bank study in which no relation could be found.

More transparency

On behalf of shareholders in Shell, we continue to call attention to the problems in Nigeria. On various occasions, we have asked Shell to provide more insight into the way they intend to solve the problems in the Niger Delta. For us as investors, it is important to know how Shell manages its risks. Besides, by providing transparency, Shell can counter rumours and conflicting reports from non-governmental organisations. We ask the oil giant to be more open about its activities. We would like to see Shell provide an adequate and comprehensive overview of where oil is currently leaking, if possible with the cause of the leak (e.g. sabotage, poor maintenance, accident) and the repair status. We also want Shell to publish an Environmental and Social Impact Assessment, so that the effects on people and planet can be openly analysed.

Local communities, meanwhile, appear to have limited access to information. This is a potential source of unrest and undermines Shell's position. To identify and possibly head off discontent, we have asked Shell to develop a complaints procedure and make it easy for local communities to access. This can lead to problems and disagreements being settled at local level.

Shell has promised to get us the information we asked for soon. Our request for a meeting with the local management is still being considered.

Gas flaring in the Niger Delta.

Producing oil in Sudan

With other institutional investors, APG has engaged CNPC and Sinopec from China, ONGC from India and Petronas from Malaysia, all companies that produce oil in southern Sudan. In this poverty- and war-stricken country, oil is an important source of government revenues, but the question is, does the money actually benefit the population? News about government-armed militias operating in Darfur's civil war raise widespread doubts as to whether the government puts the development of its people first.

Nor is it by any means certain that the referendum on the independence of South Sudan will put an end to conflicts in the region where the oil companies are active. With this in mind, APG has asked oil companies how they aim to do business responsibly in Sudan without becoming involved in human rights abuses. For example, we want to know how they protect their operations, and whether local communities are compensated for the loss of their land. And we expect companies – even in Sudan – to be able to guarantee the people who work for them a safe working environment.

Local management taking measures

In March, we joined a group of other investors on a trip to Sudan to talk to the local management of the oil companies. We also spoke at length with representatives of non-governmental organisations, fugitives, scholars and government officials. In our discussions with the oil syndicates in which foreign companies operate, we learned of the measures that had been taken to improve corporate social responsibility practice. For instance, the local managers told us what they had done to guarantee workplace safety. For employees, and especially contractors, wearing protective clothing and following safety procedures did not always come naturally. Also alarming is the number of accidents happening during road transport, because road



President Bashir, re-elected last April, has been charged with war crimes by the International Criminal Court in The Hague. He is portrayed here on a billboard with party slogans, close to the entrance of the headquarters of one of the oil syndicates in Sudan.

conditions are generally poor, as are driving skills. The two oil syndicates we visited in Sudan told us about the measures they had taken to improve road safety. Statistics show that the measures are effective, but the number of fatal accidents is still extremely high.

Besides oil, wells drilled in Sudan typically produce huge quantities of water, too, amounting to as much as 80% of total production volume. In order not to waste this precious water, the oil syndicates have set up a sophisticated system to treat the water, which can then be used by local farmers to irrigate their fields.

Still much to be done

Despite the good initiatives taken by management at local level, we are worried about the lack of scenario planning to deal with a possible secession of South Sudan from North Sudan, which would have multiple

implications for licences and for the options to get the oil to a seaport. Nor do the companies seem prepared for a potential new conflict. Of the companies in charge of the oil syndicates, we expect more leadership to minimise their involvement with human rights abuses by the current regime. We would like to see these companies redouble their efforts to achieve transparency on what happens to oil revenues.

Under the umbrella of the UN Global Compact, APG has helped compose guidelines for companies operating in conflict zones. For the companies involved, it is not always clear what good practice is and what their shareholders expect from them. With the new guidelines, these companies can demonstrate that, even under exceptional circumstances, they respect international human rights standards and avoid involvement in human rights abuses.

A sustainable voice in mining company boardrooms

Mining is a business that leaves a big footprint in the areas where it is pursued, and not just in environmental terms. Communities living in these areas are confronted with changes in their way of life. For example when roads are constructed right through their farmland. Or when they give up their land to mining companies and move elsewhere. On behalf of our clients, we invest in mining companies around the world. This makes sense, as minerals are and will remain essential for the world's economy. As responsible long-term investors, however, we are interested in knowing how mining companies treat their employees, the environment and local communities. After all, a bad track record in these areas could hurt a company's financial performance.

Sustainable voice in boardrooms getting louder

Many mining companies realise this, and have appointed non-executive directors to their boards with expertise about (and a passion for) sustainability. As investors, we are convinced that this is necessary. As part of our international programme 'Governance for Sustainability', we urge mining companies who have not added a sustainable voice to their board to think again. An example is Barrick Gold, a Canadian firm that has been widely criticised for its handling of environmental and social issues. The criticism focuses particularly on the dumping into the river of tailings at the company's Porgera mine in Papua New Guinea, with serious health effects on the people who live there.

More transparency, more insight

In 2009, APG supported a resolution at the company's annual general meeting requesting an inquiry by an independent party into Barrick's working methods. Since then, we have been engaged in a dialogue with the

company's management, and this is beginning to pay off.

- Late in 2009, Barrick decided to extend the remit of the board's Environmental, Health and Safety Committee to include related topics.
- At the 2010 annual general meeting, Barrick announced its intention to appoint a new non-executive director with a special affinity for sustainability issues.
- Barrick has promised greater transparency regarding its social and environmental performance and has instigated a policy for whistle-blowers.
- Barrick intends to develop a special programme for dealing responsibly with local community interests in the areas it operates in.
- Barrick has promised to provide information by the end of this year about the pollution at Porgera. The Porgera Environmental Advisory Komiti (PEAK) will publish an analysis based on recent data of the situation in the entire river system.

Feedback

Barrick has officially requested feedback from APG on its sustainability performance. To be able to provide that, we have urged the company to disclose all the facts, rather than publish reassuring statements. APG welcomes the steps that Barrick's management has announced, and will continue to our dialogue with them on how to carry out the reforms. This example also serves to show other companies engaged in our 'Governance of Sustainability' project what can be achieved.

Is mining going sustainable?

In 2009, APG joined other shareholders in submitting a resolution at the annual general meeting of US gold and copper mining corporation Freeport McMoran. Again, we requested the

appointment to the board of an environmental expert. Our resolution got 32.5 percent of the votes. While not a majority, it was an unprecedented success for resolutions of this kind in the United States. Freeport's management decided in 2009 not to implement the resolution. So this year, we tabled it again, this time joining forces with several Swedish pension funds and the New York City pension fund.



Microfinance: everybody wins

Microfinance is the practice of providing small loans to entrepreneurs in emerging markets, for example to a baker or a stallholder in a market. Microfinance can take on various forms, but the loans are always small, and often short-term. Another distinguishing feature of these loans is that the collateral is different from what we are used to seeing for traditional loans in Western countries. For example, a group of people can stand surety for the loan. On the cost side, it is important to consider that the investment needs to be monitored continuously, making microfinance relatively labour-intensive. This is why we invest in microfinance through specialist third-party funds, which means the job of managing the investment is not ours but a fund manager's. The fund manager decides which microfinance institutions to support financially, often by buying shares in these institutions. As a hands-on investor, the fund manager will work to increase shareholder value at these companies, so that the share price goes up. When this happens, the shares in the microfinance institutions are sold at a profit.

APG invests 30 million dollars in microfinance

Recently, we invested 30 million dollars for one of our clients in a microfinance fund called GMEF. This fund is managed by asset management firm Grassroots. GMEF focuses on relatively young companies. We chose GMEF because the fund has offices and teams around the globe, making it potentially better at picking stocks and increasing shareholder value. Another reason is that we wanted to add another manager to our existing microfinance investment portfolio. By doing so, we are helping our clients fulfil their ambition to earn financial returns and make the world a better place.



APG and Vesteda: making houses sustainable together

‘Working together to find sustainable options, an ideal practice,’ says Annelinda van Eck, project manager for Sustainability at Vesteda.

In its real estate portfolio, too, APG is looking for ways to improve sustainability, working with the companies we invest in. One of the largest of these is Vesteda, which owns over 27,000 rental homes in the Netherlands, most of them in the non-subsidised sector. APG has invested around 1.4 billion euros in Vesteda on behalf of its clients, and therefore we have a keen interest in the company’s performance, both financial and in terms of sustainability.

The numbers tell the tale

First we looked at Vesteda’s environmental performance and compared it to statistics on 19 other residential real estate funds worldwide. ‘On the basis of our research, we could tell Vesteda’s management that the company’s sustainability performance was slightly above the average of the ten European residential funds examined, and that there were plenty of options to improve performance swiftly and significantly,’ says Sander Paul van Tongeren, who is in charge of sustainability policy at APG Real Estate. ‘We handed the management a list of suggestions for improving its sustainability policy and the way it is implemented.’

Then it was Vesteda’s turn. A month later, Vesteda’s management explained to us in detail which of APG’s suggestions were feasible and which were not. This gave APG better insight into the housing sector, how limited the potential was to recover certain investments in sustainability and how difficult it is to get the environmental information one needs. Vesteda subsequently set concrete sustainability targets for the

company to meet in the medium term. With Vesteda’s management, APG will continue to monitor progress.

Good dialogue, fast results

Both APG and Vesteda view the dialogue to date, based on transparency and sharing of knowledge, as highly successful. Both now better understand each other’s industry and each other’s vision and goals when it comes to sustainability. Together, they have sought ways to make Vesteda’s portfolio more sustainable without sacrificing return.

To their mutual satisfaction, great strides have been made in a very short time. Vesteda recently appointed a Project Manager for Sustainability, Annelinda van Eck. ‘In the course of 2010, special software has been used to analyse the existing portfolio on for instance energy labels. Dedicated software has also been purchased for a broader analysis of new housebuilding projects. Furthermore, a survey has been made of the aggregate energy consumption of the existing portfolio in recent years, to serve as a basis for energy efficiency drives. The good news is that much of the energy that tenants use is already green electricity, but ways are actively being sought to expand the green share in energy consumption,’ says Annelinda van Eck.

The benefits of sustainability

‘For regular maintenance as well as for new housing projects, lists are being compiled of preferred sustainable materials to be used. All maintenance firms working for Vesteda have been asked in recent months about their sustainability policies, and the answers from the “best in class” can be used to further improve Vesteda’s own policy,’ Van Eck says. ‘Meanwhile, with regard to appraisals, the first steps have been taken within Vesteda to assess what impact sustainability has on the valuation of residential real estate. We definitely see a role here for the country’s larger chartered surveyors. Particularly at this stage, we believe that sharing knowledge and working methods across the sector is the way to get fast results.’



APG and Vesteda are convinced that the sustainability project will in the medium term improve the real estate portfolio's risk-return profile. Vesteda will now be better able to anticipate future tightening of regulations and legislation on issues like energy. An added plus is that various stakeholders, notably the government, tenants and investors, will in future be better informed.

APG wins IPE Real Estate platinum award

On Wednesday 26 May, APG was handed the platinum award for 'Outstanding Industry Contribution' at the 2010 IPE Real Estate Awards ceremony in Amsterdam. APG earned the prize for its initiative to create a global sustainability benchmark for the real estate sector. This was a joint initiative of APG, PGGM, the Universities Superannuation Scheme (USS) and the University of Maastricht. APG used research results as the starting point for its engagement of real estate companies.

The air conditioning system in this new, sustainable housing complex in Rotterdam uses the water of the river Maas.

Car 2.0: electric or hybrid?

Everyone agrees that cars must become more energy-efficient and produce less carbon emissions. But scientists are not yet in agreement as to how to achieve this. Studies into carbon emissions from well to wheel have produced varying results. Some say electric cars produce the lowest emissions per kilometre, but others argue that a car using electricity produced by coal-fired power plants have a bigger carbon footprint than a low-consumption diesel car.

What will the future look like?

As an investor in the automotive industry, APG needs to know which manufacturer is likely to perform best in the longer term. So we recently spoke with three major players – BMW, Renault and PSA (producer of Citroen and Peugeot cars) - about their plans to make cars more efficient and economical. What the three have in common is that over the past 15 years, they have succeeded in reducing emissions per kilometre by a third. That is quite an achievement, as cars are expected to account for around 20% of the global increase in greenhouse gas emissions between now and 2030.

Go straight into electric...

The manufacturer that succeeds in building a clean and affordable car has an edge over the competition, and that's why car makers spend so much time and money on developing more energy-efficient cars. Renault is betting heavily on the electric car. With its Japanese partner Nissan, Renault has 4000 engineers working on the development of a fully electric car, and its expectations are high. The company reckons that as early as 2020, electric cars will account for 10% of worldwide auto sales, and it wants to have a leading position in this segment. The French aim to have as many as four different electric models on the market in 2012. Their affordability remains a question, though. At the moment, the price has to come down by around 5000 euros per car to make them competitive with the latest petrol

models. Renault intends to solve this problem by leasing the batteries.

...or start with hybrid

Other car manufacturers make far more conservative projections about how quickly electric cars will catch on. PSA, for instance, thinks that in 2020 electric cars will account for only 5% of the global automotive market. Consequently, rather than bet on electric, PSE is focusing on the development of a hybrid diesel car. In Germany, BMW is convinced that diesel and petrol engines as we know them now can be made far more fuel-efficient. With its Efficient Dynamics programme, BMW is already a year and a half to two years ahead of its direct competitors, Mercedes and Audi. The company expects to be able to maintain this lead by applying new technologies to reduce fuel consumption even further.

So manufacturers are exploring different avenues to make the car of the future cleaner. What is certain, at any rate, is that the automotive industry will see sweeping changes in the decades ahead, though it is hard to say now which direction they will be heading and at what speed. As a sustainable investor, APG will continue to keep a close watch on the advances in technology and the corresponding policy developments.



Responsibly exercising our clients' voting rights

On behalf of the pension funds it works for, APG has shareholdings in around 4000 companies worldwide. Each of these companies holds an annual general meeting at which all shareholders are given an opportunity to vote on a wide variety of issues that concern the company. For example, the appointment of executive and non-executive directors, changes in the articles of association, the issue of shares, remuneration policy, approval of the annual accounts and the dividend. As a matter of principle, APG votes at all the shareholders' meetings of companies that it has a stake in. That doesn't mean, of course, that we actually attend all these meetings. We vote remotely through an electronic voting platform.

Knowing the issues

We make sure we know what the issues are at all these meetings. Besides consulting our in-house experts, we gain advice from other institutional investors and from specialised voting agencies. But we are always the ones to decide, on behalf of our clients, which way to vote. In the busy season, from April till June, we have to vote at sometimes hundreds of AGMs a day. Obviously, we cannot give equal attention to all of them. We focus on companies in which we have a relatively large stake, companies where big issues are being put to the vote, and companies where issues are on the agenda with a potentially major impact on shareholders' rights or on the company itself. In cases like these, we often engage the companies in advance, sometimes jointly with other shareholders, on the issues at hand. If we intend to vote against a resolution, we let the company's management know, and give our reasons.

Critical about remuneration policies

In the 2010 AGM season, APG voted down the remuneration

policies proposed by the management of several companies. When assessing a company's remuneration policy, we cast a critical eye over the conditions and the potential net effects. We also look at the policy's objectives, taking into account the sector that the company is a part of. For instance, a British real estate company wanted approval from its shareholders for a long-term remuneration policy in which executives could receive up to 400% of their basic salary, as opposed to a maximum of 250% now. At the same time, they would raise the performance criteria that executives needed to meet to qualify for bonuses. It was unclear, however, what the impact of these changes would be on the amounts awarded. APG corresponded with the company's management about this resolution, asking for more transparency with regard to the potential net effects of the new long-term remuneration policy. One of our suggestions was to provide scenario analyses.

In the Netherlands, too

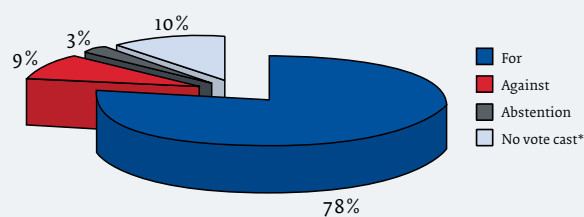
In the Netherlands, this year's AGM season produced several eyebrow-raising proposals for a new remuneration structure. One company asked for its shareholders' blessing to apply a new remuneration policy retroactively over the past three years. Due to exceptionally poor performance in 2008, the Executive Board members had received no bonus over the periods 2007-2009 or 2008-2010. By applying the new policy retroactively, they would be getting a bonus after all for these periods. Following discussions with institutional investors, the company withdrew this resolution.

The vast majority of companies in APG's investment portfolio are not Dutch, however. And in other countries, the rules of the game are often different. In Sweden, for instance. The Swedish government has large shareholdings in a number of Swedish companies, and as such tabled alternative remuneration policy proposals at the AGMs of these companies. The government urged for a ban on awarding variable remuneration such as (long-term) bonuses to the management. Mainly as a result of the government's big stakes in these companies, the resolution was passed, and as a consequence, a number of Swedish companies no longer offer variable remuneration.

Harder to submit agenda items

A typically Dutch corporate governance issue demanding our attention this season is the threshold for submitting agenda items at shareholders meetings. Dutch company law determines that shareholders may submit an item for the agenda if they own at least 1% of the total number of shares outstanding in the company, or if their shareholding has a market value of at least 50 million euros. There are plans afoot to raise this threshold, although the wording of the bill leaves companies an opening to adopt a lower threshold in their own articles of association. Some Dutch companies, however, are apparently so afraid of their own shareholders, that they can't wait for the law to take effect and tabled resolutions to raise the threshold right away. Working with other institutional investors through the corporate governance platform Eumedion, APG opposed these resolutions. Sometimes, but not always, successfully.

Voting record 1 January through 10 May 2010



* Abstention due to external technical factors or because the company demanded that the voting rights of the shares be blocked.

Appointing non-executive directors in Italy

Five large Italian corporations received nominations for non-executive directors from APG this year, and all our nominees were appointed by the shareholders. The nominations were part of our policy to improve corporate governance in the companies we invest in.

Non-executive directors who keep a close eye on the company's executives are important for good governance. And governance is an integral element of APG's investment policy. We want companies to have a balanced board, including non-executive directors who not only know the business, but are also sufficiently independent.

Voto di Lista

The influence that shareholders have on the composition of the board varies from country to country, as do laws and local usage. In Italy, it is common for companies to be controlled by one large shareholder. This shareholder appoints the management, and may or may not be one of the managers. He holds a majority in the shareholders' meeting and as such decides who is appointed as a non-executive director. In companies like this, the interests of minority shareholders – APG's clients, for example – are in danger of being neglected. To reduce this risk, Italy introduced special rules a few years ago enabling minority shareholders to appoint non-executive directors in companies where the majority shareholder is otherwise fully in control. This system, called 'Voto di Lista' offers investors with a stake of more than 1% of the shares outstanding the opportunity to nominate independent candidates.

Since 2008, APG has taken part in this Voto di Lista. This is done in cooperation with other Italian and non-Italian institutional investors. The joint initiative is coordinated by Assogestioni, an Italian asset managers' association.

Our efforts are aimed at giving a voice to minority shareholders in the boardroom, and ensuring that the management is supervised by independent experts.

Successful nominations

In 2010, working with Assogestioni, APG nominated non-executive directors at five Italian companies. Our nominee at the bank Unicredit S.p.A. was also supported by our Dutch colleagues PGGM. At Generali, Italy's biggest insurance company, we and other investors put forward three candidates. At Sname Rete Gas S.p.A., which is responsible for the regulated gas sector in Italy, we joined Assogestioni in nominating five independent candidates. At the Italian oil company Enel, we had already succeeded in getting three of our candidates appointed in 2008, and this year we nominated another two. At Banca Intesa Sanpaolo, APG and Assogestioni submitted two nominations for non-executive directors. Companies in Italy generally welcome the nomination by (minority) shareholders of their 'own' candidates for the board. In this case, the list including our two candidates was actively supported by Eurizon Capital, also a subsidiary of the Intesa banking group.

We are proud of the fact that all the candidates that we nominated or helped to nominate have been appointed at the AGMs of the companies involved.

APG publishes Responsible Investment Report

This year, APG has again published a report on its responsible investment activities. In this publication, available on our website (www.apg.nl), we explain the concrete steps we have taken to put our responsible investment policy into practice. This year's report provides extensive coverage of the climate summit in Copenhagen, where APG and other institutional investors jointly addressed the world leaders on the importance of a strict climate agreement. Climate change, we argued, can have vast consequences for investment risks and opportunities. On behalf of its clients, APG has therefore urged for decisive government action in this area. Although the Copenhagen summit failed to deliver the results we hoped for, this issue remains an important one for APG.

Responsible investment helps

Human rights, child labour, the environment, the human and environmental cost of mining and oil production from tar sands are a few examples of other Environmental, Social and Governance (ESG) issues that APG addressed in 2009, energetically applying its influence to move companies towards responsible behaviour.

Meanwhile, we have taken plenty of positive action ourselves, making numerous new investments that directly contribute to solutions for the big issues our society faces. Examples are investments in biofuel production, wind and solar energy, energy efficiency, microfinance and healthcare in Africa.





Missed opportunity to ban cluster bomb financing

The Dutch cabinet recently responded to a motion in Parliament to make it illegal to invest in cluster bombs. The existing cluster bomb treaty bans the use, ownership, production and sale of cluster bombs, but strictly speaking, it doesn't prohibit investment in cluster bombs or in companies involved in their production or trade. This is why the Socialist Party and the Labour Party tabled a motion in Dutch Parliament, which got broad support, asking the government to introduce a law forbidding Dutch financial institutions to invest in manufacturers of cluster bombs.

'Token legislation' still a good thing

The caretaker government has decided to disregard the motion. In a letter to Parliament, Ministers De Jager (Finance) and Donner (Social Affairs) wrote that they see a ban as 'token legislation that is likely to do more harm than good.' They see no added value in a ban, and it would be hard to enforce. Moreover, they fear that financial institutions will lose their nerve and look for ways to circumvent the ban.

Like APG's clients, various pension funds have an exclusion policy that includes a ban on investment in companies that are involved in cluster bomb manufacture or trade. APG believes that realistic legislation prohibiting direct investment in such companies would be a good thing. Such legislation could be extended to include more than just cluster bombs. After all, international treaties to which the Netherlands is a party forbid not only cluster bombs, but also anti-personnel mines, biological and chemical weapons and the proliferation of nuclear weapons to countries not recognised as nuclear powers in the Non-Proliferation Treaty.

APG's responsible investment principles

- 1** Responsible investment is integrated into APG's investment process.
We take account of shareholder rights and environmental and social issues in our investment decisions. Our research on sustainability or corporate governance can form the basis for decisions not to make an investment, to sell an investment, or to reduce or increase the size of an investment.
- 2** APG engages with companies to promote sustainability and good corporate governance.
In our dialogue with companies we make clear what standards we expect in relation to sustainability and shareholder rights. To increase our influence we often work with other investors.
- 3** APG expects companies to operate in accordance with the UN Global Compact and will divest from companies if engagement does not lead to improvement. APG does not invest in products that are prohibited under Dutch or international law.
This means we do not invest in companies that are directly involved in the production of landmines, cluster munitions or launch systems for these weapons, or of chemical or biological weapons. We also exclude companies involved in products or services that are generally considered in the Netherlands to be objectionable. The UN Global Compact sets out a minimum framework of standards for corporate practice on human rights, labour rights, the environment and the prevention of corruption.
- 4** APG makes active use of its rights as a shareholder.
We vote at the meetings of companies in which we invest. We publish our voting record and explain our voting decisions.
- 5** APG works in the Netherlands and internationally to advocate policy and legislation that support sustainability and good corporate governance.
We regularly discuss sustainability and shareholder rights with policy-makers. We also contribute to the development of standards to promote the long-term integrity of financial markets.
- 6** APG seeks out attractive investments that promote sustainability.
APG invests in renewable energy, clean technology and microfinance and is constantly alert to new opportunities to make investments that contribute to sustainability.
- 7** APG promotes its responsible investment approach actively in order to encourage sustainability and good corporate governance.
We work with other investment managers and pension funds throughout the world in order to increase the impact of our responsible investment policy on behalf of our clients. We play an active part in numerous investor networks in the Netherlands and internationally. We communicate extensively about our work.



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