Private Equity

Annual Responsible Investment Report

2020

About PGGM Investments
PGGM Investment Management provides fiduciary management and asset management services to Dutch pension funds. As the administrator for investment funds and the asset manager for pension funds, PGGM supports its clients in their duty of providing a stable and high-quality pension for their participants, now and in the future.

PGGM

Introduction

PGGM Investments is committed to investing responsibly. We manage our clients' private equity investments in order to contribute towards a stable pension for their participants while also taking into consideration the impact we are having on the world around us. We recognize that environmental, social, and governance (ESG) factors have a material impact on the financial performance of the private equity portfolio, both through the identification of value creation opportunities and through the mitigation of identified risks.

We are pleased to present PGGM's third Private Equity Responsible Investment Report, which highlights our ongoing commitment to responsible investment. In this report, we focus on (i) updating you on the ESG characteristics of our portfolio, including the second year of investing our private equity impact sleeve, and (ii) informing you on what we have accomplished related to ESG in 2020.

The PE team is committed to continuously improving and refining its ESG processes around investing, monitoring, and reporting to ensure that PGGM remains a best-in-class responsible investor, providing a model for other stakeholders in the industry. Likewise, it is committed to driving continuous improvement of its GPs' processes.

"In 2020, we have focused on encouraging our GPs to take steps to measure and report on their carbon footprint as well as their diversity, equity, and inclusion initiatives. We are focused on promoting improvement in these areas over time across our portfolio."

Christine Winslow
Director

Highlights and KPIs for PE in 2020

82%
of our go-forward GPs (i.e. GPs where we committed to their last fund) report on ESG on either an annual or quarterly basis

- **Improved our GP engagement process in order to track greenhouse gas ("GHG") emissions and diversity KPIs for our GPs on an annual basis**
- **Engaged with 46 of 65 go-forward GPs in our portfolio – we saw improvements in the ESG Integration scores of 31 of them**
- **Conducted an ESG training for the entire PE team on climate change and diversity & inclusion**

40%
of our go-forward GPs report on company-level ESG KPIs

82%
of capital invested with GPs that score either "High" or "Very High" on our ESG Integration Assessment

- **Invested €142 million from the private equity impact sleeve in its second year since launch through 3 fund commitments and 1 co-investment follow-on**
- **Helped drive a significant increase in the number of GPs reporting on company level ESG KPIs from 17 in 2019 to 28 in 2020**

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1. Responsible Investment at PGGM and in PE

PGGM's individual investment management teams are responsible for integrating ESG into their processes. Responsible investment is fully integrated into all teams and internalised as part of their daily activities.

PGGM's PE team has full responsibility to analyse and integrate ESG considerations in their investment process. The Risk department has taken up the role of "challenger" in deal teams and the RI team serves as a knowledge center for both teams.

In the PE team, all investment professionals are actively involved with ESG. ESG analysis is included in the preliminary and the final investment proposal for the consideration of the relevant investment committees. Every year, the RI and the PE team set mutual goals for next steps regarding ESG. ESG targets are included in the compensation targets of the whole private equity team.

2020 Goals	2020 Results
Update the PE ESG policy based on PGGM's Sustainability Policy 2025	"PGGM Responsible Investing in Private Equity" was updated
Develop a process to determine the carbon footprint and gender diversity at our GP's and portfolio companies Develop a tool to assess our GP's efforts related to climate change and diversity	We formulated specific KPI's in a template and asked our GP's to report them for 2019. Response rates and portfolio level data are reported in Chapter 9 of this report. Expanded our ESG Integration Assessment to cover these two topics
Run a team training related to climate change and diversity, equity & inclusion	Training was successfully run in Q4 for the PE team
Improve our internal ESG reporting	Developed a quarterly ESG report in which all ESG engagement activities are summarized and discussed in our regular monitoring meetings

This report will address 2020, a time of crisis from a health and economic perspective due to the COVID-19 pandemic. We have been pleased by the response of our GPs during this crisis which has universally been to focus in the first instance on the health and safety of its employees and those of its portfolio companies. Further, 23% (19 of our 81 GPs) have contributed to charitable programs to help alleviate the effects of the pandemic locally and/or nationally.

Private Equity Team per 30 April 2021

Head of PE & Directors

Eric-Jan Vink

Head of Private Equity

Christine Winslow

Director

Harrie van Rijbroek

Director

Senior Investment Managers

Maurice Klaver

Senior Investment Manager (Sustainable Investments)

Berend Schiphorst

Senior Investment Manager

Wouter van der Geest

Senior Investment Manager

Elisabeth Villas

Senior Investment Manager

Megha Jain

Senior Investment Manager

Investment Managers

Diederick Plasmans

Investment Manager

Tanvi Karambelkar

Investment Manager

Talha Zafar

Investment Manager

Associates

Tamara Ertner

Associate

Daniel Zwier

Associate

Alex McKinney

Associate

Gust van der Meeren

Associate

Niek van Wijngaarden

Associate

Stepan Naumov

Associate

Michael Bos

Associate (Sustainable Investments)

Coen Keijzer

Associate

Joris van der Zee

Associate

Mark Al

Associate

Analysts

Lilit Aslanyan

Analyst

Rita Nguyen

Analyst

Direct Support

Bas Lasseur

Front Office Support

Chantal Reijerse

Front Office Support

Bo Furman

Executive Assistant

Responsible Investment

Rui Chang

Advisor

23
investment professionals

30%
women in the investment team

43%
of investment team is from outside the Netherlands including 10 nationalities

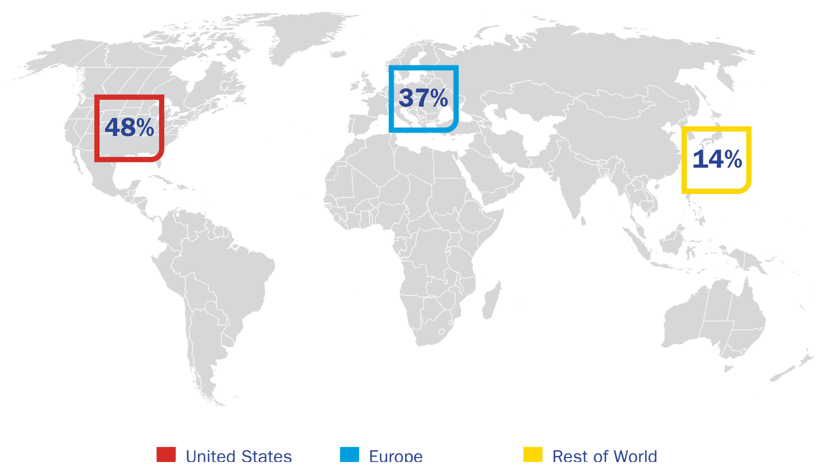
- **Senior investment team is roughly as diverse as broader investment team**
- **In the last 12 months, we have hired 3 investment professionals and had 1 investment professional leave the team**

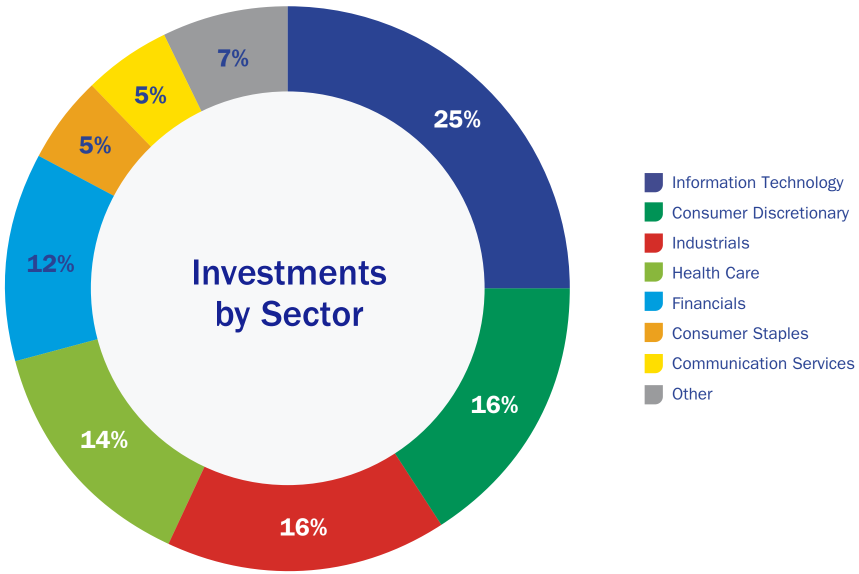
	2018	2019	2020
% of women senior investment team	13%	29%	38%
% of women investment team	14%	32%	30%
# in senior investment team	8	7	8
# in investment team	22	22	23

2. Our portfolio at a glance

PGGM PE has a total of €14.7 billion in assets under management. Our objective is to outperform the public markets by 2.5%, which we have exceeded historically. We have achieved a 10-year average return of 13.2%.

The PE portfolio is well diversified. While our mandate is global, the majority (86%) of investments are with GPs in developed countries, primarily the US and Western Europe, with a focus on buyout investors.





The underlying investments in the portfolio are broadly diversified across sectors with significant exposure to **IT, Consumer Discretionary, Health Care, and Industrials**. Note that we are in-principle sector agnostic.

PGGM was an early investor in private equity, starting in 1983. From 2000 until 2010, it outsourced its private equity investing to AlpInvest. Since 2010, it has built up in-house expertise via a PE team. The rest of this report focuses on the portfolio that the PGGM PE team has built since 2010, representing 69% of the total PE portfolio.

PGGM PE's portfolio currently consists of 81 individual GPs in 145 primary fund investments, 54 co-investments, and 9 secondary fund investments. In 2020, PGGM PE invested with 20 GPs in their latest primary funds, 8 co-investments, and 1 secondary fund investment.

3. Our approach to ESG

PGGM PE has integrated ESG considerations into its investment and portfolio management process and strategy. The ESG integration process is organized around the different investment stages: selection, commitment, and ownership.

Our activities are guided by our clients' policies and PGGM's Guidelines for Responsible Investment in Private Equity. We strive to incorporate these into the legal documentation with our GPs where possible. We are effecting a shift from a focus on compliance to an increasingly active approach in which investments continue to support the present and future financial security and well-being of pension beneficiaries, but just as importantly help sustain a good and livable world for the future.

We also encourage our GPs to better understand which ESG factors are material for the investments. We consider a factor material when it (i) significantly impacts the financial performance of the portfolio companies or (ii) has other potential negative impacts to society and the environment which may jeopardize the business' reputation and license to operate.
In the following chapters, we will go into greater detail on what we do in the different investment stages (as set out in the Figure).

Selection (Ch. 4)	Commitment (Ch. 5)	Ownership (Ch. 6)
- Due diligence for funds using GP ESG Integration Assessment - Due diligence for co-investment using SASB - Look at sector and country ESG risk	- Include adherence to PE ESG and Exclusion Guidelines in the side letter - Include ESG action plan and reporting according to PGGM's reporting template, which includes ESG incident reporting, in the side letter	- Monitoring GPs on adherence to agreed upon ESG approach - Engage on ESG issues with each active GP on an annual basis - *New in 2020: we created a new process to gather GHG emissions and diversity KPIs from each of our GPs on an annual basis*

PGGM PE awarded an A+ in the 2020 UNPRI assessment report for our overarching approach to ESG strategy and governance.

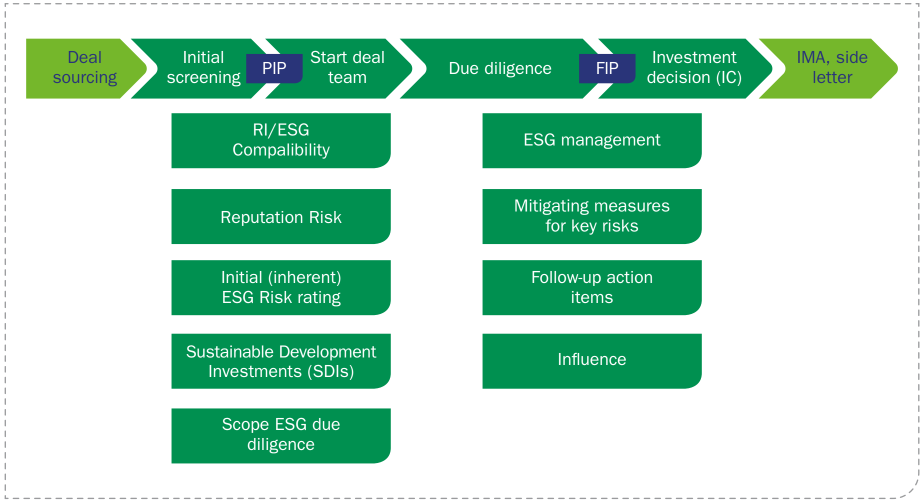
4. The selection stage: screening and due diligence

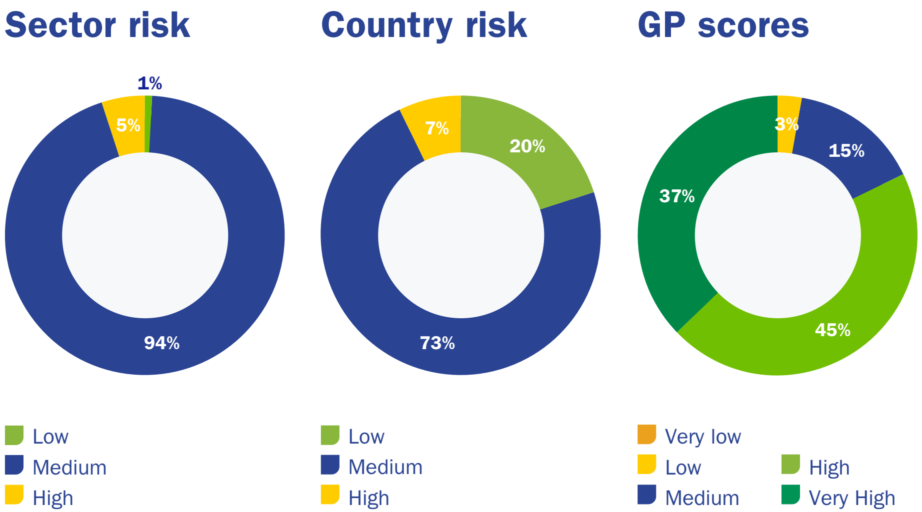
In the selection stage, as part of our broader selection process, we assess whether our investment partners will treat ESG risks and opportunities appropriately and in line with our responsible investment strategies and beliefs. The PGGM PE team wants to achieve strong returns with partners who are committed to and focused on investing responsibly, and are willing to keep improving their approach to ESG.

4.1. ESG sector and country risk

The PGGM PE team uses data from external data providers, such as MSCI and Sustainalytics, to determine the sector and country risks within the underlying companies in a GP's portfolio. This gives us primary insights into the ESG risks in the underlying portfolio companies.

The combined data on an assets' ESG risks and its managers' ability to manage them, as defined by our GP ESG Integration Assessment, enables the PE team to assess the ESG risks in the portfolio. We are comfortable investing in high risk countries and sectors as long as we partner with GPs that can effectively manage these risks.





"PGGM pushes the ESG agenda by asking what firms are doing to improve ESG during fundraising, advisory board meetings, and regular engagement calls. These efforts pay off, as we have witnessed multiple positive transitions from GPs so far."

Joris van der Zee
Associate

4.2 GP assessment

During the due diligence phase the private equity deal team will use an ESG questionnaire to assess management of ESG at the GP. This questionnaire, our ESG Integration Assessment, has seven questions drawing from the PRI's Due Diligence Questionnaire. It includes questions relating to RI policy and responsibility at the GP, involvement in industry initiatives (e.g. UNPRI signatory), ESG integration in day-to-day activities, ESG monitoring, and ESG reporting, resulting in a score of 1 (worst) to 5 (best). The PGGM PE team uses the framework to score the GPs in the due diligence period before investing and then also for monitoring.

New in 2020: We added two more questions to evaluate the GP on their approach to climate change and diversity, equity, and inclusion.

The scoring of GPs is summarized within the final investment proposal (FIP), the document upon which the relevant investment committee(s) take a decision on whether or not to make a commitment. During the deal team process, PE investment professionals, challenged by the Risk team and supported by the RI team when necessary, consider the ESG risks and opportunities of each investment. The PE investment committee is committed to showing an improvement in ESG implementation within the portfolio over time.

We are willing to invest with GPs with lower scores on their GP ESG Integration Assessment if they are willing to make a commitment to improve over time. However, sometimes we decide not to invest due to ESG considerations.

Co-investment decline

We were invited to co-invest alongside one of our large global GPs. A standard requirement for us in every deal is to receive a background check on the key managers of the business. Unfortunately, in this case, the background check did not come back 'clean'. It is very important to us that we invest alongside parties we can trust. We decided to decline this co-investment as a result.

"PGGM has a strong emphasis on integrating ESG considerations in all its PE investments. We as a team engage with our GP relationships regularly to encourage them to continuously improve on all aspects, including incorporating ESG in their diligence, monitoring, and reporting to LPs. We like to see ESG dedicated resources at our GPs and believe this works best with deep involvement from the investment teams. This year we became one of the first LPs to request data on GHG emissions and diversity KPIs across the portfolio, which saw good traction from our GPs and has set them up to report better going forward. There is an increased recognition of the significance of ESG in the investing community and it is very gratifying to see that a part of it is driven by our team's engagement."

Megha Jain
Senior Investment Manager

5. The commitment stage

PGGM PE generally looks for GPs who demonstrate a willingness and commitment to improve on their approach towards ESG over time. We also require that (i) we are excluded from companies investing in certain areas, including weapons and tobacco, and (ii) the GP reports on ESG incidents as soon as practicable and on ESG more broadly annually.

Language is included in the legal documentation with the GP which ensures that PGGM PE will not be invested in companies engaged in the production or sale of specific types of weapons, tobacco manufacturing, or companies which violate the UN Global Compact Principles with respect to human rights. As of 2021, this will also include investments in thermal coal utilities and mining companies as well as tar sands. In addition, we look to include language stating that the GP agrees to incorporate ESG criteria in their investment process in line with the UN-backed Principles for Responsible Investment.

We also ask our GPs to report on ESG incidents, such as accidents with severe physical injury, major environmental pollution, or legally established misappropriation of funds in order to manage potential reputational risk on our side and ensure that the GPs will follow up on these.

In 2015, together with AlpInvest Partners, APG, and MN, we developed a template to promote standardised ESG reporting for private equity investments. The intention of this template is to help PGGM PE understand and monitor the ESG implementation process at the fund and portfolio company level. The template can also be used for co-investments.

Requirements regarding reporting have been incorporated into the legal documentation with GPs since 2015. We continue to focus on encouraging our GPs to report on company level KPIs for their portfolio. We are pleased to have seen a significant increase in the number of our GPs doing so – today this represents 40% of our go-forward GPs. We hope a continued focus on reporting will drive further improvements across the industry.

New in 2020: We ask that our GPs report to us annually on GHG emissions and diversity KPIs.

6. The ownership stage: monitoring, engagement and reporting

During the investment period of the fund, PGGM PE engages annually with GPs to encourage improvement regarding ESG integration.

6.1 Monitoring

The PE team monitors improvements using the ESG Integration Assessment for our GPs in our quarterly monitoring meetings, where the broader fund and/or co-investment portfolio is also discussed. In addition, ESG incidents in the portfolio are discussed in our weekly team meetings when necessary.

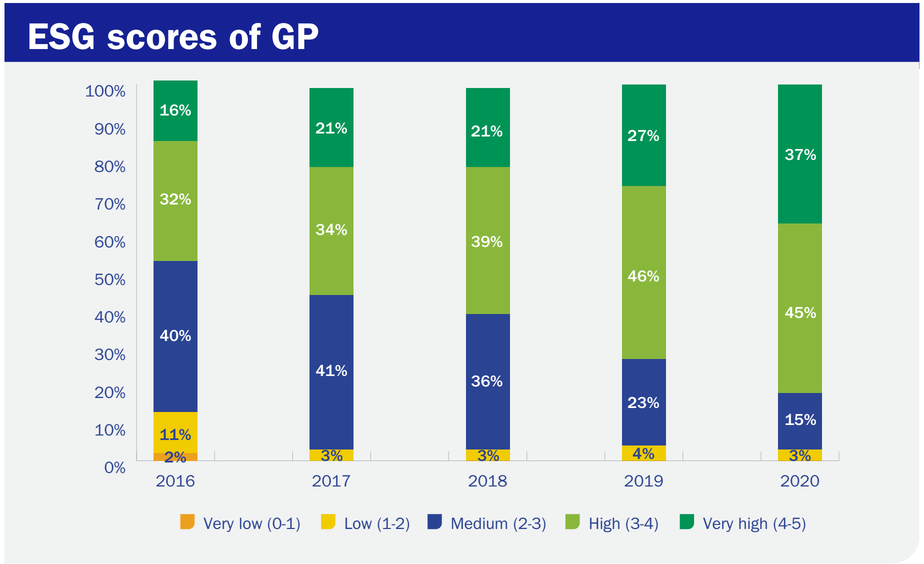
6.2 Engagement

The GP ESG Integration Assessment and the ESG country and sector risks identified can be helpful when approaching new and engaging with existing GPs. The analysis provides us with a good context to engage with our partners on how they integrate ESG in their investment process. In addition, it is an instrument to gain insight into which partners are lagging and it enables us to identify whether the portfolios of our GPs contain more or less ESG risks.

The PE team targets to engage annually with every GP in our portfolio where we have committed to their last fund. We generally spread this out through the year to engage with roughly 25% of those GPs each quarter. However, in 2020, our engagements mostly shifted to the end of the year due to the start of the COVID-19 pandemic in Q1.

In 2020, we asked our GPs to report for the first time on ESG KPIs relevant to gender diversity and GHG emissions. We will do this annually going forward. Prior to making this request, we provided relevant ESG training to the entire PGGM PE team.

Our engagement process typically involves having a call or meeting with the GP to share best practices, discuss updates, and discuss ways to continue improving on the approach that they and their portfolio companies take to ESG and reporting to LPs. In 2020, we pro-actively engaged with 46 GPs



(71% of our go-forward GPs) and we were pleased that 31 (48% of our go-forward GPs) of them showed significant improvement. Although we are pleased to have engaged with the vast majority of our go-forward GPs in 2020, we fell short of our goal of engaging with all as the COVID-19 pandemic postponed some conversations.

Over time, the GP Integration Assessment scores in PGGM PE's portfolio have improved. This reflects the continued evolution of the private equity industry as well as our active engagement with GPs to lobby for a stronger focus on ESG in portfolio companies. All GPs scoring "Very low" are either no longer in the portfolio or have improved their performance, and the best performers, those ranking "Very high" or "High" have grown from 73% as of end of 2019 to 82% as of end of 2020.

While not all GPs in the PE portfolio are UNPRI signatories, their share has been steadily increasing over the past years. In 2020, we saw a big increase in the number of signatories – 28 (43% of our go forward GPs) are now signatories as compared to 17 (24%) a year ago. We continuously encourage GPs to join the PRI and other relevant industry initiatives.

6.3 Reporting

PGGM also engages with the market in order to improve ESG performance. We enter into a dialogue about sustainability with partners and stakeholders to elevate the private equity industry to a higher level. Among other things, we devote attention to ESG reporting standards.

One of the questions from the GP ESG Integration Assessment focuses on reporting. As mentioned earlier, PGGM has developed a reporting template that we encourage our GPs to use. We also contributed to the development of PRI's guidance on ESG monitoring, reporting, and dialogue in private equity. We have historically put considerable focus on encouraging our GPs to improve their ESG reporting.

At the moment, 82% of our GPs report on ESG, although at different frequencies and levels of detail. 62% of our GPs report in an annual ESG report, 34% in their general quarterly reports, and 40% report specifically on company-level KPIs (with some GPs reporting in a combination of these).

We are pleased to see that GPs reporting on company-level KPIs increased from 14% in 2018 to 24% in 2019 to 40% in 2020, as this was a focus area for us since 2019. These figures indicate the market is moving towards improved reporting, including reporting on company-level KPIs. As ESG awareness becomes increasingly widespread in the market, we expect this trend to continue with even more GPs providing more detailed ESG reports in the coming years.

"We invested six years ago with a US mid-market focused GP. At the time, the manager was at a very basic level of ESG integration in that they took ESG risks into account when selecting and monitoring investments but not in a structural way. However, we were willing to invest as they committed to improve over the fund life and agreed to our exclusion policy. Over the next four years, with regular engagement on our part, the GP developed and put in place an ESG policy, embedded ESG into the investment cycle, started high level reporting on ESG to LPs, and finally engaged a third party consultant for advice and support. We invested in their subsequent fund in part because they delivered on their promise to keep improving on ESG. Moreover, they have continued to take steps – formalizing how they do ESG due diligence on new deals and improving their ESG reporting, including identifying and reporting on company-level KPIs. Also partly in response to our request in 2020, this will include Scope 1 emissions in the future. Their ESG Integration Assessment score has increased steadily from the time of our first commitment. We are very pleased with their progress and the role we have played in their development."

Rita Nguyen
Analyst

As one of the organizations which helped found the UNPRI, PGGM has been a signatory since 2006 and participates actively. PGGM PE has also been a formal member of the Institutional Limited Partners Association (ILPA) since 2010. We currently serve on ILPA's ESG working group. Lastly, PGGM is also a part of the affiliated network of Invest Europe.

6.4 Material ESG Incidents

While PGGM tries to protect its investments and clients from ESG related risks, incidents nevertheless occur occasionally. The focus following an incident is on how the GP manages the situation and resolves problems for all stakeholders. In 2020, there were five material incidents logged. We are still monitoring the situation for two of these incidents.

"In 2020, a serious traffic incident resulting in several fatalities occurred where the driver was employed by one of our portfolio companies. The company cooperated with the ensuing investigation and provided trauma counselling for the driver. Fortunately, it was determined that the driver had followed all traffic rules and there was no wrongdoing on his side. In this case, no further action was required from the company or the GP. Incidents involving fatalities are deemed to be ESG incidents and we appreciated that as per our policy the GP reported it to us promptly. This allows us to be prepared to react appropriately in case of adverse press."

Berend Schiphorst
Senior Investment Manager

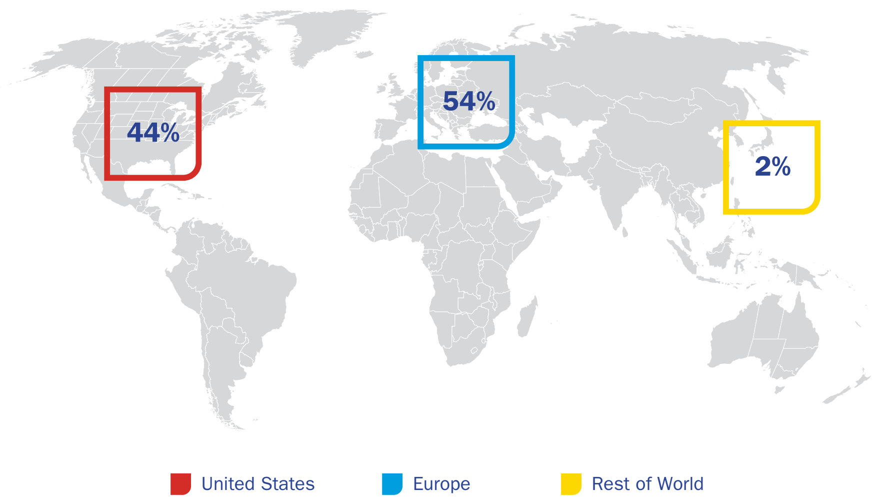
7. ESG in our Co-investments

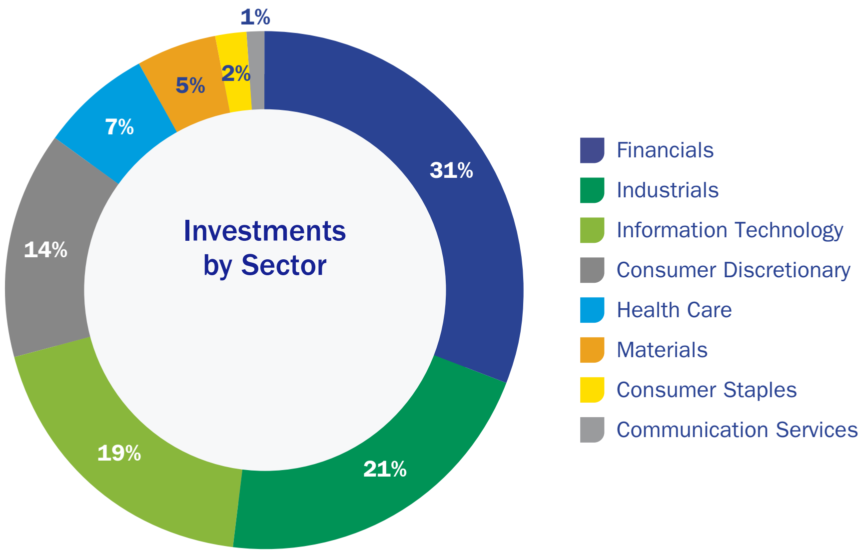
In addition to the GPs in the PE portfolio, PGGM has to date completed 62 co-investments of which 54 are still unrealized. Of these, only two investment have thus far been in emerging markets, with the remainder headquartered in Europe or the US. A breakdown of investments by sector can be seen below, with the most significant being Financials.

As co-investors in a portfolio company, PGGM PE is closer to the company and so may exert more influence with regards to ESG than might be the case regarding a portfolio company in a fund investment. We engage on ESG for co-investments through regular update calls with the GP and by requesting reporting on specific ESG KPIs.

Co-investments which contribute towards reducing food waste, water scarcity, or the development of life-saving medications are designated as Sustainable Development Investments ("SDI"). For these, we request that the GP tracks, reports, and improves specific ESG metrics over the life of such investments.

PGGM tends to co-invest alongside GPs with higher than average ESG scores. GPs with which PGGM has done co-investments have an average ESG score of 3.84 (out of 5), as compared to 3.68 in the full PE portfolio.





Case study SIG

Our co-investment in SIG alongside Onex is a good example of a sustainable development investment. SIG is a leading systems and solutions provider for aseptic packaging. SIG fits in our SDI framework based on the food security and climate change profile of the company: (i) food security goals are a key element in aseptic packaging, SIG ensures highest quality in terms of food security which is a key differentiator from low cost suppliers, and (ii) climate change because of the favorable profile of carton packaging compared to plastics, SIG also developed sleeves that contain carton board which are easily recyclable as opposed to aseptic carton which comprise aluminum.

SIG's filling technology minimizes food loss, and the company is working with partners to deliver safe, affordable nutrition to more people and thus further reducing food loss. SIG is committed to carbon reduction, sustainable sourcing and a circular economy. The company is producing with 100% renewable energy, thereby achieving carbon neutral production since 2018, and is also further expanding its solar installations. By sourcing renewable raw materials from sustainably managed forests, SIG is helping to preserve vital ecosystem functions. And unlike most packaging alternatives, SIG's cartons are made mainly from renewable materials contributing to the circular economy.

SIG's ESG efforts are embedded in the core business processes and company culture, driven by the responsibility governance structure. Beyond this, the company has a financing package which is explicitly linked to sustainability performance. Achieving or missing targets on reduction in CO_2 emissions and a particular EcoVadis score would respectively result in a reduction or increase in the interest rate.

Over the course of our holding period of this co-investment, between March 2015 and December 2020, SIG amongst others reduced 58% of operational emissions and decreased the waste rate for pack production with 9%. Also post our investment the company will further contribute to the UN SDGs, with 2030 target goals, including SDG 2 Zero Hunger and SDG 12 Responsible consumption and production.

SIG

8. Sustainable Investing

Our largest client, PFZW, has set an ambitious target to invest 20% of its AuM in investments that contribute to the UN SDG goals. 17% or €42 billion has been invested for PFZW in such investments as per the end of 2020. The PE team is expected to contribute towards achieving this goal.

8.1 Our impact investments

SDIs are clearly defined investments that not only contribute to the portfolio's financial return, but are also intended to generate societal added value. With the new ambition of PFZW to invest 20% of their AuM in investments that contribute to the UN Sustainable Development Goals (SDGs), we have adjusted our scope accordingly.

We used to focus on investments that provide solutions to four themes i.e. climate change, water scarcity, healthcare, and food security.[1] The four themes represented 5 SDGs (SDG 2 – zero hunger, 3 – good health and well-being, 6 – clean water and sanitation, 7 – affordable and clean energy and 12 – responsible consumption and production). PFZW has chosen to add 2 SDGs to their core focus areas (SDG 11 – sustainable cities and communities and SDG 13 – climate action).

These problems not only constitute threats to society, they also translate into financial risks for companies and investors. At the same time, contributing to solutions to these issues represents a financial opportunity for investors.

Each year we calculate the impact of these investments over the previous year: in addition to the financial return, we indicate how these investments contributed to the selected themes. We use impact data reported by companies and impact data based on impact models for this purpose.[2] In this calculation, we only allocate the share of the total impact to us that matches our share in the company or the fund. For a more detailed explanation of how the impact is calculated, please visit our website.[3] During 2020, there were three new fund commitments and one follow-on investment in a co-investment that contributed to an increased allocation to SDG investments in the PE portfolio.

In 2020, we committed $35 million to Blackstone Life Sciences ("BXLS") Fund V. The BXLS V commitment was the third fund investment from the Sustainable Investments allocation within the Private Equity mandate. This investment supports the development of new therapeutics, leading to positive impact on the lives of patients across the world.

BXLS' strategy is to partner with large pharmaceutical and emerging biotech companies to fund the late-stage clinical development of promising new therapeutics. BXLS provides a solution to pharma and biotech companies and is active across a variety of therapeutic areas including oncology, cardiovascular and central nervous system conditions.

1 To comply with the Investing in Solutions criteria, an investment must have an actual positive social impact on at least one of the four areas of focus eligible for investment. The investment's contribution to a solution must be substantial and the social impact must also be tangible: for the company or the project we require that the real impact of the solution is measured, managed and reported on. See our website for the criteria.
2 The increase in the impact reported by us in comparison to last year cannot be linked one-on-one to the improved performance of the companies in the portfolio. Part of this increase is due to the increased availability of impact data: the data coverage has increased.
3 Our clients do not have a target for the impact to be achieved.

8.2 Our contribution to the SDGs

In 2020, we analysed for the third time which of the investments on behalf of our clients contribute to the 17 UN SDGs. We estimated that by the end of 2020, PE had invested €1.1 billion in companies that contribute to at least one of the SDGs. This is 8% of the total invested capital within the portfolio.

Please see the taxonomies we used to determine whether an investment contributes to an SDG: SDI taxonomies and guidance 2020. We developed this together with APG in order to have more comparable results. While the SDI taxonomy leaves room for different interpretations, we are keen to further align impact standards with our peers via the Asset Owner Platform for Sustainable Development Investments (SDI-AOP).

One of the biggest challenges is of course the lack of data. Most of the companies still do not report on how they contribute to sustainability and when they do they have different definitions. Another challenge is taking into account the potential and actual negative impact when counting something as having a positive impact.

Please read more about the SDIs and the challenges in the PGGM Investments Annual Report 2020.

8.3 SDG team within private equity

To contribute towards the SDG ambitions goal, PGGM PE has started a private equity impact sleeve in 2019 with dedicated resources to source additional private equity opportunities that contribute to the SDGs. A central part of this initiative is to measure the impact of these investments. PGGM is cooperating with other large investors and investee companies to improve the quality of the data and the ability to measure the impact.

PGGM has formed a dedicated team within the private equity department. This team works full time on sourcing and executing investments in private equity funds that invest in companies that have a positive contribution to one or more of the mentioned SDGs. Next to fund investments, the team has a target to invest a significant amount of the allocated capital through co-investments. With this approach the additional costs of the strategy will be mitigated and it provides the opportunity to specifically build up exposure to individual companies that fit the core focus SDGs. PGGM has allocated €500 million to this private equity impact sleeve, to be deployed in 3-5 years, of which it invested almost half up to the end of 2020.

The SDG strategy focuses on thematic funds in addition to buyout funds. Most of the investments are smaller and can be a mix of venture, growth, and buyout strategies. This means more effort per invested euro, indicating a strong commitment to increase the investments in the SDG focus areas.

The investments in the private equity impact sleeve are part of the broader PE mandate and will need to stack up against the wider private equity portfolio in terms of risk-return profile. The private equity impact sleeve's scope is global, but the focus is initially on developed country managers. We are looking for GPs with a proven track record and have a preference for GPs with whom we can co-invest. First time funds are possible if the team members have convincing attributable private equity track records.

The minimum investment PGGM would like to commit to a fund is €25 million, which implies a minimum fund size of €100 million. In the US, the minimum target fund size should be at least (the USD equivalent of) €200 million. For co-investments, we can commit a minimum of €5 million. Note that these minimum investment sizes apply only to Investing in SDG investments and are significantly smaller than for other PE investments.

With all our GPs we have an agreement that they will report on the impact they generate with the investments on an annual basis. The number of portfolio companies that have been in the SDG portfolio for the full year 2020 is limited, but we have received impact KPIs for all our fund and co-investments that we have held in our portfolio since 2019 and for the full year 2020.

Some highlights include:

1. Blackstone Life Sciences Fund V: the investments that were made in 2020 include therapeutics and device developments that are addressing a potential patient population of almost 100m patients with severe unmet needs, including bladder cancer, diabetes and bad cholesterol.
2. National Seating & Mobility: have served over 200k patients with long-term or permanent loss of mobility with highly customizable wheelchairs.
3. Paine Schwartz Food Chain Fund V: Paine Schwartz produced its sustainability report including KPI reporting on our investments in Fund V. See Paine Schwartz Partners ESG Report 2021.
4. Bain Capital Double Impact: Bain produced its Double Impact Annual report including our investments in Fund II: Bain Capital Double Impact Year in Review 2020.

9. Climate change and diversity, equity & inclusion

In 2020, the PGGM PE team focused specifically on encouraging its GPs to take steps to measure and report on their GHG emissions as well as their diversity, equity, and inclusion (DEI) initiatives. We did this through our normal annual engagement meetings as well as by creating a new template with specific ESG KPIs for our GPs to share with us. These included:

- Scope 1 emissions data and other financial data so that we could make an estimate of the scope 1 emissions attributable to PGGM
- Scope 2 and 3 emissions data were optional additions
- Gender diversity data at the GP level using ILPA's template
- Gender diversity data for senior leadership and board level of portfolio companies

We intend to expand the template next year to include ethnic diversity data at the GP and portfolio company level using ILPA's template.

Since early 2021, PGGM is a signatory to ILPA's Diversity in Action initiative in order to help build momentum around the advancement of DEI over time.

Response rates

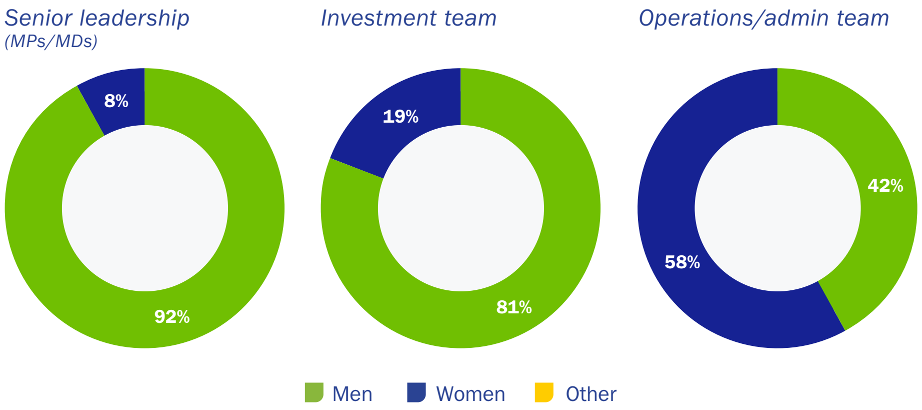
We have received scope 1 emissions data on 27% of the companies in our portfolio from our GPs and we have estimated figures for the rest

100% of our GPs reported to us on gender diversity at their firm

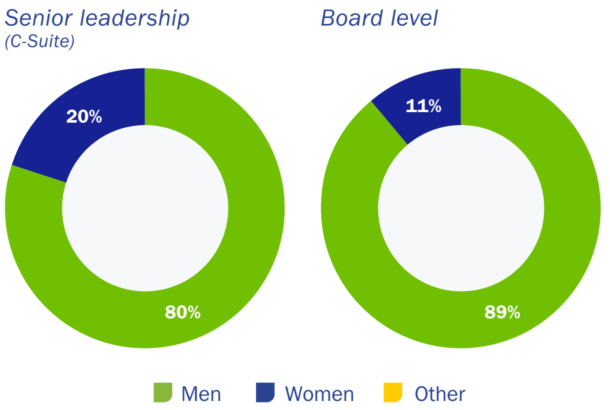
77% of our GPs reported on gender diversity of senior leadership and boards at their portfolio companies

We will continue to engage with our GPs to increase the response rates we have received in 2020, particularly on gender diversity at portfolio companies as well as scope 1 emissions data. As we only received data on 27% of the companies in our portfolio, we hope to report on the climate impact of our portfolio in a more detailed way next year.

Diversity at our GPs



Diversity at portfolio company level



10. Outlook

There will always be opportunities to further improve ESG integration in investing, monitoring, and reporting. We are therefore committed to continuously improving and refining this process to ensure that PGGM remains a best-in-class responsible investor, providing a model for other stakeholders in the industry. In addition, we continue to engage with our GPs to help inspire focus and drive further improvement on ESG integration at their firms and portfolio companies. We strive to make investments that continue to support the present and future financial security and well-being of pension beneficiaries, but just as importantly contribute to ensuring that tomorrow's world and society is one in which these beneficiaries will want to live. To achieve this, we will continue encouraging all our GPs to take steps to measure and report on their GHG emissions as well as their diversity, equity, and inclusion initiatives.

In 2021, we expect significant development on sustainability topics from different stakeholders. First, ambitions around climate change are growing to be aligned with the Paris Agreement. In tandem with this trend, our clients are committed to the Dutch Climate Agreement. However, there is a gap in terms of data maturity in the PE industry, and the PGGM PE team aims to drive better GHG emissions data for our portfolio in both quantity and quality. Secondly, we see the demand for increased transparency about the adverse impacts directly or indirectly linked to our investment portfolio. This is not only required by our clients as signatories of the International Responsible Business Conduct Agreement, but also by the Sustainable Finance Disclosure Regulation. Finally, we will further strengthen our SDG strategy by increasing SDIs and by measuring the impact. This is also in line with the broader trend in measuring and increasing the alignment with the EU taxonomy. Over the longer term, we hope to help drive improvements in these metrics as well as on their level of reporting.