

Responsible Investment Implementation Framework

PGGM Vermogensbeheer B.V.

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Explanation of the Responsible Investment Implementation Framework

Introduction

This document describes the Responsible Investment Implementation Framework of PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM). The Responsible Investment Implementation Framework consists of a number of specific implementation guidelines. The framework and the underlying implementation guidelines are part of the policy framework for responsible investment (see figure 1) and are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

Implementation Framework and implementation guidelines

The Responsible Investment Implementation Framework consists of different, in some cases fund-specific implementation guidelines. These show how PGGM conducts activities in the field of responsible investment or implements responsible investment in specific asset classes in the PGGM mutual funds and under segregated mandates managed by PGGM for its clients.

The Responsible Investment Implementation Framework comprises the following implementation guidelines:

- Implementation Guideline on Environmental, Social and Governance (ESG) Integration
- Implementation Guideline on Active Equity Ownership, divided into:
 - Implementation Guideline on Voting
 - Implementation Guideline on Engagement
 - Implementation Guideline on Shareholder Litigation
- Implementation Guideline on Exclusions
- Implementation Guideline on Investing in Solutions for Sustainable Development

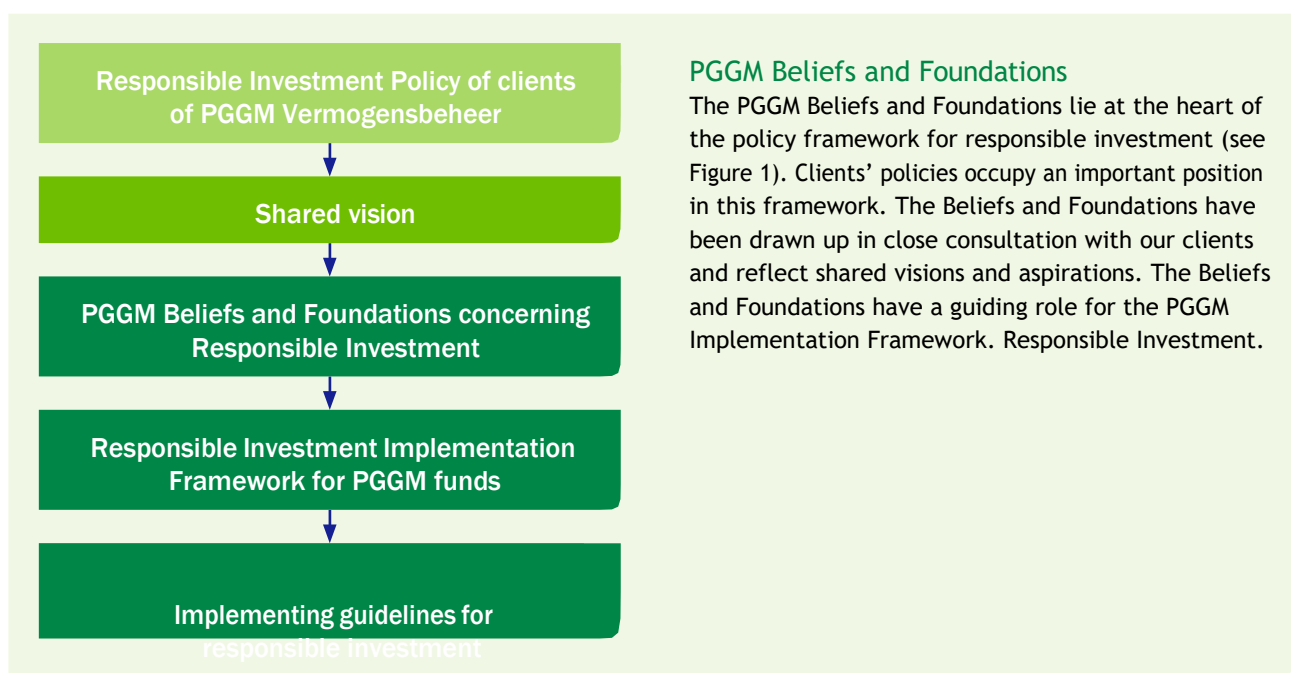


Figure 1: Policy Framework for Responsible Investment

Application of implementation guidelines

Application of the implementation guidelines in the PGGM funds

The various implementation guidelines apply to PGGM funds and where relevant, also to segregated mandates managed by PGGM for individual clients.¹ These can be supplemented by client-specific policy guidelines.

Reporting and accountability

PGGM reports quarterly and annually on the implementation of these guidelines. PGGM is committed to and reports on the United Nations-backed Principles for Responsible Investment. PGGM provides for the implementation of the Responsible Business Conduct Agreement on responsible investment by Dutch Pension Funds (IMVB covenant) for clients that have signed this agreement. PGGM reports to its clients on relevant developments on a quarterly basis. PGGM also has a publicly accessible website on which the Integrated Asset Management Annual Report is published, which includes independent assurance of this report. PGGM adheres to the principles of the Global Reporting Initiative (GRI) in compiling the annual report.

Updating and modification

The Implementation Framework and/or the underlying implementation guidelines are updated annually if developments give cause for this. PGGM initiates the update and informs clients and other stakeholders accordingly. Proposals on more substantive changes to the Implementation Framework or underlying implementation guidelines may be put forward by both PGGM and its clients. Extensive and radical changes, which for example could affect the PGGM funds' performance, must first be submitted to the Advisory Board Responsible Investment (ABRI) for an opinion. Such proposed changes must then be submitted to the clients for consultation, accompanied by the ABRI's opinion. Changes proposed by clients are first discussed in participants' meetings for the respective funds.

Roles and responsibilities

Various parties are involved in defining, implementing and if necessary modifying the Implementation Framework and underlying implementation guidelines. The roles and responsibilities of the respective bodies are as follows:

Investment Committee (IC)

The IC is a PGGM decision-making body which - among other things - takes decisions on the implementation aspects of responsible investment. On the basis of the Implementation Guideline on Exclusions, the IC determines the exclusion lists which are applicable to investments by PGGM. The IC also decides on other aspects which relate to the investments and result from the implementation of responsible investment.

Clients/Participants' meeting

PGGM's clients have their own responsible investment policy and can choose to draft their own exclusions list. In a participants' meeting the various clients participating in a particular PGGM fund have the opportunity to discuss or take joint decisions on fund-specific subjects. In the context of responsible investment, for example, they can advise to apply additional exclusion criteria to one or more funds or to add specific entities. In such cases, or if other subjects relating to responsible investment are under discussion, the Advisory Board Responsible Investment can be asked for an opinion (see below).

Advisory Board Responsible Investment (ABRI)

The ABRI is an advisory body on responsible investment established for PGGM and its clients. In advising PGGM the ABRI focuses on fulfilling the PGGM Beliefs and Foundations and the associated Implementation Framework to a high standard and in a manner consistent with the client base as a whole.

In the event of a fundamental change to this Implementation Framework or if PGGM reaches the limits of the framework when implementing responsible investment for its clients, PGGM will seek advice from the ABRI. On request, the ABRI also provides advice on policy and other matters for individual clients. The ABRI can also provide advice for discussions on responsible investment in a participants' meeting.

Responsible Investment (RI)

The RI department is responsible for the continuous development of the Implementation Framework comprising the various implementation guidelines. To that end RI consults clients, the ABRI and relevant internal bodies. RI has an independent advisory function for clients in relation to their responsible investment policies and their implementation. In that regard RI also supports PGGM and its clients in the critical evaluation of their own behaviour within the financial chain. In addition, RI supports the investment and other departments by providing advice and expertise for the implementation of responsible investment activities, for example if such activities form part of the investment process by means of ESG integration. RI is itself responsible for implementing various responsible investment activities, such as

¹ Please see our website (compliance) for more information per fund, including all relevant Sustainable Finance Disclosure Regulation (SFDR) information.

exclusions, voting, engagement and shareholder litigation. Finally, RI actively contributes to PGGM's innovation and thought leadership on responsible investment and provides quarterly and annual reports on responsible investment activities for clients and other stakeholders.

Implementation guideline on Environmental, Social and Governance (ESG) Integration

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) integrates environmental, social and corporate governance (ESG) factors in its investment processes (also known as ESG integration). The implementation guidelines also applies to segregated mandates managed by PGGM for individual clients. The implementation guidelines are a more detailed elaboration of our clients Responsible Investment policy and also form part of the PGGM Responsible Investment Implementation Framework.

Pursuant to the policy for 2020, ESG integration has been assigned to line management. This means that, as far as possible, the investment teams bear the responsibility for the implementation of ESG in the relevant investment portfolio. The assignment of ESG integration to the line management does not alter the fact that PGGM provides for consistency in the implementation, taking account of the possibilities that the investment categories offer, given the investment method and the nature of the investments. The investment teams are supported by the RI team, which has specialised knowledge of the implementation of ESG, data systems and best practices. In addition to this advisory role, RI plays a role in assisting the investment teams with setting ambitious targets and monitoring their implementation in practice. The assignment of ESG integration to the line management means that it consistent management of clients' objectives deserves attention

Definition

Taking into account the effect of ESG factors on the investment risk and return is a process we call ESG integration. Specifically, PGGM defines this as the structural and systematic incorporation of material ESG factors in existing investment processes. Material ESG factors are those which have a significant impact on the underlying investment, for example by reducing risk, improving revenues or saving costs.

PGGM assesses ESG factors, such as climate change or good corporate governance, primarily because these form part of the pursuit of good risk management. This is because ESG factors influence the investment returns of our clients in the longer term. Increasingly, statutory requirements are also being imposed for screening of these factors as part of risk management, because these factors will ultimately impact on the investment returns of our clients. In addition, PGGM sees this as an opportunity to realise improved performance, either by reducing investment risks or by increasing (the expected) returns.

Because PGGM realises the ESG integration via line management, it must monitor the consistent implementation of ESG integration. In order to ensure this, PGGM has set up an accounting and reporting structure in which PGGM RI provides advice under the responsibility of the CIOs.

Implementation

In order to assess which ESG factors are material for a specific investment, PGGM establishes processes which operate as part of investment decisions. The approach differs in each investment category. This difference is due to the degree of influence which PGGM can exert on the investment process, for example whether management is external or internal. In addition it makes a difference whether passive or active investment strategies are involved. The effect that ESG factors have on the investment category, such as risk reduction versus improved returns, also plays a role

Scope of integration

The scope of this implementation guideline is ESG integration throughout the entire PGGM portfolio. The guiding principle for ESG integration is the investment policy of clients. The statutory obligations also apply. Across its entire portfolio PGGM uses the Materiality Map of the Sustainable Accounting Standards Board (SASB) as the framework to identify material ESG issues per sector.

The classification is based on the industry/sector in which the investment is located. The conversion of this into screening depends on the type of investment (e.g. shares, bonds or other instruments). Based on the classification, the investment teams can determine the most relevant factors within the ESG spectrum that require attention and/or monitoring for the investment in question.

PGGM also determines the most appropriate method for monitoring of ESG factors for each investment type. The data sources that the investment teams and the RI team use for this vary, depending on the most relevant factors. PGGM conducts research into the (predictive) value of the factors used for the financial performance. Together with the investment teams, RI also determines for each investment team the core elements in the field of integration and how we can realise these objectives.

The investment teams are expected - insofar as relevant - to set out their medium-term integration targets in a document. This document is the 'implementation guideline' per asset class, in which each investment team shows how integration will be achieved in practice, as well as PGGM's expectations with regard to the entities invested in.. These implementation guidelines also form an important instrument to secure the implementation of ESG integration by internal and external managers in the way required by PGGM. At present the following further implementation guidelines are available (in English) via the PGGM website²:

- Responsible Investment in Credit Risk Sharing guideline
- Responsible Investment in Emerging Markets Credits guideline
- Responsible Investment in External Management guideline
- Responsible Investment in Infrastructure guideline
- Responsible Investment in Investment Grade Credits guideline
- Responsible Investment in Listed Real Estate (LRE) guideline
- Responsible Investment in Long-term Equity Strategy (LTES) guideline
- Responsible Investment in Private Equity guideline
- Responsible Investment in Private Real Estate guideline
- Responsible Investment in Rates guideline
- Responsible Investment in Systematic Equity Strategies guideline

PGGM ensures that the above guidelines are up to date by annually testing whether the relevant guidelines need revising on the basis of changes in laws and regulations, developments within the investment class and changes in policy.

In order to be able to perform the ESG integration work for the teams, a person responsible for the ESG integration from RI has been assigned to each investment team. These individuals work with the assigned investment teams to develop ESG integration. The RI persons handling ESG integration within the teams meet regularly to discuss the status of ESG integration as well as consistency of implementation by different teams.

Private markets consideration mechanism

The deal team process applies for the performance of ESG integration of investments in private markets. In the deal team process, the investment proposals are tested in terms of the client objectives. These are considered in the Main Investment Committee (IC) of PGGM.

RI plays no role in the deal team process itself, but does advise the investment teams on ESG aspects to be addressed. In the formal process, ESG due diligence takes place in the investment proposal phase. These due diligence inquiries are conducted by the Risk Analysis department on the basis of the SASB³ method and (sectoral) data from MSCI. On the basis of this score, Risk Analysis sets an ESG risk level. If substantial ESG risks are observed on the basis of this screening, Risk Analysis can call on the knowledge of the RI department in order to conduct a further analysis⁴. The investment team provides the RI team with the documents concerning the investment proposal for that purpose. This leads to a separate and independent RI opinion⁵, or to inclusion of the RI opinion in the analysis of Risk.

The approach is described in the Sustainability Risk Policy of Risk Analysis. Reporting will occur to the Investment Committee of PGGM.

² Transparency: Reports and policy documents | PGGM

³ SASB: Sustainability Accounting Standards Board - this is a framework for assessing financial material ESG risks.

⁴ Where appropriate, RI will initiate this itself.

⁵ Examples of this include separate advisory documents. Recent examples are available at the RI department.

This opinion is based on RI's knowledge of the ESG and reputation risks of investment propositions and is assessed in terms of the current policy of PFZW. RI considers here whether the policy is realised in a consistent manner and whether the weighting of ESG factors in the investment proposal is adequate. RI will also make proposals concerning the due diligence to be conducted and the points for attention in the management phase of the proposed investment. This is made available to the IC. A decision is then taken on the investment proposal, as instructed by the IC, in which RI is represented (and has voting rights, to secure the challenge function and consistency), after which, depending on the scale of the investment, the proposal is sent on to the executive committee Investments (Bci) of

our main client PFZW. RI makes its own analysis of every relevant proposal for the IC, where review against client policies is the basis for evaluation.

In the management phase of the portfolio, ESG integration consists of monitoring the ESG aspects of the investment. The investment team is responsible for this. RI supports, by conducting talks with general partners on the ESG policy to be pursued and by facilitation and development of monitoring standards⁶. Together with RI, the investment teams establish targets and RI tests these in terms of effectiveness, completeness and consistency.. In its quarterly reports to clients, RI reports on progress regarding ESG integration and the material ESG subjects.

⁶ For example, by agreement with the investment teams, RI plays a role in Advisory Boards (e.g. with GRESB Infrastructure).

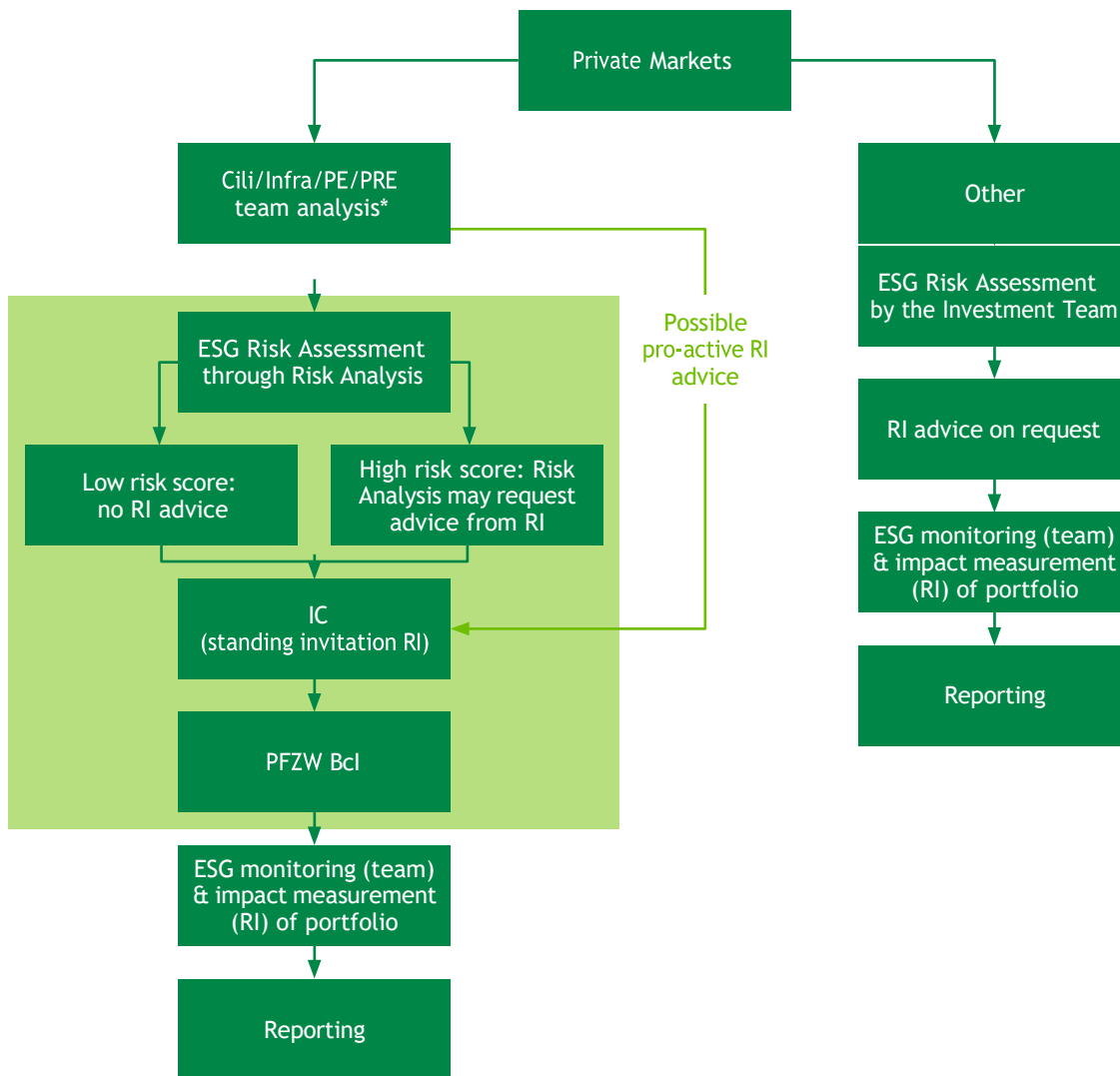


Figure 2: Diagram of ESG integration in Private Markets

Public markets consideration mechanism

The process followed for public markets depends on the investment method. For active investment mandates, the investment teams themselves give an opinion on how the ESG integration takes place. RI advises regarding requirements set by policy and the use of relevant data sources and metrics. RI also helps to identify and determine the ESG factors relevant for the team, using the SASB methodology as a basis. RI assists in the conduct of dialogue with relevant companies, if assistance is requested by the investment team. On behalf of the investment teams, RI will also conduct research and support ESG matters within relevant alliances. In this case too, the ambitions in the field of ESG are established with the investment teams. As with private market investments, this results in a guideline. I

ESG integration takes place in a different way for the passively realised mandates. ESG integration is based on a screening of investments for material ESG risks. The subjects requiring special attention are determined, particularly in the thematic fields and in relation to governance. RI deploys instruments for these subjects, in order to address issues within the portfolio. The considerations recorded in the different implementation guidelines apply here.

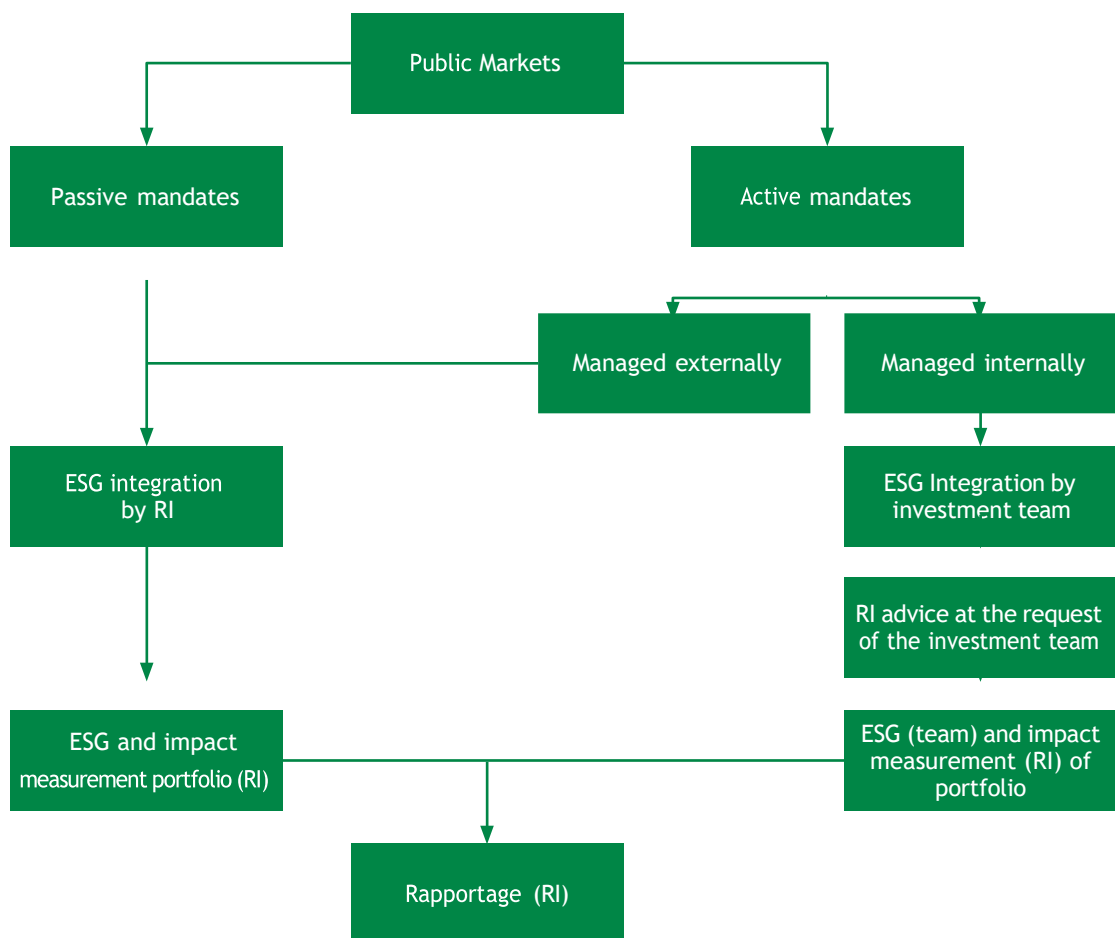


Figure 3: Diagram of ESG integration in Private Markets

Monitoring, Accounting and Reporting

PGGM reports on the activities in the field of ESG integration on a quarterly and annual basis, taking account of the applicable statutory requirements⁷. RI records the progress of the investment teams in the quarterly reports. The investment teams provide for reports in the field of ESG materiality themselves.

PGGM also has a publicly accessible website on which the integrated responsible investment annual report is published every year.

Governance of ESG integration and steering instruments

Clients have a number of instruments available for steering ESG integration. They concern steering in the field of inputs, such as the people and financial resources made available for ESG by the teams, and outputs, such as reports to be provided, the intensity of team dialogues with companies and lower limits for ESG factors. Mandating is the customary way to apply this steering. Where the objectives of clients are not team-specific, they must make a choice of whether to realise the allocation of the aggregated objectives to the different teams themselves or via the operator. The RI team creates and reports to clients about the progress, and attention is given to any gaps between the objectives and the realization. The CIO Private markets and the CIO public markets hold final responsibility for ESG integration within the investment teams. By agreement with the heads of the investment departments, they decide on the resources necessary to give shape to ESG integration within the teams. The co-CIOs also jointly steer the resourcing of the integration support from the RI team. In addition, they determine the required level of ambition of the different teams in the field of ESG, with the advice of the RI. In this way, the CIOs have oversight regarding the people and resources deployed for ESG integration in the investment portfolio. For clients, the CIOs are therefore the main contact regarding the implementation of ESG integration.

PGGM also realises the coordination of ESG integration by means of the following elements:

- Testing of the position of ESG in the investment mandate by means of Investment Process Reviews (IPRs);
- Discussion of (the consistency of) ESG integration at the level of individual propositions in the IC;
- Regular substantive talks with clients on responsible investment in general and ESG integration in particular;
- Consultation between CIOs regarding resources;
- Quarterly progress reports by RI.

⁷ Note: PGGM maintains an overview of current codes and covenants for this purpose (separate document).

Implementation guideline on Active Equity Ownership

Implementation guideline on Active Equity Ownership

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM) realises active equity ownership for the investments. This implementation guideline forms part of the PGGM Responsible Investment Implementation Framework. This Implementation Framework shows how the different activities in the field of responsible investment are conducted for the PGGM funds. Where relevant, the Implementation Framework and the implementation guidelines also apply to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines form a further elaboration of the PGGM Beliefs and Foundations relating to responsible investment.

Definition

PGGM is a universal investor which invests in a crosssection of globally available investments. The risk and return of the investments are highly dependent on efficient markets, economies, sectors and companies. Efficient markets are therefore immensely important to PGGM and its clients.

PGGM sees shareholders as co-owners of the listed companies in which they invest. Such ownership entails rights and responsibilities. Through its active equity ownership activities, such as voting, engagement and litigation, PGGM fulfils the rights and responsibilities associated with listed equity ownership.

Good corporate governance is necessary in order to exercise our rights and responsibilities. We define good corporate governance as an appropriate and coherent system of checks and balances in the relationships between the executive board, the supervisory board and shareholders with a set of standards governing conduct, the exercise of powers and the associated accountability.

Objective

PGGM actively uses its influence as a shareholder to achieve improvements in the ESG field, thereby contributing to the quality, sustainability and continuity of companies and markets. PGGM does so in the belief that this ultimately contributes to a better social and/or financial return on investments for our clients. Equity ownership is not without obligations, since institutional investors worldwide increasingly have to meet minimum requirements. For PGGM and its clients, these minimum requirements are set out in the applicable Dutch laws and regulations and in the Dutch Corporate Governance Code.

Implementation

For the implementation of active equity ownership, PGGM adheres to the standards and principles of various organisations, such as:

- the active equity ownership principle set out in the Principles for Responsible Investment (PRI)
- the Dutch Stewardship Code
- the principles of the United Nations Global Compact
- the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD).

Good corporate governance enables us to promote social and environmental objectives as an active shareholder in the companies in which we invest on behalf of our clients. PGGM therefore works to advance corporate governance standards in the developed and emerging markets in which it invests. We assume our responsibility particularly in our home market of the Netherlands.

In this context PGGM endorses the internationally recognised and accepted basic principles for good corporate governance. PGGM applies, inter alia, the OECD's six basic principles of corporate governance (2004) and the 'Statement on Global Corporate Governance Principles: Revised' of the International Corporate Governance Network (ICGN, 2009) and incorporates these in its activities.

The way in which PGGM concretely realises active equity ownership is described in more detail in the implementation guidelines on:

- Voting
- Engagement
- Shareholder litigation

Accountability

PGGM reports quarterly and annually on activities in the field of active equity ownership. It reports quarterly to its clients on relevant developments. It also has a publicly accessible website on which it publishes its annual Integrated PGGM Investments report.. These reports provide as much information as possible on the results achieved, having regard to the confidential nature of our activities.

We report in accordance with Dutch law. PGGM and its clients have a legal obligation to report on compliance with these principles and best practice provisions under the Dutch Corporate Governance Code, in accordance with the 'comply or explain' rule. The statement on the degree of compliance is published in the annual report and/or on the PGGM website.

Implementation guideline on Voting

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) conducts the voting activity in the framework of active equity ownership. It forms part of the PGGM Responsible Investment Implementation Framework. This framework specifies how the various responsible investment activities are conducted for the PGGM funds. The Implementation Framework and the implementation guidelines also apply – where relevant – to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

Definition

The right to vote at shareholder meetings of listed companies is one of the most important rights a shareholder has. Voting is an important means of influencing the way in which a company is managed.

A high attendance at shareholder meetings (through physical presence or proxy voting) brings stability in decision-making and prevents small groups of shareholders from taking control of the meeting due to the absence of other shareholders.

Exercising voting rights is no longer without obligations, particularly in the Dutch context. The Dutch Corporate Governance Code, for example, specifies that institutional investors must publish their voting policy and report on the casting of their votes.

Objective

As an asset manager, PGGM acts as a representative of its clients. Our objective is to cast well-informed votes on behalf of our clients at all shareholder meetings. We believe well-informed voting is crucial for active equity ownership and are convinced that this contributes to the creation of shareholder value in both the short and long term.

In PGGM's case this means that ideally we will vote at every shareholder meeting and on all agenda items relating to every company in which we invest. This requires us to understand the relevant issues in a particular company, so that as an active shareholder we can vote in line with our Beliefs and Foundations for Responsible Investment.

The voting must also be practicable. To this end, tailor-made voting guidelines (the 'PGGM Investments Global Voting Guidelines') have been formulated. These are updated annually and published on our website.

Implementation

PGGM casts votes by:

- attendance at shareholder (particularly in the Netherlands);
- issuing proxies to other shareholders who speak additionally on behalf of PGGM (in the Netherlands and other countries);
- proxy voting.

In view of the Dutch origins of PGGM and its clients, particular attention is devoted to attendance at meetings of holders of shares and depositary receipts of Dutch companies.

Voting process

Obtaining the necessary information to vote in a well-considered way, the associated costs, time or other practical limitations may mean that PGGM cannot reasonably fulfil its ambition of voting at all shareholder meetings.

In addition, the percentage of shares on which we can vote is influenced partly by any lending of shares. However, positions are never lent in full. In practice, except in blocking markets, we will vote on at least 10% of the shares of all investee companies. It should be noted in this regard that at all times PGGM can and will recall shares for voting purposes if it sees fit.

PGGM uses specialist proxy advisory services when implementing its voting policy. PGGM receives voting advice based on its own voting guidelines. Shareholder resolutions relating to the environment, social factors and corporate governance are assessed in detail and voted on by internal specialists in various specialist areas. Internal or external portfolio managers are also involved where possible in the implementation of the voting policy. PGGM can also call on the regular voting advice of these proxy advisory services.

PGGM is also associated with various formal and informal groupings of institutional investors with a view to casting well-considered votes at shareholder meetings.

Submission of shareholder resolutions

In addition to the right to vote, shareholders in many countries also have the right to submit shareholder resolutions. These enable shareholders to draw attention to subjects and request other investors to express an opinion by voting at a shareholder meeting. Depending on the binding force of the resolution, this may lead to an obligation upon the company to implement the resolution.

PGGM takes a restrained approach to the submission of shareholder resolutions and in principle does not do so without prior dialogue with the company. However, if it is necessary to submit a shareholder resolution to achieve its purposes, or to alter the course of a company, PGGM makes use of its rights as a shareholder

Voting in relation to engagement

A voting instruction can be a reason to enter into a dialogue with a company. An engagement project can also be a trigger for issuing a particular voting instruction. In addition to voting, PGGM also aims to bring about a further improvement in the operation of the voting chain.

Among other things, we endeavour, for example through market engagement, to simplify the voting process, increase transparency in the chain and improve the auditability of the voting chain.

Accountability

PGGM reports quarterly and annually on its voting. It reports quarterly to its clients on relevant developments. It also has a publicly accessible website on which it publishes its Integrated PGGM Investment annual report.

The Annual Report gives a detailed account of the voting on the basis of practical examples, trends and themes. The website also provides a quarterly, quantitative overview of the voting. In addition, PGGM has a publicly accessible website on which all its voting instructions can be viewed. The annually specified voting guidelines can also be found on the PGGM website.

Implementation guideline on Engagement

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM) applies the Engagement instrument. The implementation guideline is a further elaboration of the PFZW Engagement policy and also forms part of the PGGM Responsible Investment Implementation Framework. The implementation guideline discusses how Engagement is implemented by PGGM.

Definition of engagement

PFZW defines engagement as a constructive dialogue with companies in the investment portfolio or market parties on their policies or activities, in order to realise pre-defined improvements in the field of ESG. The envisaged result of engagement activities is a verifiable change, for example in the behaviour and/or the activities of a company or party with which a dialogue is conducted..

Scope of engagement

The scope of this implementation guideline is engagement in PGGM priority areas and engagement in the event of incidents (in relation to a 'responsible basis'). The guides for engagement regarding incident are global standards such as global compact, the IMVB covenant and those resulting from the OECD guidelines for multinationals (OECD, 2011)⁸. The statutory obligations also apply.

Dialogues conducted by investment teams with the companies in which they actively invest fall outside the scope of this Implementation Guideline and are regarded as part of the regular portfolio management, unless they are conducted as part of an engagement programme. A decision to start an engagement process may nevertheless be based (partly) on materiality considerations.

Types of engagement

PGGM makes a distinction between two types of engagement. Corporate engagement concerns the dialogue with individual companies. Here an effort is made to facilitate a desired behavioural change at the company in order to realise a broader sustainability objective. Market engagement is aimed at market parties, such as regulators, supervisory authorities, stock market entities and sectoral organisations. Here, PGGM exercises an influence on relevant laws and regulations or on the development and/or implementation of voluntary ESG standards. In this way, following successful engagement, the transparency of an entire market in which PGGM invests is improved or engagement reduces the risk or market risk or increases the comparability with other markets. With the subjects of 'governance' and 'human rights', in particular, realising PGGM's broader sustainability objective is sometimes achieved most effectively via market engagement. PGGM and its clients feel this obligation primarily for the home market of the Netherlands. PGGM is willing to take on a leading role in this regard. Research also shows that it is precisely in the home market that the chances of successful engagement are highest. Outside the home market, RI limits market engagement to a supporting role in alliances in the largest investment markets by acting as a 'co-lead' or coalition member.

Assessment framework for implementation

PGGM applies an assessment framework in order to determine how to meet the need to start engagement on the basis of policy. The following elements, arising from client policy, play a part in this consideration:

1. Rationale for engagement. This concerns the question of whether the objective of engagement is to meet the need for a "responsible basis" in the portfolio or whether it is being used in the interests of a better world;
2. Method of engagement. PGGM can enter into engagement both reactively and proactively;

⁸ For further development, see the Engagement policy of PFZW.

3. Implementation method. PGGM can opt to outsource implementation to an engagement service provider or to enter into engagement alone or in cooperation with other parties.

Item 1.

The rationale for engagement is important in the preparation of an engagement programme. Here we make a distinction between engagement to prevent, mitigate and solve negative matters in the investment portfolio ('responsible basis') and strengthening the positive contribution to sustainable development goals (SDGs), which are a priority area ('sustainable world').

With regard to reactive engagement, the companies for which engagement is desirable are determined together with clients on the basis of screening in accordance with the OECD standards (incorporated in the IMVB covenant). The following elements play a role in the consideration of this:

- The probability and seriousness of the negative impact;
- The size of the company in the portfolio;
- The contribution of the company to the priority areas of the clients.

Item 2.

On the basis of the considerations referred to in Item 1, a choice is made for a reactive or a proactive engagement approach. With a reactive approach, PGGM will monitor whether an incident or risk of an incident is present, in order to respond to this. An exceptional situation here is a case in which, although no high risk is detected through screening, an incident nevertheless occurs.

PGGM keeps a further limited engagement capacity available in order to start up additional engagement for this purpose. Reasons could include e.g. (i) media attention, (ii) an NGO campaign (iii) information from a peer or from the network (or a request), (iv) developments at companies themselves, such as an unexpected controversial meeting of shareholders.

Item 3.

PGGM has an RI team to set up and monitor the implementation of engagement and to report on this. RI determines the most appropriate way to start engagement, as laid down in the policy, on the basis of an assessment framework. This may mean that PGGM 'buys in' engagement on the basis of an engagement provider, works with other parties in a coalition or designs the

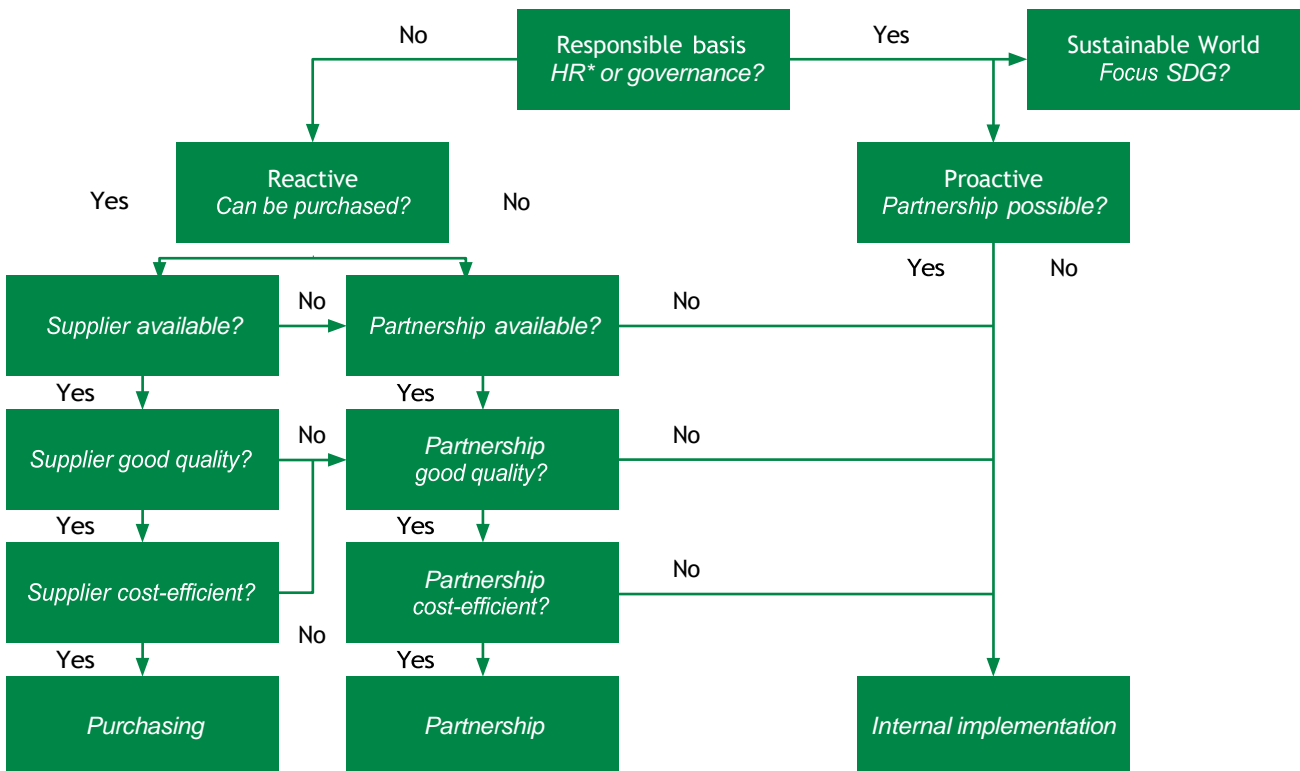


Figure 4: Assessment framework for implementation of engagement

* HR stands for Human Rights

engagement internally⁹. The possibility of joining forces in order to improve the chances of the success of engagement is an important factor in the choice. In the internal design of the engagement, depending on the nature of the engagement and the company to which it relates, either the RI department or an investment team may realise the engagement, depending on the existing contacts with the company. In the assessment, the effectiveness of the form to be chosen takes priority.

The assessment framework is shown in diagram form in the Figure below. The point of departure is the reason for entering into engagement arising from the engagement policy.

Engagement structure

On the basis of the client's engagement policy, PGGM draws up an engagement programme in accordance with the above Figure (the next step in the process). This is drawn up annually and is submitted to clients for approval prior to implementation. An engagement programme describes how engagement will contribute towards the theme. The companies or market parties with which a dialogue will be conducted are outlined here, as well as the subjects of this dialogue and how long it will last.

An engagement programme consists of engagement processes. An engagement process is the dialogue with one individual company or market party. At the level of a single entity, PGGM draws up an action plan that fits with the broader engagement programme. PGGM develops the following for each engagement process:

- How engagement with the company/market party contributes towards the objectives of the engagement programme within which it fits;
- The engagement strategy;
- The time lines of the process;
- Milestones in order to be able to assess short-term progress;
- The estimated weight of the engagement programme and process (high, medium or low) on the basis of the resources deployed for the dialogue and the seriousness of the problem.

Depending on the weight of the engagement process, a choice can be made for how a dialogue will be conducted with the relevant company or market party in order to realise the objectives of the engagement. PGGM develops the most effective engagement route and draws up an engagement chart in which the progress is monitored. In the absence of the required results, PGGM may opt to intensify the engagement through additional alliances or through the deployment of other instruments, such as voting. Other escalation possibilities are discussed with the clients.

Monitoring, Verantwoording en Rapportage

PGGM monitors the progress of engagement processes performed by recording these in the Engagement Data Base (EDB). Engagement specialists record the following in this database:

- The start-up of new engagement processes;
- The companies/market parties with which engagement has taken place;
- The type of engagement per company/market party;
- For engagement regarding priority areas: the relevant priority areas for each company/market party;
- For engagement regarding incidents: the incident that has taken place;
- The engagement objectives per company/market party
- The dialogue that PGGM has conducted with the company/market party;
- Reports on verbal or telephone communications;
- Written communications.
- The progress of the engagement per company/market party;
- The termination of engagement processes;
- On the termination of an engagement process: the results realised.

PGGM draws up quarterly reports on the progress of engagement activities, including the processes that have been completed via an external service provider. These reports are sent to the clients. On the basis of the reports, PGGM evaluates together with clients whether intensification, discontinuation or deployment of additional instruments are necessary.

PGGM also provides for external reports relating to the engagement activities. The (annual) reports and the website are used for this purpose. The objective of this is to provide an insight into progress and results.

⁹ Note: this does not alter the fact that cooperation can be sought during the process in order to share resources or increase the chances of success.

Evaluation

At the end of the engagement programmes and processes, PGGM determines whether the engagement programme had the required result. PGGM makes a distinction here between successful and unsuccessful engagement. Depending on the assessment, PGGM will advise on whether engagement should be renewed or extended in relation to a sub-theme, or whether engagement on the sub-theme has been completed and the resources can be allocated to another theme. If it has already become apparent that the engagement programme has not been successful or has not achieved sufficient results, PGGM may decide to halt the engagement for the time being and to devote other resources to realising the objective.

If an engagement process has not led to sufficient improvement, discontinuation of investment in the company concerned may be considered. A risk-return assessment will always be made here, as well as an assessment for the consequences for stakeholders.

Implementation guideline on Shareholder litigation

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) conducts shareholder litigation. It forms part of the PGGM Responsible Investment Implementation Framework. This guideline specifies how the various responsible investment activities are conducted for the PGGM funds. The Implementation Framework and the implementation guidelines also apply – where relevant – to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

Definition

PGGM defines shareholder litigation in this context as the conduct of legal proceedings as a shareholder in listed and unlisted companies in which PGGM invests on behalf of its clients, which qualify on the basis of one or more of the objectives below.

Objectives

PGGM has the following objectives for the conduct of litigation:

- Financial proceeds to limit damage: Financial proceeds to limit damages: Recovering for and on behalf of PGGM's clients investment losses resulting from fraud, corruption, embezzlement or other forms of misconduct by listed companies.
- Contribution to the risk-return profile: : Where possible, improving the corporate governance of the company concerned in order to remain invested as a shareholder with a long-term outlook.
- Prevention: Setting standards to prevent undesirable behaviour (fraud, corruption, deception etc.).

Implementation

Monitoring

PGGM adopts a proactive approach by arranging investigations into the legal merits of events which have caused damage to clients through misconduct by listed companies and obtaining ensuing compensation.

PGGM has established internal systems to monitor the possible conduct of proceedings worldwide in the interests of its clients. PGGM investigates those possibilities and provides its clients with reasoned advice on whether, and if so how, to take part in such proceedings.

PGGM obtains information to monitor cases of relevance to shareholder litigation through its service provider, from its own network of institutional investors, external law firms and its own research, based partly on public sources.

Advice

PGGM takes account of the following factors, among others, in its research into possible litigation:

- Does the case meet one or more of the objectives of active equity ownership requiring an active role?
- What is the extent of the losses/damage suffered?
- Feasibility: how likely is the case to succeed?
- What is the expected financial and - if possible - corporate governance benefit?
- What are the risks associated with the proceedings: a) legal, b) financial, c) procedural, d) reputation and e) image?
- Does the country in which the proceedings are conducted have a 'class action regime' or is there some other favourable legal climate for deceived investors?
- Is there scope for co-operation with other investors, and if so, how is that co-operation arranged?
- Does PGGM wish to assume a leading, strategic role in proceedings, or can PGGM confine itself to participating in a case in which other investors take on that role?
- What efforts can be expected on the part of PGGM (witness hearings, disclosure of files with underlying documentation etc.)?

- What are the financing arrangements?
- What is the expected completion time for the proceedings?
- Does the pursuit of the case contribute to thought leadership among PGGM's clients and/or does it set a trend or standard with regard to the type of conduct we wish to see or the prevention of undesirable conduct?

Other relevant developments Decision-making

PGGM considers it important to take an informed decision on whether or not to participate in PGGM believes it is crucial that an informed decision can be taken on whether or not to participate in possible proceedings. It is therefore important, partly in the light of our clients' fiduciary obligations, to identify proper grounds and justify certain decisions on whether or not to litigate. PGGM seeks to take account of all factors as far as possible in the advice it provides for its clients. Where possible, PGGM applies the following preferences:

- High estimate of legal feasibility (litigation probability ≥ 50), unless the case serves to test the principles and no substantial reputation risk is expected
- Financing based solely on 'no cure no pay' models in which the financing risk for PGGM and its clients remains limited to the time expended, with no out-of-pocket expenses being borne, even in the event of an order to pay costs if the case is lost
- Litigation in tried and tested jurisdictions having a form of class action regime
- Co-operation with other major - like-minded - institutional investors who also pursue objectives other than the limitation of financial losses (social prospects)
- Only cases in which there is an appropriate decision and control model enabling PGGM to direct and assert its interests sufficiently in the outcome of the case, for example by establishing claim vehicles in which PGGM has a seat on the board

If and to the extent that the research phase leads to a positive recommendation to litigate in a particular case, the proposal is handled in accordance with the decision-making process below.

Passive shareholder litigation

A clear distinction must be drawn between what we term 'active' and 'passive' shareholder litigation. By passive shareholder litigation we mean conducting an appropriate administrative process to collect full or proportionate financial damages accruing to PGGM's clients from settlements in group actions and/or administrative penalties imposed by regulatory bodies. This 'proof of claim' process is largely administrative and has been outsourced to an external service provider.

Engagement in relation to shareholder litigation

In the framework of shareholder litigation PGGM also undertakes activities in the field of market engagement. In both the US and Europe, efforts are made in dialogue with legislators and regulators to ensure appropriate legal protection for investors in those jurisdictions in which damage is suffered through the actions of PGGM's listed investee companies. The main aim of these engagement activities is to guarantee and secure adequate access to the courts by establishing effective and efficient systems of individual or group actions for investors.

Accountability

PGGM reports quarterly and annually on its shareholder litigation activities. It reports quarterly to its clients on relevant developments. It also has a publicly accessible website on which it publishes its Annual Integrated PGGM Investments report.

These reports include details of the proceeds of active and passive legal proceedings and relevant developments in current and/or notable cases.

Implementaton guideline on Exclusions and non-investment

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM Investments, hereinafter PGGM) handles exclusions of investments. It forms part of the PGGM Responsible Investment Implementation Framework. This framework specifies how the various responsible investment activities are conducted for the PGGM funds. The Implementation Framework and the implementation guidelines also apply to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines are a more detailed elaboration of the PGGM Beliefs and Foundations for Responsible Investment.

Definition

For PGGM, non-inclusion of investments in the portfolio consists of two elements:

1. Immediate exclusion (including product exclusion):
This concerns the exclusion of entities involved in the production of or trading in products which are inconsistent with the identity of PGGM and its clients. This concerns both statutory exclusions and selected exclusions.
1. Exclusion after engagement:
This involves a critical assessment of the behaviour and activities of the entities in which investments are made on behalf of clients, the pursuit of change if such behaviour or activities undermine a sustainable world and the termination of an investment if that change fails to materialise.

Objective

By excluding companies on the basis of the above elements, PGGM seeks to prevent PGGM-managed investments contributing financially to practices incompatible with the standards and values of PGGM, its clients and their beneficiaries. The PGGM Beliefs and Foundations for Responsible Investment specify a strict minimum standard in this regard.

Implementation

This exclusion guideline applies to all PGGM funds and public and private segregated mandates managed by PGGM for individual clients. In the advice PGGM gives to clients on direct investment in external funds or mandates, PGGM also takes these exclusions into account. The actual implementation by a client may differ - within the framework of what PGGM considers to be an appropriate client - from PGGM's own implementation.

1. Immediate exclusion (including product exclusion)

In a number of cases, PGGM will carry out 'immediate exclusion', without first seeking to bring about a change in the companies concerned. This applies to the following categories:

Controversial weapons

PGGM excludes companies from investment if they are involved in the production of and/or trading in weapons whose use leads to a violation of fundamental human rights. PGGM focuses in this regard on controversial weapons. These are weapons whose large-scale use causes actual or potential suffering and which are aimed at civilians or result particularly in civilian casualties.

Proportionality plays an important role; the military advantage must be weighed against the possible humanitarian consequences and the nature of the intended purpose of the deployment of such a weapon. An important factor is whether the weapon primarily causes military damage and/or casualties or primarily affects the civilian population.

PGGM excludes companies from investments if they are involved in the production of and/or trading in six types of weapons in the following categories:

1. Weapons of mass destruction:
 - a) nuclear weapons
 - b) chemical weapons
 - c) biological weapons

2. Weapons with a considerable risk of casualties (including among civilians) during and/or after military conflict
 - a) anti-personnel mines
 - b) cluster bombs
 - c) munitions with depleted uranium

Involvement is defined as production or supply of one or more types of the above weapons as the end-product, or supply of essential and/or custom-made semimanufactures for one or more of the above weapon types. Companies are also excluded if they provide services for the maintenance and development of nuclear weapons. Finally, companies are excluded if they have a de facto or practical controlling interest in a subsidiary or joint venture which is substantially involved in the production of or trading in these weapons. Details of the weapon types and the engagement practised for each type are provided in the appendix

Other product categories

If the participants in the PGGM funds jointly agree on additional exclusion criteria, PGGM will generally apply these to all relevant PGGM funds. In 2013 it was decided to exclude tobacco companies from investments in the PGGM funds. In concrete terms this means that companies engaged in the production of tobacco and/or tobacco products (such as cigarettes, cigars, chewing tobacco, etc.) have been excluded. In 2020, a decision was made to add coal and tar sand companies to these companies.

If the participants reach no agreement on additional exclusion criteria, PGGM will endeavour at the request of individual clients to establish segregated mandates to which additional criteria are applied. Clients can opt to apply these exclusion criteria additionally to external mandates or funds in which investment takes place directly.

Government bonds

The particular characteristic of government bonds is that the issuers are sovereign. This makes it almost impossible in the first instance to seek to bring about a change of behaviour. Government bonds of the selected countries are therefore excluded immediately.

PGGM does not invest in bonds (including inflation-linked government bonds and other debt securities - without a predefined purpose - of central government and local authorities) issued by states on which sanctions have been imposed by the UN Security Council and/or the European Union, if these are targeted at the country itself or the incumbent government and concern a weapons embargo or relate to a situation of gross and systematic violation of human rights, or if there is possible deployment of controversial weapons.

2. Non investing based on behavior PGGM

PGGM acts as an active owner on behalf of its clients. As an active owner, we do this by focusing in the first instance on behavioural change if the behaviour or activities of entities in which we invest undermine a sustainable, durable world. If the seriousness of the undermining is very great and/or no change is forthcoming, PGGM may decide to end an investment until behavioural changes are implemented to remedy or end the breach. To assess this, PGGM carries out due diligence based on the principles of the UN Global Compact and the OECD Guidelines. PGGM Investments uses an external provider for this purpose.

Based on this information, clients themselves can also decide to add a company to their exclusions list. The participants' meeting can then advise on the application of the exclusion to the PGGM funds. Within PGGM the Investment Committee takes the final decision on exclusion. If necessary, advice can also be obtained from the Advisory Board Responsible Investment.

Additions at the request of clients

If clients wish to apply an even stricter minimum standard for their investments, PGGM will facilitate its implementation, subject to the approval of the PGGM Investment Committee if this involves PGGM funds.

Application

This guideline is implemented by PGGM. The application method differs in each investment category and depends on the practical possibilities, for example on whether or not it is legally enforceable and can be implemented at reasonable cost. We always seek the most effective application method. To this end we distinguish two approaches:

- a. PGGM translates the criteria into lists of excluded listed or unlisted companies and government bonds which are applied by portfolio managers. This primarily concerns public investment categories.

Research into company compliance with the product and conduct criteria is conducted at least twice a year. Multiple sources are used to investigate companies: non-government organisations (NGOs), specialist data suppliers, media and the companies themselves. Research by our data suppliers yields a list of companies which meet the exclusion criteria according to these agencies and the applied methodology. PGGM itself carries out additional investigations into the companies on this list, partly by requesting feedback from the company concerned. This additional research provides the names of the candidates for the Exclusions List. It is then

determined whether engagement with these candidates could lead to concrete results or would be worthwhile, or whether immediate exclusion should take place. The list of possible candidates for exclusion will be presented to the clients if requested. Clients can then draft their own exclusion list and advice, through the participants meeting to adjust the PGGM exclusion list for the PGGM funds accordingly. Decisions on exclusion are taken by the Investment Committee. If necessary, advice can be obtained from the Advisory Board Responsible Investment.

- b. Formal application of the criteria by portfolio managers in investment decisions. In the case of external managers implementing funds managed by PGGM and segregated mandates, the aim is to lay down the requirements in a contract. This primarily concerns private investment categories.

There is often little information available in the public domain on investable entities in these categories. Moreover, it is not always clear in advance which private companies or entities will be invested in over the duration of the mandate. Portfolio managers often have access to the best information. The most effective way to apply the exclusion policy in these categories is therefore to have the criteria applied by the portfolio managers and to make them responsible for preventing us investing in organisations which breach the criteria. This means entering into formal agreements with the external or internal manager and monitoring their correct application.

Accountability

PGGM reports quarterly and annually on its exclusions. It reports quarterly to its clients on relevant developments. It also has a publicly accessible website on which it publishes its Annual Integrated PGGM Investments report. PGGM also publishes the exclusion lists on its website.

Appendix: Explanation of controversial weapons

A nuclear weapon is any device which can discharge nuclear energy in an uncontrolled way and which has a number of characteristics making it suitable for use as a weapon. Companies are involved when their activities include the production, development and sale of adapted high-grade components of the nuclear warhead, the rocket or the entire weapon and the maintenance and improvement of the weapon. It is defined in line with the UN Treaty for the Prohibition of Nuclear Weapons in Latin America and the Caribbean. The 1968 worldwide Treaty on the Non-Proliferation of Nuclear Weapons (NPT) contains no clear definition.

Chemical weapons are chemicals with characteristics intended to cause death or other harm through toxic characteristics and munitions designed to enable these chemicals to be used as weapons. They are defined in line with the UN Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction. Biological weapons are microbiological or biological materials in quantities not justified by peaceful use and munitions designed to enable these materials to be used as weapons. They are defined in line with the UN Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction.

Anti-personnel mines are designed to explode as a result of proximity or contact with a person, with the aim of causing him or her death or injury. Such mines usually remain long after the end of a military conflict and consequently cause civilian casualties. Companies are involved when their activities include the production, development and sale of the end-product and of ignition mechanisms developed specially for these weapons. They are defined in line with the Ottawa Convention/UN Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction.

A cluster munition is a conventional munition designed to disperse or release explosive submunitions, each weighing less than 20 kg. The submunition itself is part of the cluster munition. Companies are involved when their activities include the production, development and sale of the end product, but also of submunitions, specially adapted containers for such submunitions and ignition mechanisms specially developed for these weapons. It is defined in line with the Convention on Cluster Munitions: www.clusterconvention.org. Since 2013 the Netherlands has prohibited investment in cluster bombs. The investment ban applies to companies which produce, sell or distribute cluster munitions or crucial parts of such munitions. A financial company established in the Netherlands is not permitted to effect any transactions in, grant loans to or acquire non-freely negotiable interests in such companies.

Depleted uranium is used to make projectiles capable of penetrating armour, for example. The radioactive load remains active in an area long after the end of a military conflict and leads to civilian casualties, sometimes insidiously. Companies are involved when their activities include the production, development and sale of the end-product and of depleted uranium intended for use in munitions.

Implementation guideline on Classification and Allocation to Sustainable Development Investments

This implementation guideline describes how PGGM Vermogensbeheer B.V. (PGGM) realises the classification and allocation to the Sustainable Development Investments (SDI). This implementation guideline forms part of the PGGM Responsible Investment Implementation Framework. This Implementation Framework shows how the different activities in the field of responsible investment are realised for the PGGM funds. Where relevant, the Implementation Framework and the implementation guidelines apply to segregated mandates managed by PGGM for individual clients. The Implementation Framework and the implementation guidelines form a further elaboration of the PGGM Beliefs and Foundations relating to responsible investment.

Definition

For SDIs), PGGM seeks investments for its clients which not only contribute financially to the return of the portfolio, but through which PGGM also intends to contribute to help solve socioeconomic or environmental issues. These are clearly defined investments in which the mandate or investment fulfils this definition. This is gauged in terms of the impact of the entire value chain of the underlying investment. ESG improvements in the processes may be part of the aim (e.g. by means of engagement), but they alone are not sufficient for an investment to qualify as a contribution to a sustainable development solution.

Objective

These investments are aimed at making a positive contribution to the resolution of important sustainability issues, as contained in the 17 Sustainable Development Goals (SDGs). In doing so, these investments fulfill our clients' desire to contribute to a more sustainable world while creating financial returns. Examples include investments in clean technology, sustainable energy and investments which contribute to food security. PGGM will measure and monitor the expected social added value of these investments.

Implementation

PGGM actively seeks opportunities to invest in SDIs on behalf of its clients. To this end we engage in the public debate, discuss matters with external managers of impact funds and products and develop new investment products (jointly with external parties) focused on creating social impact. At the inception of such an investment, it is determined which sustainability issue is being addressed, how material the contribution to the solution is and in what way the investment achieves it. On this basis PGGM draws up impact indicators. Where applicable these are co-ordinated with internal and external managers and co-operation takes place in order to report on this impact in subsequent years.

Accountability

PGGM reports quarterly and annually on its investments in sustainable development solutions. It reports quarterly on the financial presentations of these investments to its clients. It reports to clients annually on the sustainability performances of these investments. PGGM also has a publicly accessible website on which it publishes its Annual integrated PGGM Investment Report. The report provides details of the social added value generated by these investments

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