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PGGM
Remuneration Guidelines for Portfolio Companies

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PGGM

Preamble

For a long time now, shareholders have focussed on remuneration policies and structures. We believe that the time has come for shareholders to take a position on the size of remuneration packages. Companies must shift away from current-day practices of remuneration-setting against peer groups, and towards adequate tailored internal drivers which foster the creation of sustainable long-term absolute returns and a more sustainable world.

To help us frame what we are striving towards, we thought about what remuneration ideally could look like:

1. The interests of stakeholders including shareholders are aligned with respect to long term sustainable value creation.

2. The supervisory board[1] is accountable to shareholders, supervises the corporate strategy, and ensures that it will create long term shareholder value while taking into account the legitimate interests of stakeholders. Moreover, the supervisory board selects management and ensures that, together with the management board, expectations are set and an appropriate corporate culture is upheld.

3. Excessive financial wealth should not result from compensating members of the management board for their role in in helping to create long-term absolute returns and a more sustainable world. Management may realise substantial financial wealth by investing in the companies that they manage, and in this way may realize wealth the way in which the company's shareholders realize returns by investing in the company for the long term[2].

4. Employees and management expect to only receive fixed remuneration for achieving what is expected of them by doing their regular jobs. They can receive variable remuneration in circumstances in which they realise true performance which meets or exceeds challenging levels.

5. Financial results are not the only considerations in determining variable pay, but other non-financial results are also included, such as customer satisfaction, impacts on society which would lead to a more sustainable world.

6. A malus provision must be applied for operational decisions that result in negative impacts on society and/or the environment. Clawbacks should be introduced for (i) variable remuneration that has been granted on the basis of incorrect (financial) information or has undesirable outcomes given the circumstances and/or (ii) decisions that have had, in retrospect, negative impacts on society and/or the environment.

7. Financial remuneration is but one form of reward which is included amongst the total rewards that employees and management receive. Other non-financial or 'soft' rewards include receiving training, availing oneself of new opportunities which may lead to personal and professional growth, receiving recognition for a job well done, contributing towards and being part of an appropriate corporate culture, etc.

8. Supervisory boards are accountable for ensuring that payments are made when they are earned, and in applying their discretionary powers in a reasonable way in the event that past decisions result in adverse outcomes to stakeholders.

We recognize that the description above may not be achievable at this time, so we considered what could be achieved with a well-functioning remuneration system in today's world and over time. Generally in today's world, shareholders and/or their representatives, such as PGGM, appoint supervisory boards, to act as their agents to represent them and other stakeholders. At the shareholder meeting shareholders generally appoint the management board, as proposed by the supervisory board, to act as their agents and to which they delegate a portion of their responsibilities including implementing the corporate strategy which supports sustainable long-term value creation. Supervisory boards oversee and challenge the management board and their corporate strategy setting and execution, while taking into account the legitimate interests of stakeholders. We expect supervisory boards to live up to the spirit of our guideline in their oversight of remuneration, and also in the appointment process of the management board members.

A management board member or supervisory board member of a company should not be motivated or receive excessive remuneration simply for the positions they hold in the company. Instead, individuals in these roles should receive appropriate fixed salaries for

1. In the event that the company has decided to include executive directors and supervisory directors in a single company body (a one-tier management structure), the principles set out in this document that apply to "the supervisory board" also apply to the supervisory or non-executive directors. Wherever this document refers to 'the management board' or 'members of the management board' it should be understood to refer to executive directors in the case of companies with a one-tier management structure.
2. We acknowledge that investing in this manner may lead to very high returns for individuals.

achieving what is expected of them by doing their jobs in a reasonable and responsible manner. Management boards should only be rewarded with variable remuneration when performance meets or exceeds challenging levels.

The definition of excessive varies among individuals, across markets and across our investments. There is growing pressure from our clients and their beneficiaries on behalf of whom we invest to no longer be silent on the size of pay. While we also find it challenging to define the concept of excess, we have committed to take affirmative action against the most excessive remuneration practices in our portfolio. We will engage with these companies, and take other measures as necessary, to exhaust all efforts to ensure that we will behave as responsible stewards of our clients' investments. If these efforts do not lead to the desired outcomes over time, we, as ultimum remedium, may decide to exclude these companies from our investment portfolio.

We strongly believe that a part of doing ones job in a reasonable and responsible manner includes achieving absolute returns earned over the long-term and *shared value*[3]. Long-term absolute returns result from making contributions to the real economy and do not result in short-term gains at the expense of other stakeholders in the community or excessive risk-taking behaviour by the company, management and/or employees. Shared value is realized when capital is invested to generate economic value while it also creates value for society, for example helping to solve social and/or environmental needs or problems, allowing for a more sustainable world. For PGGM, it is also important that companies' operations do not result in adverse social or environmental outcomes.

PGGM's role is to invest for the purpose of generating returns on an absolute basis so that our clients may continue to pay pensions, while also making decisions that reflect the values of our clients and contribute towards a more sustainable world for current and future beneficiaries of the pension funds we invest on behalf of. As such, our clients concluded that they are willing to share profits when excessive absolute returns are created. In practice, this means that minimal return hurdles must be met on our clients' invested entrusted pension contributions over the long-term prior to supporting profit sharing through variable remuneration.

This also means that we will no longer support certain remuneration practices which are heavily aligned only with management's interests and not at all aligned with the creation of long-term absolute returns and/or the interests of broader stakeholder group.

Examples of practices PGGM and our clients will no longer support include, but are not limited to:

- Setting out contractually agreed minimum bonus payments
- Compensating a new hire for previously unvested incentives that were awarded for retention purposes
- The accelerated vesting of variable remuneration
- The absence of (the use of) clawbacks of variable remuneration
- Lack of transparency of different types of termination payments made
- Paying variable remuneration when the environment or society is negatively impacted
- Payment of variable remuneration in the form of stock options.

We are convinced that remuneration plans became too complicated and, as a result, their outcomes too unpredictable. We believe that participants as well as supervisory boards, in fulfilling their oversight mandate, benefit from remuneration plans that are simple and predictable. We are also of the view that stakeholders would benefit from simpler remuneration plans.

In summary, the goal of this guideline is to:
1. limit excessive remuneration
2. endorse variable remuneration when financial performance meets or exceeds challenging levels and takes into consideration social and environmental impacts
3. support the long-term perspective, and
4. simplify pay structures.

We believe that this guideline is an important part of our role as a responsible investor of pension fund assets. It supports the principles that have been set out by our clients, and sets out our expectations as to the structures and processes required to meet these principles.
We also believe that the additional objectives we set out to achieve with this guideline have been met: that this guideline should meet our clients' expectations of curbing excessive remuneration, reflect our beliefs and investment practices, be easily understood, and be readily implementable into our global investment, voting, and engagement practices.

We anticipate that achieving these objectives will take an extended period of time. PGGM will take a pragmatic and phased approach in working towards our better world scenario. We also undertake to report against this guideline, and to revise it from time to time. As a final point, this guideline is principle based and applies to our investments in both listed companies and to our direct or

3. The principle of shared value involves creating economic such that it also creates value for society. The Harvard Business Review 'Creating Shared Value – How to reinvent capitalism and unleash a wave of innovation and growth', by Michael E. Porter and Mark R. Kramer 2011.

indirect investments in private[4] companies. We strive to materially live up to these principles and in doing so, acknowledge that there are differences across markets such as, for example, differences in culture, legislation, and between private and listed companies, which will impact remuneration practices. We recognize that these differences may cause PGGM to deviate from this guideline in a strict sense. If this occurs, we will aim to live up to the spirit of this guideline. Over time, we will undertake activities through our implementation strategy that will help us to close these gaps, thus moderating market differences where it makes sense to do so.

Principles and explanations

1. Incorporating a Stakeholder Perspective

Principles:

- Remuneration is paid for the creation of long-term financial absolute returns and sustainable value.
- Remuneration policies incorporate a broad stakeholder perspective.

Explanation:

There are certain current-day practices prevalent in some markets which do not support PGGM's desired practice of paying remuneration for creating long-term absolute returns and sustainable value for a broad group of stakeholders. We believe that such practices, some of which are set out in the Preamble, are aligned only with management's interests and contribute to excessive and complicated remuneration systems that are not at all linked to long-term value creation and/or the interests of a broader stakeholder group. We are not supportive of the continuance of such practices, and prefer that the interests of a broader group of stakeholders be taken into consideration so as to more equitably balance the interests of stakeholders. Taking a long-term and wider stakeholder perspective will result in creating financial returns which are long-term absolute returns that also positively contribute to social and/or environmental issues while ensuring that corporate decision-making, at a minimum, does not have any negative impact on society.

2. Fixed Salaries

Principles:

- Employees and management receive fixed salaries that are a fair exchange for executing the job in a reasonable and responsible manner.
- Any increases in fixed salaries of the management board are consistently applied across the company's broader employee population.

Explanation:

PGGM believes that fixed salaries are payment for achieving what is expected; only performance that meets or exceeds challenging targets should result in grants of variable remuneration. We are of the opinion some amount of variable remuneration has in fact become an additional form of fixed payment. This should not be the case. We believe that, in principle, fixed salaries are a fair exchange for executing the job in a reasonable and responsible manner[5].

We expect the supervisory board to not overpay for services rendered, and that they will demonstrate through appropriate disclosure that management board remuneration levels are linked to and built upon the cost of the general employee base. Absent appropriate circumstances including, for example promotion into a new role or filling a role vacated by a long-serving member of the management board, fixed salaries should not increase beyond increases in remuneration realized by, on average, the company's broader employee population. The reverse should not necessarily result in change; increases in remuneration of the broader employee population do not have to be carried over to remuneration of the management board. However, we expect any decreases in remuneration realized by the broader employee population should also have a similar impact on management remuneration.

4. We expect that it may take time and further investigation before we can start implementing these principles for investments in private companies and may need to amend elements of the guidelines to reflect the practicalities of private markets. Our priority lies with implementing this guideline in listed companies.
5. From an investor and company perspective a limited variable remuneration package for the wider employee base could play an important role in controlling the overall costs of an organisation in good and bad times.

3. Variable Remuneration

Principles:

- Employees and management are only granted variable remuneration in circumstances in which they meet or exceed challenging financial return and sustainable long-term value targets.
- Variable remuneration is granted conditionally, only vests over the long-term, and must be held until after departure from the company. The vesting of variable remuneration is subject to maintaining the favourable conditions under which the awards were first granted.
- Should operational decisions result in negative impacts on society and/or the environment, a malus provision must be applied to potential variable remuneration grants.
- Clawbacks must be introduced for (i) variable remuneration that has been granted on the basis of incorrect (financial) information or has created undesirable outcomes depending on circumstances and/or (ii) decisions that have had, in retrospect, negative impacts on society and/or the environment.
- Variable remuneration consideration can only take the form of restricted common shares of the company and/or cash, with a preference for restricted common shares.
- Upon grant date, variable remuneration is limited to a reasonable multiple of fixed remuneration per individual per annum.

Explanation:

We want companies to shift away from current-day practices of setting variable remuneration against peer groups. We require management boards to produce absolute returns on our investments which meet or exceed challenging targets for absolute returns and sustainable long term value. PGGM is willing to share a portion of profits with employees and management under such circumstances, and will determine whether the payment of variable remuneration is warranted based on whether absolute returns on our investment have been achieved over a five year period. These targets will vary across sectors and markets and will reflect our returns expectations.

A secondary consideration to the decision of whether to approve the grant of variable remuneration is how corporate decision-making impacts society and the environment through the integration of non-financial factors into corporate strategy over the long-term. We believe it is crucial that non-financial factors be incorporated into corporate strategy and ongoing operations in order to create sustainable value.

We believe that good behaviour should be expected by stakeholders including shareholders. In general, we disagree with the premise of incentivizing good behaviour, but recognize that there are exceptional circumstances in which certain companies go far beyond their peers in advancing their non-financial impact in a positive way. In such circumstances, we believe reasons exist to reward employees and management once they have already met the minimum absolute return threshold on our investments. Absent such exceptional circumstances, we consider the inclusion of non-financial factors in the operations of the company to be business as usual. Equally, poor behaviour should not result in the payment of incentives. If operational decisions result in negative impacts on society and/or the environment, this should be reflected in a reduction of the amount of the (potential) variable remuneration made available to those whose actions and decisions resulted in these negative impacts, in effect, a malus[6] provision. If the variable remuneration has already been paid out, a clawback is needed in situations where decisions that were made at the time have resulted in significant negative impacts on society and/or the environment. It is also necessary to implement clawbacks for variable remuneration vested on the basis of incorrect (financial) information and/or variable remuneration that is deemed undesirable.

We rely on the judgement of supervisory boards to make decisions regarding the size of (potential) grants, the vesting of variable remuneration if different than from our guidelines, and/or malus provisions as necessary, and to explain their reasoning to shareholders. We expect that supervisory boards would make remuneration decisions which reflect the outcomes of the management board's actions, including that no grants of variable remuneration be made when warranted, and we expect disclosures to substantiate why these decisions were made.

PGGM requires that other limitations outlined below be placed on variable remuneration to reverse trends that we find troubling:

1. Variable incentive grants vest over time in five equal annual instalments.
2. Conditions upon which awards of variable remuneration were granted must exist at the time of vesting or the awards will not vest and will be forfeited.
3. All vested variable incentives must be held through to a minimum of 1 year after departing from the company, provided the vested variable incentives are retained for a minimum period of five (5) years.
4. When an employee or member of management leaves voluntarily, they forfeit any rights to unvested incentives.

6. Malus provisions act to decrease the amount of unpaid variable remuneration available for distribution.

5. Variable remuneration can take the form of restricted common shares and in some cases, cash.
6. Variable remuneration must be reported commensurate with reporting standards in the reporting jurisdiction, but must also be reported at face value. Being complacent in a system which accepts excessive remuneration is something that we and our clients are not willing to accept; as such, variable remuneration is limited to a reasonable multiple of fixed remuneration per individual per annum.
7. In addition, supervisory boards should not respond to this limitation by compensating the loss of variable pay through increases in fixed salaries.

Outside of these limitations, it is our expectation that the supervisory board will use its judgement to maintain control over a remuneration system which supports our objectives of long-term absolute returns and sustainable value creation. This includes, for example, determining how much variable remuneration to allocate to each individual of the management board, how many individuals should be eligible to participate in the variable plan, and how management remuneration will be linked to the broader employee population in the company.

4. Non-financial Rewards

Principle:

- Intrinsic non-financial motivators are important and should be given significant weighting in the overall rewards system.

Explanation:
Much, if not all, of the emphasis on current-day remuneration plans focusses on financial rewards. However, numerous studies show that individuals are motivated towards individual outperformance by factors which may include money, but which also include other motivators which lead to greater personal satisfaction. The importance of these non-financial rewards is under-represented in a remuneration package of total rewards available.

We believe that corporations would be better served by refocussing their efforts from building complex financial-centric remuneration plans to providing environments which foster development of autonomy, mastery, purpose and other intrinsic motivators. This would result in more cost effective remuneration plans, reduce the reliance on large groups of experts to advise on and oversee remuneration structures and allocation decisions, and increase the creative outputs of individuals contributing to more sustainable performance and personal satisfaction, and ultimately to shared value and a better world.

Examples of non-financial or ‘soft’ rewards include receiving training, availing oneself of new opportunities which may lead to personal and professional growth, receiving recognition for a job well done, contributing towards and being part of a healthy corporate culture, and serving in other societal roles which utilize the expertise gained through employment.

PGGM expects supervisory boards to disclose how they take non-financial rewards into consideration when making financial reward decisions and what form such non-financial rewards take. We expect such disclosures to demonstrate that supervisory boards give significant weighting to non-financial rewards as they do to financial rewards, and that together these form part of the overall remuneration package.

5. Supervisory Board Responsibility

Principles:

- We expect supervisory boards to take into account the reasonable interests of stakeholders.
- Supervisory boards are responsible for overseeing management boards in their efforts to create absolute returns and sustainable value creation while executing their long term strategy.
- Supervisory boards must ensure that the management board is remunerated so as to reflect the interests of relevant stakeholders and not just a subgroup of stakeholders.
- It is the responsibility of supervisory boards to engage with shareholders in regards to their remuneration decisions.

Explanation:
Shareholders and other stakeholders rely on supervisory boards to make decisions which are in their interests. This includes setting the corporate strategy and ensuring that governance structures and processes adequately support the strategy in order to create sustainable value creation.

As it is our opinion that sustainable value creation should be a consideration in assessing and awarding remuneration, we believe that supervisory boards should be given the authority to appropriately evaluate the needs of stakeholders when making remuneration decisions.

PGGM believes that it is the role of shareholders to agree on certain parameters in regard to remuneration which also provide flexibility for discretion to be applied by the supervisory board. It is the supervisory board’s responsibility to design a total package, including perks and other non-financial rewards, which reflects a reasonable rewards system suitable for the company under its given circumstances, and to report their decisions to the wider society.

It is appropriate for shareholders to have a vote on the remuneration policy, and in this way, supervisory boards are accountable to their shareholders. It is also appropriate for shareholders to have a vote on the remuneration report. In keeping with the wider stakeholder perspective, shareholders should take into account the stakeholder perspective when making their voting decisions.

6. Supervisory Board Member Remuneration

Principles:

- Supervisory board members are paid a fixed salary.
- Supervisory board members do not receive any variable remuneration.
- Supervisory board members must neither purchase nor hold shares in companies whose supervisory boards they serve on.

Explanation:
In principle, the remuneration of supervisory boards should not be aligned with the interest of any one stakeholder, including shareholders, so as to prevent any possible cause for conflict of interest to occur.

To maintain their independence, supervisory board members should not be subject to the same remuneration as employees or management. We believe that remunerating supervisory board members similarly to management is a flawed approach to supervisory board remuneration. Similar remuneration schemes to that of management compromises the independence of supervisory board members by creating alignment with the management team they are tasked with overseeing.

To avoid conflicts between the management board and other stakeholders through remuneration practices of the supervisory board, PGGM believes that supervisory board members should be paid a fixed monetary amount, a salary, for executing their responsibilities. PGGM does not accept that supervisory boards are paid any variable remuneration. It follows that to maintain full independence, supervisory board members must neither purchase nor hold any shares in the companies that they are elected to oversee.

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