Annual Report PGGM Vermogensbeheer B.V.

2020

The original financial statements were drafted in Dutch. This document is an English translation of the original. In case of any discrepancies between the English and the Dutch text, the latter will prevail.

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About this report

The integrated PGGM Vermogensbeheer B.V. (hereineafter PGGM Investments) report is drawn up and published annually. This integrated annual report gives our stakeholders a concise and transparent overview of our activities and how we create value with them. It provides information on our strategy and business model, the context, material risks and performance over the year 1 January 2020 to 31 December 2020. Any material events after this date but before the date of approval by the board of directors have also been included.

Materiality

We apply the materiality principle in assessing what information must be included in our integrated report. This report therefore focuses in particular on those topics, opportunities and challenges that have an impact on PGGM Investments and its ability to consistently deliver value to our key stakeholders. Our material topics influence our strategy and constitute the basis for the contents of this report.
The report discusses the primary activities of PGGM Investments and encompasses the non-financial and financial performance, opportunities, risks and results. The non-financial indicators that we deem of particular material importance have been assessed by an external auditor. This concerns the material topics on the basis of which our largest client, PFZW, also manages, specifically:

- Impact investing: € 20 billion invested in solutions.
- Exclusions: not investing in countries and businesses that are not consistent with our standards and values and those of our clients.
- Voting: casting a well-informed vote at all shareholder meetings.
- Engagement: actively using our influence as shareholder to realise improvements in relation to ESG.
- Reducing negative impact: halving the CO2 emissions of shares.
- Legal proceedings: recovering investment losses through legal proceedings.

These indicators are designated in this report with the symbol 📌.

Reporting criteria

In putting together the PGGM Investments 2020 annual report, we followed the main points of the international reporting principles of the Global Reporting Initiative (GRI). The GRI principles relate to both substantive choices (materiality, stakeholder involvement, sustainability context, completeness) and the quality of the reporting (balance, comparability, accuracy, timeliness, clarity, reliability). In this report we did not follow the GRI literally, but wherever possible took the reporting principles designated by the GRI into account when drafting this annual report. The GRI standards do not fully apply to this annual report because it is a report on the asset management activities and does not concern the level of PGGM N.V. We therefore use our own reporting criteria,

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that are derived from the GRI The non-financial information in this report must be read and understood together with the reporting criteria. PGGM Vermogensbeheer B.V. is responsible for selecting and applying these reporting criteria, taking into account the applicable reporting legislation and regulations.

Strategy

The report also discusses the strategic progress made in 2020 and provides insight into PGGM Investments' strategy and progress on the financial and non-financial objectives for the short, medium and long term.

Target group

This report is intended in the first place to satisfy the information needs of our clients and cooperation partners. It also provides information that is relevant for the way in which we create value for other stakeholders, including our employees, the labour market, supervisory authorities and society as a whole.

Outlook

PGGM Investments holds transparency in high regard and endeavours to constantly improve its reporting. We see the annual report as more than an annual review of our financial performance; it also provides a strategic outlook with a particular emphasis on relevant non-financial information. It is our ambition to continuously improve the way we report on the connection between the financial and non-financial information in our annual report. It should demonstrate how we create value as an organisation, for our employees, clients and society as a whole. Consequentially, we intend to move towards the Core & More concept in the future. By incorporating this method we will present the most relevant and material information to a wide audience using one Core-report. The Core-report will be accompanied with More-reports that delve deeper into specific subjects and are aimed at specific target groups. Online reporting offers us an instrument: stakeholders are informed about the essence of our organisation in an attractive manner, and are able to navigate instinctively towards the information that is most relevant to them. As a result, the annual report will be dynamic and easily accessable to many different target groups.

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Introduction: We are PGGM Investments

We are PGGM Investments. Adding value to health care and welfare. We are committed to a good, affordable and sustainable pension for the participants of our clients.

At the end of 2020, PGGM Vermogensbeheer B.V. (hereafter PGGM Investments) managed a total of over €268 billion in assets for its clients. We invest in pursuit of a high and stable return with an acceptable risk. Best-in-class asset management is our guiding principle. On behalf of our clients, we invest for the long term. In this process we aim for long-term value creation for people and the environment.

Message from the Chief Investment Management

2020: an eventful year in many respects. The major turbulence that 2020 ushered in, with multiple crises in health, the economy, the financial markets and all the ensuing societal issues, brought us as asset manager face to face with some exceptional challenges.

It started with the stabilisation of our clients' investments during the price declines at the beginning of the pandemic and the rapid switch to home working en masse. Later added to this was the attempt to fathom the long-term effects the Covid-19 crisis would have for asset management. We managed to do the first of these well, and we are still hard at work on the second.

Simultaneous with the pandemic-related challenges, all sorts of exciting processes were taking place at PGGM Investments in 2020, which we will return to further on in this report: the preparations for the various Brexit scenarios, the set-up of a new IT infrastructure so that we are also ready to invest optimally in a new pension contract, and of course helping develop a new investment policy 2025 for Pensioenfonds Zorg en Welzijn (PFZW).

The fact that we were ultimately able to achieve a positive return for our clients after such a tough year is a source of pride for us, and rightly so. In the knowledge, also, that the real economy experienced a very different movement than the financial markets, which showed a very strong price recovery after a deep decline in March 2020. We have to carefully analyse what these divergent trends mean for our clients in terms of risks and opportunities for the future.

With all the work that had already been done by the organisation in 2020, I took office as Chief Investment Management on 1 November. A moment that marked the start of PGGM Investments' implementation of PFZW's 2025 policy. This policy tests our ability to bring return and sustainability even closer to each other and respond effectively to the developments in society and the financial sector.

It also requires that we look beyond the implementation of this policy. We must decide with each other how we can set up our organisation so that we bring together the right

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mix of people, knowledge, experience, skills and technology to give the best answer to the questions that clients and society pose to us. Only then will PGGM Investments be able to continue to properly fulfil the societal task PGGM sets for itself: contributing to a prosperous retirement for employees in a liveable world.

Geraldine Leegwater, ***Chief Investment Management PGGM***

PGGM Investments as a company

As a pension investor, our clients and their participants are our first priority. To them we offer distinctive service provision and innovative products. PGGM Investments invests the collective pension assets of the participants of the PFZW, BPF Schilders and Smurfit Kappa pension fund and some of the pension assets of Stichting Pensioenfonds Huisartsen, Pensioenfonds Architecten and BPF Beveiligers. These assets are invested in shares, bonds, private equity, infrastructure and property. The investment policy is determined by our clients, where long-term value creation and good risk management are key.

We support our clients through two complementary services: fiduciary management and asset management. Through fiduciary management, we support our clients in their role as principal across the board. This includes manager selection, cash and collateral management, interest and allocation mandates, interest and currency overlays, rebalancing and coordinating management of the total client mandate and the portfolio. As asset manager we provide our clients in all investment markets with a solution based on the investing knowledge we have in house or which is also/better available at external managers. Our goal is to measure up to the best in the markets in which we operate. That is why the various asset classes are managed by specialised investment teams at PGGM Investments. Responsible investment is an integral part of the execution in this context. This means that we consciously take account of environmental, social and governance (ESG) factors in our investment activities.

It is ultimately our internal specialist investment teams that perform the work. More than 427 professionals work at our office in Zeist, or, this year, mainly from home. They manage over 52% of the assets of our clients. But the rest of the assets are in good hands as well, at leading managers worldwide, under the direction of our own specialists.

Moreover, we want to be a leading figure in sustainable investing by aiming for long-term value creation for people and the environment. We therefore take into account the impact our investments have on people and the environment. In doing so, we join in with 17 Sustainable Development Goals that the United Nations believes should be achieved by 2030. As commissioned by PFZW, we devote special attention to SDG 2 (food security), SDG 3 (health), SDG 6 (water security), SDG 7 (affordable and

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sustainable energy), SDG 11 (sustainable cities and communities), SDG 12 (responsible production and consumption) and SDG 13 (climate action).

As a large institutional investor, we can exert influence on companies worldwide. We use that influence to steer precisely those sectors where there is much room for improvement in the right direction.

We strive for a high level of quality on the work floor in order to achieve our ambitions. We are constantly on the lookout for new talents to strengthen our company. Not only in the areas of fiduciary management and asset management, but also in relation to consultancy, risk management, administration, performance measurement and legal and tax services.

Our strategy

We provide a good pension in a liveable world. We add value for our clients by helping them - now and in the future - realise their pension ambitions. It is also our ambition to be and remain the pre-eminent asset manager for the health care and welfare sector through excellent execution. Together with PFZW, we support the financial future of people who work in this sector and also contribute towards a healthy and vital sector itself.

PGGM Investments has formulated four goals by which we want to realise our ambitions. These goals form the common thread throughout our integrated annual report:

1. A good pension in a liveable world
2. Maximum value creation through excellent execution
3. Learning organisation
4. Financial business operations: control of costs

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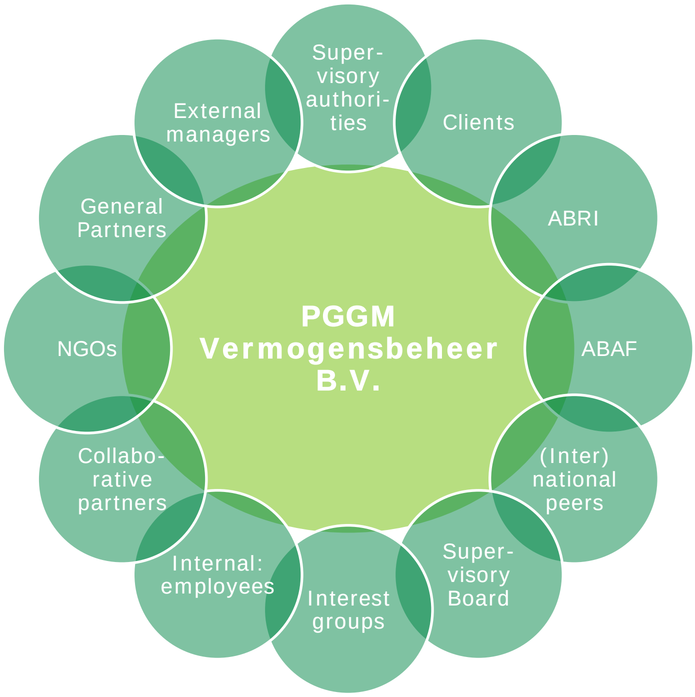
In dialogue with our stakeholders

We work for our clients: the pension funds and their employers and participants. We also have a number of other important stakeholders. We see our stakeholders as people or groups who are influenced by our actions and who have an influence on our organisation and service provision. We asked our most important stakeholders about their interests and needs. We remain in dialogue with them about the material topics. In our value creation model we express how we create value for our individual stakeholders.



How we create value

The value creation model provides insight into which economic, social and environment-related capitals we use, how PGGM Investments adds value to that and what that yields for our clients, our clients' participants, our employees and society as a whole.

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Inputs

Financial capital

€2,2 billion
pension premiums from clients

€98 million
equity

Intellectual & human capital

427 employees*

- External parties & managers
- Systems & processes
- Data & IT-systems
- Knowledge & experience
- Artificial intelligence

*All employees working for PGGM Investments are contracted by PGGM NV

Social capital

Stakeholders' expectations

- Reputation
- Client relations & policy

Natural & manufactured capital **

Energy usage

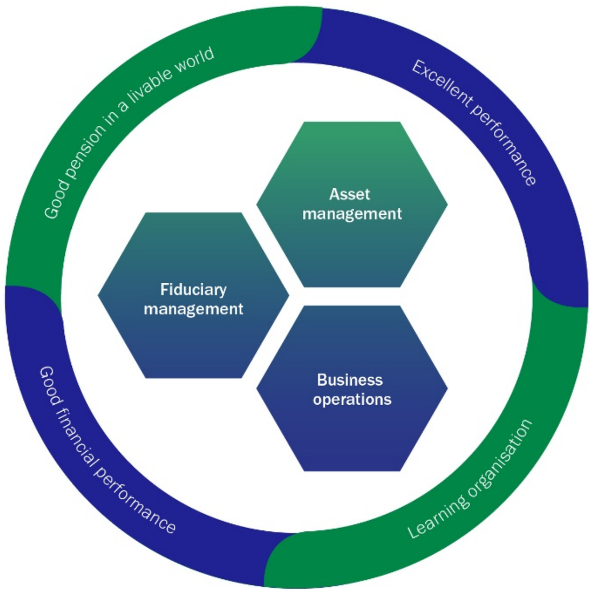
- Data center
- Office

** This information is reported in the 2020 PGGM NV annual report

PGGM Investments

Our mission is to help people realise a **valuable future**

We are PGGM Investments. A fixed value in healthcare and welfare. We are committed to an affordable, good and sustainable pension for our clients and their participants.



Trends, Risks & **Opportunities**

Covid-19, New pension scheme, (Cyber)- security, Laws- and regulation, Sustainability, Financial risks, Operational risks, Reputational risk, HR risks, Market risk, Credit risk, Brexit, Required capital, Climate change

Outputs

Stable financial performance

€268 billion
assets under management

5,6% overall returns of assets under management

Active shareholder

5.364 executed votes

57.853 votes for propositions

121 engagement activities

Trusted and reliable market player

98 exclusions

- Stable and strategic partnerships
- Excellent client services

Inclusive workplace

27% women
in management functions

40% women in board

- Transparent remuneration

Impactful investments

+ 20,8 billion
impact investments

- 16% is SDG aligned
- 53% CO_2-reduction in equity

Outcomes
for our stakeholders

A good, affordable and **sustainable pension** for our clients and their participants

More **sustainable and future-proof** companies and markets

Attractive, stimulating and **inclusive working environment**

Accelerating the transition to a more **sustainable and livable world**

Contributing to a **strong & healthy welfare sector**

Impacts

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Busines model

Our business model is key in the value creation model. It ties in seamlessly with our vision and value and shows what we do. PGGM Investments focuses on four core tasks: to create a good pension in a liveable world, to guarantee excellent performance, to be a learning organisation and to achieve good financial performance.

Input

To ensure our business model functions optimally, we need important sources, such as people and a good financial basis. As PGGM Investments, we would not be able to work without our people and their specialist knowledge, for instance.

Output

The activities in our business model have different internal and external outcomes. For example, that we can be an active shareholder, a valuable partner, but also a reliable market player that aims to achieve good financial returns and make impactful investments.

Outcomes

With these outputs, we create value. Value for our clients and their participants by investing for them, for the companies and markets in which we invest by enabling them to grow and inspiring them to move in the right direction. For our employees by offering them a pleasant, safe and inspiring place to work. And last but not least, for our environment because the companies in which we invest can contribute to sustainable solutions for societal problems.

Our impact

As one of the biggest pension providers in the Netherlands, with assets under management of over €268 billion, we have a major impact on our environment and society. Following suit from our largest client, PFZW, we linked our long-term contribution to society via investments to SDGs 2, 3, 6, 7, 11, 12, and 13. Read more about our contribution to the SDGs in chapter 2.1b (Investments that contribute to the Sustainable Development Goals).[1]

Our material topics

In order to safeguard that our policy is properly geared to the requirements and wishes of our most important stakeholders, we created a materiality matrix in 2020. That contains the topics that are of material importance to us and to which our key stakeholders (our clients, peers, employees, NGOs, etc.) attach the most value. The horizontal axis describes what impact PGGM Investments has on a particular topic. The vertical axis refers to the relevance of the topics for our most important stakeholders.

[1] With its strategy, PGGM N.V. contributes to SDGs 1, 2, 3 and 13. Because PGGM Investments' strategy is mainly aimed at creating value through investments, our focus and, by extension, our impact is broader.

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The topics at the top right corner are the most material. Read more in Appendix 2 about how we determined our material topics.

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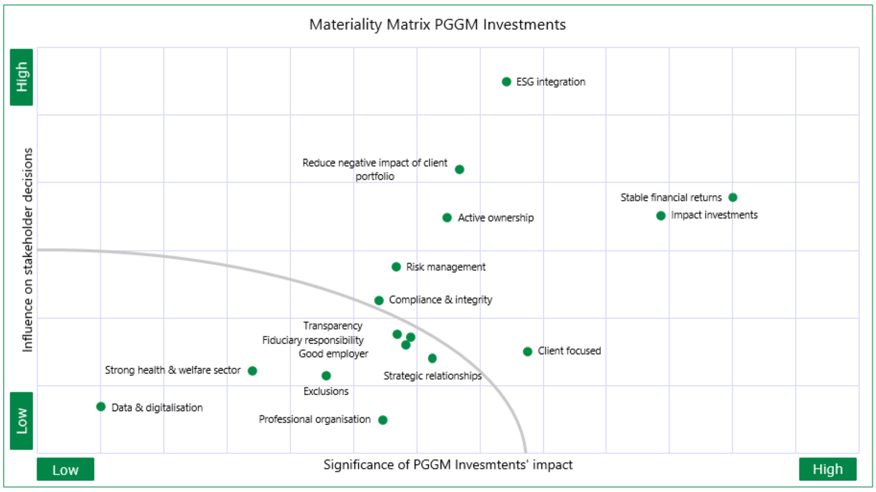

De materiële thema's	
#	Thema
1	Stable financial returns
2	ESG Integration
3	Impact investments
4	Reduce negative impact of client portfolio
5	Active ownership
6	Risk management
7	Client focused
8	Compliance & Integrity
9	Fiduciary responsibility
10	Transparency
11	Strategic relationships
12	Good employer
13	Exclusions
14	Professional organisation
15	Strong health & welfare sector
16	Data & Digitalisation

Our clients

During the period under review, PGGM Investments had six pension funds as clients: PFZW, Stichting Pensioenfonds voor Huisartsen (SPH), Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf (BPF Schilders), Stichting Pensioenfonds Smurfit Kappa Nederland, Stichting Bedrijfstakpensioenfonds voor de Particuliere Beveiliging, and Stichting Pensioenfonds voor de Architectenbureaus (Pensioenfonds Architectenbureaus).

PGGM Investments	
Client	**Funds managed per 31-12-2020 (in mln)**
PFZW	€ 253.900
BPF Schilders	€ 8.636
PF Architecten	€ 3.271
SPH	€ 1.148
Smurfit Kappa pf	€ 820
BPF Beveiliging	€ 515
APF Volo*	€ 0

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Totaal	**€ 268.293**

* The contract of this client will not be renewed.

Our clients' investment policy

We are the overall manager of the assets of PFZW, the second largest pension fund in the Netherlands. PFZW's investment policy largely determines how we invest, therefore. Financial return is always the priority. It is our clients' primary responsibility to provide their participants with a good and affordable pension. However, our clients embrace a sustainable vision on investing and accept a responsibility to contribute positively to this world. They do this from the belief that responsible investing and a good return create value in the long term and as such result in a better ratio of risk to return. As a result of this, clients are willing to make choices in their investment decisions. For example, they do not invest in tobacco products or controversial weapons.

Clients trust in PGGM Investments to carry out their policy. They give long-term mandates in this respect. A benchmark is selected for every mandate. This is an objective measure against which the investment portfolio's performance is compared. This benchmark is usually equal to a particular market index (composition of a large number of companies). Generic market indices do not always match the sustainable ambition or identity of our client, however. A benchmark might include companies in which our client does not want to invest on principle, for instance. In response to this, PGGM Investments has also put together appropriate benchmarks in which our clients can invest.

Every six years we re-evaluate the contracts on the agreed services between PFZW and PGGM. In 2020, we reached an agreement with PFZW on the business plan for the contract period 2021-2026. This means that the contract for the asset management chain has been renewed.

In addition, we have reassessed the investment policy for and with PFZW, which will be in place until 2025. It includes an ambitious effort to further promote sustainability in our investments. In the upcoming year we will work on this in more detail as well as start the implementation process.

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PFZW Investment policy 2025: a stricter sustainability policy

Harrie Dielen, Manager Investment Strategy:
'As PFZW's 2020 investment policy nears its end date, it was time for a follow-up. PGGM Investments experts from various business units worked in close cooperation with the administrative office and the board of PFZW on a new sustainability policy. We are taking another significant step in terms of reducing CO_2 emissions in the investments, for instance, and more euros that we invest in companies that contribute demonstrably to the sustainable development goals of the United Nations (SDGs). We are also stricter about the things in which we do want to invest. Companies involved in coal and tar sand are not included in that. On 9 October 2020 it was ready. At that point the new policy was approved by PFZW, with the board voicing appreciation for all the work we had delivered as part of this. A fine example of how you can achieve something great by bundling all the knowledge available internally on different areas!'

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Part 1
Good pension in a liveable world

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Chapter 1: Return – The direct value we have created

Our primary task is to provide a good pension. We invest the premium contributed by employers and employees sustainably and such that a high and responsible return is pursued. We do this with a long-term time frame in mind and at acceptable risks and costs. In this way we ensure a pension that contributes to sustainable financial value creation for society.

1.1 Stable financial results

A stable financial result is a highly material topic for us. The pension assets of our clients' participants are invested in various asset classes, such as property, shares and bonds. The pension assets are managed on the basis of mandates issued to us by our clients. We aim for optimal execution within the frameworks of those mandates.

The assets under management in 2020 rose by €16 billion compared to 2019, thereby totalling to €268 billion. The return on the investments was positive and amounted to 5.6% in 2020 (2019: 18.7%).

PGGM Investments is sub-divided into public and private markets. Investments in public markets, which we manage internally and externally, both actively and passively, account for the majority of our client portfolios. Within the public markets platform, we invest for our clients in asset classes such as listed shares, government bonds and corporate bonds.

In an exceptional year dominated by the global pandemic, abundant liquidity provision from Central Banks, a wide dispersion in performance between sectors and companies and a tough trading environment, it was a challenge to keep up with the benchmark after costs. It is therefore satisfying that at the end of 2020, roughly 60% of the large mandates managed within the public markets department since their start are still generating a return after costs equal to or in excess of the benchmark. Significant progress was made in 2020 on sustainability in the funds and mandates, whereby the carbon footprint was further reduced and impact investments were further increased.

Within the private markets platform, we invest actively on behalf of our clients in non-listed investment categories, such as infrastructure, mortgages, real estate and private equity. Private investments contribute to diversification and help our clients achieve the required investment return and achieve tangible impact on the real economy, including in the Netherlands. We completed 32 transactions in 2020. Because of their long-term nature, private investments also fit in well with the long-term commitments of pension funds.

The year 2020 was a turbulent year for private markets investments. After a good start to the year and a strong negative reaction to the valuations at the end of the second quarter, the summer saw some recovery. Remarkably some teams did manage to realise an all-time high in new investments, especially in Infrastructure and Credit Risk

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Sharing. Almost all these transactions were a result of long-term relationships and deep knowledge of the relevant markets which made it possible to execute transactions despite the COVID-19 induced difficult circumstances.

1.1.a Key figures

	2020	2019		2016 t/m 2020	2015 t/m 2019
Weighted net return for all of PGGM Investments' clients	5,6%	18,7%	5-year return including interest rate hedging	8%	6,78%

PGGM Investments	
Investment category	**Assets under management 31-12-2020 (in mln)**
Public Markets	**€ 208.329**
Listed shares	€ 84.292
Government bonds	€ 93.827
Corporate bonds	€ 15.351
Listed real estate	€ 14.859
Private Markets	**€ 55.787**
Private Equity	€ 15.188
Private real estate	€ 15.062
Infrastructure	€ 10.637
Credit risk sharing transactions	€ 5.114
Insurance linked investments	€ 6.144
Mortgages	€ 3.642
Cash & Other	**€ 4.178**
Other	€ 2.531
Treasury (and overlays)	€ 1.647
Total	**€ 268.294**

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PGGM Investments				
Fund/mandate	AUM (€ x 1 mln)	Return	P/L (x 1 mln)	Outperformance
Marketable securities	146.820			
PGGM Developed Markets Equity Fund	39.936	7,9%	3.618	0,3%
PGGM Developed Markets Alternative Equity II Fund	15.838	0,6%	282	-6,5%
PGGM Developed Markets Alternative Equity Fund	14.460	-2,8%	-108	-9,6%
PGGM Listed Real Estate Fund	14.618	-15,3%	-2.108	0,7%
PGGM Emerging Markets Equity Fund	9.240	4,3%	300	-1,1%
PFZW Private Equity Mandate	15.030	6,8%	986	2,4%
PGGM Private Real Estate Fund	14.191	-2,8%	-412	-0,5%
PGGM Infrastructure Fund	10.133	1,5%	179	-3,3%
PFZW Insurance	6.144	-3,7%	-231	-6,9%
Other mandates marketable securities	7.230			
Fixed-interest securities	84.108			
PFZW Interest rate hedging mandate	80.227	17,6%	12.263	0,0%
Other mandates Fixed-interest securities and overlays	3.881			
Credit	37.365			
PGGM Emerging Markets Debt Local Currency Fund	9.558	-6,0%	-705	-0,1%
PGGM Credits Fund	6.528	3,8%	241	0,9%
PFZW Credit Risk Sharing	5.114	-3,3%	-167	-7,5%
PFZW corporatebonds and High Yield emerging markets	4.711	-2,2%	-105	-0,8%
PFZW Mortgages	3.222	2,7%	81	-0,7%
PGGM High Yield Fund	2.856	-0,5%	-14	1,1%
Other mandates credit	5.376			
Totaal	€ 268.294			

1.1.b Market developments

As a result of COVID-19 2020 was an exceptional year in many respects. In an economic sense as well. The International Monetary Fund (IMF) estimates that the world economy shrunk by 3.5% in 2020. Confronted with local outbreaks, governments introduced

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lockdowns or other far-reaching restrictions during the first and second quarters, which had significant adverse effects for the contact-intensive services sector. World trade was also hard hit. Governments and central banks responded expeditiously and at an unprecedented scale to help the economy and financial markets. However, this drove government deficits and debt up strongly worldwide. The economic hit was concentrated in the second quarter for most. The third quarter then saw robust recovery. Especially after declining infection rates allowed the phasing out of economic restrictions and economies profited from relaxed tax and monetary policy. China was already well into that recovery. The country was the first major economy to shut down, but was also able to open earlier, and remain open, once COVID-19 was successfully under control. In the final quarter of 2020 we were unfortunately once again faced with escalating local outbreaks. Tight restrictions were again imposed in Europe, which again slowed the economic recovery. In the United States (US), renewed restrictions caused less economic damage.

The IMF expects the biggest economic decline in 2020 to be in the eurozone (-8.3%). The US contracted to a lesser degree (-4.3%), while despite COVID-19 China even showed growth (1.9%). Emerging economies as a whole (-3.3%) profited from the liberal monetary policy in developed economies and the weak dollar. This gave them the room to pursue a liberal monetary policy themselves.

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What does the second wave of coronavirus mean for investors?

As a long-term investor, we adhere to our plan as much as possible. We have our rebalancing policy; if the market goes down, we buy in little by little, and that has worked well until now.

We also conduct scenario analyses: what effects would a second or third wave have for the markets? And what impact will that have on the financial position of our clients, will they pick up again or will we be facing an unacceptable situation? In the latter case, we intervene.

In investing, it is not just gains or losses that matter. Having liquid assets available is also important. For our clients, we have large derivatives portfolios to hedge the interest rate risk. These derivatives portfolios can give rise to obligations which require the holder to deposit liquid assets as collateral to demonstrate that it will be able to satisfy these obligations. During the coronavirus crisis, the interest rate moved sharply up and down and that meant that large sums sometimes had to be deposited as collateral. These funds need to be there. In short, when putting together the portfolio, you must also ensure that you can easily make these liquid assets available. We managed to do that during the coronavirus crisis.

Finally, you also need to keep an eye on valuations. It is doubtful whether society will return fully to the 'old normal'. The coronavirus crisis caused people to start working from home en masse, for instance. What does that mean for the valuation of office buildings? Will the COVID-19 crisis have a permanent impact on economic growth worldwide, interest rates and, by extension, stock market valuations, for instance? In short, should we be testing our current valuation assumptions against a new reality and, by extension, adjusting our long-term investment policy?

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COVID-19 and the Credit Risk sharing mandate

The COVID-19 pandemic has triggered an unprecedented contraction in economic activity across the globe. This will likely have a prolonged impact on many economic sectors and is expected to lead to an uptick in both corporate and consumer borrower defaults. Despite this uncertain backdrop, we have been able to continue investing in new transactions for the Credit Risk Sharing mandate of our biggest client, PFZW. With these transactions, we take on risk positions on large diversified loan portfolios from banks. After the market activity came to an initial standstill in March, long-time risk sharing partners started to approach us again at the end of April to explore together the possibilities to enter into new transactions.

To prudently reflect the potential increase in credit risks and deal with increased uncertainty, PGGM Investments employed several measures of conservatism in the structuring of her transactions. We sought to limit the exposure to sectors that have a high sensitivity to the impact of COVID-19, such as oil & gas, airlines, tourism and retail. Also we assumed a higher loss distribution than before COVID-19 and the transactions have a thicker first loss tranche, which makes transactions more resilient against losses. Lastly, we have been able to achieve a higher compensation for expected credit losses than in 2019. This ultimately resulted in the closing of over € 1 billion transactions in 2020, each with robust structures to weather potential further economic headwinds.

US elections

The outcome of the US elections, Joe Biden's victory on 3 November, was received positively by financial markets. With a majority of one seat in the Senate, however, it will still be very difficult for Biden to realise his election platform. Relatively little is therefore expected to change for the business sector. At the same time, the tone of US foreign policy is expected to soften somewhat. The attempts by Trump and his political allies to challenge the election result proved unsuccessful. Biden has since been declared the winner by the Electoral College and it therefore seems as if the risk of a constitutional crisis is behind us.

Brexit

Brexit negotiations between the United Kingdom (UK) and EU dragged on throughout 2020. The country officially left the EU on 31 January. That took place after a newly elected British parliament at the end of January voted in favour of the exit agreement drafted by Prime Minister Johnson. This put the country in a transitional period for 2020, with EU regulations and law remaining in force in the UK. The deadline of 1 July passed, with no vote in favour of any extension of the transitional period. In the second half of 2020, all attention was focused on reaching agreement on the bilateral trade relationship for the future. The persistent disagreement on guaranteeing a level playing field for

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British and European businesses and on access for EU fishers to British waters was finally settled at the end of December. A *No-Deal Brexit* was consequently avoided. The agreement staves off greater economic damage in the short and long term, and eliminates a source of volatility for the new year, especially for European financial markets.

The agreement is a relatively limited trade agreement, however, that mainly pertains to goods. The financial services provided by parties in Europe are not part of this trade agreement. This means that as of the end of 2020, so-called ‘passporting rights’ - licences - of UK parties to provide financial services to European parties such as PGGM Investments terminated. Only after the European Commission has taken a so-called ‘UK equivalence’ decision will parties once again be able to provide services from the UK to European parties. This decision is not expected soon, however.

Despite the fact that a trade deal was reached, the preparations for a so-called no-deal Brexit - which PGGM Investments has always planned on - proved to be very necessary. In order to continue PGGM’s asset management service provision to its clients under all circumstances, it was necessary to novate legal contracts to designated EU27 hubs of the UK service providers. This involved contracts with external managers, but also contracts with counterparties in order to be able to engage in derivatives or repo transactions, for instance. New relationships were also established with EU27 hubs or with other branches with the correct licence for the trade in shares and bonds. In addition to the volume of legal work, this also resulted in substantial administrative and system adjustments. The advantage in 2020 was that some of the necessary preparations had already been carried out in 2018, in preparation for a UK departure from the EU without an exit agreement. Various other legal contracts, such as those with depositaries, trading platforms and trade repositories, were already novated to an EU entity at that point. However, while the preparations in 2018 were aided by a number of emergency measures by European and national legislators and supervisory authorities, this was the case to a very limited extent in 2020. Because of all of these actions, the continuity of PGGM Investments’ service provision was well safeguarded at the end of December 2020.

Stock markets

It was an extremely volatile year on the stock markets as well. In March 2020, stock markets worldwide still stood at a *year-to-date* loss of over 30% because of uncertainty around the outbreak of the coronavirus. A strong recovery subsequently took hold headed by technology companies, while at the end of the year, after Biden’s electoral victory and the announcement of effective vaccines, lagging value shares caught up. For 2020 as a whole, the *FTSE All World* achieved a gain of almost 15% (in local currencies), driven especially by the strong performance of US stock markets. Both emerging markets and Europe clearly lagged behind.

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Interest rates

Central banks lowered interest rates, where possible, and/or pumped extra liquidity into the financial system. As one of the first central banks among developed markets to do so, the US central bank lowered the interest rate, ultimately allowing this to decrease to 0%. Various quantitative easing measures were also announced, such as the large-scale purchasing mainly of government bonds. US long-term interest rates decreased as a result. In the eurozone, the European Central Bank (ECB) did not dare lower the policy interest rate any further. A large package of quantitative easing measures were announced, however, which were increased in December. In contrast to the US, long-term interest rates on many government bonds in the eurozone were already being traded under 0% and the room to go even lower was more limited. The ECB seems reticent to lower policy interest rates much further (even though some members do not believe that the 'bottom limit' has yet been reached). The 10-year Bund in the meantime decreased to a level of -0.71%, but subsequently recovered somewhat. The 30-year swap regularly traded under 0% and closed the year just below that level, a decrease of approximately 65 basis points. Considered for the year as a whole, the long-term interest rates decreased on balance in the eurozone, which caused fixed-income securities to achieve a positive return. The decrease in the interest rate caused liabilities to increase.

1.1.c Private markets

PGGM Investments has built up a strong and broad private markets platform since 2008. This platform is distinctive with respect to peers both in size and quality, in the special asset classes included therein and in the relatively low cost of capital as the result of internalisations implemented.

From the Private Real Estate Fund we invest worldwide in institutional property, where we look for investment opportunities for the long term. We respond to 'structural trends' that we have identified as drivers of return. With a floor area of 388,570 m2 and property value of € 830 million, the Japanese Amagasaki is one of the biggest distribution centres in the world. We invested a 30% interest in 2020.

On behalf of clients, in 2020 PGGM invested an extra € 125 million in BAM PPP, for instance, a business in which construction company BAM and PGGM undertake infrastructure projects together. An example is the Afsluitdijk where BAM PPP has concluded a development and maintenance contract with a term of 30 years. The long-term approach and financial strength that PGGM contributes ensures that BAM PPP can commit to projects for the entire lifecycle, which makes new and unique solutions possible. This works to the advantage of both parties and reinforces the economic structure of the Netherlands.

Another striking investment in 2020 is our minority interest in Eurofiber, a provider of digital 'open access' infrastructure. Eurofiber is a Dutch company that operates an accessible glass fibre and data centre network for business customers. With this investment, we give our clients a stake in a project designated as 'vital infrastructure' by

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the Dutch government. Eurofiber provides almost three-quarters of Dutch health care institutions and universities with high-grade glass fibre connections. In addition, some 80% of the energy network managers in our country are connected to Eurofiber's network and more than half of the mobile phone traffic in the Netherlands takes place via its network. Eurofiber also provides a number of Dutch local authorities with high-grade glass fibre connections, with which they lay the infrastructural basis for 'smart city' solutions.

Erik van de Brake, head of PGGM Investments Infrastructure Fund:

,,This interest in Eurofiber brings our clients what they are looking for: using their pension capital to contribute to strengthening the Dutch economy through further digitalisation, via an investment with good and stable expected returns in the long term. The COVID-19 pandemic that hit us this year underscored the essential importance of strong digital infrastructure, in the health care sector, for instance, where Eurofiber has a leading market position.''

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Investments in sustainable real estate in South Korea

Ping Ip and Ronald Bausch, Investment Managers Private Real Estate: Despite the fact that for many of us working from home became the new normal in 2020, Private Real Estate again achieved a great result with its office investment mandate in Seoul, South Korea. The mandate aims to (re)develop highly sustainable office buildings at good locations in the city.
This type of building is particularly popular with companies that use it as a head office and therefore as a showcase for their organisation. There is a shortage of such buildings in Seoul and the demand remains high. Thanks to very close cooperation from the Netherlands with a local team, we have been able to achieve good results for years. In 2019 a net return of € 45 million was already achieved on a mandate of € 300 million, in 2020 the net return over the year was up to € 60 million. The fact that it concerns sustainable real estate is shown by the fact that this investment has also been one of the best performing participants in the global sustainability benchmark for real estate, GRESB, for years.

1.1.d Public markets

PGGM Investments has a long and successful track record with benchmark-aware implementation. Our strength does not lie in blindly implementing the purchased indices. We build better portfolios that might indeed remain close to the index, but which mitigate the risk of undesirable exposure and which integrate ESG factors.
One of the important developments in public markets is the dismantling of PGGM Treasury. Over the past decade, our clients' money and currency market transactions were first combined before being executed on the financial markets. This was an extremely efficient solution since a separate transaction was not required for every client, but just one combined transaction. This solution no longer satisfied the current requirements of supervisory authorities and clients, however. In the new situation, this Treasury service has been designed at client level, which means that PGGM is much more flexible, agile and scalable in meeting individual client needs. In a united collaboration between various departments over the past twelve months, we have worked hard and

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successfully on realising Treasury 2.0. And this was during the COVID-19 period, which required the project group to work remotely. Truly an achievement we should be proud of.

Due to the changed risk profile of the PGGM Commodity Fund in combination with the (transaction) costs incurred in holding the portfolio, PGGM concluded after weighing the interests that prudent management of the Fund in accordance with the applicable conditions and in the interests of the participants was no longer possible. PGGM, as administrator of the Fund, then took measures to terminate the Fund and called a meeting of participants to further explain this decision and to answer questions on this matter from participants. This meeting was held on 1 May 2020.

On November 9, 2020, the Management Board took the decision that PGGM Listed Real Estate Index Fund and PGGM Listed Real Estate II Fund would be discontinued as soon as possible because there were no participants in them.

On December 21, 2020, the Management Board of the Fund Manager took the intended decision to dissolve PGGM Government Bond Fund. The Fund Manager does not see any other unitholders joining the fund in the foreseeable future. The proposed decision was communicated to the only participant in the fund, who already intended to exit from the fund.

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Sustainability-linked bonds: an ethical dilema

In September 2019, the Italian utility company Enel took an innovative step and issued a so-called Sustainability-Linked Bond (SLB). SLBs differ substantially from the usual Green bonds. The proceeds of a more regular Green bond can be used only for specific green projects, which is typically certified by a third party, therefore limiting the issuers' ability to finance its overall green strategy. The proceeds of a SLB can be used for general corporate purposes, but they are linked to specific environmental or social KPIs, which will be reviewed midway through the life of the bond. If the issuer does not meet its target, it will face an increase in the coupon of the bond.

The structure of SLBs leaves investors with an ethical dilemma. In fact, while some investors might argue that failing to achieve the SLB's specified KPIs might be seen as a sign of credit quality deterioration and thereby warranting a higher compensation, others do not think that interests are completely aligned. Investors that intend to have higher financial returns need to hope for the company to fail in achieving the sustainable targets and hence receiving the coupon step-up.

PGGM Investments participated in several SLB deals and we are supportive of such a structure, as this supports the ambition of the company to transition towards a more sustainable business model. While as an investor a lower financial return is expected in case the company does meet the sustainable target, this is more than offset by having a more sustainable business model and therefore a lower credit risk in the future. In addition, we believe that this new instrument is a necessary innovation in order to achieve the net-zero emissions goal by 2050, as it can be issued by hard-to-abate sectors that intend to decarbonize their business activities and face difficulties in issuing traditional green bonds.

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German green government bonds

The PGGM Investments Rates team invests in government bonds in order to hedge interest-rate risks and for the liquidity that these bonds offer. Governments started issuing green bonds in 2017, which means we are also able to buy these for non-financial purposes, alongside the reasons set out above. Although there is certainly a discussion to be held on whether green government bonds result in extra green government spending, they do have a signalling and risk effect and a function as a benchmark and accelerator for green financing in the private sector. A significant number of governments issued green bonds for the first time in 2020. This involved over €31 billion in green government bonds, growth of over 60% compared to 2019. Also read the blog 'Post-coronavirus recovery a catalyst for green bond market'. Germany issued its first green bond in twin format, i.e., as an exact twin to an existing conventional government bond (same coupon and maturity). The 'twins' are convertible, which means a liquid benchmark curve can arise for green bonds, just as the German Bund-curve already functions as such for conventional bonds in Europe. It also explicitly clarifies the premium that investors are willing to pay for green bonds. In this case, PGGM Investments participated at an effective return that was 1 basis point (0.01%) below the conventional bond. Besides the non-financial objectives, green bonds also demonstrated during this COVID-19 pandemic that they are less volatile. In the past, we have seen that this premium for green bonds from, for instance, the European Investment Bank, KfW or France can rise to approximately 5 basis points before this difference again normalises. We therefore see a premium of 1 basis point as an excellent proposition for both the investor and the issuer, from a financial and sustainability perspective.

Insurance linked investments

PFZW's mandate in insurance-linked investments has no relationship with the financial markets: the mandate invests in natural disasters such as hurricanes and earthquakes by taking over part of the risk from insurers in exchange for fixed compensation. The mandate has a stable return that is at most affected if natural disasters cause damage to which PGGM has exposure and consequently provides a high degree of diversification. The mandate therefore had no losses during the stock market crash in March as a result of the coronavirus crisis. Over the past year, hedged for the US dollar risk to which it is exposed, the mandate achieved a return of 3.7% and, since inception in 2006, has produced a stable return of 5.5% on annual basis.

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Outperformance impact investments

The internal Investing in Solutions share portfolio (BOA) had an extremely strong year with respect to the broader FTSE index (+18%) and the internal BOA Benchmark (+2.75%). During the first quarter of 2020, share markets experienced a significant correction as a result of the outbreak of COVID-19. During this period, the BOA portfolio proved very defensive and achieved strong outperformance with respect to the broader FTSE and the internal BOA benchmark. The PGGM Long Term Equity Strategy (LTES) team took advantage of this period to include in the portfolio a number of shares that had dropped sharply and take a profit on other shares. This enabled the portfolio to keep pace well with share markets when a significant recovery occurred as the result of unprecedented powerful measures by the central banks. The leaders in this recovery were mainly companies that offer a solution for climate change. These companies are heavily represented in the BOA portfolio and the BOA benchmark, which largely explains the positive performance with respect to both indices.

1.2 Risk management

With every decision, PGGM Investments consciously and unconsciously takes risks in order to realise its objectives. Risk management is therefore a highly material topic for us. We make a distinction between risks to which our institutional clients are directly exposed via their investments and risks to which our organisation is exposed. In order to determine whether and to what extent there is exposure to a specific risk, the risk appetite is determined annually. This risk appetite constitutes the framework for decision making and contributes to an active and conscious risk culture. Applying this framework when monitoring and controlling risks makes clear if risk limits have been reached and extra measures are needed to bring the risk back within the limits of the risk appetite.

1.2.a The risks for our organisation

A healthy risk culture is essential to effective risk management. That is why our risk culture is focused on operating in a risk-aware manner in an open and honest environment. We hold each other accountable for responsibilities and results but also for behaviour in relation to our values, standards and objectives.

A risk profile is drawn up every quarter. This risk profile is compared against the risk appetite. Attention is also devoted in this process to operational incidents and other disruptions, with the main goal being to learn from these, discover trends and discuss underlying root causes. Attention is also devoted to future risks. The line management (our investment teams) issue an In Control Statement (ICS) quarterly on the basis of this. In accordance with our annual objective, an ICS was issued every quarter in 2020. After making up the balance as of 31 December 2020, there are still a few risks that

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exceed the risk appetite. For these risks, additional control measures have been determined and included in a risk plan. The measures taken in 2020 helped bring the risk profile closer in line with the risk appetite, thus starting a downward line. This trend is expected to continue in 2021.

In supplement to the outlined development of the overall risk profile, a number of specific risks and uncertainties which left their mark on the risk profile in 2020 are set out below.

Below is an update on the developments during 2020.

Main risks and uncertainties in 2020		
Risk cluster Corporate	COVID-19	One of the biggest risks we faced as company in 2020 was the COVID-19 pandemic. The effects of the pandemic were anticipated by activating the crisis management team (CMT) at an early stage. The CMT was responsible for monitoring the pandemic and determining actions aimed at employee health and the continuity of service provision. PGGM adequately managed the risks and uncertainties resulting from the COVID-19 pandemic. The service provision was guaranteed throughout the crisis. The ‘change’ calendar did encounter delays because of the impact of working on projects from home. We expect to be well prepared for the future as well, in terms of the ongoing operational effects of COVID-19 and the related risks. In that context, we pay close attention to the development of risks resulting from long-term working from home.
	New pension system	The key starting points for the new pension system were determined in 2020. It is clear that the new pension system will have an impact on our proposition and business operations. Initiatives have been started in the meantime to prepare the organisation for different future scenarios. These initiatives are aimed at, among other things, improving the agility and manageability of our organisation.
	Brexit	We prepared our business operations for the consequences of a (no-deal) Brexit. Risk analyses and control measures were charted out in 2019 and applied to the extent possible in 2020. Examples of this include the contractual move of derivatives positions - which we hold with UK-based financial parties - to EU27 hubs set up for this purpose by those financial parties, but also the re-evaluation of broker relationships. The current developments in relation to a Brexit deal that was concluded lower the risk profile. We actively monitor the practical effects of the Brexit agreements for PGGM.

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Risk cluster Service Provision:

Security and cyber security

In relation to information security and (cyber) security, the threat level continues to rise worldwide. The effectiveness of measures for ourselves and our stakeholders is a constant priority. In 2020, a number of measures were implemented to structurally reinforce security, such as several upgrades to hardware and software, the performance of penetration tests and keeping personnel alert to cyber threats, such as phishing. We actively monitor the maturity and demonstrability of our security processes.

Laws and regulations

In order to comply and to continue to comply with statutory requirements, close attention was devoted in 2020 to MiFID II (Markets in Financial Instruments Directive), Wwft/Sw (Money Laundering and Terrorist Financing (Prevention) Act and the Sanctions Act) and SFDR (Sustainable Finance Disclosure Regulation). From the perspective of heightened supervision, PGGM wants to be better able to demonstrably implement legislation and regulations. A programme was started to adapt our business operations and the underlying design principles accordingly.

Sustainability

The developments in the investment world aimed at sustainability are monitored closely. We are traditionally a trendsetter when it comes to sustainability. However, other investment institutions are also addressing sustainability to a greater degree and in some cases we are even being overtaken. Regulatory and statutory requirements to which we are subject are also becoming increasingly demanding, for instance in the area of transparency, one of our material topics. Steps will be taken in 2021 to satisfy the new information provision requirements.

Operational risk

Operational risks are run in the execution of orders for our clients. In order to mitigate these risks, we have designed our processes in a way that means we are verifiably ‘in control'. PGGM Investments issues Standard 3402 and 3000 reports on the asset management service provision. The Standard reports for 2020 contain no limitations. No incidents with a material impact occurred in 2020.

IT & Change

In order to continue to comply with client requirements and ever-growing legislation and regulations, several projects are running simultaneously. In view of the scope of the projects and their impact on the organisation, the change capacity is under pressure. A task force has also been established that performs targeted actions to make the IT set-up more stable and therefore more suited to our best-in-class ambition.

HR risk

The HR risk was heightened in 2020, mainly because of the impact of COVID-19 and the impact that the measures have on our colleagues. The transition to working from home went smoothly and there was extra attention to our employees’ well-being. Extra measurements were carried out among colleagues, managers were trained to recognise certain signals and there was increased attention to communication.

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Risk cluster Reputation	Reputational risk	A good reputation is essential for us. Based on our role in society and in working for our clients, we want to operate responsibly and be of service. The client relationship and client satisfaction is monitored as part of our highly material topic of customer orientation. We accept that there are parties who may have a different view on topics and that this can result in reputational damage. There is a low risk appetite for reputational damage as a result of incorrect and/or incomplete execution of services.
Financial risks	Market risk	Our revenues are dependent on the agreements with the clients. The risk of diminishing returns as a result of falling assets is limited by the fact that the revenues largely consist of fixed fees.
	Credit risk	The credit risk is defined as the risk that counterparties will be unable to fulfil their contractual obligations. This primarily concerns the receivable management fees contractually agreed with the clients. As PGGM Investments performs asset management activities for pension funds, the risk as a consequence of insolvency is low. The maximum credit risk amounts to the book value of the financial fixed assets, receivables and the cash and cash equivalents. The book value of financial assets shown in the balance sheet is an approximation of their fair value.
	Capital requirement	To ensure the continuity of our organisation, it is essential that we maintain enough capital to accommodate the potential financial consequences of the risks. We have drawn up a specific ‘Equity’ policy for this purpose. The requirements stipulated by the supervisory authorities have been incorporated in this. The Finance & Control department monitored the adequacy of the capital maintained in 2020.

1.2.b Optimal risk management of the investments

As an asset manager, we put together and maintain investment portfolios for our clients in order to realise the desired risk-return profile. Our Front Office investment teams select the investments and are responsible for managing the investment risks. The Risk and Compliance team supervises independently of the investment teams that 1) the risks in the investment portfolios are consistent with the desired risk-return profile and 2) they satisfy the preconditions stipulated by our clients.

The financial risks of the investment portfolios are constantly measured, analysed, discussed with the investment teams, and compared to the predetermined risk limits and risk tolerances. The financial risks that PGGM Risk & Compliance monitors can be divided into 1) market risks, 2) liquidity risks and 3) counterparty risks. In this context, market risk is deliberately incurred in order to achieve a return. These three risks are the subject of attention and reporting both on the level of the individual investment portfolios (PGGM Investments funds and segregated mandates) and the client portfolio as a whole.

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Extra attention was focused on three risks in 2020. Firstly, there was a great deal of attention to the COVID-19-related risks. This manifested in financial losses as a result of write-downs, assessing to what extent the creditworthiness of our counterparties came under pressure and the continuity of being able to execute orders in the market which are necessary to perform the mandates of our clients. The volatility resulted in major fluctuations in the market in collateral obligations, which affected clients' liquidity position. Secondly, Brexit also required a lot of attention, which had consequences for the counterparties normally traded with and the execution of transactions. Finally, the liquidity stress model was recalibrated as a result of environmental developments in relation to liquidity, such as the volatility of the markets and legislation with regard to central clearing and the potential impact of this on the clients' liquidity position.

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1.3 ESG integration

We take ESG factors into account in our processes in order to arrive at a better risk-weighted return. ESG factors can directly and indirectly impact financial results. For instance, climate-related financial risks such as more extreme weather conditions that result in higher claims at insurers.
The responsibility for ESG integration is embedded in the investment teams themselves, and challenged by the Risk departments. The Responsible Investment team ensures guidance, advice, training and coordination to ensure that everything adds up to a consistent whole. It is essential in this that the entire investment portfolio satisfies the objectives of PGGM Investments and its clients. Naturally, we must also satisfy the applicable legislation and regulations in relation to ESG integration and implementation.

1.3.a ESG integration in practice

We use the data we have to assess which ESG factors weigh heavily in a financial sense. A broad screening takes place in this context, where assistance is sought from external service providers. In 2021, screening against OECD guidelines will also take place. Companies that structurally breach these guidelines will be excluded from the share portfolios.
Within private markets, it is more difficult to collect ESG data. This is because the supervision is arranged differently and the data are collected via the managers. For these investments, a so-called ‘deal team’ procedure is used. This means that our investment teams, challenged by our Risk departments, screen investments for ESG risks. The Sustainable Accounting Standards Board (SASB) framework is used in this process. The framework provides the possibility of making an initial assessment with regard to ESG risks. This gives insight into the focus areas to which particular attention must be paid in assessing an investment. There are three levels at which the ESG risk score is assessed: country, sector and manager. The score is included in the Risk team’s overall score for the investment. Below are a number of examples of how the investment teams integrated ESG factors in their day-to-day activities. We also discuss a number of dilemmas and challenges.

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In dialogue with our external managers about ESG integration

Guggenheim Partners has been managing a portfolio of US high-yield bonds for PGGM Investments since 2012. It is important to us that our external managers explicitly integrate sustainability factors in their investment process. Guggenheim was initially cautious in this respect, which it expressed by not signing the UN Principles for Responsible Investments (PRI), the leading framework for responsible investing. We have been engaged in dialogue with Guggenheim since 2017 on the importance of sustainability in the investment process. Thanks in part to these discussions, Guggenheim examined the usefulness of ESG integration, carried out research, invested in data and infrastructure, set up ESG reporting and signed the UN PRI in January 2020. Guggenheim now integrates ESG factors in every investment proposal on the basis of its own scoring method, whereby external ESG scores are supplemented with qualitative analysis from their team of analysts. The fact that Guggenheim is certainly no longer lagging behind when it comes to sustainability is also clear from the publication of their Impact Report 2019. Based on their core values and strategy, the asset manager explains how it wants to make a positive societal contribution for all its stakeholders.

ESG integration in Private Equity

Our Private Equity team is committed to remain a best-in-class responsible investor and act as a model for other stakeholders in the industry. We do this by continuously improving and refining our ESG-processes around investing, monitoring and reporting. Likewise, we are committed to driving continuous improvement of ESG-processes at the General Partners we invest with.

In 2020, we increased our focus on climate change and diversity & inclusion and continued to improve our regular engagement on ESG. We believe these topics are particularly relevant to private equity due to the large number of companies we can influence within our GPs' portfolios. As a result, in 2020, we focused on encouraging our GPs to take steps to measure and report on their carbon footprint as well as their diversity & inclusion initiatives. We revamped and expanded our GP questionnaire to also assess our managers in these areas and defined and circulated a KPI data request for GPs such that we can report on these going forward.

In addition, we continued to improve our ESG processes and engage with our GPs to improve theirs in 2020. In 2020 we engaged with 53 of 58 go-forward relationship GPs in our portfolio in 2020 and saw improvements in the ESG integration scores of 33 of them.

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Balancing ESG issues with positive impact

On behalf of PFZW, the PGGM Long-term Equity Strategy team invests in public equities from a universe of Sustainable Development Investments (SDI) and the investment portfolio is managed for maximum risk-adjusted financial return. Companies in our portfolio are carefully selected. When making investment decisions, we consider factors beyond the financial value or performance of a company; namely the ESG-performance and the broader positive impact of the company. However, strong financial performance, good ESG performance and positive impact do not necessarily go hand in hand. This year, we decided not to invest in Sociedad Quimica Minera de Chile, a company that presented a strong business case and, as a supplier of a key component of electric vehicle batteries, made a positive contribution to climate change. Why? The company had a track record of environmental mismanagement and a cloudy governance and ownership structure. For us, these two ESG issues posed a reputational risk and revealed that the company was misaligned with our values.

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Standardisation in the market: ESG questionnaire from eVestment

In order to assess whether asset managers are capable of performing a mandate assignment, PGGM External Management assesses them on the basis of seven criteria. A score for sustainability indicates how likely it is that an asset manager will realise the societal objectives. Sustainability (and its integration) is a permanent component of all due diligence activities and review discussions. Among other things, PGGM External Management uses an ESG questionnaire it developed itself in which all sorts of sustainability aspects are assessed on the level of the manager and the level of strategy.

In order to improve the standardisation in relation to the ESG assessment of asset managers, PGGM External Management sought cooperation with eVestments, a platform with asset management data and analyses that PGGM Investments actively uses for the screening of the universe and peer group analyses. This year, eVestments launched an extensive ESG questionnaire. PGGM External Management's own questions are now included in this questionnaire. Consequently, asset managers no longer need to fill in a questionnaire specifically for us, the answers are accessible for a wider group of investors and PGGM External Management can more easily compare the sustainability aspects of different asset managers. We hope this will also help increase transparency in the market and more efficient engagement with external managers in relation to sustainability.

1.3.b ESG integration in figures

In addition to the qualitative aspects of monitoring performance in relation to ESG integration, it is also essential to form a quantitative judgement on the impact of integrating ESG in the portfolios.
The results are measured by looking at the use of ESG instruments and measuring performance on this basis. PGGM carries out performance attribution to do this, whereby both the short-term and longer-term financial effects of the ESG instruments are made visible. For the time being the measurement takes place for the listed share portfolio, because the comparison against a uniform benchmark is still a challenge for other investments. Read more about our research into performance attribution in Chapter 2. The more (historical) data we have, the better we can judge the relationship between ESG factors and the return characteristics in the portfolio.
The figure below shows that our instruments for ESG integration have not, to date, had any significant impact on the returns on the investments.

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Segments	Bench. Average Weight	Port. Average Weight	Total effect (Optimalisation effect under CO2 segment) [2]
CO2	2,85	0,22	0,346
Weapons	0,97	0,00	0,350
Weapons AFM prohibited	0,19	0,00	0,039
Tobacco	0,73	0,00	0,123
Engagement-related	0,40	0,00	-0,012
Others	94,86	99,78	-0,362

Total	Total effect
Total	0,484

1.3.c The risks of a changing climate

Climate change is an urgent matter. What impact does the transition to a sustainable world have on society? What are the consequences for the economy? As long-term investors, these are important questions for us.

Climate change has been a concern for PGGM and our clients for years. The relationship between climate change and investing is twofold. On the one hand, our investment decisions have an impact on the climate. We feel societal responsibility to reduce our negative impact on the climate and increase the positive impact. On the other hand, climate change - and measures to combat climate change - have an impact on the value of our investments. It is our fiduciary responsibility to understand and respond to these effects. We therefore see this as one of our material topics.

PGGM distinguishes two types of risks:

We set out below how we deal with these risks.

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[2] Total effect in basis points on the equity category

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Transition risks: Climate-stress test carbon tax

Transition risks are risks involved with all adaptations that today's society makes to limit climate change. Governments can introduce measures to achieve CO2 reductions. Technological innovations can cause disruptions. Both can be accelerated as a result of measures being legally imposed on businesses or governments.

Climate stress testing was carried out in shares and corporate bonds in 2020. In doing this, we built on the experiences amassed in 2018-2019 when we worked with Mercer to create insight into the effects of higher CO2 pricing on the shares in investment portfolios. For shares, we saw that the introduction of a high tax on emissions is a material risk and we are in conversation with our clients concerning this. For corporate bonds we were able to determine that the risk is much smaller.

Because climate risks are a large and complex problem and difficult to model, we opted to start by charting out the transition risk if a carbon tax were introduced. In preparation for this, the climate stress testing working group started a collaboration with the Pensioenfederatie and other providers in 2020. As part of the DNB Platform for sustainable financing, we also worked on the development of a carbon pricing model.

In this context, we used a model that charts out the environmental effects of the Global Trade Analysis Project (GTAP), the so-called GTAP-E model. The model estimates the impact of higher carbon taxes, in a number of variants, on countries and sectors. This is an important supplement to other models we already use, which makes it possible to make a better risk estimate of the impact of stricter climate policy on our investments.

The impact of a possible carbon tax remains very difficult to predict. There are many indirect effects that are difficult to include in the analysis. Questions to consider include: how quickly can businesses adapt? How much of a potential carbon tax is already factored into prices? Will the carbon tax be introduced globally or locally? We continue to research this in cooperation with others.

Physical climate risks

In addition to transition risks, there are also physical risks of climate change. Despite the fact that physical risks, such as rising sea levels and extreme weather, are the first thing people think of when it comes to climate change, physical risks are still underappreciated in the capacity of financial climate risk.

We use SASB's Materiality Map to assess whether physical climate risks are financially material for an asset class. This shows that physical climate risk is a material risk for Insurance, Credit and certain sectors within Infrastructure. At the moment, we are working on a further analysis of to what extent this applies to our clients' portfolios.

The PGGM Private Real Estate team links the physical locations of its investments to climate models. This is aimed at providing insight into what property is vulnerable to rising sea levels and extreme weather. Properties at high-risk locations are identified and the overall portfolio risk is charted out.

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Climate risk in private real estate

Private Real Estate (PRE) regards climate change as a financial risk, differentiating between physical and transition risk. We identify physical risk in our portfolio through our partnership with Munich Re. Read more about this on our website. Real estate is also exposed to significant climate-related transition risks as governments are imposing increasingly stringent regulations on energy use and emissions from buildings in order to meet climate goals.

With the Carbon Risk Real Estate Monitor (CRREM) project, that we supported, this year a major step forward has been taken in the development of a global method that measures whether a building meets the objectives of the Paris Climate Accord. With the so-called 'pathways', or carbon reduction roadmaps, that have been developed as part of the CRREM project, it is clear for just about every type of property in a large number of countries how much carbon per square meter they are allowed to emit annually until 2050 in order to meet the objectives. The pathways are consistent with keeping global warming below 2 degrees Celsius. This is a policy goal endorsed by most municipal and national governments and thereby constitutes a plausible scenario against which future climate-related transition risks can be assessed.

Although originally focussed on commercial real estate in Europe only, with funding from PGGM Investments, APG and Norges Bank Investment Management (NBIM) the scope was extended to include residential and relevant real estate markets in Europe. The initiative received further support from Japan's Government Pension Investment Fund and Ivanhoé Cambridge.The CRREM pathways provide us clear guidance on Paris Alignment of our Real Estate assets. The pathways have been made available for free such that it can be used by all market participants.

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Dutch climate agreement

In 2019, clients of PGGM committed to the Dutch climate agreement for the financial sector.[3] With this, they pledged to report from the 2020 financial year onward on the carbon footprint of all relevant investments in the portfolio.

PGGM Investments also reports itself, in line with the climate accord, on the absolute footprint (in CO_2 equivalents[4]) of the total investments under our management. [5] We aim to inspire the market to do the same, especially the companies we invest in on behalf of our clients. Such measurements are an important instrument in the monitoring and construction of our portfolio. It helps to direct funding towards greener companies and sectors and limits the exposure to transition risks with regards to climate change. In addition, this data is of importance in our engagement activities with companies we have invested in. The climate objectives of organisations usually involve the emissions of greenhouse gases. By using CO2 footprints, we are able to use our influence as a major investor in the monitoring our portfolio to put energy efficiency and climate action on top of their agendas.

PGGM already has several years of experience in measuring and reducing the footprint for PFZW. Until now, we have only reported the footprint of the listed share portfolio expressed in CO_2 intensity (emissions divided by turnover). We report on this elsewhere in this report. The new reporting contains significantly more, but not all, asset classes and because of the focus on the absolute footprint, does not lend itself for direct comparison with the old method. For the absolute footprint in this section, we tie in as much as possible with the framework of the Partnership for Carbon Accounting Financials (PCAF).[6] Among other things, this means that every euro invested in a business - either in shareholders' equity or loan capital - counts equally. PGGM Investments' footprint is equal to the emissions of a business multiplied by our share in the total capital of the business.

The results are summarised in table 1. Note that because of the significant delay in the reporting of emissions data by companies, the footprint has been calculated using emissions data for 2019. These are linked to the portfolio as of year-end 2019. A total count is only included for scope 1 (direct emissions by the businesses themselves). Scope 2 (emissions of energy suppliers) is the scope 1 of other companies in our portfolio. Aggregating scope 1 and 2 would result in some emissions being counted twice.

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[3] https://www.klimaatakkoord.nl/binaries/klimaatakkoord/documenten/publicaties/2019/07/10/commitment-van-de-financiele-sector/Commitment+Financiele+sector.pdf.
[4] Multiple greenhouse gases contribute to climate change. It is customary to convert greenhouse gases other than CO_2 into CO_2 equivalents based on their relative contribution to climate change over a horizon of 100 years, as proposed by the Intergovernmental Panel on Climate Change (IPCC), and then to add these up. This convention is followed in our data sources.
[5] Government bonds with an extremely low direct footprint and a few small portfolios have not been included in this reporting.
[6] https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

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Formal values	Allocation EUR in mln	Scope 1 Coverage (%)	CO2 Footprint millions of tons CO_2e	Scope 2 Coverage (%)	CO2 Footprint millions of tons CO_2e	Source
Shares classically developed markets	32144	96	1,4	96	0,5	Trucost
Shares classically emerging markets	10542	92	1,5	92	0,7	Trucost
Shares Investing in Solutions	3800	91	0,2	91	0,1	Trucost
Alternative share strategies	26739	98	1,3	98	0,4	Trucost
Listed real estate	14786	57	0	57	0,1	Trucost & GRESB
Private real estate	14604	57	0	57	0,1	GRESB
Credit						
Corporate bonds developed markets	6501	93	0,7	93	0,1	Trucost
High yield developed markets	2859	52	0,9	52	0,1	Trucost
Total			**6,2**			

Finally, we stress that both the coverage and quality of the data in some categories still leaves much to be desired. This is particularly the case for non-listed companies and companies in emerging markets. The data in high-yield developed markets and corporate bonds and high-yield emerging markets show a few outliers which we are still unable to account for. The reports from external managers (private equity and GRESB reports for property and infrastructure) are still far from complete. In the coming years, we will work to improve the quantity and quality of these data, not least so that we can also provide some steering.

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Task Force on Climate-related Financial Disclosures

In 2020, the Task Force on Climate-related Financial Disclosures (TCFD) published a number of reports, including the annual status report. The status report shows the further progress in the adoption of the TCFD framework, under the influence of investors (via alliances such as Climate Action 100+, for instance) and embedding in regulation. The TCFD now has over 1,500 supporters, including financial institutions with shared assets under management of USD 150 trillion.

Nonetheless, there is still much room for improvement in the quality of climate reporting. To that end, the TCFD has drawn up supplementary guidelines on scenario analysis and the integration of climate risks in existing risk management frameworks. The TCFD has also issued a report containing proposals for new future-oriented statistics for the financial sector, for consultation purposes. The TCFD's proposals clearly go a step further than existing frameworks, which still rely strongly on predominantly backward-looking statistics.

Read our own 2020 TCFD report here.

Adaptation to climate change

The outbreak of COVID-19 and the subsequent lockdowns in large parts of the world caused an abrupt, but unfortunately temporary, decrease in the emission of greenhouse gases. It seems unlikely that without additional measures, the pandemic will have a permanent effect on global emissions. Even just the announcement of a vaccine prompted extra economic activity and growing optimism about a return to the 'old normal'.

The crisis of the past year offers opportunities for organising society differently and more sustainably. A growing number of governments and businesses seem to be drawing important lessons from the crisis and taking steps in the right direction.

The rapid development of a vaccine offers hope for faster breakthroughs of sustainable low-carbon technologies, if enough companies simply want to make this a priority. In our engagement with companies, we will remind them even more emphatically of this shared responsibility.

The pandemic also demonstrated the necessity of building in buffers. Just as many countries were inadequately prepared for a pandemic, there are many countries (and businesses) that are inadequately prepared for the effects of climate change. Alongside climate mitigation and the energy transition, adaptation also needs to be a high priority: reinforced infrastructure and a built environment that protects citizens and businesses against rising sea levels, more severe droughts and more extreme weather conditions.

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Chapter 2: Our impact – Generating value for stakeholders and society

Responsible investment is essential for the long-term success of an institutional investor. Only if the impact of the actions that arise from the investment behaviour of our clients is taken into account can our clients realise sustainable returns. We work for pension funds and invest with a long time horizon. We therefore consider how our world should look in the future and what effect our investments have on this world. After all, it is in that world that the participants of our clients will receive their pensions. We therefore contribute to a liveable and sustainable world and in doing so add value for our clients and their participants.

2.1 The value we have created

We believe in the steering power of money. We use our clients' money for a sustainable and liveable world. In 2014, our biggest client, PFZW, issued the mandate to realise investments of €20 billion in 2020 in solutions for four social issues: i.e. climate change, water shortages, food security and health care. These targeted investments, which we call Investments in Solutions (BiO), not only contribute financially to the returns for our clients, but also create social added value.
We invest in solutions via a specific listed shares mandate that we call Investment in Solutions via Liquid Shares (BOA). We also invest in solutions via other asset classes, such as real estate and infrastructure.

At the end of 2020, €20.8 billion was invested in solutions for these topics. Read more about this result here.

2.1.a How our clients' investments contribute to the SDGs

The themes in which we have been investing in solutions for clients since 2014 are reflected in the sustainable development goals created by the United Nations (UN) in 2018: the Sustainable Development Goals (SDGs). The UN has identified 17 goals that advise governments, businesses and citizens about a more sustainable and liveable world. Based on our experience with these investment themes, we worked with APG to develop a framework for the identification of products and services that contribute towards the UN SDGs. We call these Sustainable Development Investments (SDIs).

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Investing in Solutions

Assignment: at least €20 billion invested in solutions in 2020 [7]
Progress bar: € 20.8 billion of €20 billion [8]
New in 2020: € 2,6 billion

Focus area	€ invested (billion)	€ New in 2020 (billion)
Climate and environment	€ 10,2	€ 1,3
Water	€ 1,9	€ 0
Food	€ 3,6	€ 0,5
Health	€ 5,0	€ 0,8
Other	€ 0,1	

Our biggest client, PFZW, used the SDGs as a guide in its new Investment Policy, which runs from 2020 to 2025. From 2020, under a mandate from PFZW, we will be investing more in the SDGs and also reporting on this. This is why we have been measuring our share of investments in the SDGs since 2018. At the end of 2020, the amount was just over € 44 billion, or 16% of the total assets under management. That is € 6 billion more than at the end of 2018.[9]

Market value of invested assets in Sustainable Development Goals by PGGM per 31/12/20[10]

Investment type	Total market value investment category (in mln)	SDI value (mln)	% SDI per investment category
Corporate credits	€ 15,351	€ 1,527	10%
Credit risk sharing transactions	€ 5,114	€ 180	4%
Equities	€ 84,292	€ 16,842	20%
Infrastructure	€ 10,637	€ 3,115	29%
Insurance linked investments	€ 6,144	€ 6,073	99%
Listed real estate	€ 14,859	€ 4,849	33%

[7] On the instructions of PFZW.
[8] For all clients, both in the funds and in separate mandates. The amounts concern the invested assets and outstanding commitments.
[9] As the total investments of PGGM Investments has increased with more than 27%, the procentual SDI volume has decreased in comparison with 2018 (from 18% to 16%).
[10] Internal processes have been shortened by using new data sources. As a result, our data is no longer a year behind and we were able to publish the most recent data, at the end of 2020.

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Microfinance	€ 2	€ 2	100%
Other	€ 5,625	€ 27	0%
Private Equity	€ 15,188	€ 1,138	7%
Private real estate	€ 15,062	€ 7,541	50%
Real assets	€ 546	€ 457	84%
Sovereign bonds & SSA	€ 93,827	€ 2,173	2%
Treasury (and overlays)	€ 1,647	€ 113	7%
Totaal	**€ 268,293**	**€ 44,036**	**16%**

Invested assets in Sustainable Development Goals by PGGM

SDG	Value invested (in mln) per 31-12-2020
SDG1	€ 2
SDG2	€ 2,478
SDG3	€ 11,208
SDG4	€ 505
SDG5	€ 0
SDG6	€ 1,529
SDG7	€ 6,220
SDG8	€ 0
SDG9	€ 2,013
SDG10	€ 0
SDG11	€ 12,273
SDG12	€ 153
SDG13	€ 7,544
SDG14	€ 0
SDG15	€ 112
SDG16	€ 0
SDG17	€ 0
Total	**€ 44,036**

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Investing with impact within private equity

PGGM Investments aims, in representing our clients, to invest more into solutions that contribute to the Sustainable Development Goals (SDGs). In 2020, we committed USD 35 million to Blackstone Life Sciences ("BXLS") Fund V. The BXLS V commitment was the third fund investment from the Sustainable Investments allocation within the Private Equity mandate. This investment supports the development of new therapeutics, leading to positive impact on the lives of patients across the world. BXLS funds the late-stage clinical development of promising new therapeutics, in partnership with large pharmaceutical and emerging biotech companies. BXLS is active across a variety of therapeutic areas including oncology, cardiovascular and central nervous system conditions.

Investing with impact: EU SURE bonds

PGGM Investments has invested € 212 million for PFZW in new bonds issued by the European Union (EU).

This is the first emission in the so-called SURE programme, with which the EU enables its Member States to finance measures that are necessary for economic recovery in connection with the COVID-19 pandemic.

The EU's SURE programme consists of loans for various purposes, including the financing of reductions in working hours for businesses that have seen a large proportion of their turnover disappear as a result of COVID-19. Specific measures to improve health care in EU countries are also eligible for this financing. The central financing of this can contribute to lower interest charges for Member States and less pressure on the national government bond markets.

The EU SURE bonds are issued as Social Bonds that contribute to SDGs 3 (health and well-being) and 8 (decent work and economic growth). In line with this, this investment contributes to the impact theme of health care on which PFZW focuses.

For PFZW, these bonds are a good fit for its interest-hedging portfolio. The compensation of 3 basis points (0.03%) for the 10-year maturity and 14 basis points (0.14%) for the 20-year maturity on top of the swap interest rate provides an attractive return for a bond that most credit agencies have given AAA status.

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2.1.b Standardisation: the Sustainable Development Investments Asset Owner Platform

On a worldwide level investors are considering the SDGs to be of increasing relevance to their investment strategy, - policy, asset allocation, investment decisions and active ownership, according to research by the Principles for Responsible Investment (PRI). However, a lack of high-quality data to identify contributions to the SDGs is a barrier for investors, and companies are struggling to adapt their disclosures to investor needs. To this end, APG and PGGM Investments, together with AustralianSuper, have established British Columbia Investment Management Corporation (BCI) Sustainable Development Investments Asset Owner Platform (SDI AOP).
The SDI Asset Owner Platform provides a common definition, taxonomy and data source for investments in the SDGs. The EU taxonomy serves as an important input in this regard. Powered by AI technology, data science company Entis is generating SDI ratings for 8.000 companies to date. This allows investors to assess their portfolios in the global capital markets for their contribution to the SDGs and to report transparently and consistently to their clients and external stakeholders, using a common and auditable standard. By providing a globally consistent SDG measurement framework, the SDI Asset Owner Platform helps investors anchor the SDGs in their investment processes.

2.1.c Calculating our impact

In the world of responsible investment, the focus is increasingly shifting from financial performance to results that provide an insight into the social impact of the investments. Part of the classification of an Investment in Solutions (BiO) is the annual measurement of the societal impact and the reporting on this. This concerns data such as megawatts of sustainable energy generated, number of people with access to affordable health care, number of litres of treated water, etc. As a result, we now have five years of experience with measuring the societal impact of our BiO. In addition to the financial returns, we calculate the impact of these investments and state how the BIOs have contributed towards the selected themes. [11]

[11] The reported impact data is a combination of published data from companies, as well as impact data based on impact models which are an estimate based on these models. From the BiO investments at the end of 2019 the impact was calculated for 75% of the number of investments. We depend on the impact data reported by companies to calculate the social impact of investments. As a result, our impact calculation is one year behind the portfolio reference date.

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Investing in climate solutions			
Total invested in billion €	In among others	Results among others	Impact in 2019 equivalent to [4]
Total € 10.2 billion	22	million MWH of renewable energy generated	Average electricity consumption of 6.6 million households per year
New € 1.3 billion	10.5	million tonnes of CO2 emissions avoided	The avoided CO2 emissions are equivalent to the average CO2 emissions of more than 450,000 households per year.

Investing in water solutions			
Total invested in billion €	In among others	Results among others	Impact in 2019 equivalent to [4]
Total € 1.9 billion	14.5	million m^3 water saved	Average water consumption of 278,000 Dutch citizens
New € 0	350	million m^3 water treated	The number of litres of treated water is equivalent to an average of 5.3 billion showers

Investing in food solutions			
Total invested in billion €	In among others	Result among others	Impact in 2019 equivalent to
Total € 3.6 billion New € 0.5 billion	26 tonnes	yield improvement	1080 trucks filled with food/

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Investing in health care solutions		
Total invested in billion €	In among others	Results among others
Total € 5.0 billion	10.5	Million patients treated
New € 0.8 billion	11.2	Million fewer sick days

An impact-driven portfolio

The SDGs are proving to provide a clear global blueprint that stipulates long-term business opportunities in sustainable development. For many of the SDGs and their targets, however, investors are struggling to shift from reporting on inputs to actual impacts – what does the investment actually achieve with regards to the SDGs?

We would like to capture how our investments and engagements translate into tangible impacts. We want to measure the impact using indicators that do justice to the individual efforts of companies but can also be aggregated at portfolio-, and eventually fund-level. We know a collaborative effort is necessary to achieve this. Thus our ambition is to deepen our engagement with our portfolio companies and other investors to collectively create a common language and define and measure impact.

Therefore, the PGGM Long Term Equity Strategy (LTES) team seeks to invest in companies that not only yield a sound financial return but also make a broader positive societal and environmental impact through their product offering. The companies in the LTES portfolio provide solutions to one of the four thematic areas: water scarcity, climate change, health and food security[1]. The causal pathways through which these companies effect positive change vary greatly. To name a few, Kingspan produces building insulation materials, Fresenius Medical Care supplies healthcare providers with dialysis equipment, and DSM and Evonik together manufacture algae-based omega-3.

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2.1.d Looking ahead: from Investments in Solutions to Sustainable Development Investments

In the 2025 Investment Policy, the board of PFZW formulated two objectives for investing with impact. The first objective is that 20% of the invested assets in 2025 should consist of SDIs. The second objective is to double the measured impact on seven focus SDGs. The core is still the BiO themes: food (SDG2), health (SDG3), water (SDG6), climate and pollution (SDG7 and 12). Two SDGs have been added to these in the 2025 Investment Policy: SDG11 (sustainable real estate) and SDG 13 (climate action).
Only by measuring the impact of the investments can it be convincingly stated whether the investment makes a positive contribution to the world while there will be more emphasis on actual improvements for people and the environment. In order to prevent greenwashing, the aim here is to achieve standardization. The SDI Asset Owner Platform will expand to include asset owners. In terms of content, the most important directions are: potential impact, outcome (impact) metrics and further harmonization with the EU taxonomy.
With BiO and now SDI we have focused exclusively on positive impact. In 2021, more (transparency) requirements will be set regarding negative impact and ESG risks. This will counteract selective evidence (greenwashing). We expect that specific conditions for positive impact ("do no significant harm") will be drawn up.

2.2 How we limit our negative impact

The societal and environmental impact of the capital that clients entrust to PGGM is substantial. PGGM can encourage a positive contribution to a sustainable world and has the responsibility to minimise negative impact. Negative impact denotes negative effects (damage) for individuals, workers, communities and the environment. PGGM Investments tries to keep the negative impact of investments to a minimum and also sees this as a highly material topic.

2.2.a OESO screening

In line with our clients' policy and their commitment to the Covenant on International Socially Responsible Investment for Pension Funds, PGGM developed a method in 2020 to screen investments for any negative impact on society and/or the environment in accordance with the OECD Guidelines for Multinational Enterprises (OECD Guidelines) and the UN Guiding Principles for Human Rights (UNGPs). Using data from external suppliers, PGGM prioritises 'Principal adverse impact' on the basis of likelihood and seriousness, whereby the latter is defined as the size and reach of the impact and to what extent this can be remedied.
2021 will be dominated by the implementation of the screening in the listed share portfolio. We will also be developing a method to screen the other investment portfolios (credit and private markets) based on the standards mentioned.

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Investments in Myanmar

In light of recent reports about Myanmar, the situation in Myanmar has our special attention (April 2021). PGGM does not directly finance the Myanmar government. We follow the sanctions of the European Union (EU) against this country and therefore exclude investments in Myanmar government bonds. Our managed investments in listed companies with interests in Myanmar are part of a globally distributed, passively managed investment portfolio. PGGM is now carefully studying the role of the companies mentioned in Myanmar. Our investigation will also use any new information from our data supplier. This analysis, in combination with our investment policy, will determine our subsequent actions.

2.2.b Halve the CO_2 footprint of our investments

PFZW had set us the goal of halving the CO_2 emissions caused by the shares in the investment portfolio by 2020. By selling shares of the most pollutant companies in the most pollutant sectors (energy, materials and utility companies), we reduce the CO_2 emissions of the investment portfolio. We open conversations with the companies whose shares we are selling and ask them to reduce CO_2 emissions.[12]
The carbon footprint of PGGM's share portfolio was further reduced in 2020.[13] The footprint at 31-12-2020 was an average of 159 CO_2 tonnes per million dollars.[14]

Objective: Halve the carbon footprint of the investment portfolio in 2020[15]
Baseline measurement at 31-12-2014 in the share portfolio: relative carbon footprint = 339 tonnes of CO_2 per milllion dollars in business turnover.
As at 31-12-2020 the relative carbon footprint = 159 tonnes of CO2. 53% less

Our experiences with CO_2 reduction over the past years indicate that the progress can be unpredictable. In 2018, the CO_2 intensity continued to increase, while unforeseen circumstances caused this to decrease more than anticipated in 2020. This underscores that we must be cautious about drawing firm conclusions based on a single figure.
We also measure the contribution that CO_2 reduction makes to the share portfolio's return. This has remained slightly positive and constant over the past years, at 0.06% per year. This is in line with the envisioned design: halving the carbon footprint of the

[12] At the beginning of 2015, we charted out the CO_2 emissions of all the companies in the share portfolio and determined a baseline measurement with respect to which we wanted to halve the emissions (portfolio reference date 31-12-2014). For this, we use data on CO_2 emissions of companies in the portfolio which we buy from Trucost, a specialised data supplier. Emissions data are available at a delay, which means these data are at least one year behind the portfolio reference date.
[13] The shareportfolios constituted 52% of the total assets under management.
[14] In addition to the company's own CO_2 emissions (scope 1), this is also the electricity consumption (scope 2) and part of the CO_2 emissions of the suppliers (scope 3). The equity investments that PGGM had under management for its clients to which this applies amounted to € billion at the end of 2020.
[15] Commissioned by PFZW.

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share portfolio without this being at the expense of the return. This target was therefore achieved on both dimensions.

In 2020, the investment policy of our biggest client, PFZW, was replaced with a new policy that runs to 2025. Climate change as a driver of negative impact has been given priority based on the high likelihood and seriousness thereof. Clients of PGGM have committed to the Dutch Climate Agreement and the Paris Climate Agreement to coordinate their policy to the objective of limiting global temperature increase to maximum 1.5 °C. The ambition is to have a climate-neutral investment portfolio by 2050, in line with the European Union's ambition and the Paris targets.

At present we are therefore working on further developing our current CO_2 reduction strategy in the share portfolio. In this process, we seek connection with standards and regulation that has been developed at home and abroad over the past several years. We are exploring the options of including a larger portion of the emissions of companies in the reduction strategy, for instance. And looking at whether more 'forward-looking' measures can be included in the reduction strategy. We are also researching how we can implement this for other asset classes as well.

By further reducing the carbon footprint of the various portfolios, we want to send a clear signal to the market: businesses must lower their CO_2 emissions. We do this by phasing out our interest in high-carbon-intensity companies and increasing our interest in companies with a relatively low emissions profile. In doing so, we pay close attention to the risk-return ratio of the portfolios.

2.2.c What we do not invest in

Legislation prohibits investment in certain businesses, such as businesses involved in cluster munitions. However, there are also certain investments that are simply not appropriate for our clients. So we want to avoid these investments as well. This is also one of the topics considered highly material by our stakeholders. It is why we exclude any companies that are involved in controversial weapons and tobacco. We also do not invest in government bonds of countries that are subject to sanctions of the UN Security Council and/or the European Union (EU). We can also exclude companies in the event of heightened ESG risks. In such instances, we first attempt to realise improvements by engaging in a dialogue with the company.

We offer clients the possibility of applying stricter exclusion criteria. If the participants in the PGGM funds reach agreement, we will start applying these. 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.

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Exclusions in 2020

98 companies and government bonds from 12 countries

PFZW has decided it no longer wants to invest in businesses involved in energy production from coal or tar sand extraction. The existing investments in such companies were sold during the first quarter of 2021.

2.3 Adding values as active shareholder

Our clients are shareholder of approximately 3700 listed companies. We use our influence as a shareholder to achieve improvements in the ESG field, thereby contributing to the quality, sustainability and continuity of companies and markets. We do this in the belief that this ultimately contributes to a better financial and social return on investments for our clients. This is also called Stewardship and is an important part of the way in which we give substance to the Dutch Stewardship Code and the implementation of the European shareholders' law (SRD II).[16]

2.3.a Engagement with companies and market parties

On behalf of our clients, we call companies and market parties to account for their policy and activities to make improvements in relation to ESG. Committed equity ownership requires perseverance and calls for the use of high-quality knowledge to be able to conduct fruitful dialogue with a company's management and exert maximum influence. We have invested in that for years. As a result, we have now become a trusted conversation partner for many companies, also regarding strategic sustainability issues such as creating positive impact. Companies benefit from critical, active shareholders who encourage more management on the basis of sustainability. In this context, we work to form coalitions for engaging in dialogue with other institutional investors. This increases our impact because the total share is greater.

We aim to create focus in our engagement activities. To this end, we have worked with our clients to set up engagement programmes aimed at aspects within the following topics: Climate change, pollution and emissions; Water scarcity; Health care; Guaranteeing human rights; Good corporate governance; and a Stable financial system.

[16] For our Policy Active Stewardship, in which our stewardship policy is stated, we refer to our website.

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These conversations can centre on:

- **Limiting risks:** the status of the policy and control mechanisms to adequately control ESG risks, such as:
  - Excessive remuneration policy
  - Insufficient compliance with employment law in the supply chain
- **Problem solving:** If something nonetheless goes wrong (or appears to), a decision is made to hold conversations with individual companies
- **Utilising opportunities:** Addressing the possibilities we see for clients, for example, the dialogue we engage in with a great many pharmaceutical companies about improving access to health care in developing countries.

The engagements conducted are kept track of in a purpose-built database. In this database, we document our projects and discussions, we lay down in advance what we want to achieve and we monitor our progress. If engagement does not result in sufficient progress, we may decide to phase out our investment. We are prudent in this respect, however, because this means that we will be giving up our influence on the particular companies.

Engagement with companies in 2020 was essentially different than in previous years. No physical meetings have taken place with companies since the beginning of March 2020. This required quite a bit of adaptability. Engagement is a process in which trust is very important. Especially when it comes to the initial contact, this was difficult to do remotely. Although we expect that virtual engagement will occupy a prominent place, we still think that in-person engagement will remain an important and effective instrument.

A few examples of companies with which engagement was conducted or results were achieved in 2020 are given below.

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COVID-19 engagement

For PGGM as well, 2020 was largely dominated by the COVID-19 pandemic. In a health crisis like this, it is the companies in this sector that can make a difference. Companies involved in health care received a lot of news coverage; whether that involved testing materials from Roche, for example, or artificial respiration equipment from Philips. In 2020, we held many conversations with companies to discuss what they could do to help combat the pandemic. The topic of discussion ranged from mutual cooperation and ensuring regular health care remained available to ensuring that any vaccine developed would be affordable. From the start of the vaccine development, we called the attention of pharmaceutical companies to the pricing, the necessary production capacity (and the issue of sharing this capacity) and the distribution infrastructure. In a broader context we also joined with a coalition of investors that emphasises the importance of protecting and supporting companies' own employees and the production chain.

The COVID-19 pandemic not only has consequences for health care, but also has a major social impact. This also affects the companies in which PGGM Investments invests. Consider the health and safety of employees, for instance. In the meat-processing industry, for instance, it emerged that high numbers of workers became infected with the coronavirus.[17] There are also companies facing economic difficulties because of the disappearance of demand for their products, such as the hospitality industry and the tourism sector. Many employees in those sectors are in danger of losing their jobs or have already been laid off.[18]

In 2020, we joined with a number of other investors to start an engagement programme entitled 'Pandemic Resilient 50' to address the social impact of the COVID-19 pandemic. The coalition has three objectives:

1. Human capital: treating employees well, for example by offering sick leave, fair pay, and avoiding dismissals;
2. Board accountability: holding corporate management responsible, for instance, for making emergency plans and addressing risks during the pandemic;'
3. Financial alignment: through decisions on capital allocation, which includes the remuneration of directors, investments, dividends, the repurchase of own shares, mergers and acquisitions, debt repayment and whether a business has accepted financial support.

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[17] For example, see: https://www.ad.nl/binnenland/zeker-18-coronabesmettingen-bij-grootste-slachthuis-van-nederland~a80c3607/?referrer=https%3A%2F%2Fwww.google.com%2F

[18] For example, see: https://www.rtlnieuws.nl/economie/bedrijven/artikel/5175277/bookingcom-schrapt-wereldwijd-ruim-4000-banen

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Engagement for living wages and better working conditions

It has been more than a year since PGGM joined the Platform Living Wage Financials (PLWF), in October 2019. PLWF is a coalition of fifteen financial institutions that engage with, and encourage, investee companies to address the issues around the payment of living wages in global supply chains, focussing on the garment, footwear, agriculture, food and retail sectors. We are an active member of PLWF and lead the engagement with a number of companies in the coffee supply chain: Starbucks Corporation, The Coca-Cola Company and Kraft Heinz Company.

In 2020, PGGM started a dialogue on the issue of living wages and was involved in dialogues with other companies in the agriculture, food and retail sectors. Companies in these sectors are taking action to address living wages in their supply chains and for their own employees. However, there is still plenty of room for improvement of policies, stakeholder engagement, supply chain transparency, procurement practices and scaling up initiatives with regard to living wages.

To monitor progress, the PLWF members annually assess investee companies based on PLWF's living wage assessment methodology.This assessment methodology is aligned with the Reporting Framework of the United Nations Guiding Principles on Business and Human Rights (UNGPs). The members have in total assessed nineteen companies in 2020.

The report on the 2020 assessment results states that 'companies in the embryonic stage generally do not recognize the importance of the payment of living wages, nor act to enable this'. Whereas companies in the maturing category 'tend to show a stronger commitment to protecting workers' rights to earn a living wage'. In the advanced stage, companies often have set clear goals and are actively monitoring if living wages are being paid. The results of the 2020 living wage assessments will be integrated in PLWF's ongoing engagements with companies in the agriculture, food and retail sectors.

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Engagement with Novartis concluded: company implements improvements

This year, PGGM concluded intensive dialogue with Swiss Novartis in relation to alleged corruption. After having discussed this with Novartis for many years, and after Novartis had implemented improvements on multiple levels to solve this problem and prevent future problems, the company was finally able this year to draw a line under a number of lawsuits. We are extremely pleased about this precisely because Novartis had deployed so many good initiatives to improve access to health care, particularly in developing countries.

Eumedion and the Nederlandse Stewardship Code

As a Dutch asset manager with Dutch clients, we believe it is important to also engage in dialogue with Dutch listed companies. Within the Netherlands, the Eumedion Corporate Governance Platform is important for our stewardship activities. PGGM Investments is a participant in Eumedion and takes part in the management, committees and working groups and is one of the founders of Eumedion. Eumedion represents our interests and those of other institutional investors in the fields of corporate governance and sustainability. By conducting conversations with relevant policy-makers and exerting an influence on Dutch and European laws and regulations, it works to promote good corporate governance and sustainability policy. Such partnerships make our efforts in the field of engagement in the home market highly effective and efficient. We welcome the facilitation of a constructive dialogue between ourselves, like-minded organisations and the Dutch listed companies. We aim for similar partnerships in all other major capital markets, in order to increase the impact we aim to achieve with our investments and stewardship activities.

In order to promote and accommodate engaged and responsible shareholdership, Eumedion drew up the Dutch Stewardship Code. PGGM Investments endorses the basic principles laid down in the Stewardship Code. We do our best to comply with the principles and best practices. Where we (partially) diverge from the principlesof the Stewardship Code, PGGM Investments explains the reasons for this and the extent of the divergence on its website.[19]

[19] See our website for an overview of the application of and deviations on the Dutch Corporate Governance Code by PGGM N.V.

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2.3.b Engagement in figures

Engagement with 119 companies and 2 market parties

- 18 results at companies
- 0 results at market parties

Distribution of engagement activities at companies according to region in 2020	Number
Europe (excl. The Netherlands)	30
North America	42
Asia	21
Rest of the world	18
The Netherlands	8
Total	**119**

Distribution of engagement activities at companies according to focus area in 2020	Number
Climate change, pollution and emissions	16
Human rights	52
Health care	7
Water scarsity	8
Good corporate governance	46
Total	**129**

Distribution of market engagement activities according to region in 2020	Number
Europe (excl. The Netherlands)	0
North America	0
Asia	1
Rest of the world	0
The Netherlands	1

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Total	**2**

Distribution of market engagement activities according to focus area in 2020	Number
Climate change, pollution and emissions	1
Human rights	0
Health care	0
Water scarsity	0
Good corporate governance	1
Total	**2**

2.3.c De power of voting

By voting at shareholder meetings, we exert our influence as shareholder on the companies in which we invest on behalf of our clients. Voting allows us to influence the direction the company takes on a number of fronts: strategic, financial and societal. Every year, PGGM draws up a voting guideline together with clients to lay down our vision. Our voting is largely automated. The starting point is that we vote as advised by our voting service provider, based on our voting guideline. We actively monitor the voting activities based on multiple voting service providers and sources. We vote on the most relevant resolutions ourselves. For each company, we publish a voting record via this website. In cases that arise, PGGM also addresses shareholder meetings (AGMs) to reinforce our vote and publicly engage in a debate with the companies in which we have invested. This is especially the case for Dutch companies. We also submit shareholder proposals ourselves or in cooperation with other investors when we want to spur a company to take action.

The COVID-19 pandemic also had a great influence on the AGMs in 2020. Not only in the Netherlands adapted forms of the AGMs were necessary. Many AGMs have been held virtually due to the COVID-19 measures, permitted by an enacted temporary emergency law. We have not been able to visit Dutch AGMs and we missed the dialogue that usually arises at AGMs. Although remote voting is generally good from a technical point of view, we see the virtual AGMs in this form as a necessary, temporary solution and not as a fully-fledged alternative. Under these special circumstances, it is difficult to indicate what the most important votes were for us this AVA season. However, a notable highlight was that for the first time, the number of nominated and appointed female supervisory directors at Dutch listed companies was higher than the number of male supervisory directors. The average thus exceeded the statutory women's quota of 30% women on the Supervisory Board, which will apply from 1 January 2021.

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Engagement with BlackRock

BlackRock is an asset manager with more than US$ 7,800 billion in assets under management. BlackRock has managed share index portfolios for PGGM since the 1980s. PGGM's External Management team looks for managers whose sustainability philosophy ties in with that of PGGM and of our clients. Although the managers do not provide any voting or engagement activities on our behalf, we are critical of their conduct in that area. We compare the voting and engagement behaviour with, in particular, the manager's own policy and with our own voting and engagement behaviour.

In 2015, we observed a discrepancy between BlackRock's sustainability ambitions, shaped via Larry Fink's letters, and the day-to-day practice. For instance, BlackRock virtually always voted in line with a company's management (even in the event of fairly standard climate proposals from shareholders) and they were not transparent about the engagement and voting behaviour (reporting took place anonymised and at a high level of abstraction). One of the arguments BlackRock put forward for this, was that they had a strong preference for engagement before voting against the management. PGGM External Management subsequently collaborated with the Responsible Investment department to engage in intensive dialogue with BlackRock with the aim of making them more critical and transparent in relation to their activities as shareholder. Thanks in part to this engagement, BlackRock started reporting more extensively and in more detail about their voting and engagement activities. Furthermore, BlackRock has stated it will be stricter in its voting.

2.3.d Voting in figures

In 2020 we voted at 5,397 meetings of listed companies in which assets of our clients are invested. Based on our clients' voting policy, votes were cast on over 58,080 proposals. The figure below shows in what regions and on what topics we voted in 2020. Our website provides an overview of our voting record.

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Voting figures in 2020	
Number of meetings	5,512
Number of meetings at which we voted	5,397
Number of meetings at which we did not vote	115
Number of agenda items voted on	58,084
Percentage voted on	97.9%
Percentage not voted on	2.1%

Remuneration proposals total		
Number of voting instructions remuneration proposals in favour	1388	33.41%
Number of voting instructions remuneration proposals against	2698	64.93%
Number of voting instructions remuneration proposals abstain	69	1.66%

Remuneration proposals USA[20]		
Number of USA voting instructions remuneration proposals in favour	69	9.16%
Number of USA voting instructions remuneration proposals against	684	90.84%
Number of USA voting instructions remuneration proposals abstain	0	0

[20] Data from January to November 2020. As of December 2020, PGGM Investments switched voting advice service provider. As a result, the data on remuneration proposals in the US for the month of December does not correspond well with that of previous months. We do not have this data available and this is therefore not reported.

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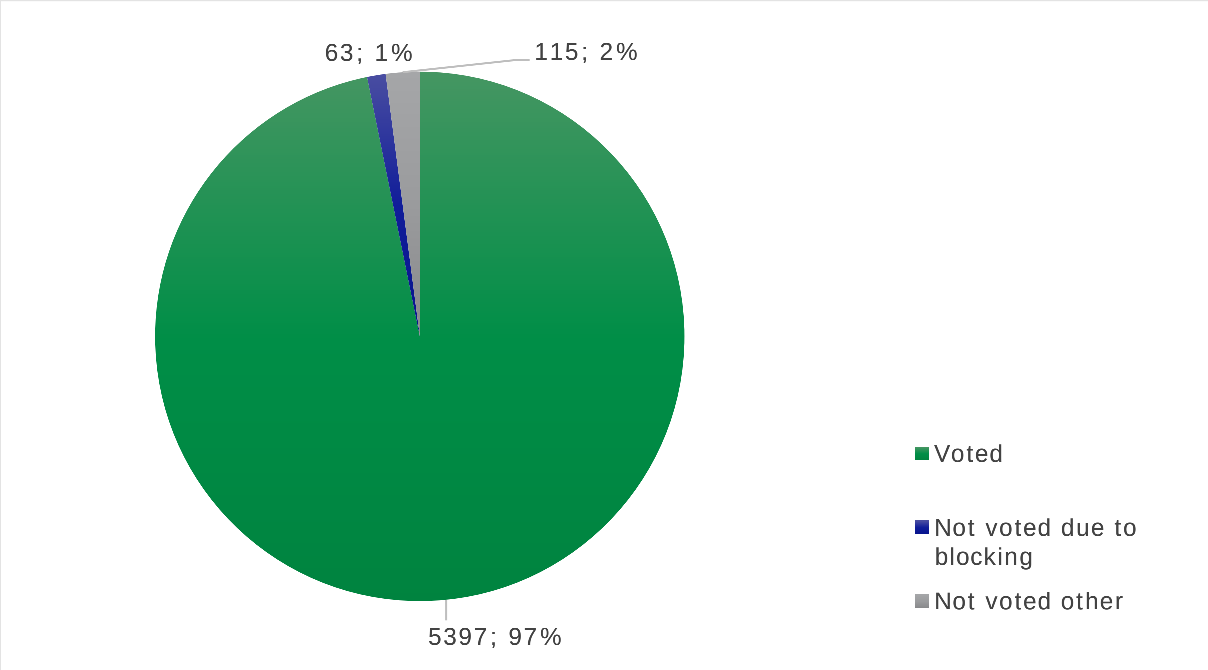

Figure 1 Number of shareholder meetings during which votes were cast

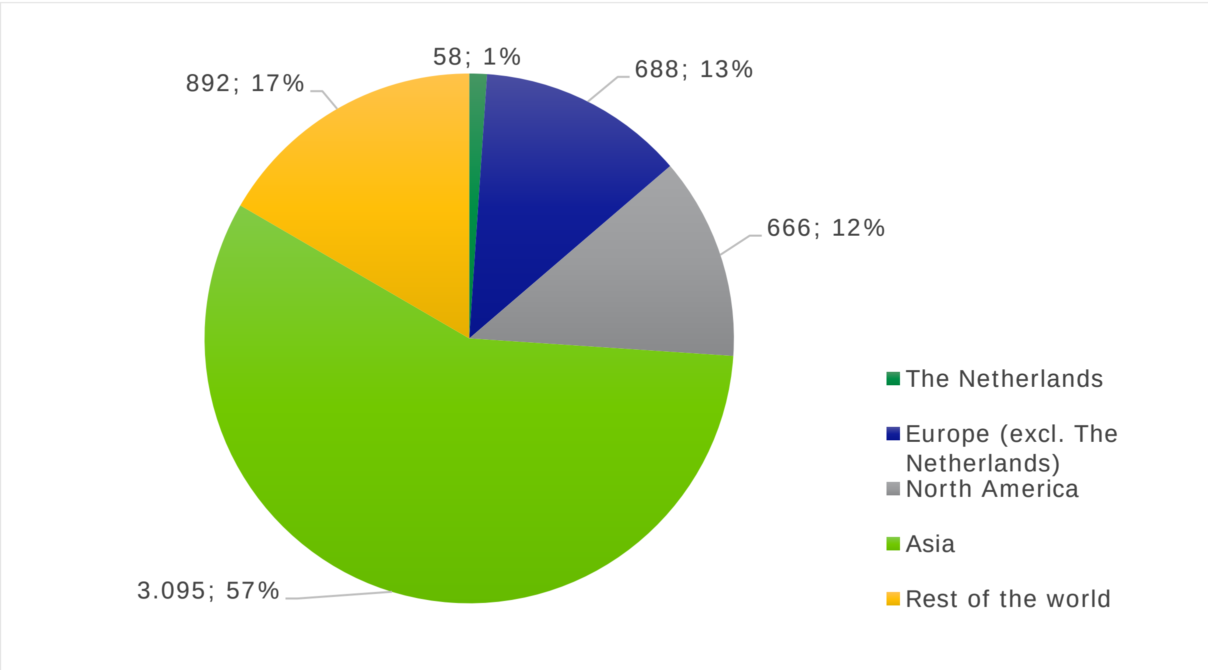

Figure 2 Distribution of shareholder meetings by region: The Netherlands, Europe (exclusive the Netherlands), North America, Asia, the rest of the world.

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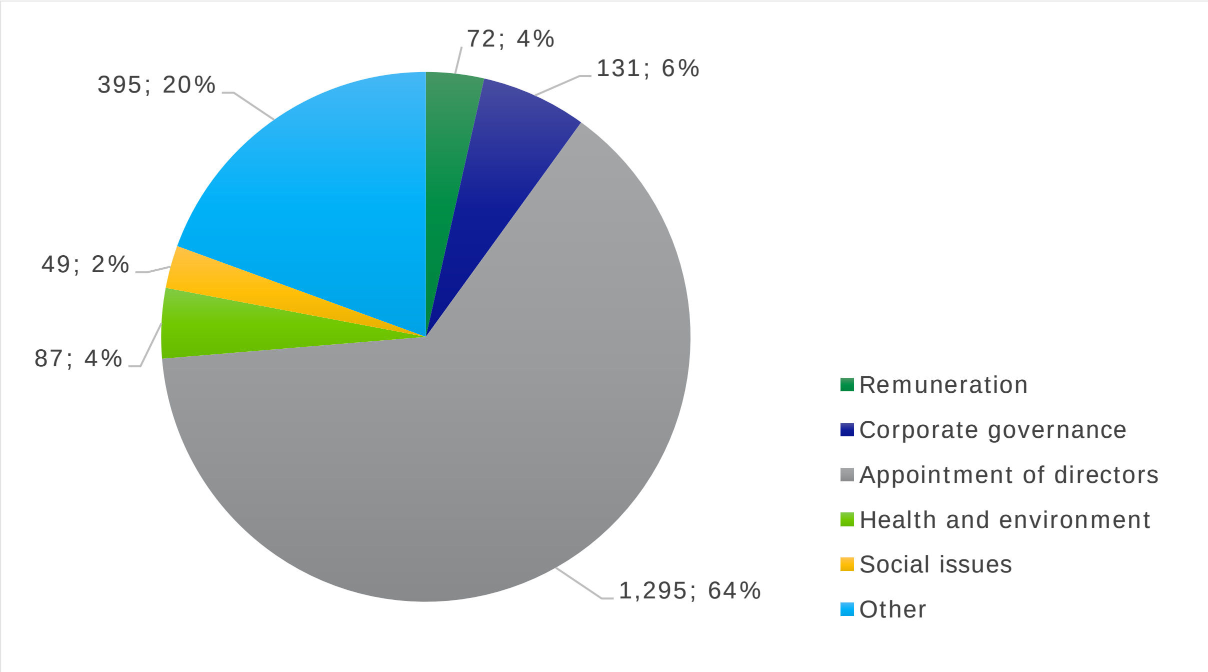

Figure 3 Distribution of shareholder proposals per category

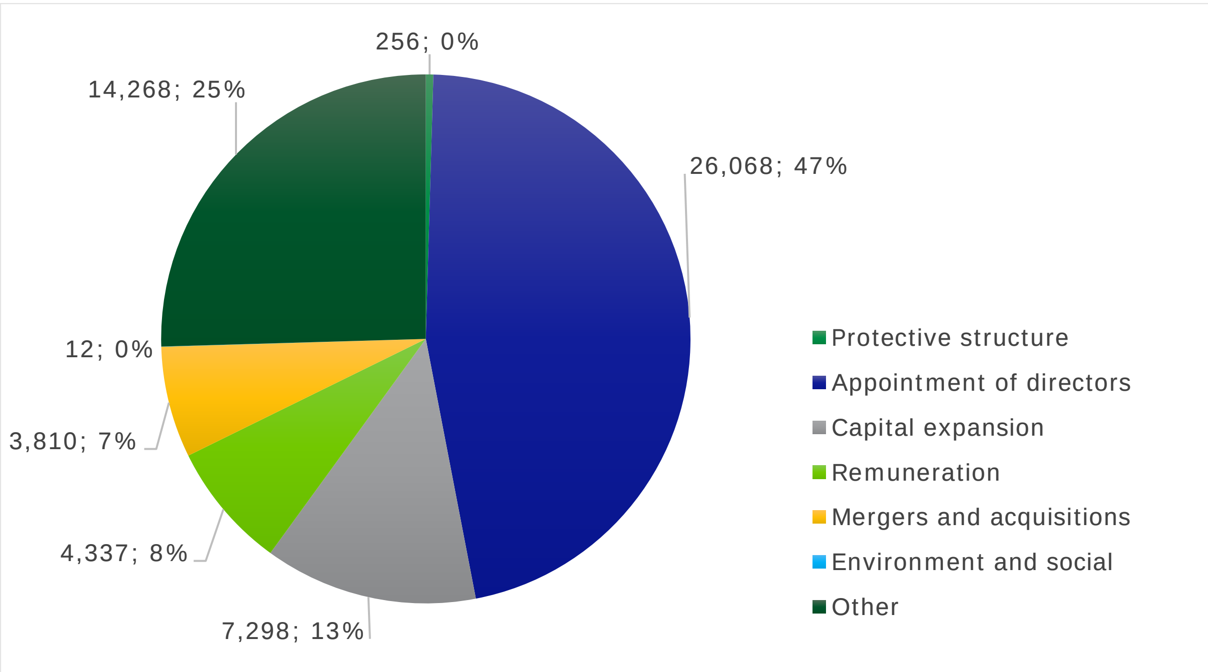

Figure 4 Distribution management proposals per category

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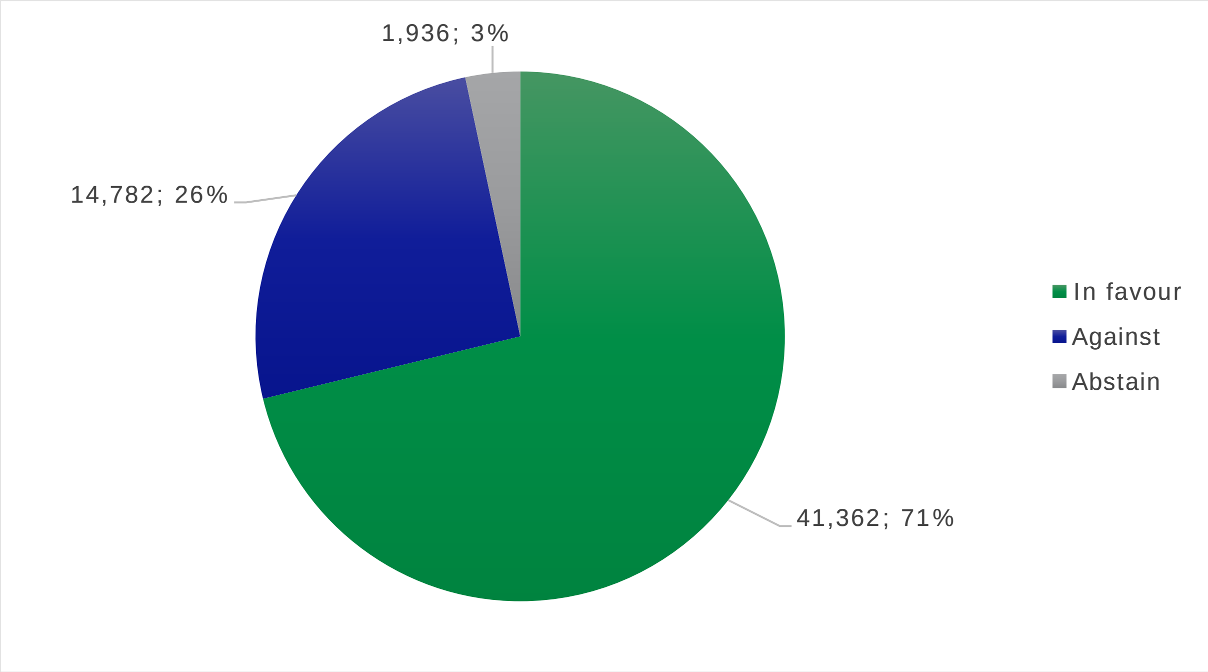

Figure 1 Distribution voting instructions in 2020

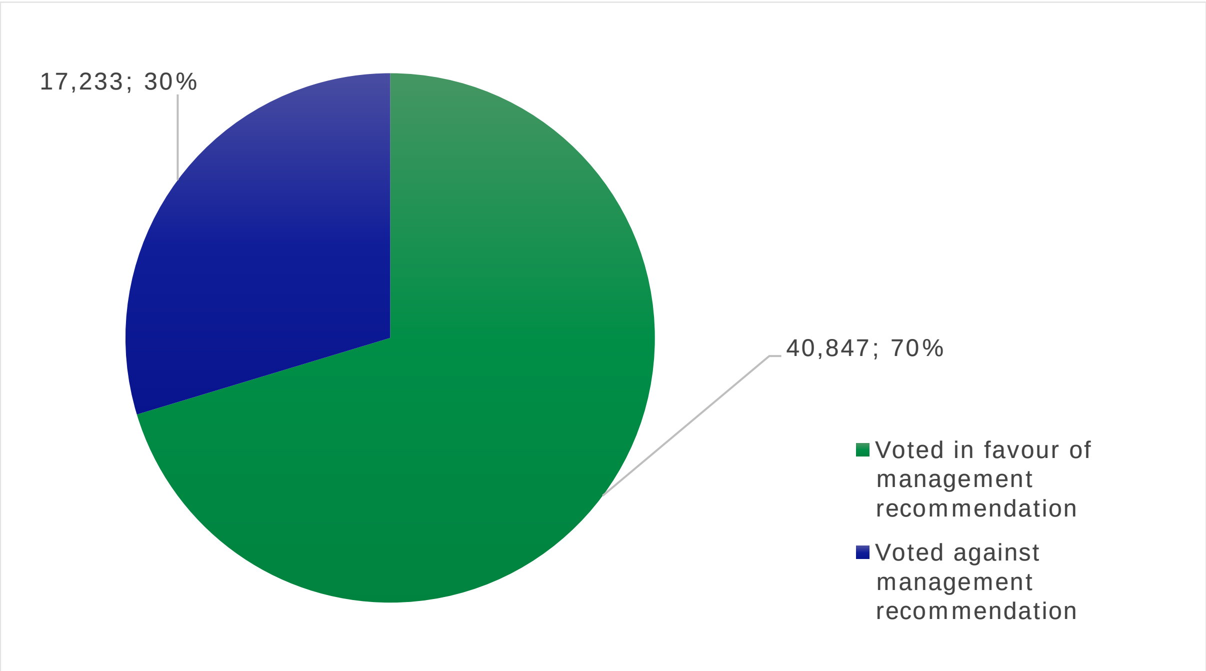

Figure 6 Distribution of voting behaviour in accordance with management recommendation

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2.3.e Legal proceedings

PGGM Investments conducts legal proceedings on behalf of its clients where necessary to recover investment losses and enforce good corporate conduct. We do this as a shareholder in listed companies, both in the Netherlands and abroad, where we make a distinction between 'active' and 'passive' proceedings.

An active role in legal proceedings is sometimes opted for when a company has acted improperly and our clients have suffered substantial financial losses as a result. In those cases, the main aim is to recover as much as possible of a loss suffered on the investment for our clients. By actively conducting proceedings, we also try to send a signal to the market that the company's behaviour is unacceptable. These active proceedings can last a long time and be extremely costly. However, as our advisers provide support on a 'no cure no pay' basis, we do not run any risk of legal costs. In some proceedings, we can suffice with passively registering our claim. This is a primarily administrative process in which we can recover part of the damage suffered by our clients for minimum input and costs. In 2020, we conducted 9 active legal proceedings on behalf of our clients.

Among other things, we are participating in a class action against mining company BHP Billiton. In 2015, the Fundao dam in Brazil, co-owned by BHP Billiton, collapsed. As a result of this, a toxic mudslide occurred and a village was swept away. There are strong indications that BHP Billiton was already aware of the risks in relation to the dam. By not disclosing this information, BHP Billiton breached its disclosure obligations. In addition to the disastrous consequences mentioned above, investors also suffered losses.

We are also participating in a class action against Danske Bank, a major international bank in Denmark. Danske Bank became involved in a scandal concerning very extensive money-laundering practices via the branch in Estonia. Danske Bank has been the subject of administrative and criminal investigations in connection with these money-laundering practices since 2016. After the shareholders became aware of the information about these investigations, the market price of Danske Bank fell by tens of billions of euros and investors suffered damage as a result.

In 2020 we recovered over EUR € **6.9 million** in class actions.

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Part 2
Excellent execution

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Chapter 3: Excellent execution – Striving for maximum value creation

As PGGM Investments, we do everything to secure a good, affordable and sustainable pension for our clients' participants. This is how we can add societal value. That is why it is essential for us and our clients that our execution is always of the highest quality. And that we handle our clients' investments ethically as well.

3.1 Compliance & integrity

Clients, supervisory authorities, society and other stakeholders expect that PGGM conducts itself in accordance with the applicable legislation and regulations and internal standards of conduct. Compliance is PGGM Investments' licence to operate and is also a material topic for us. In order to shape this, PGGM Investments once again pursued a proactive compliance and integrity policy in 2020.

3.1.a Societal context

PGGM Investments operates in a highly regulated sector. This demands constant attention from management and supervision of compliance with legislation and regulations. Especially since this regulation is only expected to become stronger and stricter in the next several years.

As a global market player, PGGM Investments performs activities that are subject to a licence and which fall under national and international (financial) market supervision. The market supervision is exercised by supervisory authorities such as De Nederlandsche Bank (DNB), Netherlands Authority for the Financial Markets (AFM), de Netherlands Authority for Consumers & Markets (ACM) and the Dutch Data Protection Authority (AP). Because a large proportion of the legislation and regulation is promulgated on the European level, PGGM also deals with policymakers and supervisory authorities on the European level, such as the European Securities Markets Authority (ESMA).

In order to comply and to continue to comply with statutory requirements, close attention was devoted in 2020 to MiFID II, the Wwft/Sw and the SFDR. From the perspective of market supervision, we want to be well able to demonstrably implement legislation and regulations. A programme is under way to adapt our business operations and the underlying design principles accordingly. This project ensures there is better insight into and clear monitoring of the progress of the different workflows.

3.1.b Important developments in legislation and regulations

Below is an overview of the key (upcoming) developments and how we have anticipated these.

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Sustainable Finance Disclosure Regulation (SFDR)

The key ambition of the Green Deal is to make Europe the first carbon-neutral continent in 2050. In this context, the EC has prepared and adopted a broad package of European legislation containing regulations for the entire financial sector (including pension funds and asset managers) in relation to sustainable investing. The Sustainable Finance Disclosure Regulation (SFDR), which makes it mandatory for the financial services sector to report information on sustainability, and the related Technical Standards (RTS) are part of this. The RTS contains a number of standards that indicate what requirements must be satisfied in relation to the content of sustainability reporting, as concerns CO_2 emissions, for example.

The EU Taxonomy has also been introduced, which provides a framework for promoting sustainable investing. The Taxonomy defines which economic activities are designated by the EU as 'ecologically sustainable'. The idea behind this is to prevent the 'greenwashing'[21] of financial products. Pension funds and pension providers must report what percentage of the investment portfolio can be labelled sustainable in accordance with the Taxonomy. The Taxonomy helps investors and companies identify economic activities that contribute substantially to sustainability.

On 10 March 2021, the extra regulations on the provision of information about the sustainability of investments take effect. This means asset managers such as PGGM Investments must make adjustments in their organisation. At the beginning of 2020, the multidisciplinary project ESG Disclosure Regulation started working towards its goal of prompt and adequate implementation of the regulation.

The other obligations under the SFDR, the RTS and the Taxonomy will follow at the end of 2021 and thereafter. It will still require major efforts and pose challenges for the pension sector to comply with all the reporting requirements.

Investment Firm Directive (IFD)

In December 2019, the new European prudential framework for investment firms was published. For most investment firms, the IFD and the Investment Firm Regulation (IFR) replace the prudential requirements from the Capital Requirements Directive IV. The IFR and IFD become applicable as of 26 June 2021. A transitional regime of five years applies for the solvency requirements.

MIFID II

In 2018-2019, the AFM conducted a sector investigation into compliance with MiFID II among investment firms. This investigation specifically covered matters including compliance with the MiFID II obligations relating to cost transparency, product governance and commissions. Prompted in part by this sector-wide investigation, PGGM

[21] Greenwashing is presenting a company or organisation as more socially responsible or 'greener' than it actually is.

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Investments carried out a self-assessment focused on all obligations under MiFID II. This resulted in an improvement process that was largely concluded in the course of 2020.

Action Plan on Financing Sustainable Growth

The EC published its Action Plan on Financing Sustainable Growth on 8 March 2018. In supplement to this, measures were announced to facilitate the implementation of this. Among other things, it proposes that ESG criteria be part of the product governance regime under MiFID II. The (amended) regulations are not expected to come into effect before 2022. These changes apply to PGGM Investments as an investment fund manager that provides MiFID II investment services.

Revision of the Alternative Investment Fund Management Directive (AIFMD)

In response to a review, the EC intends to amend the AIFMD (which took effect in 2013). Although the aims of the AIFMD are being achieved, the EC believes there is room for improvement. On 22 October 2020, the EC opened up a consultation for amendment of the AIFMD, which has since concluded. The EC is expected to present the European Parliament and the European Council with a final revision proposal for the AIFMD during the second half of 2021. The amended AIFMD is not expected to come into force before 2023.

Wwft-Sw

In response to the introduction of new anti-money-laundering regulations, in 2020 PGGM critically examined its own processes for compliance with the Wwft and Sw, with the assistance of an external consultant. The outcomes of this analysis prompted the start of a programme to improve existing processes. The improvement programme is expected to be concluded at the end of Q2 2021.

3.2 Measuring up to the best

It is our ambition to deliver best-in-class asset management to our clients, both in terms of price and quality. We want to measure up against the best teams in the world. Through an integrated approach and management of the overall portfolio, we guarantee that asset management is more than the sum of its parts. The various factors that have an impact on our client's investments are viewed across the entire portfolio and not separately per asset class. The integrated approach enables us to respond at portfolio level to the developments in relation to the economy, sustainability and climate and technology. We use this broad knowledge to carry out the execution of mandates and individual transactions at the right level.

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3.2.a Our best-in-class status

Our investment teams drew up a strategic multiyear plan in 2019. This describes what they believe they need until 2022 in order to be best in class. It is initially up to PGGM Investments to assess whether an investment team is or can become best in class. Furthermore, all our investment teams are assessed for the desired best-in-class status by an external consultant once every three to five years.

At the end of last year, approximately half of our investment teams held best-in-class status. By investing further in the size of our investment teams, the systems they have at their disposal and the continued development of our investment processes, some two-thirds of our investment teams achieved best-in-class status as of the end of 2020. A concrete action plan was drawn up for three departments. The progress of the best-in-class improvement plans is evaluated annually by the board of directors of PGGM Investments.

3.2.b Excellent execution in practice

Within public markets, 'Responsibly passive' is the core product. We have a long and successful track record with benchmark-aware implementation. Our strength does not lie in blindly implementing the purchased indices. We build better portfolios that might indeed remain close to the index, but which mitigate the risk of undesirable exposure and which integrate ESG factors. For instance, Public Markets is strongly positioned to mitigate climate risks for clients in the portfolios with a low active risk budget.

This proposition has been expanded to include systematic investing. PGGM's strength lies especially in providing clients with comprehensible and manageable access to those factor exposures which they have ordered. In addition, over several years, long-term and impact investing has developed into a core product of Public Markets. PGGM has a head start on its peers in the area of impact investing in shares and thereby also makes PFZW a recognized front runner among the large asset owners.

Over the past several years, we have set the standard in responsible investment, internationally as well. We provide our clients a platform to achieve the desired scope in SDG investments and to realise further development of impact investment and measurement.

We also attach a great deal of importance to internal investing within public allocations. This safeguards in-house knowledge about financial markets, so that PGGM Investments is always a fully-fledged knowledge partner for its clients.

Credit markets already have a market capitalisation that is roughly double that of listed shares. The credit market is expected to grow further in the coming years and become an even larger part of the global capital markets. We are well-positioned to guide this expected further growth of credit markets for our clients. We feel it is important to do this in part via an internal proposition. After all, internal credit knowledge is necessary in

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order to responsibly manage clients' large exposure in the financial sector. PGGM Investments also has a long and successful track record in Investment Grade Credit and Emerging Market Credit, which we want to reinforce in the coming period.

Another area in which we have also made a difference over the past several years is our investments in private markets. This involves, among other things, risk-sharing transactions with banks and insurers and direct investments in businesses, property and infrastructure outside of the public markets. Where possible, we have cut out intermediaries in order to lower costs, be able to make better decisions on the portfolio level and enable our clients to contribute to the decision making for very large investments.

Being best in class also means recognising what you are not the best at. And on those points where we know that we cannot be the best and least expensive, we search the world for the best parties in order to procure their services. Take passive investing, for instance, which involves simply following a particular market index. Other parties can replicate the market index more efficiently than we can. We work worldwide with external managers who offer that added value, for private real estate, private equity and the insurance linked-market, for instance. The degree of internalisation depends on the mandate from our clients and how PGGM Investments can realise the optimal implementation efficiently.

Our score for the Principles for Responsible Investment

PGGM Investments once again scored above average in the annual benchmark 'UN Principles for Responsible Investment' with an A+ for strategy and governance. For 13 of the 16 components measured, the result was better than the performance of asset managers worldwide (median).

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A unique co-investment partnerschap in Credit Risk Sharing

In April 2020, PGGM Investments entered into a unique long-term co-investment agreement with Alecta, Sweden's largest pension fund, to invest in Credit Risk Sharing transactions ("CRS"). CRS transactions have mutual benefits: they provide investors with exposure to unique credit risks not available in public markets, and they allow banks to free-up capital to be redeployed, ensuring banks can continue to lend to the real economy while supporting their capital base. This is particularly relevant in the current environment where economies across the globe grapple with the consequences caused by the COVID-19 pandemic and governments do all they can to support their economies, including stimulating lending.

PGGM Investments believes that it is important to help the CRS market develop further long-term on a sound and solid basis, to ensure its long-term viability and to avoid the harmful practices that preceded the global financial crisis of 2008. Therefore, PGGM Investments embraces the fact that a large like-minded pension fund wishes to invest in the asset category by following the same principles and standards. In addition, it allows diversification of its portfolio at a faster pace in any one year.

PGGM Investments has been growing a credit risk sharing portfolio for PFZW since late 2006, which stands at EUR 5.3 billion as of September 30th 2020 holding 24 different transactions. It is one of the most experienced and largest investors in this field.

Mascha Canio, head of Credit & Insurance Linked Investment at PGGM Investments, adds:

"We are very proud to have achieved our first risk sharing transaction together, and have Alecta involved as well. With J.P. Morgan accessing this credit risk management tool, it provides further evidence to its value for banks across the globe. We continue to believe in the enormous growth potential for credit risk sharing transactions."

Our Credit and Isurance linked Investments team won in 2020 het SCI Investor of the Year award and the IPE Invovation award with Alecta, as a recognition for our co-investment partnership.

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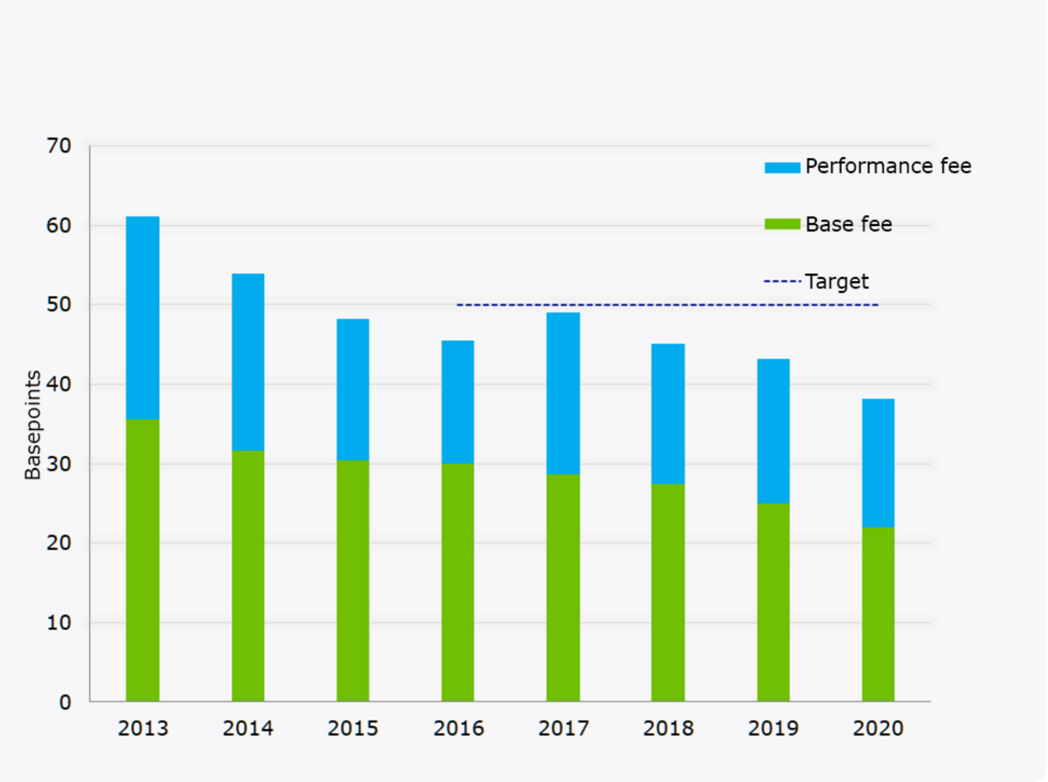
Pension Pro Award Impact Investing
On behalf of our biggest client, we were honoured to receive a Pensioen Pro Award for our impact investing. We received a second award for our climate risk analysis of the property investments. Pensioen Pro is a pension platform and trade journal for the Dutch pension and investing sector.

3.2.c Control of costs

It is a condition for us to be a financially healthy organisation in order to realise our strategy. As a result of the liberal monetary policy of central banks, interest rates are extremely low and the return on investments is expected to be historically low in the coming period. This influences the affordability of pension but also puts pressure on lowering (hidden) costs in the execution. That is why we work on client returns, critically examine what our current strategic investments yield and aim to make our own work increasingly efficient.
The degree of realisation of the return target after costs is decisive in assessing whether the manager is best in class. In every step of the Product Approval Process, there is attention to controlling the overall costs. The Investment Case for an asset class indicates a bandwidth for costs. In the reviews per asset class, Fiduciary Advice makes a comparison with the cost of other market parties. In the execution per asset class, a fee protocol is used which lays down precisely what the costs can be at a maximum.



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Chapter 4: Organisation – Our people

Our people are our most important asset. That is why at PGGM Investments, we see it as our job to ensure that they enjoy their work, are able to develop and feel involved and appreciated. In order to attract, retain and develop talent, we work on creating an inspiring, innovative and inclusive working environment.

4.1 Our organisation in figures

As a company, PGGM Investments has no employees. The number of FTEs seconded from PGGM N.V. as at 31 December 2020 amounted to 443 FTEs (as at 31 December 2019: 412 FTEs). PGGM Investments also makes use of the staff services available within PGGM N.V., such as Compliance, Enterprise Risk Management, Finance, IT and HR.

Distribution of employees per department	2020 Numbers	2020 FTEs	2019 Numbers	FTEs
PGGM Investments	427	443	399	412

Distribution full-time / part-time	2020 Numbers		2019 Numbers	
Full-time	386	90%	358	90%
Part-time	41	10%	41	10%
Total	**427**	**100%**	**399**	**100%**

Distribution men / women	2020 Numbers		2019 Numbers	
Men	322	75%	309	77%
Women	105	25%	90	23%
Total	**427**	**100%**	**399**	**100%**

Age structure	2020 Numbers		2019 Numbers	
Younger than 25	11	3%	10	3%
25-34	114	27%	115	29%

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35-44	130	30%	122	31%
45-54	121	28%	105	26%
55 and older	51	12%	47	12%
Total	**427**	**100%**	**399**	**100%**

Distribution men/women PGGM Investments management level	2020 Numbers		2019 Numbers	
Men	22	73%	22	71%
Women	8	27%	9	29%
Total	**30**	**100%**	**31**	**100%**

4.2 How we remunerate our people

The employees who work for PGGM Investments are employed by PGGM N.V. and are therefore subject to PGGM N.V.'s remuneration policy. Our remuneration policy is part of the material topic of good employment practices. It is careful, controlled and sustainable and fits with our strategy, risk appetite, cooperative objectives and core values. The interests of the client are key and the long-term interests of PGGM and relevant laws and regulations are taken into account. As a manager of investment funds, we hold an AIFM licence, which means that we must comply with European regulation (AIFMD/AIFMR). This applies alongside the provisions in relation to remuneration policy contained in the Financial Supervision Act (Wft).

4.2.a Conscious remuneration policy

We aim for healthy financial business operations, in which we are conscious of our societal responsibility. This is reflected in our remuneration policy, which is transparent and responsible. It is our policy objective to remunerate at the median of the appropriate reference markets. This is periodically tested externally. The way in which individual employee performance is achieved (via competences) is also taken into account in evaluations and consequently, in the remuneration.

One-year Variable remuneration

We use one-year variable remuneration only for senior employees working directly in the investment chain. Other employees are not eligible for this. The Wft has limited the

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maximum variable remuneration to 20% of the fixed salary. This cap does not apply for managers of investment funds but PGGM Investments does observe this maximum.

Deferred Variable Income

In addition to one-year variable remuneration capped at 20%, there is the possibility of granting deferred variable income (DVI) to a limited group of employees in the investment chain. DVI is a form of deferred remuneration. This is paid out after a multi-year deferral period after the year in which the key performance indicators (KPIs) applicable to attaining the DVI were achieved. No particularities may have arisen since the granting of the DVI which could prompt discussion as to whether the remuneration should still be granted. The total of the one-year variable remuneration and the DVI on an annual basis can never exceed 100% of the fixed salary. The KPIs for the one-year variable remuneration and DVI must be derived from the objectives of the clients, PGGM, the business unit and the department, and must be at least 50% based on non-financial criteria.

CLA

A CLA pay rise of 2% took place on 1 June 2020. It was agreed with the trade unions in the CLA for 2021 that salaries would likewise be collectively increased in July 2021. The pay rise for 2021 would again be 2%.

Gratuity

Employees who do not receive any form of individual variable remuneration can be awarded a gratuity on account of exceptional dedication and/or performance.

4.2.b Remuneration in figures

The table shows the remuneration paid out to our employees in 2020 and 2021. The remuneration policy can be found on PGGM Investments' website.[22]

Variable remuneration paid out (x €1,000)		
Distribution of variable remuneration per type	**2020**	**2019**
One-year variable remuneration paid out to the investing chain *	€ 3,723	€ 3,449
DVI paid out **	€ 1,142	€ 1,048
Gratuity paid out	€ 165	€ 136
Total variable remuneration paid out * **	€ 5,029	€ 4,632

[22] The Wft and the Bgfo Wft (Section 1:120(2)(a)) stipulate that the directors' report must mention any employees who received more than €1,000,000 in remuneration. No employee received more than €1,000,000 in remuneration in 2020.

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Number of entitled persons		
Distribution of number of employees per variable remuneration paid out	**2020**	**2019**
One-year variable remuneration for investing chain	194	183
DVI	35	31
Gratuity	53	49
Total number of entitled persons	282	263

* Concerns one-year variable remuneration paid out relating to the previous financial year. One-year variable remuneration paid out in 2020 therefore relates to the 2019 performance year and one-year variable remuneration paid out in 2019 relates to the 2018 performance year.

** DVI paid out in 2020 relates to DVI awarded in 2016.

*** Amounts are exclusive of pension charges and social insurance contributions.

Average per entitled person		
Distribution per variable remuneration	**2020**	**2019**
Variabele remuneration Asset Management	19	19
DVI	33	34
Gratuity	3	3
Total	55	55

2020					
Amounts paid out in 2020 (x €1,000,-)	Fixed remuneration	Employer' s share of social insurance and pension costs	Variable remuneration	Total remuneration	Number of employees
Senior management	€ 1,397	€ 143	€ 357	€ 1,897	6

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Employees with a significant influence on the risk profile	€ 30,057	€ 5,209	€ 4,054	€ 39,320	203
Other employees	€ 15,383	€ 3,870	€ 618	€ 19,871	219
Total remuneration paid out	€ 46,837	€ 9,222	€ 5,029	€ 61,088	428

2019

Amounts paid out in 2019 (x €1,000,-)	Fixed remuneration	Employer' s share of social insurance and pension costs	Variable remuneration	Total remuneration	Number of employees
Senior management	€ 1,719	€ 171	€ 464	€ 2,354	6
Employees with a significant influence on the risk profile	€ 28,920	€ 4,882	€ 3,600	€ 37,402	186
Other employees	€ 14,506	€ 3,565	€ 568	€ 18,639	210
Total remuneration paid out	€ 45,145	€ 8,618	€ 4,632	€ 58,395	402

2020 vs 2019

Amounts paid out (x €1,000,-)	Fixed remuneration	Employer' s share of social insurance and pension costs	Variable remuneration	Total remuneration	Number of employees
Senior management	€ -322	€ -28	€ -107	€ -457	-
Employees with a significant influence on the risk profile	€ 1,137	€ 327	€ 454	€ 1,918	17

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Other employees	€ 877	€ 305	€ 50	€ 1,232	9
Total remuneration paid out	€ 1,692	€ 604	€ 397	€ 2,693	26

4.2.c New performance and remuneration philosophy

PGGM revised the policy on remuneration and assessment in 2020. Remunerating in line with the market and unlinking remuneration from assessment are priorities in this process. Instead of assessing and remunerating after the fact, in the new policy PGGM focuses more emphatically on personal development and growth, with attention to performance appropriate to the context of the work. The remuneration was also considered in relation to the market in this context. PGGM will be looking at three reference markets in the future: the financial services market, the asset management market and the back and middle office market.

PGGM Investments wants to remunerate at the median level on average in all markets. For asset management, the new remuneration and assessment policy was introduced as of 2021.

The policy in relation to one-year variable remuneration has also been amended at PGGM from 2021. From 2021 onward, not all senior employees from the asset management chain will be eligible for this form of variable remuneration any longer, only employees working in a front-office position in the asset management chain. This one-year variable remuneration is capped at 20% of the fixed annual salary. For this group of employees, remuneration and assessment will also still be linked for the time being.

4.3 Diversity and inclusiveness

We believe diversity and inclusiveness (D&I) in our organisation is important and it is therefore also part of our material topic of good employment practices. We are convinced that diversely-composed teams deliver better results and contribute more to the realisation of our vision and strategy. The more diverse the employees in an organisation, the more talent and competencies it has at its disposal. That makes the organisation stronger, more flexible and effective.

PGGM Investments has drawn up an action plan containing the diversity policy of PGGM N.V. (Diversity of Thinking) but which is further targeted to the challenges faced by PGGM Investments. A Diversity Board chaired by the CIM monitors the progress of increasing diversity at PGGM Investments.

Part of our approach is aimed at increasing the number of women in influential positions. We have set ourselves the goal of increasing the percentage of women in grade 12 or higher to 30% by 2023. PGGM pursues a conscious recruitment and selection process in

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which the aim is to ensure that at least half of the candidates for management positions are women. Awareness is created among managers by enriching the management programmes with D&I training.

The percentage of women in management positions was 27% at the end of 2020. This percentage was just 19% in professional positions in grade 11 and up.

The current composition of the Board of Directors satisfies the requirements for a balanced distribution of seats from the Governance Code, as this applied until 1 January 2020 (at least 30% of seats are held by women and at least 30% by men). In the current composition of the Board of Directors, two of the five seats are held by women (40%).

There are no women appointed to the Supervisory Board. With future changes, a balanced distribution of seats will be taken into account where possible.

In order to create awareness and stimulate inclusive thinking, PGGM organises the Stratego workshop for women. The PGGM Academy also offers different workshops on dealing with cultural differences and bias training courses.

But diversity goes beyond gender alone. We attract employees from around the world which means cultural diversity is well represented at PGGM Investments. The day-to-day language in a great many front-office teams has therefore become English.

This topic is also important in our clients' investments. Questions have been added to the questionnaires for external manager selection and attention is now explicitly called to the issue. For Private Markets, this takes place for, among others, Private Equity. We also confront organisations in which we invest on behalf of clients on this topic.

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Diversity as a topic in engagement

We talk about diversity with the companies in which we invest. We often do this together with other investors. Our goal is to improve the composition of the board, on the basis of gender, age, experience and background. We often work on this together with the diversity coalition, a coalition of Dutch, British, Canadian and US investors (2.5 trillion USD). It focuses on the composition and functioning of the board and senior management.

In 2020, in cooperation with the diversity coalition, we held conversations with Westinghouse Air Brake Technologies Corporation (Westinghouse), which bore fruit. The diversity in the board has increased with the appointment of a woman. They have decided to make the composition of the board more independent and pledged to improve the transparency of the company's diversity and recruitment policy. There is still work to be done, however. The chairman of the board is not independent (has served on the board for 14 years) and the Lead Director was previously CEO of Wabtec and also not independent, therefore. We also continue to call for more diversity on the administrative level.

4.4 Working during a pandemic

The coronavirus crisis was unexpected and developed more quickly than anticipated. It is precisely in such a crisis that you would prefer for everyone to be at the office. But that was not possible. A limited number of people worked from our office in Zeist and only when strictly necessary. Other employees had to start working from home. Transactions that normally took place at the office now had to be able to be arranged remotely. Thanks to good cooperation between the teams at PGGM Investments and the IT people, we were able to ensure this happened quickly. Working from home has since become the norm.

PGGM Investments had drawn up a standard pandemic policy. This enabled the continuity of our business operations to be safeguarded. Despite this pandemic policy, we encountered plenty of unknown and unexpected factors, but the early preparation helped us manage the crisis.

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Impact COVID-19 on Operational Due Diligence team

The COVID-19 pandemic had a major impact on the work of the Operational Due Diligence (ODD) team. The external parties to be assessed could no longer be visited. In response to this, ODD explored the possibilities of virtual assessments and introduced a new working method. In conclusion, fewer new relationships were started with external asset managers than in previous years. However, ODD proved able to secure adequate comfort from a number of new parties through virtual assessment. Despite COVID-19, the ODD team was involved in the roll-out of the assessment of the operational risks of direct investments.

Working from home with the right digital resources

Rick Hagen, Product Owner & Team lead at IT Operations: 'In the battle against the coronavirus, we decided to largely shut down the office in mid-March 2020. From that point onward, colleagues started working from home en masse. Working from home naturally has a significant impact on how we work with each other. There were no longer any physical meetings, we did not enjoy any informal chats in the hallway and we can no longer physically sit together to work on projects. The use of Microsoft 365 and particularly Microsoft teams enabled our employees to continue working with their colleagues even from their home office. By means of digital video meetings, chatting and sharing files. The Digital Collaboration Team played an important role in facilitating, supporting and optimising the use of Microsoft 365. As a result, PGGM Investments could remain up and running.'

Working after COVID-19

COVID-19 affects everyone. Our clients, their participants, our employees. Despite the fact that it is not yet behind us, we are already cautiously looking ahead. What will the world look like after the pandemic? And what will this mean for our organisation? There seems to be an end in sight, now that we have also started vaccinating in the Netherlands. This does not mean that PGGM will be going back to the way we were. Working from home has become an intrinsic part of PGGM Investments. We will therefore strive to reach an optimal mix of working from home and meeting each other at the office.

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Part 3
Learning organisation

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Chapter 5: Future proof – Ready for the future

PGGM Investments is facing major challenges. The pension system is the subject of discussion. Scenarios in which competition could increase are not unlikely. In a market in which digital developments follow on each other at a rapid speed, consumers' wishes and expectations are also changing. Only the very best service is good enough. To be able to keep pace with the changing market and changing client needs, and be able to add value for our stakeholders in the long term as well, we need to set up our organisation accordingly. We do this by making the most of the opportunities and possibilities offered by new technologies. By investing in the growth and development of our people and optimising our processes and digital systems.

5.1 The impact of a new pension agreement

As part of the Pension Federation, PGGM Investments provided input during the first half of 2020 for the outline memorandum on the new pension contract. In this, we focused on possible implementation consequences of the new pension contract and provided input on the desired elaboration of the pension contract for our clients.

The Pension Agreement was reached just before summer 2020. Mandatory participation, whereby employees are required to join a pension fund, remains in place with the new pension agreement. In the new pension system, the return actually achieved will be more important. Pensions will be moving more in line with the economy. In the future, the returns achieved annually will have a much more direct effect on the pension of millions of people.

We see that the main points of the new pension agreement will in all likelihood have a material impact on our clients' investment policy. Because of the emphasis on personal entitlements, we expect a shift from *managing risk* to *achieving return*. Normally, risk was weighed against return in strategic investment decisions, risks were minimised with a particular return expectation. With the new Pension Agreement, an environment is created in which the goal is to optimise the return at a prescribed risk level. This results in a different portfolio approach for risk budgeting. We also expect that participants will be more critical with regard to the results achieved, since it will be clear in the new system how their pension entitlements are developing.

We expect that the transition to the new pension scheme will have a limited impact on the business operations at PGGM Investments. After the publication of the definitive outline memorandum, the possible implementation consequences of the new pension contract and the Premium Schemes (Improvements) Act (WVP) were extensively analysed, taking into account the fact that the legal process and the policy processes at our clients have not yet been concluded. This analysis was focused on the possible procedural and IT impact of both contract variants for PGGM Investments. It emerged from this that our organisation is already largely set up for both variants (see also at 5.2.b).

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Initiatives have since been started to prepare our organisation for the new pension system. These initiatives are aimed at improving the agility and manageability of our organisation, business operations and systems.
At the same time, we must be careful not to get ahead of things. Despite the new Pension Agreement, there is still a great deal of uncertainty about the effects for our clients' investment policy. The contours of the new system are clear, but a great deal still has to be worked out in detail. Pension funds will, in turn, make a number of choices when it comes to, for example, the form of the new contract and how the investment policy is shaped.

5.2 Future proof PGGM Investments

More is due to change in the pension landscape in the coming decade then has changed over the past 40 years. The Future-proof PGGM Investments (TVVB) programme has been running since the autumn of 2017. The programme objective is to set up agile and manageable business operations, thus streamlining us for the future.

5.2.a Future State Architecture

For PGGM Investments, FSA means product-focused working on the basis of specific responsibilities. Working on the basis of responsibilities means unequivocal allocation of responsibilities to a single person based on that person's position. Awareness of each other's responsibilities paves the way for smooth cooperation. The product is the sum total of the value added to it by people.
The FSA was as good as completed in 2020. The responsibilities have been made explicit and described. This documentation provides footing in discussions on the matter. Both between different owners who are jointly responsible for the production of a single product and in discussions about responsibilities spanning various product layers. In 2021, the responsibility to work in accordance with the FSA will be actually invested in the organisation.

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Application of FSA: Mortgages allocation for Smurfit Kappa

A fine example of the use of FSA can be seen in the set-up of the new mortgages allocation for Smurfit Kappa. This allocation was filled in during the fourth quarter of 2020. It shows the influence that product-focused business operations have on the responsibilities and, by extension, also on the activities we perform for certain products.

An external asset manager was selected for the new allocation. This asset manager performs all responsibilities corresponding to the lowest layer of our FSA, where the allocation is filled with mortgages. We have the responsibility to select and monitor the asset manager. One of the consequences is that we do not perform any of the administration for the mortgages portfolio, that is done by the asset manager.

What is great about it? This set-up means that we were able to offer this product to Smurfit Kappa at a competitive price without making any concessions on quality.

5.2.b Back to the Future

With the *Back to the Future* (B2TF) programme, we have prepared ourselves over the past several years for a major change to our administration system, Simcorp Dimension (SCD). The strategic programme was put in motion so that we could be ready for the pension scenarios and able to work in accordance with the updated business operations. B2TF lays a solid foundation for the future.

Over the past several years, the project team has worked hard to make migration possible. During migration, all investments (€268 billion) had to be transferred from the old to the new portfolio structure. The right moment for this major system change was the change of the year.

The migration team started on the evening of Thursday, 31 December 2020. They worked day and night to perform this operation properly and quickly. A number of dry runs were carried out during the months prior to migration. These dry runs proved very valuable, so that everything was ready for the users on time and without a hitch. On Monday, 4 January, everyone at PGGM Investments could “simply” pick up where they left off.

After more than two years of preparations, hundreds of test cases and many migration drills, this process was successfully concluded in 2020. Careful preparation, good cooperation and hard work culminated in an excellent end result. Our IT infrastructure has been brought up to date and we are now administratively ready for a new pension system.

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5.3 Our focus on innovation and research

Innovation & Research is aimed at developing new products and services for our clients and their participants. We do this according to a targeted innovation approach focusing on the 3 Cs: Customer, Culture, and Connection and in which the framework is formed by the strategic goals.

Customer

PGGM Investments' processes are being digitalised from traditional to smart algorithms and cloud solutions. This not only contributes to investment results but also enables better audit trails and makes the processes more accurate. We are working on predictive algorithms and new algorithms that use alternative data to provide portfolio managers with new insights.

We came up with the possibility of rebalancing the portfolio more effectively and a 'search and text mining platform' has been set up with the aim of taking the use of unstructured data to the next level. On this platform, every department at PGGM Investments can set up its own AI-driven search engine which can then be used to rapidly find relevant documentation. This can be useful if particular deals from the past must be compared to potential deals. Minimal viable products have also been built for monitoring the contributions of companies in which PFZW invests in relation to the SDGs. Extensive research is also being carried out into the use of AI to select external managers and identify infrastructure deals earlier. In line with our strategic goal, these innovations should result in higher returns at lower risks.

Culture

Data science boot camps, innovation training, Inspiration Mondays and data clinics are continuously being organised at PGGM. Consider, for instance, the knowledge development in relation to programming, agile working and rethinking business models. With Inspiration Mondays, PGGM seeks to inspire employees with stories from the organisation, but also with stories from peers in the financial sector. During these meetings, trendwatchers give talks and internal and external empirical experts share positive and negative experiences.

Connection

When it comes to innovation, PGGM Investments is working with specialists, data suppliers, academics, incubators, platforms and peers to accelerate internal development. Specialists are helping us build a robust cloud infrastructure and integrate algorithms and machine learning techniques. External data sources also play a major role in this, for instance in deploying alternative data as currently being used by the Private Real Estate Team, where new insights are being generated on the basis of geographic data. By working with startups, we want to incorporate new ideas and working methods in our business processes.

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Artificial Intelligence programme

In 2020 we took steps towards becoming a data-driven organisation. In order to approach this in a structured manner, we set up the Artificial Intelligence (AI) programme at the end of 2019. This programme is aimed at realising the strategic goals of PGGM Investments and PFZW, namely: the ultimate client experience, mass customisation, best-in-class asset management, and connection with employers. The DataLabs team, consisting of a number of data scientists, is the linchpin in this programme. The team is developing an ecosystem of specialists which will enable us to take steps with PFZW to develop and implement AI-driven functionalities. The business, the users of the functionalities, are closely involved in the development and are being invited for training courses with the aim of acquiring AI competences. A number of cases were produced in 2020.

AI in infrastructure

The Infrastructure team with the help of PGGM datalab has started working in 2021 on an artificial intelligence program to better track down its deal sourcing and origination processes. This project is called Project Mimir (Mimir being the god of wisdom in the Nordic mythology). The objectives of Mimir are two-fold:

Firstly, tracking down all secondary transactions (transactions that have already come to the market) by the top 200 Infra players so we can have a view on the current worldwide opportunities. Indeed, if it is owned by a fund, the asset must be sold in the future. This will be done by aggregating information that can be found in specific Infrastructure databases. Each of those opportunities will be presented with a certain amount of details (including ownership, country of operation, sector, sub sectors, transaction value etc.) and a graphic interface will be created so that users can swiftly do research and visualize the results.

Secondly, we would like to track primary deals (companies that have never come to the market because they are privately owned, government owned etc.). Those companies are usually less well-known and operate below the usual funds' radar. Those deals could provide a high added value as it would imply bilateral discussions and hence preventing competition due to a pro-active approach. As there is less information available on those companies, the second phase will require more time to implement due to the high level of sophistication of the algorithms to be developed.

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AI in listed real estate

For the Listed Real Estate (LRE) team, the entire investment process has been translated to Python with a view to best-in-class asset management. This not only makes the process less prone to errors, but also provides a good basis for further innovation. The entire front-end has also been taken to a higher level. LRE has also been busy further centralizing various proprietary data in an SQL database. This ensures that we can more easily link our own and third-party data in order to be able to perform additional analyzes and to run better reports and visualisations. Creating a good infrastructure has been the most important step to be able to continue to innovate in the future.

Technological developments in the broader asset management sector are not standing still. Developments in relation to big data, machine learning and Artificial Intelligence have been taking place at an accelerated pace over the past several years. These developments increasingly affect the processes of PGGM Investments and this trend is expected to become even stronger nearing 2025. In order to take the right investment decisions, it is important to have all the relevant data available to prevent any information arrears.

PGGM Investments therefore wants to optimally facilitate the front office teams in this development. On the one hand, by investing in the development of the portfolio managers themselves and on the other, by supporting them with the new Investment Analytics team to be set up. This team will work in the front office, for and with the investment teams, on structuring, building and maintaining the analytic tools. We expect this to boost the operational deployment of new technologies.

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Outlook: how we see the future

After an eventful year, it is time to look ahead. The COVID-19 pandemic is still raging around us and its consequences continue to play an important role in our daily lives and in the financial markets. Further recovery depends on how the virus is controlled. Despite the fact that we see the infection rates rising again at the time of publication of this annual report (May 2021), we expect that with vaccinations in full swing in most countries, the global economy will show a strong recovery this year. This will probably allow the mobility-limiting measures to be phased out in many places during the year. However, this does not alter the fact that there are still enough uncertainties, such as the possible outbreak of new mutations of COVID-19. Despite the enormous social and economic impact of COVID-19, we ended the year with a positive return. The enormous amount of money that has been brought into the economy by central banks for years has moved the real economy and the financial world further apart. The current health crisis and its economic consequences are reinforcing this trend. This requires a critical analysis, because for an investor this implies risks and opportunities.

After working from home for a year, we investigate which long-term trends have emerged from this with regard to work. It is expected that we will be able to partially work in the office again when the vaccinations progress sufficiently. However, 40 hours in the office is probably no longer the norm.

Whether at home or in the office, there is work to be done to implement the new investment policy of PFZW, our largest client. We are happy to take on this challenge because with 2025 Investment Policy we are taking another big step forward in integrating financial, sustainable and social aspects into our activities.

Integration of sustainability in the investment process will only become more important in 2021, driven by increasing laws and regulations in this area and the wishes and needs of our clients. As PGGM Investments, we must continue to demonstrably comply with all legal and regulatory requirements. For 2021, there will be an extra focus on climate risks and transparent accountability. Transparency remains important to PGGM, not only for accountability, but also for moving the broader industry towards a more sustainable world, together with our clients.

The Climate Program that was started at the end of 2020 will be able to show the first results in 2021 regarding further CO2 reduction, investing more in climate solutions, providing insight into climate risks and mitigating where necessary. We want to gain insight into the impact of climate scenarios, how these can be quantified for the investment portfolios and remain compliant with all new and changing legislation.

Over the years, we have built strong competencies in collaboration with other parties in realising thought leadership in impact investing. We will continue with this, in collaboration with the SDI-AOP and others. With this effort, we want to contribute to further standardisation. Ultimately, with the SDI-AOP we also want to measure the

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results of the investments: the actual difference our investments make to people, society and the environment.

In addition to implementing our clients' investment policy, 2021 is also about developing a long-term vision (Vision 2030). We are in a rapidly changing environment and we face major challenges. How are we going to ensure that we (continue to) achieve a high, stable and sustainable return, in a cost-efficient way? What kind of PGGM organization do we need for this? And how do we become that organization? Our strategy is aimed at being able to answer these questions with high-quality solutions. For example, we constantly improve the service we provide to our customers.

Zeist, 19 April 2021

The Management Board,

Sylvia Butzke

Geraldine Leegwater

Arjen Pasma

Bob Rädecker

Frank Roeters van Lennep

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Report of the Supervisory Board

In this report, the Supervisory Board (SB) explains how it has fulfilled its supervisory role over the past year and how it has supported the Management Board with advice. It also discusses the most important substantive issues in which the SB was involved this year.

The SB looks back on a year in which the focus was on a number of central issues:

- COVID-19 pandemic
- Strategy and re-contracting PFZW
- Business plan 2020-2025
- Reorganisation of PGGM Treasury

Highlights 2020

COVID-19 pandemic

The outbreak of COVID-19 led to measures that resulted in a (partial) shutdown of society for a large part of the year 2020. The Supervisory Board closely followed the situation and developments surrounding the COVID-19 pandemic. The members made sure they were informed during, and when necessary outside meetings, of the measures taken to ensure PGGM's business continuity and of developments and risks in the financial markets. Most of PGGM's employees worked at home for the biggest part of 2020, with the exception of a small group of employees who perform office-based work for critical processes.

The Supervisory Board questioned the Management Board on the feasibility of the project portfolio, given the number of large projects which had been started simultaneously in combination with the unexpected working from home due to the COVID-19 pandemic. The Supervisory Board asked the Management Board to build in a timely go/no go moment for these projects to coincide in the second half of 2020.

Strategy, re-rcontracting PFZW and Business plan PGGM Investments

The Supervisory Board regularly discusses PGGM Investments' strategy and the way in which the Management Board is implementing the strategy for long-term value creation and the associated main risks. This is discussed at regular meetings, but also outside them, such as during in-depth sessions. In 2020, the Supervisory Board paid close attention to the status of the discussions with PFZW regarding the re-contracting of PGGM's services. The PGGM Investments Business plan 2020-2025 is central to the re-contracting process and was submitted to and discussed extensively by the Supervisory Board.

The Business plan describes PGGM's ambitions in various areas, the concrete initiatives and their financial implementation, and how PGGM Investments can further develop into a best-in-class investment organisation. The Supervisory Board noted various points of attention with regard to the financial foundations and strategic direction of the asset

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management organisation. The Supervisory Board was also critical of the Business plan in terms of the link between the advisory services and their implementation. This prompted the management to elaborate further on this point.

Sustainable investment initiative

An important implementation of the PFZW Investment Policy 2025 to achieve sustainable development goals is the SDI Asset Owner Platform (SDI AOP), which was established by PGGM together with APG and went live in September 2020. The aim of this platform is to create a common broad-based platform on behalf of global Asset Owners around the selection of listed companies as a Sustainable Development Investment (SDI). In addition to AGP and PGGM, AustralianSuper and British Columbia Investment Management joined the platform in 2020. The Supervisory Board was informed of the various developments during the year and expressed its support for this process.

Sale of share in Sustainalytics Holding B.V.

In April 2020, PGGM Investments sold its share of over 10.2 percent in the ESG rating company Sustainalytics Holding B.V. The actual transfer took place in July 2020 for a sales price of € 15.3m. The Supervisory Board was kept informed of the developments regarding the sale of the participation in Sustainalytics.

Withdrawal of licence of investment company PGGM Treasury B.V. / merger PGGM Treasury B.V.

As a result of the views of the Dutch Authority for the Financial Markets (AFM), developments in derivative-related regulations and the wishes of both PGGM Investments' clients and counterparties, the Management and Supervisory Board decided in 2019 to switch to decentralised cash management, decentralised execution of derivative transactions and to abandon centralised and efficient execution through PGGM Treasury B.V.

This process resulted in the separation of all entities from PGGM Treasury by the end of September 2020. On 10 November 2020, PGGM Treasury B.V. asked the AFM to withdraw its licence to provide investment services in the Netherlands under article 2:96 of the Financial Supervision Act (Wft). The AFM confirmed on 29 December 2020 that it would withdraw the licence with effect from 10 November 2020 on the basis of Article 1:104 of the Wft.

On 31 December 2020, PGGM Vermogensbeheer B.V. and PGGM Treasury B.V. merged, with PGGM Treasury B.V. ceasing to exist after the merger. The financial data of Treasury B.V. are accounted for in the financial statements of PGGM Vermogensbeheer B.V. with effect from 1 January 2020.

The Supervisory Board was kept informed of developments and the status of the process to achieve decentralised organisation and approved the merger of PGGM Treasury B.V.

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and PGGM Vermogensbeheer B.V. and the subsequent withdrawal of the licence by PGGM Treasury B.V.

Personnel changes in the Management and Supervisory Board of PGGM Investments

Eloy Lindeijer has stepped down from PGGM with effect from 1 October 2020. He had worked at PGGM as Chief Investment Management (CIM) for nine years. As CIM, he was a member of the Executive Committee and was also a statutory director of PGGM Vermogensbeheer B.V. and PGGM Treasury B.V. The Supervisory Board is grateful for Eloy's contribution to the development of PGGM Vermogensbeheer B.V. in recent years. The Supervisory Board has taken the lead in appointing the successor. The individual profile of the CIM was drawn up in the spring of 2020, various interviews were held with candidates and finally, with Geraldine Leegwater taking up her post as CIM on 1 November 2020, an appropriate successor was appointed. She is a member of the Executive Committee of PGGM N.V. and a statutory director of PGGM Vermogensbeheer B.V.

Willem Jan Brinkman was appointed Chief Financial Risk Officer and member of the Executive Board of PGGM with effect from 29 November 2019. By virtue of this position, Willem Jan was appointed as a member of the Supervisory Board of PGGM Vermogensbeheer B.V. on 27 January 2020. He replaces Paul Boomkamp, who stepped down as a member of the Supervisory Board of PGGM Vermogensbeheer B.V. on 1 September 2019.

The Supervisory Board is convinced that the composition of the Supervisory Board is such that members can operate independently and critically with respect to each other, the Management Board and any particular interests. With the current composition of the Supervisory Board, the requirements of independence are met.

Subjects of regular meetings in 2020

Fixed items on the agenda of each regular meeting are the business update and reports on clients, operations and the supervisory authorities. The financial results and the main risks associated with the business are discussed, based on the various risk management and performance reports and the quarterly report on responsible investment.

The Supervisory Board receives regular updates from the Management Board on developments in the asset management market. To this end, it receives quarterly reports on developments in the financial markets and at PGGM Investments. This includes consideration of particular investments which could have an impact, either positive or negative, on the business or reputation. The PGGM Investments business update is provided by the management on the basis of the investment results, financial situation,

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risk perception and employee satisfaction, supplemented by alternating subjects such as the annual plan and its progress, new funds and findings of Internal Audit.
Regular in-depth sessions are also held in the presence of both the Management and the Supervisory Board, during which specific subjects are discussed in detail, such as the Wwft and the Sanctions Act, ethics and MiFID II. The subjects may relate to current legal or regulatory issues for the purpose of maintaining professional competence, or specific current developments relevant to PGGM Investments.

With regard to the risk assessment, the Supervisory Board discussed, among other things, the annual ICAAP report for the benefit of DNB and the measures to bring the risk assessment for some risks back around the risk appetite.

Furthermore, the legislation and regulations and their possible impact on the operations of PGGM Investments are discussed at every meeting. In this context, the Supervisory Board discussed, among other things, the Management Board's proposal to develop an internal training programme in order to continue to meet the professional competence requirements imposed on Supervisory Board members. In the context of the permanent training of the supervisory directors, a training plan was drawn up and started. The Supervisory Board also discussed with the Management Board the proposal to amend the Insider Regulation.

The annual employee survey took place and during the regular Supervisory Board meetings, the Supervisory Board extensively discussed the scores and the measures taken by the Management Board as a result. Behaviour and culture are seen as important components for the realisation of the strategic objectives.

The Supervisory Board evaluated the remuneration policy in the spring of 2020 and determined that it is controlled and complies with laws and regulations. With the current mix of a moderate remuneration policy (at median level), with the targeted deployment of additional fixed and variable instruments such as Personal Market Allowance and Deferred Variable Income, PGGM Investments succeeds in finding a good balance. The variable income component is partly determined on the basis of financial performance indicators and partly on the basis of achieved service levels, customer satisfaction, progress in projects and the results of the employee survey.

Attendance at regular meetings

The Supervisory Board held four regular meetings in 2020. The majority of the meetings took place via video call, in line with the COVID-19 measures of the RIVM. The regular meetings of the Supervisory Board are held in the presence of the members of the Management Board of PGGM Investments. The relationship with the management is good and transparent.

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In addition, two closed meetings were held. The topics discussed included the assessment and remuneration of the Management Board.

All three supervisory directors attended 100% of the Supervisory Board meetings. At all four regular meetings, a member of the Supervisory Board of PGGM N.V. attended as an observer. In this way, the Supervisory Board of PGGM N.V. ensures involvement in and supervision of the asset management activities.

The auditor responsible for auditing the financial statements attended the discussion of the annual report, the auditor's report and the management letter at the Supervisory Board meeting. The Supervisory Board has not set up any committees.

The Supervisory Board gratefully thanks the members of the board and the employees of PGGM Investments for their efforts in the reporting year 2020.

Zeist, 19 April 2021

The Supervisory Board,

Edwin Velzel

Willem Jan Brinkman

Roderick Munsters

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Appendix 1 Information about PGGM Vermogensbeheer B.V.

PGGM Vermogensbeheer B.V. (PGGM Investments) was founded on 20 July 2007. PGGM Investments has its registered office and principal place of business at Noordweg Noord 150 in Zeist, the Netherlands.

Objective

In accordance with Article 2.1 of the articles of association, the objectives of PGGM Investments are:

To act as a manager of investment institutions in the broadest sense, which in any event comprises portfolio management, risk management, administration, offering participation rights and activities relating to assets of investment institutions;

To provide investment services, including the management of individual capital, the provision of investment advice and the receipt and transmission of orders relating to financial instruments;

To hold and administer (or arranging for this) participation rights in investment institutions;

To offer life-cycle plans, or to arrange for life-cycle plans to be offered, to employees in the health care and welfare sector and to their partners, as well as to former employees employed as such in the aforementioned sector and to their partners, as well as to members of the cooperative: PGGM Coöperatie U.A.; and

To participate in or in any other way take an interest in and conduct the management of companies of whatever nature, moreover to finance third parties, provide security in any way or otherwise bind itself for the liabilities of third parties and finally all activities which are incidental to or which may be conducive to any of the foregoing.

Furthermore, in accordance with article 2.2 of the articles of association, the purpose of the company is to provide the management and financing of its subsidiaries, group companies and participating interests and to provide surety and guarantees for its own debts, as well as for the debts of its subsidiaries, group companies and participating interests.

AIFM licence

Pursuant to Section 2:67 of the Financial Supervision Act (Wft), the Authority for the Financial Markets (AFM) has granted PGGM Investments an AIFM licence allowing it to act as the manager of an investment fund as defined in Section 1:1 of the Wft, effective from 4 April 2014. The licence is limited to offering the rights of participation to professional investors.

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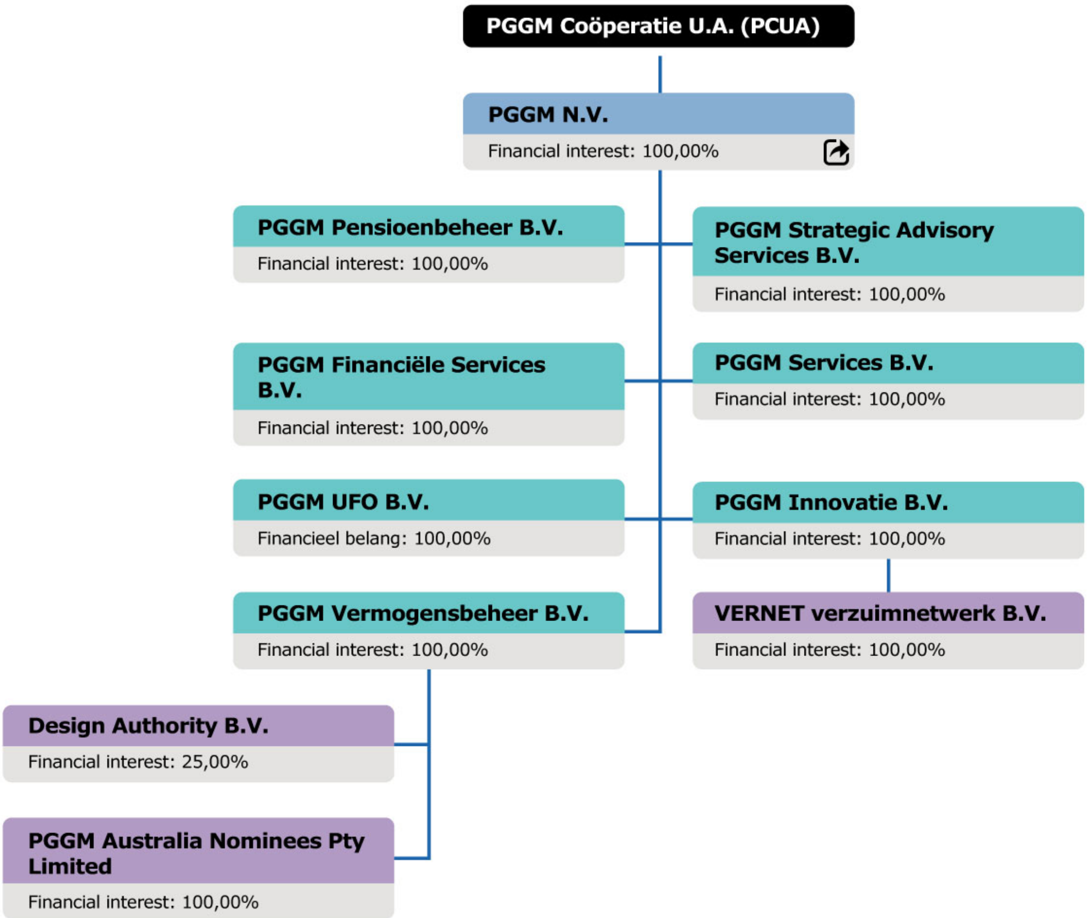
Pursuant to Section 2:67a(2) of the Wft, PGGM Investments is also permitted to carry out the following activities or to provide the following services:

- Manage individual capital;
- Advise on financial instruments in the context of practising a profession or conducting a business;
- Receive and transfer orders from clients relating to financial instruments in the practice of a profession or operation of a business.

Group structure

One hundred percent (100%) of the shares in PGGM Investments are held by PGGM N.V. In turn, 100% of the shares in PGGM N.V. are held by PGGM Coöperatie U.A. The following figure shows the legal structure of PGGM Coöperatie U.A., PGGM N.V., its subsidiaries and other participating interests ('the PGGM group') as at 31 December 2020.



PGGM Treasury B.V.

PGGM Vermogensbeheer B.V. (PGGM Investments) was founded on 20 July 2007. PGGM Investments has its registered office and principal place of business at Noordweg Noord 150 in Zeist, the Netherlands. PGGM Investments and PGGM Treasury B.V. (Treasury)

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were merged on 31 December 2020. Following the merger, Treasury ceased to exist and Treasury's financial data are reported in PGGM Investments' financial statements with effect from 1 January 2020. Because of the carry-over accounting method used, PGGM Investments' comparative figures were not adjusted.

Sustainalytics Holding B.V.

On 21 April 2020 (with retrospective effect as of 1 January 2020), PGGM Investments sold its (approximately 10%) interest in Sustainalytics Holding B.V. The actual transfer took place in July for a sales price of €15.3 million.

PGGM Australia Nominees Pty Limited

PGGM Investments acquired the shares in PAN on 13 May 2009. PAN is a 100% subsidiary of PGGM Investments. On this basis, the assets and liabilities as well as the result is fully included in PGGM Investments' consolidated annual report.

Design Authority B.V.

PGGM Vermogensbeheer B.V. (PGGM Investments) held a 50% interest in Design Authority B.V. from 2 June 2020. Subsequent to that date, there are 2 other parties that participate in Design Authority B.V., as a consequence of which PGGM Investments had a shareholding of 25% as of year-end 2020. The participating interest is not consolidated in PGGM Investments' financial statements or the financial statements of PGGM N.V. and PGGM Coöperatie because no material influence can be exerted on the operational management.

Participant's meeting

The participants' meeting is very important in the decision making on the fund terms and conditions of the investment funds managed by PGGM Investments.
The meeting allows us to inform participants about the course of affairs in relation to the investment policy and to include them in a discussion of relevant developments in relation to investment institutions (for example: legislation and regulations and responsible investment).

PGGM Advisory Boards

PGGM Advisory Board Alternative Funds (hereinafter: 'ABAF') is a body that advises the board of directors of PGGM Investments on the Private Market funds. The ABAF advises both on its own initiative and at the request of PGGM Investments. The ABAF is asked for advice on potential Private Equity investments of a special nature and/or which exceed the sum or value of € 250 million or € 100 million for certain transactions, and in the event of a change to the strategy of the investment funds. In 2020 there were four meetings of the ABAF with PGGM Investments. In addition, some 20 recommendations

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were provided on specific transactions in relation to potential investments by the investment funds. The ABAF currently consists of four external members.

PGGM Advisory Board Responsible Investment (ABRI) is an advisory body for PGGM and her clients which is consulted on activities in the field of responsible investment. The ABRI also provides unsolicited advice on social developments. The members are appointed by PGGM and its clients. They represent different professional fields: the financial sector, industry/multinationals, science, government, social organisations and multilateral institutions.

Changes in the organisation

Geraldine Leegwater joined PGGM's Executive Committee as Chief Investment Manager on 1 November 2020. She succeeded Eloy Lindeijer, who had fulfilled this role since 2011.

Financial and operating results

The result after taxes over the period under review amounted to € 30.4mln (2019: €20.6 mln). Total revenue increased by € 12,0mln in 2020, from € 137.8mln in 2019 to € 149.8mln in 2020. The operating expenses of € 126,7mln (2019: € 110.2mln) largely relate to the costs charged on by PGGM, concerning personnel expenses, accommodation expenses, IT costs and overhead costs.

Equity amounted to € 98.0mln as at 31 December 2020 (year-end 2019: € 77.6mln). The solvency as at 31 December 2020 amounted to 83.0% (2019: 78.8%). The solvency is determined as the ratio of equity to the balance sheet total. The cash balance was € 88.3mln as at 31 December 2020 (31 December 2019: € 71.8mln).

Cash and cash equivalents as at 31 December 2020 amounted to € 88.3mln (2019: € 71.8mln). The increase is caused on the one hand by an improvement in the cash flow from operating activities and the cash flow from investing activities as a result of the sale of Sustainalytics and on the other hand by a decrease in financing activities as a result of a dividend payment in 2020.

In 2020, PGGM Investments' liquidity position was sufficient and there is no additional financing requirement.

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PGGM Code of conduct

Supportive, responsible and steadfast. These values are visible and tangible in everything we do. Our conduct in upholding these values is a critical factor in determining the success of PGGM Investments. We see it as our responsibility toward society to act with care, transparency and integrity. Ensuring there is clarity about how we interact with one another helps us to fulfil this responsibility. Social media and technological developments mean that our conduct and the information we hold are visible to a larger group of people than ever before. Increased requirements and demands from society and regulators in particular place an onus on us to update our current rules of conduct and agreements. We have combined these updated agreements and guidelines in a single document: the PGGM Code of Conduct. Our Code of Conduct is more than a set of rules and instructions designed to maintain trust in the services we provide. The underlying principles and criteria in the code of conduct offer guidance in our interaction with clients, suppliers, colleagues and society in general. Efforts went into strengthening this code during 2020.

Corporate sustainability

The Executive Committee (EC) of PGGM NV has expressed the ambition to play an exemplary role in relation to sustainability and in that regard, aims specifically at three Sustainable Development Goals (SDGs). These are SDG 1 - no poverty, associated with the mission to contribute towards a good pension in a habitable world; SDG 3 - good health and welfare is part of the DNA as a fixed value in the Health Care and Welfare sector; and SDG 13 - climate action underscores the responsibility for a habitable world. PGGM NV takes responsibility here for its climate impact and takes action to reduce its CO2 emissions. Read more about this in the PGGM N.V. Annual Report.

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Appendix 2 Explanation to our materiality analysis

PGGM Investments determines annually in a structured manner what topics will, at a minimum, be covered in the annual report. We use a materiality test to do this. Assessing the material topics lays the foundation for the contents of the integrated annual report and takes place at an early stage of the reporting process. The materiality survey relies on a dual assessment: on the one hand, various stakeholder groups assess the relevance of different topics and, on the other, we assess internally what impact these topics have on the company and society.

We determined the topics on the basis of desk research in 2020. This consisted of a media analysis, research at peers and equivalent organisations, ESG ratings and sector reports. We also requested input from our key stakeholders via a survey.

The outcomes of the stakeholder consultation and the materiality were discussed with the Board of Directors of PGGM Investments. The topics that stakeholders felt were important largely correspond to the key topics that PGGM Investments works on.

The material topics are a reflection of our outputs as described in the value creation model. A material topic is not related exclusively to one of the output capitals, which means that some topics appear more than once. In the table below, we have provided insight for each output capital into the link with the material topics. The eight most relevant topics served as a guide in the process of deciding on the contents of the annual report and are addressed at length in the chapters.

Output capital	Material topics
Stabile financial performance	Stable financial results
	Impact investments
	Transparency
Active equity ownership	ESG integration
	Active ownership
	Exclusions
	Reducing the negative impact of the client's portfolio
Reliable market player	ESG integration
	Professional organisation
	Risk management

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	Data & digitalisation
	Customer orientation
	Fiduciary responsibility
	Strategic cooperation
	Compliance and integrity
Inclusive workplace	Good employment practices
	Strong health care and welfare sector
Impactful investments	Impact investments

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Appendix 3 Companies engaged in dialogue

Name organisation	Country	Region	Good corporate governance	Climate change, pollution and emissions	Healthcare	Water scarcity	Human rights	Type of engagement
3M Corp.	United States	North America		X				Company
ABN-Amro	The Netherlands	The Netherlands	X					Company
Activision Blizzard	United States	North America	X					Company
Adani Enterprises Limited	India	Rest of the World		X				Company
Adyen	The Netherlands	The Netherlands	X					Company
Ahold-Delhaize	The Netherlands	The Netherlands					X	Company
Alphabet	United States	North America					X	Company
Amazon	United States	North America					X	Company
AMP Limited	Australia	Rest of the World	X					Company
Amphenol Corp.	United States	North America	X					Company
Andritz AG	Austria	Europe (excl. Netherlands)					X	Company
Anheuser Bush - InBev	Belgium	Europe (excl. Netherlands)	X			X		Company
Bank Hapoalim B.M.	Israel	Rest of the World					X	Company
Bausch Health Companies Inc	Canada	North America	X				X	Company
Bayerische Motoren Werke AG	Germany	Europe (excl. Netherlands)	X	X				Company
Bharat Heavy Electricals Limited	India	Rest of the World		X				Company
Bolloré SA	France	Europe (excl. Netherlands)					X	Company
BP Plc.	United Kingdom	Europe (excl. Netherlands)		X				Company
Braskem S.A.	Brazil	Rest of the World				X		Company
BRF S.A.	Brazil	Rest of the World	X				X	Company
Bunge Limited	United Kingdom	Europe (excl. Netherlands)		X		X		Company
Carnival Corp.	United States	North America					X	Company
Carrefour S.A.	France	Europe (excl. Netherlands)					X	Company

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Celanese Corp.	United States	North America				X		Company
Centrais Elétricas Brasileiras SA	Brazil	Rest of the World					X	Company
Charles Schwab	United States	North America	X					Company
China Railway Group Ltd	China	Asia					X	Company
Cincinnati Financial	United States	North America	X					Company
Cintas Corporation	United States	North America	X					Company
Coca-Cola FEMSA S.A.B. de C.V.	Mexico	Rest of the World				X		Company
Comcast	United States	North America	X					Company
Commonwealth Bank of Australia	Australia	Rest of the World	X					Company
Coromandel International Ltd.	India	Asia					X	Company
Corteva Inc.	United States	North America		X				Company
Credit Suisse Group AG	Switzerland	Europe (excl. Netherlands)	X					Company
CRH Plc.	Ireland	Europe (excl. Netherlands)	X					Company
CVS Health	United States	North America	X					Company
Daimler AG	Germany	Europe (excl. Netherlands)	X					Company
Danske Bank A/S	Denmark	Europe (excl. Netherlands)	X					Company
Deutsche Bank AG	Germany	Europe (excl. Netherlands)	X					Company
Deutsche Lufthansa AG	Germany	Europe (excl. Netherlands)		X				Company
Dow Inc.	United States	North America					X	Company
Edison International	United States	North America					X	Company
Enbridge Inc	Canada	Noord-Amerika					X	Company
Enel SpA	Italy	Europe (excl. Netherlands)					X	Company
Eni Spa	Italy	Europe (excl. Netherlands)		X				Company
Facebook Inc	United States	North America					X	Company
Fastenal	United States	North America	X					Company
FGV Holdings Bhd.	Malaysia	Asia					X	Company
Glaxo Smith Kline	United Kingdom	Europe (excl. Netherlands)			X			Company

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Glencore Plc.	Switzerland	Europe (excl. Netherlands)					X	Company
Gold Fields Ltd.	South Africa	Rest of the World				X		Company
Golden-Agri Resources	Singapore	Asia					X	Company
Grupo México, S.A.B. de C.V.	Mexico	Rest of the World					X	Company
Habib Bank Limited	Pakistan	Rest of the World	X					Company
Heineken N.V.	The Netherlands	The Netherlands				X		Company
Hyundai Motor Co. Ltd.	South Korea	Asia	X					Company
Illinois Tool Works Inc.	United States	North America	X					Company
ING Groep	The Netherlands	The Netherlands	X					Company
J.M. Smucker Company	United States	North America					X	Company
JBS S.A.	Brazil	Rest of the World	X				X	Company
Johnson & Johnson	United States	North America			X		X	Company
Korea Electric Power Corporation	South Korea	Asia					X	Company
Lanxess AG	Germany	Europe (excl. Netherlands)				X		Company
M&T Bank	United States	North America	X					Company
Marathon Petroleum	United States	North America		X				Company
McKesson	United States	North America	X				X	Company
Merck KGAA	Germany	Europa (excl. Nederland)			X			Company
Mitsubishi Motors Corporation	Japan	Asia	X					Company
MMC Norilsk Nickel PJSC	Russia	Rest of the World		X				Company
MTN Group Limited	South Africa	Rest of the World					X	Company
NN Group	The Netherlands	The Netherlands	X					Company
Nordea Bank Abp	Finland	Europe (excl. Netherlands)	X					Company
Novartis AG	Switzerland	Europe (excl. Netherlands)			X			Company
Nvidia	United States	North America	X					Company
NVR Inc.	United States	North America	X					Company
Oil and Natural Gas Corporation Limited	India	Asia					X	Company

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Olympus Corporation	Japan	Asia					X	Company
ONEOK	United States	North America	X					Company
Oracle	United States	North America	X					Company
Phillips 66	United States	North America					X	Company
POSCO INTERNATIONAL Corp.	South Korea	Asia					X	Company
PT Indofood Sukses Makmur Tbk	Indonesia	Asia					X	Company
Rio Tinto Ltd.	Australia	Rest of the World					X	Company
Roche AG	Switzerland	Europe (excl. Netherlands)			X			Company
Royal Caribbean Cruises	United States	North America	X					Company
Royal Dutch Shell	The Netherlands	The Netherlands	X	X			X	Company
Samsung Electronics Co. Ltd.	South Korea	Asia	X					Company
Sanofi S.A.	France	Europe (excl. Netherlands)			X			Company
Siemens AG	Germany	Europe (excl. Netherlands)					X	Company
Siemens Gamesa Renewable Energy, S.A.	Spain	Europe (excl. Netherlands)					X	Company
Singapore Technologies Engineering Ltd.	Singapore	Asia	X					Company
SK Holdings Co Ltd	South Korea	Asia					X	Company
Sodexo S.A.	France	Europe (excl. Netherlands)					X	Company
Southern Copper Corporation	United States	North America					X	Company
Starbucks Corporation	United States	North America					X	Company
Stryker Corporation	United States	North America					X	Company
Swedbank AB	Sweden	Europa (excl. Nederland)	X					Company
Takeda	Japan	Asia			X			Company
Tesla Inc	United States	North America					X	Company
Teva Pharmaceutical Industries Limited	Israel	Rest of the World	X					Company

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The Coca-Cola Company	United States	North America						X	Company
The Goldman Sachs Group Inc.	United States	North America	X						Company
The Hershey Company	United States	North America						X	Company
The Kraft Heinz Company	United States	North America						X	Company
Tokyo Electric Power Company Holdings, Incorporated	Japan	Azië		X					Company
Toshiba Corp.	Japan	Azië	X						Company
Total S.A.	France	Europe (excl. Netherlands)		X					Company
Unilever N.V.	The Netherlands	The Netherlands	X						Company
Vale S.A.	Brazil	Rest of the World						X	Company
Valero Energy Corp.	United States	North America		X					Company
Volkswagen AG	Germany	Europe (excl. Netherlands)		X					Company
Volvo AB	Sweden	Europe (excl. Netherlands)						X	Company
Wabtec Corp.	United States	North America	X						Company
Wells Fargo & Company	United States	North America	X						Company
Wilmar International Limited	Singapore	Asia						X	Company
Zhejiang Huahai Pharmaceutical Co., Ltd.	China	Asia						X	Company
Zijin Mining Group Company Limited	China	Asia						X	Company
ZTE Corporation	China	Asia						X	Company

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Consolidated Financial Statements of PGGM Vermogensbeheer B.V.

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Consolidated balance sheet as of 31 December 2020

BALANCE SHEET

(before profit appropriation)

(amounts in thousands of euros)

	Ref	*31 December 2020*	*31 December 2019*
Assets			
Fixed assets			
Intangible fixed assets	3	852	1,289
Property, plant and equipment	4	15	12
Financial fixed assets	5	150	1,599
Total fixed assets		**1,017**	**2,900**
Current assets			
Receivables	6	28,755	23,680
Cash and cash equivalents	7	88,259	71,830
Total current assets		**117,014**	**95,510**
Total assets		**118,031**	**98,410**
Liabilities			
Equity	8		
Paid and called-up capital		100	100
Statutory reserve		5	5
Share premium reserve		34,400	34,400
Other reserves		33,075	22,477
Retained earnings		30,380	20,598
Total equity		**97,960**	**77,580**
Current liabilities			
Current liabilities	9	20,071	20,830
Total current liabilities		**20,071**	**20,830**
Total liabilities		**118,031**	**98,410**

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Consolidated income statement for 2020

INCOME STATEMENT

(amounts in thousands of euros)

	Ref	2020	2019
Management fees	***11***	149,805	137,750
Total operating income		**149,805**	**137,750**
Costs of outsourced work and other external expenses	***12***	20,192	12,293
Employee expenses	***13***	77,095	70,697
Depreciation / amortisation of tangible / intangible fixed assets	***14***	2,844	2,658
Other operating expenses	***15***	26,563	24,531
Total operating expenses		**126,694**	**110,179**
Operating result		**23,111**	**27,571**
Financial expenses		-124	-112
Result before taxes		**22,987**	**27,459**
Taxes	***16***	-5,747	-6,861
Result participating interests	***5***	13,140	0
Result after taxes		**30,380**	**20,598**

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Consolidated cash flow statement for 2020

CASH FLOW STATEMENT

(amounts in thousands of euros)

		2020	2019
Cash flow from operating activities			
Operating result		23,111	27,571
Adjustments for:			
Amortisation, depreciation and impairments	***3,4***	445	637
Changes in receivables	***6***	-5,075	2,920
Changes in current liabilities	***9***	-6,506	-11,172
Cash flow from operating activities		**11,975**	**19,956**
Paid interest		-124	-112
Corporation tax paid	***16***	0	0
		-124	**-112**
Total cash flow from operating activities		**11,851**	**19,844**
Cash flow from investment activities			
Additions and acquisitions of			
Intangible fixed assets	***3***	-3	-515
Property, plant and equipment	***4***	-8	-5
Acquisition of participating interests	***5***	-600	0
Disposals, repayments and sales			
Receipts from disposal of participating interests	***5***	15,189	0
Total cash flow from investment activities		**14,578**	**-520**
Cash flow from financing activities			
Dividend paid	***8***	-10,000	-20,000
Total cash flow from financing activities		**-10,000**	**-20,000**
Net cash flow		**16,429**	**-676**
Changes in cash and cash equivalents			

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Cash and cash equivalents at the beginning of the period	*7*	71,830	72,506
Cash and cash equivalents at the end of the period	*7*	88,259	71,830
Changes in cash and cash equivalents		**16,429**	**-676**

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Notes to the consolidated financial statements for 2020

1 General notes

Information on PGGM Vermogensbeheer B.V.

PGGM Vermogensbeheer B.V. (PGGM Investments) was founded on 20 July 2007. PGGM Investments has its registered office and principal place of business at Noordweg Noord 150 in Zeist, the Netherlands. PGGM Investments is registered with the Chamber of Commerce under registration number 30228490.

In accordance with Article 2.1 of the articles of association, the objectives of PGGM Investments are:

(a) To act as a manager of investment institutions in the broadest sense, which in any event comprises portfolio management, risk management, administration, offering participation rights and activities relating to assets of investment institutions;
(b) To provide investment services, including the management of individual capital, the provision of investment advice and the receipt and transmission of orders relating to financial instruments;
(c) To hold and administer (or arranging for this) participation rights in investment institutions;
(d) To offer life-cycle plans, or to arrange for life-cycle plans to be offered, to employees in the health care and welfare sector and to their partners, as well as to former employees employed as such in the aforementioned sector and to their partners, as well as to members of the cooperative: PGGM Coöperatie U.A.; and
(e) To participate in or in any other way take an interest in and conduct the management of companies of whatever nature, moreover to finance third parties, provide security in any way or otherwise bind itself for the liabilities of third parties and finally all activities which are incidental to or which may be conducive to any of the foregoing.

Furthermore, in accordance with article 2.2 of the articles of association, the purpose of the company is to provide the management and financing of its subsidiaries, group companies and participating interests and to provide collateral and guarantees for its own debts, as well as for the debts of its subsidiaries, group companies and participating interests.

AIFM licence

Pursuant to Section 2:67 of the Financial Supervision Act (Wft), the Authority for the Financial Markets (AFM) has granted PGGM Vermogensbeheer an AIFM licence allowing it to act as the manager of an investment fund as defined in Section 1:1 of the Wft, effective from 4 April 2014. The licence is limited to offering the rights of participation to professional investors.
Pursuant to Section 2:67a(2) of the Wft, PGGM Investments is also permitted to carry out the following activities or to provide the following services:

- Manage individual capital;
- Advise on financial instruments in the context of practising a profession or conducting a business;
- Receive and transfer orders from clients relating to financial instruments in the practice of a profession or operation of a business.

Coronavirus pandemic

After the coronavirus outbreak in 2020, there was already an immediate major impact on the assets of our clients and the coverage of the pension funds was put under pressure. PGGM is doing everything possible to support them with this and to assure the continuity of PGGM and our service provision. PGGM also complied with the government's call to facilitate work from home wherever possible and the necessary IT and other support was quickly arranged. A Crisis Management Team (CMT) was formed at PGGM at the beginning of the crisis to guarantee PGGM's continuity. PGGM took proactive measures to manage the increased risks caused by COVID-19, including risks relating to privacy, third parties, credit and business continuity.

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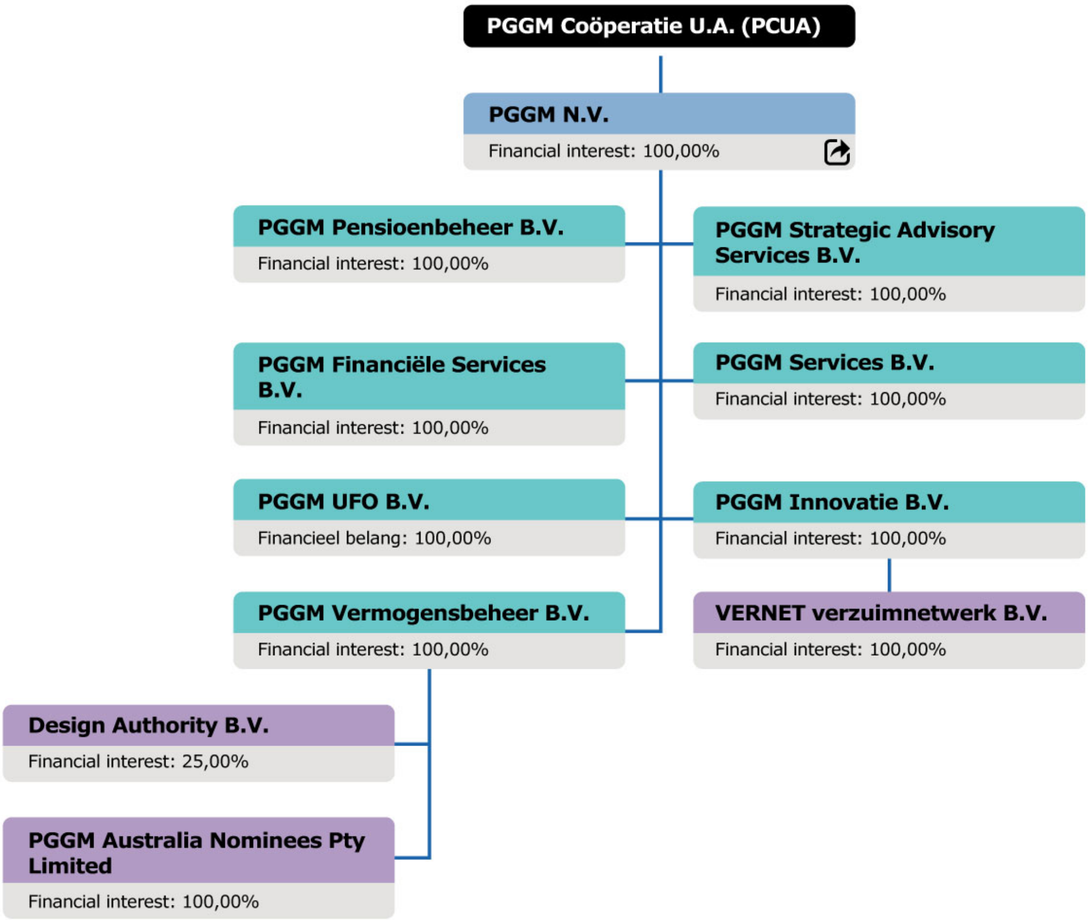
Financial/service provision
COVID-19 had a minor impact on the operating results of PGGM Investments in 2020. This is also the conclusion reached by PGGM's CMT. Our revenue consists primarily of fixed fees and our clients are sufficiently solvent and liquid, hence the risk of non-payment is extremely limited.

Operational
In response to the COVID-19 crisis, PGGM upgraded its login facilities significantly so that all employees could carry on working from home. This meant that operational activities for our clients could continue as normal. Systems and servers have proved stable to date. There were no incidents in this regard. This is monitored daily by the CMT (as part of the business continuity plan at PGGM). Adequate action is taken to the extent required.

Group structure
One hundred percent (100%) of the shares in PGGM Investments are held by PGGM N.V. In turn, 100% of the shares in PGGM N.V. are held by PGGM Coöperatie U.A. The following figure shows the legal structure of PGGM Coöperatie U.A., PGGM N.V., its subsidiaries and other participating interests ('the PGGM group') as at 31 December 2020.



PGGM Treasury B.V.
PGGM Investments was founded on 20 July 2007. PGGM Investments has its registered office and principal place of business at Noordweg Noord 150 in Zeist, the Netherlands. PGGM Investments and PGGM Treasury B.V. (Treasury) were merged on 31 December 2020. Following the merger, Treasury ceased to exist and Treasury's financial data are reported in PGGM Investments' financial statements with effect from 1 January 2020. As a consequence, Treasury's licence was also surrendered at the end of the financial year. Because of the carry-over accounting method used, PGGM Investments' comparative figures were not adjusted.

Sustainalytics Holding B.V.

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On 21 April 2020 (with retrospective effect as of 1 January 2020), PGGM Investments sold its (approximately 10%) interest in Sustainalytics Holding B.V. The actual transfer took place in July for a sales price of € 15.3 mln

PGGM Australia Nominees Pty Limited

PGGM Investments acquired the shares in PGGM Australia Nominees Pty Limited (PAN) on 13 May 2009. PAN is a 100% subsidiary of PGGM Investments. On this basis, the assets and liabilities as well as the result is fully included in PGGM Investments' consolidated annual report.

Design Authority B.V.

PGGM Vermogensbeheer B.V. (PGGM Investments) held a 50% interest in Design Authority B.V. from 2 June 2020. Subsequent to that date, another 2 participants joined in Design Authority B.V., as a consequence of which PGGM Investments had a shareholding of 25% as of 31 December 2020. The participating interest is not consolidated in the financial statements since there is no control.

2 Accounting principles for the valuation of assets and liabilities, determination of the result and the cash flow statement

General

The consolidated financial statements have been prepared in accordance with the statutory provisions of Part 9, Book 2, of the Dutch Civil Code and the firm pronouncements in the Dutch Accounting Standards, as published by the Dutch Accounting Standards Board ('Raad voor de Jaarverslaggeving').

Assets and liabilities in general are stated at the acquisition price or production cost, or their current value. If no specific valuation principle is stated, valuation is on the basis of the acquisition price. References are included in the balance sheet, income statement and cash flow statement. These references refer to the explanatory notes.

Recognition of an asset or liability

Assets and liabilities in general are stated at the acquisition price or production cost, or their current value. If no specific valuation principle is stated, valuation is on the basis of the acquisition price.

An asset is recognised in the balance sheet when it is probable that the future economic benefits will accrue to PGGM Investments and its value can be reliably established.

A liability is included on the balance sheet if it is probable that its settlement will be associated with an outflow of resources and the amount thereof can be reliably established.

When a transaction causes almost all or all future economic benefits and almost all or all risks related to an asset or liability to be transferred to a third party, then the asset or the liability is no longer recognised on the balance sheet. In addition, assets or liabilities are no longer recognised on the balance sheet from the time that the conditions of probable future economic benefits and reliability of establishing the value are no longer met.

Recognition of income and expenses

Income is recorded in the statement of income and expenses if an increase in economic potential associated with an increase in the value of an asset or a decrease in the value of a liability occurred, provided that the value thereof can be reliably established.

An expense is recorded if a decrease in economic potential associated with a decrease in the value of an asset or an increase in the value of a liability occurred, provided that the value thereof can be reliably established.

The result is determined as the difference between the net realisable value of the delivered performance and the costs and other expenses incurred over the year. Transaction revenues are recognised in the year in which they are realised. References are included in the balance sheet, income statement and cash flow statement. These references refer to the explanatory notes.

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Comparison to previous year

The accounting principles used for valuations and to determine the result are unchanged with respect to the previous financial year.

Fair value

The fair value of a financial instrument is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties who are independent of each other.

Foreign currency

The financial statements are presented in euros, PGGM Investments' functional currency. All financial information in euros has been rounded off to the nearest thousand. Assets and liabilities denominated in foreign currencies are converted into euros at the exchange rate prevailing on the balance sheet date. This valuation forms part of the fair value valuation. Income and expenses relating to transactions in foreign currencies during the reporting period are converted at the exchange rate prevailing on the transaction date. All foreign currency translation differences are recognised in the statement of income and expenses.

The assets, liabilities, and income and expenses of consolidated participating interests with a functional currency other than the presentation currency are converted at the exchange rate prevailing on the balance sheet date. The resulting translation gains and losses are directly recognised under equity in the statutory foreign currency translation reserve.

Use of estimates

The preparation of the annual financial statements requires the Management Board to make judgements, estimates and assumptions that affect the application of the accounting principles and the reported value of assets and liabilities and of income and expenses. The actual results may differ from these estimates. The estimates and underlying assumptions are continuously assessed. Revisions of estimates are applied in the period during which the estimate is revised and in the future periods for which the revision has consequences. No significant estimates applied at PGGM Investments in 2020.

Basis of consolidation

The consolidated financial statements comprise the financial data of PGGM Investments, its group companies and other legal entities in which it can exercise control or over which it has central management. Group companies are participating interests in which PGGM Investments has a controlling interest, or in which it has the authority to govern otherwise their financial and operating policies. The assessment of whether it has the authority to govern otherwise their financial and operating policies involves financial instruments which potentially carry voting rights and can be exercised directly. Participating interests acquired for the sole purpose of disposal within the foreseeable future are not consolidated.

Newly acquired participating interests are consolidated from the date on which control can be exercised. Divested participating interests are consolidated until the date control ceases.

In the consolidated annual financial statements, mutual liabilities, receivables and transactions are eliminated, as are any profits made within the group. The group companies are fully consolidated.
The following companies are included in the consolidation:

Name Place of business capital	**Share in issued**	
PGGM Australia Nominees Pty Limited	Sydney, Australia	100%

Acquisition and disposal of group companies

From the date of acquisition, the results and the identifiable assets and liabilities of the acquired companies are included in the consolidated financial statements. The date of acquisition is the moment that control can be exercised over the relevant company.

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The acquisition price is the sum of money, or the equivalent, agreed to acquire the company, increased by any directly attributable costs. If the acquisition price is higher than the net amount of the fair value of the identifiable assets and liabilities, the excess is capitalised as goodwill under intangible fixed assets. If the acquisition price is lower than the net amount of the fair value of the identifiable assets and liabilities, the difference (negative goodwill) is shown as a liability.

The companies involved in the consolidation are included in the consolidation until they are sold; they are deconsolidated at the moment when control is transferred.

Intangible fixed assets

Software

Software is stated at the acquisition price or at the production cost net of cumulative depreciation and any impairments. These assets are subject to straight-line depreciation over their estimated economic life, taking account of any contractual term. The residual value is zero.

Property, plant and equipment

Other operating assets

The other operating assets comprise computer hardware. Computer hardware is stated at the acquisition price net of cumulative depreciation and any impairments. These assets are subject to straight-line depreciation over their estimated five-year economic life. The residual value is zero.

Financial fixed assets

Participating interests in which significant influence is exercised

Participating interests in which significant influence can be exercised on the business and financial policy are stated in accordance with the equity accounting method on the basis of the net asset value.

PGGM Investments' accounting principles are used to determine the net asset value. Results on transactions involving a transfer of assets and liabilities between PGGM Investments and its participating interests and between participating interests themselves are eliminated to the extent these are deemed to be unrealised.

Participating interests with a negative net asset value are stated at nil. A provision is created when PGGM Investments wholly or partially guarantees the relevant participating interest's debts, or has the constructive obligation (for its share) of enabling the participating interest to pay its debts. This provision is primarily formed against the receivables from the participating interest and for the remainder, under the provisions according to the size of the share in the losses sustained by the participating interest, or for the expected payments by PGGM Investments in respect of this participating interest.

The initial valuation of acquired participating interests is based on the fair value of the identifiable assets and liabilities at the moment of acquisition. For the subsequent valuation, the principles applicable to these financial statements are used, with the initial valuation used as a basis.

Participating interests in which there is no significant influence

Participating interests in which no significant influence is exercised are stated at the lower of the acquisition price or realisable value. If there is a firm disposal intention, the participating interest is shown at the lower expected sales value, if applicable.

Impairments of fixed assets

For fixed assets, an assessment is conducted on every balance sheet date to determine whether there are any indications that these assets may be subject to impairment. If this appears to be the case, the realisable value of the asset is estimated. The realisable value is the higher of the value in use or the net selling price. If it is not possible to estimate the realisable value of an individual asset, the realisable value of the cash-generating unit to which the asset belongs (the asset's cash-generating unit) is determined.

An assessment is also conducted on every balance sheet date to determine whether there are any indications that impairment losses shown in earlier years have been reduced. If this appears to be the case, the realisable value of the asset is estimated.

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Reversal of an impairment recognised previously takes place only in the event of a change in the estimates used to determine the realisable value since the latest impairment loss shown. In that case, the carrying amount of the asset is raised to the estimated realisable value, but no higher than the carrying amount that would have been determined (after depreciation) if no impairment loss had been recognised for the asset in earlier years.

Receivables, prepayments and accrued income

On initial recognition, receivables are stated at the fair value of the consideration received in return. Accounts receivable are stated at the amortised cost price after initial recognition. If the receipt of the receivable is deferred on grounds of an agreed extension to a payment term, the fair value is determined with reference to the present value of the expected receipts and interest income based on the effective interest rate is taken to the income statement. Provisions for bad debt are deducted from the book value of the receivable.

Third party minority interest

The third party minority interest is shown in the share of third parties in the net asset value determined in accordance with the valuation principles of PGGM Investments.

Cash and cash equivalents

Cash and cash equivalents are stated at face value.

Other liabilities, accruals and deferred income

Other liabilities, accruals and deferred income are stated at fair value on initial recognition. After initial recognition, the liabilities are recognised at amortised cost (equal to the face value if there are no transaction costs).

Revenue

These are fees received from third parties for the asset management services.

Costs of outsourced work and other external expenses

The costs of outsourced work and other external expenses consist of all the other external costs that are directly related to the primary administrative work performed by third parties.

Interest income and expenses

PGGM Investments recognises interest income and expenses relating to its own cash and cash equivalents as a result of the interest set-off system at PGGM N.V. The interest income and expenses are assessed in the financial statements per individual credit institution and the net position is ultimately presented as interest income or expense. Interest income and interest expense is recognised on a time-proportionate basis, taking into account the effective interest rate of the particular assets and liabilities. No interest is settled for the current account relationship between PGGM Coöperatie U.A., PGGM N.V. and its subsidiaries.

Taxes

Corporation tax

Within the PGGM Group, corporation tax on the taxable result is calculated for each legal entity. Ultimately, PGGM Coöperatie U.A. settles with the Dutch tax authorities. Any deferred tax assets relating to forward loss compensation is accounted for in the fiscal unity at PGGM Coöperatie U.A. and is settled via the current account with the legal entity to which it relates.

VAT

In addition, together with its subsidiaries, PGGM Investments forms part of a fiscal unity for VAT purposes, as a result of which it is jointly and severally liable for any VAT liabilities of all entities belonging to the fiscal unity. The fiscal unity for value added tax purposes is entitled to advance deduction of VAT. The effectuated right to advance deduction is recognised within PGGM Investments.

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Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. Cash flows in foreign currencies are restated in euros on the basis of the average exchange rates for the relevant periods. Income and expenses arising from interest, dividends received and tax on profits are included in the cash flow from operating activities. Dividends paid out are recognised in the cash flow from financing activities.

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3 Intangible fixed assets

	Software
Balance as at 1 January 2020	
Acquisition price or manufacturing cost	13,506
Accumulated amortisation and impairments	-12,217
Carrying amount as at 1 January 2020	**1,289**
Movements	
Investments	3
Amortisation	-440
Balance	**-436**
Balance as at 31 December 2020	
Acquisition price or manufacturing cost	13,509
Accumulated amortisation and impairments	-12,657
Carrying amount as at 31 December 2020	**852**
Amortisation period	**5 years**

The investments concern licences of the back office system for the investment administration.

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4 Property, plant and equipment

	Other operating assets
Balance as at 1 January 2020	
Acquisition price or manufacturing cost	41
Accumulated depreciation and impairments	-29
Carrying amount as at 1 January 2020	**12**
Movements	
Investments	8
Depreciation	-5
Balance	**3**
Balance as at 31 December 2020	
Acquisition price or manufacturing cost	49
Accumulated depreciation and impairments	-34
Carrying amount as at 31 December 2020	**15**
Depreciation period	**5 to 7 years**

5 Financial fixed assets

	Sustainalytics Holding B.V.	Design Authority B.V.	Total
Balance as at 1 January 2020	**1,599**	**0**	**1,599**
Movements			
Investments	0	600	600
Disposals	-1,599	0	-1,599
Result participating interests	0	-450	-450
Balance as at 31 December 2020	**0**	**150**	**150**

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On 21 April 2020 (with retrospective effect as of 1 January 2020), PGGM Investments sold its interest in Sustainalytics Holding B.V. (an interest of approximately 10%). The actual transfer of the shares took place on 6 July 2020. The sales price was € 15.2mln, giving rise to a book profit for PGGM Investments of € 13.6mln

On 2 June 2020, PGGM Investments acquired a 50% interest in Design Authority B.V. Subsequent to that date, another 2 participants joined, as a consequence of which PGGM Investments had a shareholding of 25% as at 31 December 2020. This interest was acquired for € 0.6mln The interest acquired yielded a result in 2020 of negative € 0.5mln.

6 Receivables

	31 December 2020	***31 December 2019***
Accounts receivable	10,967	10,056
Receivables from group companies	6,994	1,573
Receivable from PGGM investment funds	3,363	4,990
Amounts to ber invoiced	4,178	4,452
Prepayments and accrued income	3,253	2,609
Total	**28,755**	**23,680**

The receivables are of a short-term nature.

Accounts receivable
At year-end 2020, the receivables for open fund and asset management fees amounted to € 11.0mln (year-end 2019: € 10.1mln).

Receivables from group companies (amounts in thousands of euros)

The receivables from group companies concern:

PGGM Pensioenbeheer B.V.	1,609	868
PGGM Coöperatie U.A.	0	705
PGGM UFO B.V.	5,385	0
Total	**6,994**	**1,573**

No interest is charged on the balance of the current account relationships with group companies.
The receivable from PGGM Pensioenbeheer B.V. as at 31 December 2020 concerns a settlement of the costs falling within activities of PGGM Pensioenbeheer B.V. and the fee charged on for the advisory services of PGGM Pensioenbeheer B.V.

The receivable from PGGM UFO B.V. concerns the charging on of the fee for asset management services to institutional clients, which PGGM UFO B.V. charges these clients. In order to keep the net receivables from group companies as low as possible, the current account is settled monthly during the last week of the month (including an estimate of remaining entries based on previous periods). This settlement did not take place for PGGM UFO B.V. in 2020 and this resulted in an increase in the current account balance. The balance consists mainly of a receivable from PGGM UFO B.V. in connection with 2021 advance invoices for non-PFZW clients. This settlement took place at the end of January 2021.

Receivables from PGGM investment funds

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An amount of € 2.8mln (2019: € 4.5mln) relates to the Deferred Performance Interest (DPI) scheme and consists of a receivable from the relevant Private Equity funds. Of this, an amount of € 1.7mln (2019: € 2.8mln) has a term of more than one year.

Prepayments and accrued income
The other prepayments and accrued income relate to prepaid expenses and have a remaining term of less than one year.

7 Cash and cash equivalents

Cash relates to credit balances which are held in Dutch credit institutions. All amounts are collectable on demand.

The company's own cash and cash equivalents form part of the balance and interest set-off system within PGGM. As a result of participation in the interest set-off system, the company is jointly and severally liable for all obligations arising from this.

PGGM Investments is the asset manager for external clients and for the PGGM investment funds. Partly due to the positions taken by the AFM and the developments in regulation with respect to derivatives and the desires of counterparties, the decision was taken in 2019 to switch to having cash management set up locally, to execute derivatives transactions decentrally and to dismantle PGGM Treasury B.V.
A sum of 7 mln was also received at year-end 2020, which is intended for PGGM funds. These monies received were passed on to the relevant funds at the beginning of January.

8 Equity

The movement in the group equity and insight into the overall result (group result and direct movements) is as follows:

	2020	***2019***
Balance as at 1 January	77,580	76,982
Group result after taxes	**30,380**	**20,598**
Total result of the income and expense reported directly in equity	**0**	**0**
Total result of the legal entity	**30,380**	**20,598**
Dividend payment	-10,000	-20,000
Total direct changes in the equity on account of relations with shareholders	**-10,000**	**-20,000**
Balance as at 31 December	**97,960**	**77,580**

9 Current liabilities

	31 December 2020	***31 December 2019***
Amounts invoiced in advance	5,014	4,468

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Creditors	112	570
Amounts owed to group companies	5,962	12,993
Accruals and deferred income	8,983	2,799
Total	**20,071**	**20,830**

All current liabilities have a remaining term of less than one year.

Amounts invoiced in advance
The prepayments from institutional clients mainly pertain to advance invoices for 2021.

Creditors
The amount shown in creditors consists of outstanding invoices from regular creditors.

Amounts owed to group companies
The amounts owed to group companies concern:

PGGM N.V.	3,220	11,077
PGGM Coöperatie U.A.	1,441	0
PGGM Strategic Advisory Services B.V.	1,301	1,900
PGGM UFO B.V.	0	16
Total	**5,962**	**12,993**

The amount owing to PGGM N.V. as at 31 December 2020 concerns costs charged on for supporting services, accommodation, telephony and ICT costs and the credit invoices paid on behalf of PGGM Investments by PGGM N.V. An amount of € 2.8mln (2019: € 4.5mln) relates to the Deferred Performance Interest (DPI) scheme. Of this, an amount of € 1.7mln (2019: € 2.8mln) has a term of more than one year.

The amount owing to PGGM Coöperatie U.A. as at 31 December 2020 comprises the share of the corporation tax for 2020 still to be settled.

The amount owing to PGGM Strategic Advisory Services B.V. as at 31 December 2020 concerns a settlement of the costs falling within activities of PGGM Strategic Advisory Services B.V.

Accruals and deferred income
The accruals and deferred income are mainly invoices still to be received and an item involving approximately € 7mln in received funds intended for PGGM funds. These monies received were passed on to the relevant funds account at the beginning of January.

10 Off-balance sheet assets and liabilities

Liability of a fiscal unity
Together with its shareholder, PGGM N.V. and its sole shareholder PGGM Coöperatie U.A. and the other subsidiaries of PGGM N.V., PGGM Investments forms a fiscal unity for corporation tax purposes and, for that reason, is jointly and severally liable for all the ensuing liabilities.

PGGM Investments also forms part of a fiscal unity of the PGGM group for VAT purposes, as a result of which it is jointly and severally liable for any VAT liabilities of all entities belonging to the fiscal unity.

Balance and interest set-off system
Together with its subsidiaries and its sole shareholder PGGM Coöperatie U.A., PGGM N.V. makes use of the balance and interest set-off system at one of the Dutch credit institutions.

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Hardware and software liability
The total liability amounted to € 22.4mln as at 31 December 2020 (2019: € 21.0mln). The liability runs until 2025. An amount of € 14.9mln is payable within one year. Further insight into the contracts resulted in adjustments to the comparative figures for 2019.

11 Net management fees

	2020	2019
Net management fee institutional	53,898	45,172
Net management fee PGGM Funds	95,907	92,578
Total	**149,805**	**137,750**

PGGM Investments performs asset management activities for institutional clients (Dutch pension funds) via discretionary mandates and the PGGM funds. A gross management fee is charged for this at the fund and mandate level, with settlement of the total fee from clients taking place after the event, resulting in the net management fees shown above.

12 Costs of outsourced work and other external expenses

	2020	2019
External personnel	12,373	6,892
Advisory costs	493	307
Charged-on expenses	7,326	5,094
Total	**20,192**	**12,293**

External personnel are personnel hired externally directly by PGGM Investments. The advisory costs relate to investment advice, fiscal/legal advice and other services. The costs of outsourced work consist of direct and charged-on expenses.

The charged-on expenses of work outsourced by PGGM N.V. for the 2020 financial year amount to € 7.1mln in costs for external personnel (2019: € 5mln) and € 0.1mln in advisory costs (2019: € 0.1mln). The increase in the charging on for staff services (€ 1.9mln) is mainly due to the investments in projects such as the Security and IT Roadmap, Direction 2021 and the expansion of compliance activities.

13 Employee expenses

PGGM Investments does not have its own employees. The employee expenses for the employees working for PGGM Investments are charged directly to PGGM Investments by PGGM N.V. and amounted to € 68.4mln in 2020 (2019: € 63.6mln).

In addition, a sum of € 12.4mln (2019: € 11.6mln) of the employee expenses relates to costs of the supporting services charged on by PGGM N.V. A sum of € 3.7mln is also charged on to PGGM Strategic Advisory Services B.V. for the advisory services provided.

Remuneration of Management Board and Supervisory Board
PGGM Investments has no Board members who receive remuneration on the grounds of a directorship pursuant to the Articles of Association.
The remuneration for the Management Board is included in the costs charged on from PGGM N.V.

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The remuneration for Roderick Munsters of the Supervisory Board amounts to €25,822 (2019: €25,503).
The remuneration for the other members of the Supervisory Board is included in the costs charged on from PGGM N.V.

No loans, advances or guarantees were provided to the Management Board and the Supervisory Board members.

14 Amortisation of intangible fixed assets, depreciation of property, plant and equipment and impairments

	2020	*2019*
Amortisation of intangible fixed assets	440	633
Depreciation of property, plant and equipment	5	4
Charged-on depreciation/amortisation costs	2,399	2,021
Total	**2,844**	**2,658**

15 Other operating expenses

	2020	*2019*
Accommodation expenses	12	83
IT costs	16,716	15,740
Marketing costs	42	39
Other expenses	1,225	1,519
Charged-on expenses	8,568	7,150
Total	**26,563**	**24,531**

The other operating expenses consist of direct and charged-on expenses. The increase in the other operating expenses is due primarily to direct PGGM Investments IT costs for hardware, software, data vendors and IT costs charged on from PGGM N.V.

16 Taxes

The taxes shown in the income statement consist of the following:

	2020	*2019*
Tax expense	5,747	6,861
Total	**5,747**	**6,861**

Nominal tax rate	25.00%	25.00%
Effective tax rate	25.00%	25.00%

Corporation tax is calculated on the fiscal result. Ultimately, PGGM Coöperatie U.A. settles with the Dutch tax authorities. Any corporation tax liabilities and/or deferred tax assets due to forward loss compensation are accounted for in the fiscal unity at PGGM Coöperatie U.A. and are settled via the current account with the entity to which they relate.

The nominal tax rate of 25% is calculated by dividing the current taxes and changes in deferred taxes by the result before taxes. The effective tax rate is equal to the nominal tax burden.

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17 Transactions with related parties

Transactions with related parties exist when there is a relationship between the company, its participating interests and their board members and management.

There were no transactions with related parties which were not conducted at arm's length.

18 Auditors' fees

Pursuant to Book 2, Section 382a(3) of the Dutch Civil Code, reference is made to the financial statements of PGGM Coöperatie U.A. for an explanation of the auditors' fees.

19 Post-balance sheet events

Coronavirus pandemic

Despite earlier success in slowing the spread of COVID-19, the number of infections worldwide recently increased dramatically. There is still uncertainty about how the virus will evolve. The measures that can be taken to slow its spread and the timing of the vaccination process.
In the Netherlands, social life is at a standstill and many other countries worldwide are locking down. There are both national and international policy efforts under way to slow the spread of the virus. Policymakers at central banks and governments largely determine how deeply the coronavirus pandemic will affect the economy and financial markets, and how quickly the recovery will take place as soon as the virus is under control. The current COVID-19 pandemic has aggravated uncertainty about the economy. Despite this uncertainty, we remain cautiously optimistic that there will be no adverse effects for PGGM Investments' operations.

Beyond this, COVID-19 has no impact on the financial continuity of PGGM Investments, in view of the current Equity Policy of PGGM N.V. and its subsidiaries. PGGM N.V. is sufficiently solvent to guarantee the continuity of its subsidiaries, including PGGM Investments. There is consequently no liquidity risk for PGGM Investments.

Partly because of the growing number of infections, the advice to 'work from home unless this is impossible' has been extended to the end of April 2021. This development for the short term, but also the estimate for the long term (working from home more often is expected to become the 'new normal'), means additional points for attention for, among other things, the issue of office accommodation.

20 Risk management

The Risk & Compliance department is responsible for coordinating the risk management process and draws up a monthly risk report for each business unit. This risk report presents the risk picture for each cluster of risks, compared with the risk appetite determined by the PGGM Investments Management Board. The substance of the risk report is discussed and adopted by the Unit Risk Committee of PGGM Investments. The risks and the accompanying risk appetite are divided into three risk clusters: Corporate, Service Provision and Reputation.

Main risks and uncertainties

The main risks and uncertainties, developments in 2020 and management of these risks in each cluster are briefly discussed below. An explanation is also provided for a few relevant financial risks, specifically: market risk and credit risk.

Corporate

The social discussion on changes to the pension system resulted in a new Pension Agreement in 2020. Many choices still need to be filled in, so the definitive outcomes remain uncertain. Initiatives are currently under way to prepare the organisation for various future scenarios, improve flexibility and controllability and encourage working under architecture. In relation to the reform of the pension system, we are preparing for various pension scenarios so that we are ready for future changes to the pension system. This helps limit the environmental risks for PGGM Investments.

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Apart from the system reform, there are other environmental risks for PGGM Investments. These include uncertainties relating to the timely establishment of a trade agreement between the EU and UK in relation to Brexit, the ever-growing Cyber threat and the tightening of requirements imposed on PGGM by different supervisory authorities. These developments make heavy demands on the existing capacity for change and are also characterised by a great deal of uncertainty. At the moment we recognise an increased risk in relation to compliance. In order to comply and to continue to comply with statutory requirements, close attention was devoted in 2020 to MiFID II (Markets in Financial Instruments Directive). From the perspective of heightened supervision, PGGM wants to be better able to demonstrably implement legislation and regulations. A programme was started to adapt our business operations and the underlying design principles accordingly. These developments make heavy demands on the existing capacity for change.

The ability to recruit, develop and retain talent is of strategic importance for PGGM. The shortage on the labour market increased further in 2020. This prompts increased attention for HR risks. These risks are mitigated by using and continuing to search for alternative recruitment methods. We have our own trainee and Quant trainee programme, for which we were able to again recruit talents in 2020. In order to enable employees to work healthily and with enjoyment for long periods, they are stimulated and supported to take control of their own career development via the Fit for the Future programme. On the basis of Steering for Staffing, the growth potential of each employee is also discussed, determined and monitored.

PGGM Investments has a sound financial position. Total costs developed in line with the budget and the forecast. The investment portfolios that our clients have entrusted to us for management are managed at the risk and expense of our clients. This means that the financial risks that arise from these investment portfolios have no direct impact on the financial position of our organisation.

Service provision

Operating risks are run in the execution of orders for our clients. In order to mitigate these risks, we have designed our processes in a way that means we are verifiably ‘in control'. PGGM issues Standard 3402 and 3000 multi-client reports on this, with regard to the asset management service provision. The Standard reports of PGGM Investments for 2020 contain no limitations. No incidents with a materially attributable impact occurred in 2020. The investment portfolios for which our clients have entrusted the management to PGGM were managed in a controlled manner during the past year, without any notable incidents.

In order to comply with client requirements and the still-growing laws and regulations, several projects are running simultaneously. In view of the scope and the impact of these projects on the organisation, the change capacity is under pressure. The IT set-up for asset management is also not yet optimally configured for the best-in-class ambition, which means there is an increased IT risk. In order to mitigate this risk, frameworks were drawn up for adequate, balanced, effective and transparent project and portfolio management.

With regard to security of information and (cyber) security, we live in an age in which threats continue to grow and the verifiability of measures becomes increasingly important for us and for our stakeholders.

In 2020 the policy and the set-up for information security were further strengthened. On the basis of the PGGM Security Control Framework, we actively monitor the maturity and demonstrability of our security processes.

Reputation risk

In order to manage the reputation risk, PGGM pursues activities including active stakeholder management in which the client relationship is continually monitored and client satisfaction is continually measured. PGGM also actively monitors the media exposure of our organisation and our clients and we specifically discuss the reputation risks and opportunities, as well as the measures to mitigate risks and utilise opportunities, on a regular basis.

Market risk

PGGM Investments’ revenues are dependent on the agreements with the clients. The risk of diminishing returns as a result of falling assets is limited by the fact that the revenues largely consist of fixed fees.

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Credit risk
The credit risk is defined as the risk that counterparties will be unable to fulfil their contractual obligations. This primarily concerns the receivable management fees contractually agreed with the clients. As PGGM Investments performs asset management activities for pension funds, the risk as a consequence of insolvency is low.
The maximum credit risk amounts to the book value of the financial fixed assets, receivables and the cash and cash equivalents. The book value of financial assets shown in the balance sheet is an approximation of their fair value.

Capital requirement
It is essential for the continuity of our organisation that we maintain enough capital to accommodate the potential financial consequences of the identified risks. We have adopted a specific Equity policy for this purpose. The requirements stipulated by DNB and AFM have been incorporated in this. During 2020, PGGM Investments maintained an extra buffer of € 10mln in equity for the possible impact of the coronavirus. The Finance & Control department monitored the adequacy of the capital maintained in 2020.
For PGGM Investments, the adequacy of the capital maintained is specifically determined using the Internal Capital Adequacy Assessment Process (ICAAP). The 2020 annual meeting on the ICAAP with DNB did not give rise to any noteworthy observations.

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Company financial statements PGGM Vermogensbeheer B.V.

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Company balance sheet as at 31 December 2020

(before profit appropriation)
(amounts in thousands of euros)

	Ref	31 December 2020	31 December 2019
Assets			
Fixed assets			
Intangible fixed assets		852	1,289
Property, plant and equipment		15	12
Financial fixed assets	*22*	150	4,667
Total fixed assets		**1,017**	**5,968**
Current assets			
Receivables	*23*	28,756	23,676
Cash and cash equivalents		88,230	68,754
Total current assets		**116,986**	**92,430**
Total assets		**118,003**	**98,398**
Liabilities			
Equity	*24*		
Paid and called-up capital		100	100
Statutory reserve		5	5
Share premium reserve		34,400	34,400
Other reserves		33,075	22,477
Undistributed profit		30,380	20,598
Total equity		**97,960**	**77,580**
Current liabilities			
Current liabilities	*25*	20,043	20,818
Total current liabilities		**20,043**	**20,818**
Total liabilities		**118,003**	**98,398**

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Company income statement for 2020

(amounts in thousands of euros)

	Ref	**2020**	**2019**
Result participating interests	***22***	13,140	0
Other result after taxes		17,240	20,598
Result after taxes		**30,380**	**20,598**

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Notes to the company financial statements

21 General

The company financial statements form part of PGGM Investments' 2020 financial statements. In respect of the company income statement of PGGM Investments, use is made of the exemption by virtue of Book 2, Article 402 of the Dutch Civil Code. Please refer to the notes to the consolidated balance sheet and consolidated income statement for items in the separate company balance sheet and the separate company income statement not specifically addressed below.

22 Financial fixed assets

	Participating interests
Balance as at 1 January 2020	**4,667**
Movements	
Investments	600
Disposals	-4,667
Result participating interests	-450
Balance as at 31 December 2020	**150**

At the end of the financial year, the participating interest concerns an interest of 25% in Design Authority which was acquired in 2020. The disposals in 2020 pertain to the sale of the 10% interest in Sustainalytics and Treasury as a result of the legal merger which took place in 2020.

The participating interests concern the following companies:

Name Place of business capital	Share in issued	
PGGM Australia Nominees Pty Limited	Sydney, Australia	100%
Design Authority B.V.	Amsterdam, The Netherlands	25%

23 Receivables

	31 December 2020	31 December 2019
Accounts receivable	10,967	10,055
Receivables from group companies	6,994	1,571
Receivable from PGGM investment funds	3,363	4,989
Amounts to be invoiced	4,178	4,452
Prepayments and accrued income	3,254	2,609
Total	**28,756**	**23,676**

The receivables are of a short-term nature.

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Receivables from group companies
The receivables from group companies concern:

	31 December 2020	31 December 2019
PGGM Coöperatie U.A.,	0	703
PGGM Pensioenbeheer B.V.	1.609	868
PGGM UFO B.V.	5.385	0
Total	**6,994**	**1,571**

The receivables from group companies are further explained in the notes to the balance sheet in the consolidated financial statements.

Prepayments and accrued income
The prepayments and accrued income are further explained in the notes to the balance sheet in the consolidated financial statements.

24 Equity

	Paid and called-up capital	Statutory reserve	Share premium reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2019	**100**	**5**	**34,400**	**24,071**	**18,406**	**76,982**
Appropriation of profit for 2018	0	0	0	18,406	-18,406	0
Dividend paid	0	0	0	-20,000	0	-20,000
Result for 2019	0	0	0	0	20,598	20,598
Balance as at 31 December 2019	**100**	**5**	**34,400**	**22,477**	**20,598**	**77,580**
Appropriation of profit for 2019	0	0	0	20,598	-20,598	0
Dividend paid	0	0	0	-10,000	0	-10,000
Result for 2020	0	0	0	0	30,380	30,380
Balance as at 31 December 2020	**100**	**5**	**34,400**	**33,075**	**30,380**	**97,960**

The capital of PGGM Investments amounts to € 500,000 (2019: € 500,000), consisting of 500 shares, each with a nominal value of € 1,000. Of these, 100 shares have been issued and are paid up.

PGGM Investments determined the capital requirement for the prudential capital at year-end 2020 at € 64.1mln (2019: € 49.7mln). Consequently, the regulatory capital as at 31 December 2020 complies with the DNB's prudential capital requirements. The total result after taxes in 2020 amounts to €30.4mln (2019: € 20.6mln)

Undistributed profit

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The result after tax for 2020 is part of the undistributed profit of the equity item.

Proposal for profit appropriation
It is proposed to the General Meeting of Shareholders that the result after taxes for 2020 will be added to the other reserves.

25 Current liabilities

	31 December 2020	***31 December 2019***
Creditors	112	570
Amounts owed to group companies	5,962	13,009
Prepaid amounts institutional clients	5,014	4,468
Taxes and social security contributions	0	0
Accruals and deferred income	8,955	2,771
Total	**20,043**	**20,818**

The current liabilities all have a remaining term of less than one year.

Amounts owed to group companies
The amounts owed to group companies concern:

	31 December 2020	***31 December 2019***
PGGM N.V.	3,220	11,062
PGGM Coöperatie U.A.	1,441	0
PGGM Strategic Advisory Services BV	1,301	1,900
PGGM UFO B.V.	0	16
PGGM Treasury B.V.	0	31
Total	**5,962**	**13,009**

The amounts owed to group companies are further explained in the notes to the balance sheet in the consolidated financial statements.

Accruals and deferred income
The accruals and deferred income are further explained in the notes to the balance sheet in the consolidated financial statements.

26 Transactions with related parties

Transactions with related parties exist when there is a relationship between the company, its participating interests, their Board members and management.
There were no transactions with related parties which were not conducted at arm's length.

27 Post-balance sheet date events

For the disclosure on post-balance sheet date events, see note 19 'Post-balance sheet date events' in the consolidated financial statements.

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Zeist, 19 April 2021
The Management Board,

Sylvia Butzke

Geraldine Leegwater

Arjen Pasma

Bob Rädecker

Frank Roeters van Lennep

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Other information

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Independent auditor's report

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Independent auditor's report

To: the general meeting and the supervisory board of PGGM Vermogensbeheer B.V.

Report on the financial statements 2020

Our opinion

In our opinion, the financial statements of PGGM Vermogensbeheer B.V. ('the Company') give a true and fair view of the financial position of the Company and the Group (the company together with its subsidiaries) as at 31 December 2020, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2020 of PGGM Vermogensbeheer B.V., Zeist. The financial statements include the consolidated financial statements of the Group and the company financial statements.The financial statements comprise:

- the consolidated and company balance sheet as at 31 December 2020;
- the consolidated and company income statement for the year then ended; and
- the notes, comprising the accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of PGGM Vermogensbeheer B.V. in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The chapter 'About this report'' ;
- The directors' report, consisting of: Introduction: We are PGGM Investments, Chapter 1: Return – The direct value we have created, Chapter 2: Our impact – Generating value for stakeholders and society, Chapter 3: Excellent execution – Striving for maximum value creation, Chapter 4: Organisation – Our people, Chapter 5: Future proof – Ready for the future, Outlook: how we see the future and Appendices 1 to 3;
- The Report of the Supervisory Board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- The appendices.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Responsibilities for the financial statements and the audit

Responsibilities of the management board and the supervisory board for the financial statements

The management board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the management board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the management board should prepare the financial statements using the going concern basis of accounting unless the management board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The management board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

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The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 19 April 2021
PricewaterhouseCoopers Accountants N.V.

Original has been signed by J. IJspeert RA

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Appendix to our auditor's report on the financial statements 2020 of PGGM Vermogensbeheer B.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

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Assurance report of the independent auditor

To: the board of directors of PGGM Vermogensbeheer B.V.

Assurance report on the selected responsible investment information

Our conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the selected responsible investment information in the annual report 2020 of PGGM Vermogensbeheer B.V. is not prepared in all material respects, in accordance with the internally applied reporting criteria developed by PGGM Vermogensbeheer B.V. as included in the section 'reporting criteria'.

What we have examined

The object of our assurance engagement concerns the selected responsible investment information in the annual report 2020 of PGGM Vermogensbeheer B.V, Zeist (hereafter: the annual report). The selected responsible investment information in the annual report 2020 of PGGM Vermogensbeheer B.V. (hereafter: the selected responsible investment information) is marked with the symbol 📌 in the annual report and included Appendix A of this assurance rapport.

We have examined the responsible investment information. The other information in the annual report, including the comparative responsible investment information, are not subject to our assurance engagement. Therefore, we do not report or conclude in this other information.

The basis for our conclusion

We conducted our examination in accordance with Dutch law, including the Dutch Standard 3000A Assurance engagements, other than audits or reviews of historical financial information (attestation-engagements). This engagement is aimed to provide limited assurance. Our responsibilities under this standard are further described in the section 'Our responsibilities for the examination' of our report.

We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion.

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Independence and quality control

We are independent of PGGM Vermogensbeheer B.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS, Regulations for quality systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

Reporting criteria

The responsible investment information needs to be read and understood in conjunction with the reporting criteria. The board of directors of PGGM Vermogensbeheer B.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting. The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

The reporting criteria used for the preparation of the responsible investment information in the annual report are the internally applied reporting criteria developed by PGGM Vermogensbeheer B.V., as disclosed in section 'Reporting criteria' of the annual report. The reporting criteria are available online[1] on the website https://www.pggm.nl/media/m53pzm0c/pggm-rapportage-criteria-2020.pdf.

Responsibilities for the selected responsible investment information and the examination thereof

Responsibilities of the board of directors

The board of directors of PGGM Vermogensbeheer B.V. is responsible for the preparation of reliable and adequate responsible investment information in accordance with the internally applied reporting criteria of PGGM Vermogensbeheer B.V. as included in the section 'reporting criteria', including the identification of the intended users and the criteria being applicable for the purpose of these users.

Furthermore, the board of directors is responsible for such internal control as it determines is necessary to enable the preparation of the responsible investment information that is free from material misstatement, whether due to fraud or error.

[1] *The maintenance and integrity of the website of PGGM Vermogensbeheer B.V. is the responsibility of the management board; the work performed by us does not relate to this and, accordingly, we accept no responsibility for any changes to the reporting criteria 2020 that are published on the website of PGGM Vermogensbeheer B.V. published after the date of this assurance report.*

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Our responsibilities for the examination

Our responsibility is to plan and perform our examination in a manner that allows us to obtain sufficient and appropriate evidence to provide a basis for our conclusion.

Our conclusion aims to provide limited assurance. The procedures performed in this context consisted primarily of making inquiries with officers of the entity and determining the plausibility of the information included in the responsible investment information. The level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the responsible investment information. Materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our conclusion.

Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the examination in accordance with the Dutch Standard 3000A, ethical requirements and independence requirements.

Our examination consisted, among other things of the following:

- Evaluating the appropriateness of the reporting criteria used and evaluating of the reasonableness of estimates made by the board of directors and the relevant disclosures in the annual reporting.
- Obtaining an understanding of the reporting processes for the selected responsible investment information, including obtaining a general understanding of internal control relevant to our review.
- Obtaining an understanding of internal control relevant to the examination in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of PGGM Vermogensbeheer B.V.'s internal control.
- Identifying areas of the responsible investment information with a higher risk of misleading or unbalanced information or material misstatement, whether due to fraud or errors. Designing and performing further assurance procedures aimed at determining the plausibility of the responsible investment information responsive to this risk analysis. These procedures consisted amongst others of:
  - Interviewing the board of directors and relevant staff responsible for the responsible investment strategy and -policy;
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the responsible investment information in the annual report.
  - Obtaining assurance evidence that the responsible investment information reconciles with underlying records of the company;
  - Reviewing, on a limited test basis, relevant internal and external documentation;
  - Performing an analytical review of the data and trends;
  - Evaluating the consistency of the responsible investment information with the information in the annual report, which is not included in the scope of our review.
  - To consider whether the responsible investment information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

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Rotterdam, 19 April 2021
PricewaterhouseCoopers Accountants N.V.

Original signed by J. IJspeert RA

Appendix
List with selected responsible investment information in the annual report 2020 in scope of the limited assurance engagement.

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We have examined the following responsible investment information:

Goal	KPI
€ 20 billion invested in solutions	- € invested assets in focus area climate and environment per balance sheet date
	- € invested assets (new) in BiO in 2020
	- € invested assets in BiO per balance sheet date
	- € invested assets in focus area climate and environment compared to balance sheet date of prior year
	- € invested assets in focus area water per balance sheet date
	- € invested assets in focus area water compared to balance sheet date of prior year
	- € invested assets in focus food per balance sheet date
	- € invested assets in focus area food compared to balance sheet date of prior year
	- € invested assets in focus area health per balance sheet date
	- € invested assets in focus area health compared to balance sheet date of prior year
	- € invested assets in focus area other per balance sheet date
Halving the CO2 emissions of shares	- CO_2 per million dollars in business turnover of the shares portfolio
	- % reduction CO_2 per million dollars in business turnover of the shares portfolio on balance sheet date compared to the baseline measurement at 31-12-2014 in the share portfolio
Not investing in countries and businesses that are not consistent with our standards and values and those of our clients	- Number of companies which are excluded (in the year 2020)
	- Number of countries which government bonds are excluded (in the year 2020)
Casting a well-informed vote at all shareholder meetings	- Number of votes casted for the region: Europe (excl. The Netherlands), North America, Asia, Rest of the world, The Netherlands
	- Number of agenda items voted on in favour of management recommendation
	- Number of agenda items voted against management recommendation
	- Number of shareholder proposals in favour
	- Number of shareholder proposals against
	- Number of shareholder proposals abstain
	- Number of management proposals in the category protective structure
	- Number of management proposals in the category appointment of directors
	- Number of management proposals in the category capital expansion
	- Number of management proposals in the category

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	remuneration
	- Number of management proposals in the category mergers and acquisitions
	- Number of management proposals in the category other
	- Number of management proposals in the category environment & social
	- Number of voting instructions in favour
	- Number of voting instructions against
	- Number of voting instructions abstain
	- Number of USA voting instructions remuneration proposals
	- Number of USA voting instructions remuneration proposals in favour
	- Number of USA voting instructions remuneration proposals against
	- Number of USA voting instructions remuneration proposals abstain
	- Number of shareholder proposals in the category remuneration
	- Number of shareholder proposals in the category corporate governance
	- Number of shareholder proposals in the category appointment of directors
	- Number of shareholder proposals in the category health and environment
	- Number of shareholder proposals in the category social issues
	- Number of shareholder proposals in the category other
	- Number of meetings
	- Number of meetings at which we voted
	- Number of meetings at which we did not vote
	- Percentage voted on
	- Percentage not voted on
	- Number of agenda items voted on

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Actively using our influence as shareholder to realise improvements in relation to ESG	- Number of companies engaged in dialogue
	- Number of market parties engaged in dialogue
	- Number of companies where results were achieved
	- Number of market parties where results were achieved
	- Distribution of market engagement activities according to region in 2020: Europe (excl. The Netherlands), North America, Asia, Rest of the world, The Netherlands
	- Distribution of market engagement activities according to focus area in 2020: Climate change, pollution and emissions, Human rights, Health care, Water scarcity Good corporate governance
	- Distribution of engagement activities at companies according to region in 2020: Europe (excl. The Netherlands), North America, Asia, Rest of the world, The Netherlands
	- Distribution of engagement activities at companies according to focus area in 2020: Climate change, pollution and emissions, Human rights, Health care, Water scarcity Good corporate governance
Legal proceedings	Recovering investment losses through legal proceedings

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Provisions of the Articles of Association governing appropriation of the result

Profit appropriation takes place in accordance with Article 30 of the Articles of Association:

30.1 The General Meeting is authorised to appropriate the profit determined by the adoption of the financial statements and to determine the distribution of profits or the reserves, in as far as the equity exceeds the statutory reserves.

30.2 Distribution decisions are subject to the approval of the Management Board. The Management Board will refuse approval only if they know or could reasonably be expected to foresee that the company would not be able to continue payment of its due debts after the distribution.

30.3 When calculating each distribution, the shares which the company holds in its own share capital are not included.

30.4 A deficit may only be charged to the statutory reserves to the extent that this is permitted by law.

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General

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Management Board

Sylvia Butzke
Geraldine Leegwater
Arjen Pasma
Bob Rädecker
Frank Roeters van Lennep

Supervisory Board

Edwin Velzel, chair
Willem Jan Brinkman
Roderick Munsters

Auditors

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Information

If you have any questions regarding the content of this Annual Report, please contact us via: www.pggm.nl/jaarverslag.

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Appendices

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Appendix 1 Retirement schedule

Retirement schedule for executive and supervisory positions.

Name	Date of appointment	End of term of appointment
Edwin Velzel	3 May 2018	3 May 2022
Roderick Munsters	15 May 2018	15 May 2022
Willem Jan Brinkman	27 January 2020	27 January 2024

Appendix 2 Ancillary positions held by members of the Supervisory Board

Ancillary positions held by Edwin Velzel (Chairman)
Date of Birth 29 January 1963
Nationality Dutch
Primary position Chief Executive Officer (CEO) PGGM N.V.

Management and supervisory positions:

Executive Board Chairman	**PGGM N.V.**
Member of Supervisory Board	PGGM Vermogensbeheer B.V.
Member of Supervisory Board	Klaverblad Verzekeringen
Member of Supervisory Council	Omring (Care and Nursing)
Member of Supervisory Council	Gelre hospitals (as of 1 September 2019)

Ancillary positions Willem Jan Brinkman (deputy chair)
Date of Birth 10 January 1973
Nationality Dutch
Main position Chief Financial & Risk Officer (CFRO) PGGM N.V.

Management and supervisory positions:

Member of Executive Board	PGGM N.V.
Member of Supervisory Board	PGGM Vermogensbeheer B.V. (started on 27 January 2020)
Member of investment advisory committee	FNV investment advisory committee

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Ancillary positions R.M.S.M. Munsters
Date of birth 19 July 1963
Nationality Dutch and Canadian
Primary position R2MB Consultancy B.V.

Management and supervisory positions:

Member of Supervisory Board	PGGM Vermogensbeheer B.V.
Member of Supervisory Board	Unibail-Rodamco-Westfield SE
Owner and director	R2MB Consultancy B.V.
Member of Monitoring Committee	Corporate Governance Code Monitoring Committee
Member of Financial Investments Strategy Committee	Capital Guidance
Member of Supervisory Council	Nationaal Fonds Kunstbezit
Member of Supervisory Board	Moody's Investors Service-EU
Member of the Board	Stichting Administratiekantoor de Raekt
Board Member	BNY Mellon Bank SA/N.V.
Member of the board	Continuïteit ICT Group N.V.
Senior Adviser	Rothschild & Co.

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