Integrating Sustainability in Real Estate Investments at APG

ABOUT APG

The investment principles and responsible investment approach are not separate topics at APG, where one of the principles is that: “We invest responsibly.”

It has been several years now since APG began building its extensive investment management procedures, incorporating sustainability and governance (S&G) factors as part of its day-to-day investment activities across all asset classes including capital markets and alternative investments.

KEY DRIVERS

Clients expectations and improving performance

There are two main forces driving APG to deepen S&G integration: continued high expectations from its pension fund clients and its own belief that improving corporate governance standards has risk-return performance benefits.

An internal S&G Steering Group is convened regularly. It is tasked with overseeing the effectiveness of S&G policies and deciding on key S&G-linked investment decisions and implementation strategies.

The committee is chaired by APG’s CIO and members include other senior investment executives, a representative of the Risk department and the S&G head. This means that any decisions made by the senior management and asset class heads can be implemented effectively in the day-to-day investment activities.

SUSTAINABILITY & GOVERNANCE — EMBEDDED IN INVESTMENT PROCESS

With regards to private real estate investments, APG has adopted a strict investment process where S&G plays an important role, i.e. due-diligence, commitment sign-offs and the performance monitoring. In terms of due diligence, S&G focuses on the following key elements in relation to an investment and investment partner selection. This process commences pre-investment:

- Sustainability risk assessments in terms of country exposure;
- Potential reputation risks due to the nature and/or location of the assets and/or the investment strategy;
- Past and/or pending controversies;
- Background checks on key people, assets history and non-compliance issues;
- Quality of S&G management including: disclosed policies, governance in place to implement S&G issues, resources allocated to management of S&G, monitoring & environmental management systems, reporting regime; and
- Corporate culture and management commitment.
Once gaps between expectations and S&G findings are identified (management quality/undertakings or considerable risks), APG commences an intensive engagement negotiating with the prospective investment partner to mitigate the identified material risks and structure proposals to further improve the S&G quality over the investment horizon. Those conditions mutually agreed may be included in the investment legal documentation. Once capital is committed, APG continuously monitors the investment partner’s performance against a variety of S&G related key indicators.

**GLOBAL REAL ESTATE SUSTAINABILITY BENCHMARK AS MAIN RESOURCES**

As essential tools/resources for crucial S&G undertakings, APG heavily uses data and information provided by the Global Real Estate Sustainability Benchmark (GRESB) throughout the investment process such as due-diligence, investment engagement and performance monitoring. For S&G implementation, APG expects its investment partners to:

1. Fill in and submit the GRESB-based questionnaire as a main due diligence information pack, as a requirement during the due diligence phase;
2. Commit participating in the annual GRESB survey throughout the investment period — a requirement during the screening phase;
3. Strive to achieve the GRESB (absolute) score higher than 50 — a requirement for long-term investment partnership; and
4. Strive to be ranked higher than average among peer group companies — a requirement for long-term investment partnership.

**Figure 2. Sustainability & Governance — as Part of Investment Processes**

The scope of using GRESB information certainly allows broader use. Thanks to the extensive data collected, APG receives its own score card tailored for the portfolio, showing the performance of its real estate investment on a consolidated basis and which investments contribute more to APG’s objective of being a responsible investor. For instance, according to 2014 GRESB results, APG’s global portfolio (including 199 listed and private investments) and Asia Pacific portfolio (56 investments) recorded the average scores of 48 and 55 respectively, slightly outperforming the global benchmark (comprising 637 companies and funds) at 47.

With keen support from its clients, APG has actively sought to increase its commitment to high sustainability investments (HSIs) for some time now. These are activities that contribute to solutions for climate change, water shortage, water surplus, environment pollution, the need for microfinance, and the loss of habitats or species. The GRESB benchmark information is also utilised when APG defines what would make HSIs in the real-estate sector and reports on the size of such investments over a period of time. The top-quartile green-star awarded investments by the GRESB are counted as components of HSIs at APG.
APG AS A GLOBAL PLAYER IN THE REAL ESTATE INVESTMENT SPACE

Over the years, APG has led a number of initiatives and engaged passionately with peer investors and industry organisations with the aim to promote sustainability in the real estate industry.

In 2009 APG was a founding and sole investor member participating in the Global Reporting Initiative (GRI) for the construction and real estate sector, which subsequently came up with the GRI Sector Supplement in 2011. In the same year, having identifying a need for a global benchmarking and information system that holistically covers all types of real estate investments, APG co-founded GRESB with other European investors. Since 2012, the scope of APG’s engagement has expanded to regional and country-based prominent partners such as ANREV.

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<td>47</td>
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