

PGGM Beliefs and Foundations for Responsible Investment

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Introduction

This document describes the beliefs and foundations for responsible investment of PGGM Vermogensbeheer B.V. and PGGM Strategic Advisory Services (PSAS) B.V. (hereinafter PGGM).

PGGM manages assets on behalf of its clients, Dutch pension funds. Every client has its own policy with regards to responsible investment. This document is part of a broader framework around responsible investment in which our clients' policies are the starting point.

The beliefs and foundations have been established in consultation with PGGM's clients. On the basis of its belief in co-operative values, PGGM seeks to align its beliefs and foundations for responsible investment with the policies of both current and future clients.

Thoughts on what constitutes responsible investment are evolving rapidly. PGGM monitors developments closely and continues to innovate in order to make progress in fulfilling responsible investment demands for its clients. This document may therefore be revised periodically in consultation with our clients.

Implementation

The responsible investment framework seeks commonality within the PGGM funds while providing scope to meet clients' specific policy requirements through internal and external management. That means the activities we undertake in the field of responsible investment do not always apply to all clients.

PGGM invests and advises its clients as follows:

- (1) PGGM manages various mutual funds in which multiple clients participate.
- (2) PGGM manages segregated mandates for individual clients.
- (3) PGGM advises clients on investments through external mandates or funds.

The beliefs and foundations in this document apply to all of PGGM's investment and advisory activities:

- *Implementation in PGGM funds:* The beliefs and foundations in this document are implemented in the execution of the clients' investment policy through the PGGM mutual funds. This takes place within an Implementation Framework with underlying implementation guidelines for the various asset classes and the various responsible investment activities (this document is available on our website).
- *Implementation in segregated mandates:* The beliefs and foundations in this document and the associated implementation framework also apply to segregated mandates which PGGM manages for individual clients. These can be supplemented with client-specific policy guidelines and for example exclusion lists.
- *Implementation in advice on external mandates:* The beliefs and foundations in this document also apply when PGGM advises its clients on direct investments in external mandates or funds. Since this only applies to advice, the actual implementation by the client may differ from the implementation PGGM would choose – as long as the implementation fits within the framework of what PGGM considers to be a fitting client.

Why is responsible investment important to PGGM?

As an asset manager for pension funds, PGGM supports its clients in fulfilling their task of providing a stable, good pension for their beneficiaries, now and in the future. PGGM is convinced that contributing to a sustainable world is part of building a valuable future for those beneficiaries – not only to fulfil our clients' wider social responsibility or comply with laws and regulations or other standards, but also to fulfil their primary task.

Although there has been enormous growth in prosperity over the past century, stability and economic development are increasingly threatened by global issues. These include climate change, the scarcity of natural resources such as water and energy, rising food prices and income inequality. The way in which such issues have been tackled in past decades is no longer viable.

This will impact future investment results. Sustainability is therefore key to our activities as a long-term investor.

For PGGM, responsible investment means not only consciously taking account of environmental, social and corporate governance factors in investment decisions and exerting positive influence through the investments, but also looking critically at our own behaviour and that of the entities in which PGGM invests or with which it co-operates.

Responsible investment beliefs

Through its responsible investment activities PGGM seeks to contribute to responsible, stable, good investment results for its clients.

This objective is based on the following beliefs:

- *Responsible investment pays off:* We firmly believe that sustainability factors materially influence the risk-return profile of the investments and that this influence will steadily increase in the future.
- *No good and stable return in the long term without sustainable development:* We firmly believe that sustainable development is necessary in order to generate stable and good investment returns for our clients in the long term.
- *The driving force of capital:* We firmly believe that in addition to providing a stable, good pension for our clients' beneficiaries, we also have to consider how we can make a positive contribution to sustainable development through our investment decisions. This can be achieved, for example, by investing in solutions which contribute to sustainable development, such as investments in renewable energy.

What are our focus areas in responsible investment?

The focus of PGGM's responsible investment activities is on sustainable development. This is development which meets the needs of current generations without compromising the needs of future generations. On the basis of this ambition, PGGM seeks to contribute to:

- A viable and resilient ecological system focused on the preservation of natural capital
- A society in which economic development is not at the expense of vulnerable groups or future generations
- Good corporate governance and well-functioning (financial) markets.

In order to achieve this in a targeted way, PGGM has specified a number of focus areas in consultation with its clients. These are subjects which our clients and their beneficiaries consider important and developments which we believe will have a material impact on the investments for our clients. Through its investments for clients and other responsible investment activities, PGGM aims to reduce the negative aspects of the footprint and increase the positive contribution.

To do so, we align ourselves with the 17 interrelated global goals formulated by the United Nations in 2015, known as the Sustainable Development Goals ("SDG"), designed to achieve a better and more sustainable future worldwide. In the investment portfolio, we specifically focus on SDG 2 (food security), SDG 3 (health), SDG 6 (water security), SDG 7 (affordable and sustainable energy), SDG 11 (sustainable cities and communities), SDG 12 (responsible production and consumption) and SDG 13 (climate action).

Foundations

PGGM aims to be an excellent cooperative pension fund service provider in the field of responsible investment and thereby to gain recognition as a thought leader. When PGGM implements its clients' investment policies, the means by which it does so must be recognisable and demonstrable. To this end, PGGM has formulated ten foundations which are applied through a range of responsible investment activities. The foundations reflect a shared level of aspiration, set a minimum standard for investments, give direction to the responsible investment implementation framework and serve as an assessment framework for advice.

1. Responsible investment is an integral part of PGGM's investment activities.

On the basis of our beliefs, responsible investment is not only necessary but also a matter of course. The risks and opportunities associated with sustainability factors are therefore deliberately taken into account in all investment processes and activities. The implementation of responsible investment activities is still very much under development. PGGM continues to innovate in order to implement them effectively for its clients.

2. PGGM has a clear focus for responsible investment activities.

On the basis of our vision of sustainable development, of what needs to change to achieve a more sustainable world and the ways in which PGGM can contribute, we make clear choices with regard to our focus areas in consultation with our clients. That means there are also areas on which PGGM does not focus. This is based on a conviction that a clear focus helps increase the impact which we can achieve through our responsible investment activities.

3. PGGM looks critically at its own behaviour and at the behaviour of parties in the financial sector with which it cooperates in order to achieve a stable and sustainable financial system.

PGGM is largely dependent on the health of the financial system in order to generate returns for clients. The current short-term focus poses a major risk to the stability of the financial system. From this perspective PGGM and its clients look critically at its own behaviour and the investment activities. PGGM also uses its influence to encourage behaviour among other parties in the financial sector with a long-term focus. If a counterparty continues to demonstrate undesirable behaviour, PGGM may ultimately part company with that counterparty.

4. PGGM acts as an active owner on behalf of its clients.

The risk and return on investments are highly dependent on efficient markets, companies and social systems. PGGM acts as an active owner on behalf of clients in order to influence the quality, sustainability and continuity of companies and markets. We use instruments such as dialogue with companies and market participants, including regulators, voting at shareholder meetings and shareholder litigation.

5. PGGM looks critically at the behaviour and activities of entities in which it invests on behalf of its clients.

If the behaviour of these entities undermines a sustainable world, they are not immediately excluded in principle. PGGM first encourages these entities to change their behaviour by means of engagement. In the event of serious abuse, for example in terms of human rights, environmental pollution or corruption, where PGGM is unable to bring about any change, the respective investments are ultimately excluded from investment.

6. PGGM sets minimum standard for investments for clients.

If the products or core activities of an entity are inconsistent with the identity of PGGM and its clients and the standards and the identity of their beneficiaries, the entities concerned are immediately excluded. For example, PGGM does not invest in companies directly involved in the production of and/or trading in controversial weapons. These are weapons whose large-scale use causes actual or potential suffering and which are aimed at civilians or result particularly in civilian casualties. PGGM includes nuclear, biological and chemical weapons, cluster bombs, anti-personnel landmines and munitions with depleted uranium in this category. PGGM also does not invest in tobacco companies or in coal and tar sands companies.

PGGM also refrains from investing in government bonds of countries on which UN Security Council and/or European Union sanctions have been imposed, if these are targeted at the country itself or the incumbent government and concern a weapons embargo or relate to a situation of gross and systematic violation of human rights, or if there is possible deployment of controversial weapons.

If clients wish to apply an even stricter minimum standard for their investments, PGGM will facilitate its implementation.

7. Through (part of the) investments for clients PGGM seeks to contribute actively to solutions to societal issues.

The long-term focus and the scale of the assets invested through PGGM make it possible to harness the driving force of these assets to bring about a more sustainable world. PGGM fulfils this by investing through various asset classes in innovative and/or scalable solutions to current and future sustainability issues which matter to our clients and their beneficiaries or which can materially affect the investment portfolio. We expressly see the transition to a circular economy as one of the solutions.

8. Collaboration with institutional investors and other market participants leads to synergy and greater impact.

Co-operation enables PGGM to deploy its resources more effectively and increase its influence. PGGM therefore actively pursues co-operation with institutional investors and other market operators. In order to stimulate responsible investment and jointly bring about change, PGGM plays an active role in various networks and groups of institutional investors, such as the UN Principles for Responsible Investment and Eumedion.

9. PGGM actively seeks methods to demonstrate the financial and social impact of the choices with regard to responsible investment.

The methods used to demonstrate the financial implications of responsible investment and assess the social added value of responsible investment are still in their infancy. PGGM therefore works closely with academics and other partners to develop robust methods.

10. PGGM is transparent and accountable with regard to responsible investment activities.

Transparency is vitally important. PGGM accounts for its responsible investment activities, objectives and results to its clients, beneficiaries and other stakeholders. PGGM reports regularly on these matters, including in its quarterly reports for clients, on its website and in the public Annual Integrated report.

Important information

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